



**HOW CAN WE PROVIDE AFFORDABLE HOUSING FOR ALL?
THOUGHTS ON THE SCALE AND THE MIX OF THE NEED**

Ronan Lyons

Dublin Economics Workshop Annual Conference

Online, September 2020

Unique in Europe, Ireland is set to enjoy stronger population growth this century than last – this will, of course, drive housing demand

- Ireland is – alone in Europe – set to enjoy faster population growth in the 21st century than in the 20th
- Population projections made in 2016 forecast that the population is likely to be between 5.6m and 6.7m by 2051
- So far, Ireland’s population has grown closest to the high/low scenario
 - Ireland’s population was estimated in 2020 to be 4.98 million –the H/L scenario was 4.99m
- This would suggest a mid-century population of 5.5m – needing 2.8m-3.4m dwellings depending on HH size

Number of dwellings needed (million), by scenario

	<i>Pop (m)</i>	Average household size		
Migration / Fertility	<i>2051</i>	2.3	2.1	1.9
High, high	<i>6.7</i>	2.91	3.19	3.52
High, low	6.5	2.82	<u>3.09</u>	3.41
Medium, high	<i>6.2</i>	2.71	2.97	3.28
Medium, low	<i>6.0</i>	2.62	2.87	3.17
Low, high	<i>5.8</i>	2.51	2.74	3.03
Low, low	<i>5.6</i>	2.43	2.66	2.94

Given likely obsolescence as well as other parameters, Ireland needs close to 50,000 homes per year every year until the 2050s – of which 10k-20k should be social

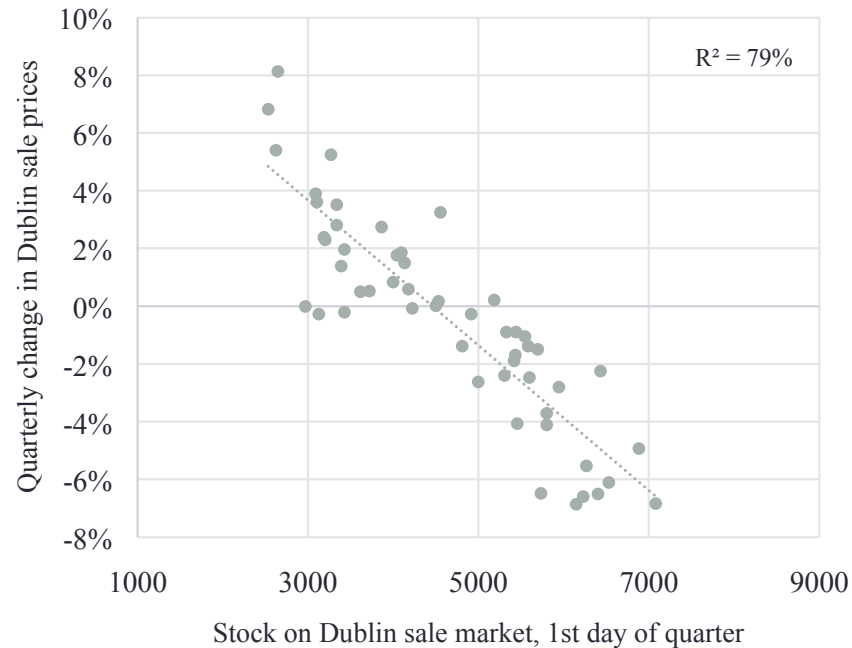
- In 2016, there were 1.7 million dwellings – by 2051, in the H/L scenario and with 2.1 HH size, Ireland will need 3.1m
- The existing stock will shrink due to obsolescence
 - Urbanization and obsolescence are correlated – and Ireland is set to urbanize rapidly
 - Current the least urbanized housing in the OECD – but regular spread of jobs
- With high migration, low fertility, medium obsolescence and 2.1 persons per household, Ireland needs 50,000 homes per year

Dwellings needed per year 2016-2051 (000s), by scenario

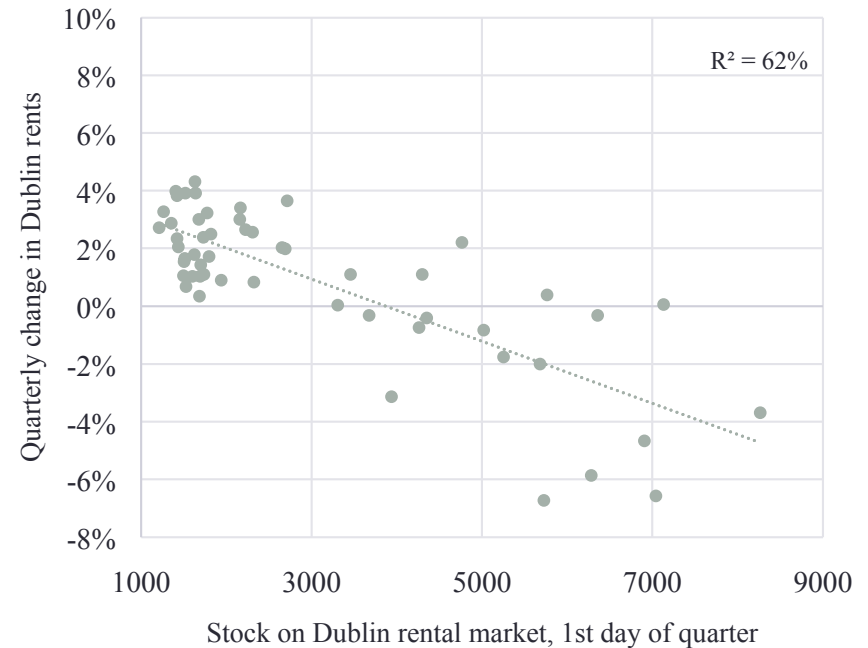
	Average household size		
	2.3	2.1	1.9
Annual obsolescence rate	2.3	2.1	1.9
0.4% obsolescence	38.2	45.9	55.2
0.6% obsolescence	41.1	<u>48.8</u>	58.1
0.8% obsolescence	43.8	51.5	60.8

The overwhelming evidence from both sale and rental markets is that availability is the key determinant of subsequent price changes – in other words, supply matters!

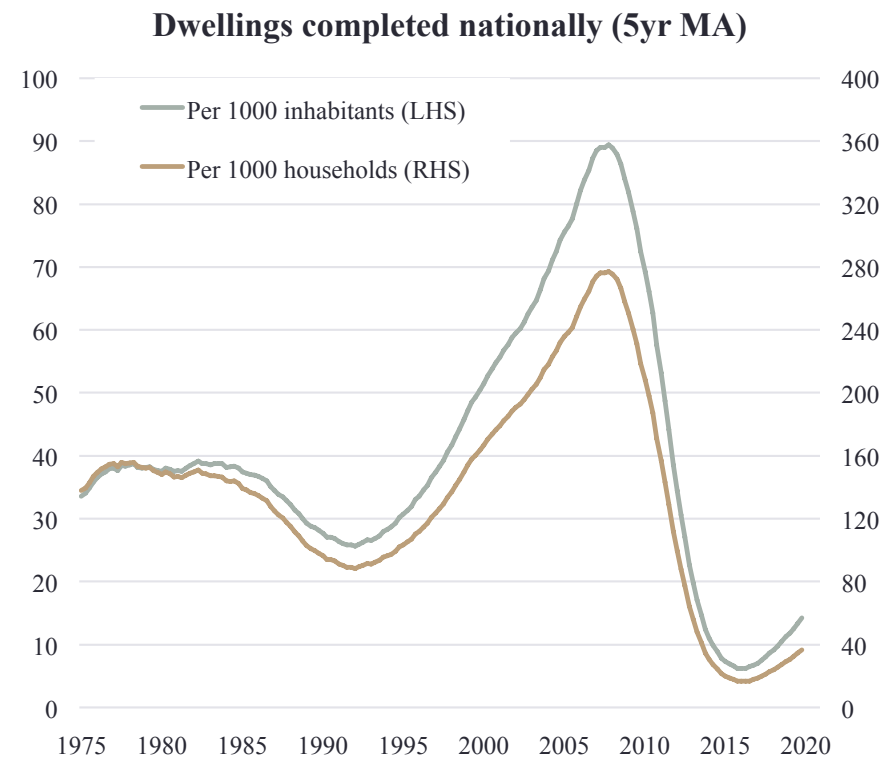
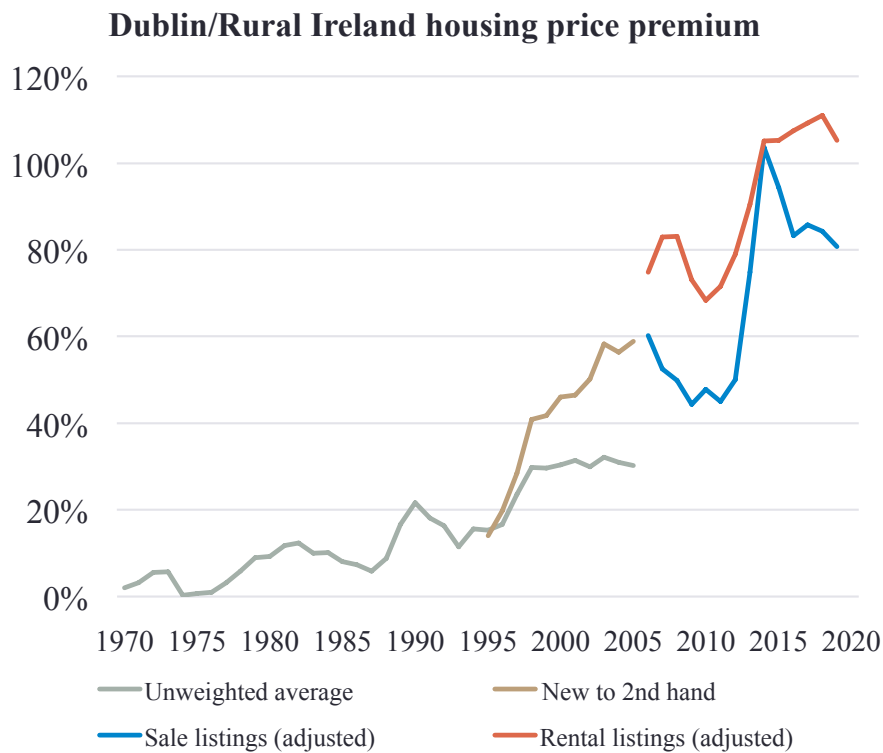
Scatterplot of Dublin sale listings and quarterly changes in sale prices, 2007-2020



Scatterplot of Dublin rental listings and quarterly changes in rents, 2007-2020



There is no rule that cities have to be more expensive than other parts of a country – lack of supply is the cause of expensive housing



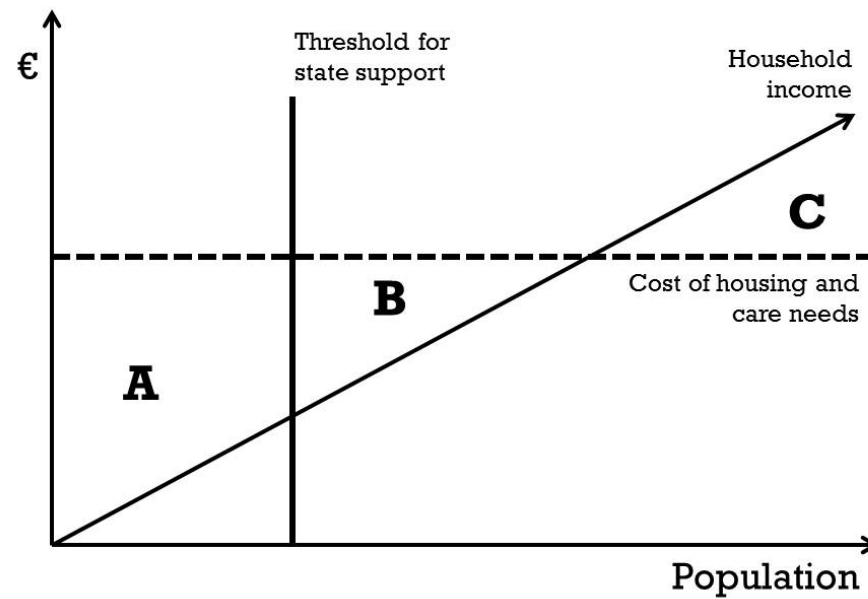
The problem is the cost...

No matter what population scenario you choose, Ireland will never have enough families to occupy the family homes it has already built!

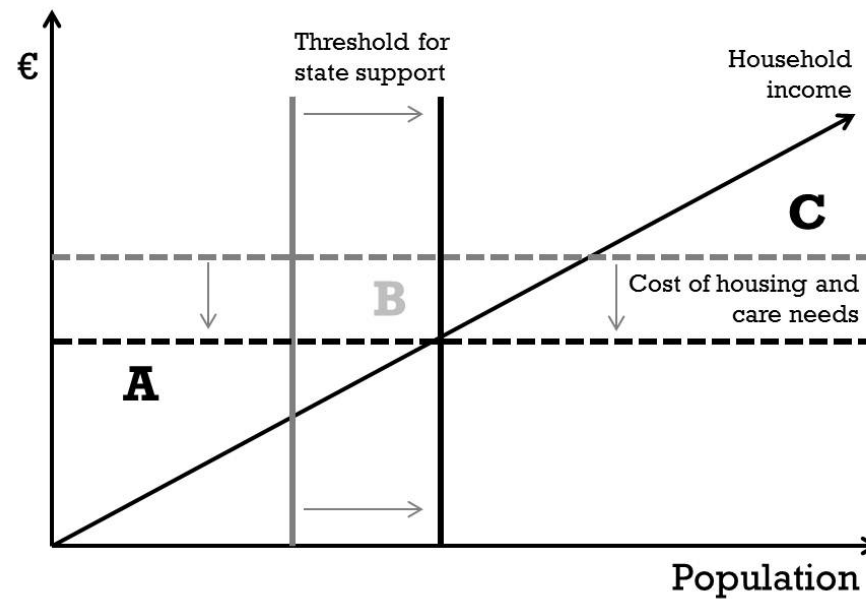
But: housing for smaller urban households is more expensive – up-front, per-person – than housing for larger rural households

And hard construction costs in Ireland are among the highest in the world

Thinking about how the market and social housing:
Either social (A) or market (C), no “forgotten middle” (B) – aka ‘affordable housing’



Thinking about how the market and social housing:
Eliminating “Group B” means linking minimum standards with social housing



Four principles for a healthy housing system

1. **Macro-prudential rules:** link 'P' (prices) to 'Y' (incomes, the real economy)
2. **Construction cost targeting:** link 'C' (build costs) to 'Y'
 - Without doing this, nothing to ensure 'P' and 'C' are linked – i.e. market viability
3. **Cost rents:** ensuring all households have adequate 'Y'
 - Move from 'begging the developer' to social housing as 'anchor tenants' with free land in exchange for lowering finance costs
4. **Land value tax:** ensure 'L' (land costs) are linked to 'Y'
 - And also ensure that public investments (e.g. green space, light rail) are self-financing

Why cost rents? Thoughts on the principles for ‘housing for all’

1. No state-owned homes!

- Housing bodies, not local authorities – integration across income/demographics
- Avoid ‘gifts’, ‘leaky buckets’, and tenant/voter conflicts of interest
- Land tax means ownership (state or otherwise) is irrelevant

2. Support based on cost rent, not market rent

- Social housing needs to be counter-cyclical – or at least acyclical – not pro-cyclical
- Avoid at all costs the label of ‘affordable’ homes!
- ‘Shared equity’ a lesser evil than ‘Help to Buy’: no gifts to higher-income households

3. Integrate housing policy

- With education policy: demographic mix at early ages good for all
- With health policy: independent/assisted living and care needs a part of ‘cost rent’
- With pension policy: balance playing field across tenures – e.g. pension based on opt-out deduction from 1st paycheck, with option for deposit withdrawal

Closing thoughts... The Irish housing system, 2000 – uniformity



Closing thoughts... The Irish housing system, 2050 – diversity

Six types of housing that Ireland is largely lacking!



Thanks for your time!

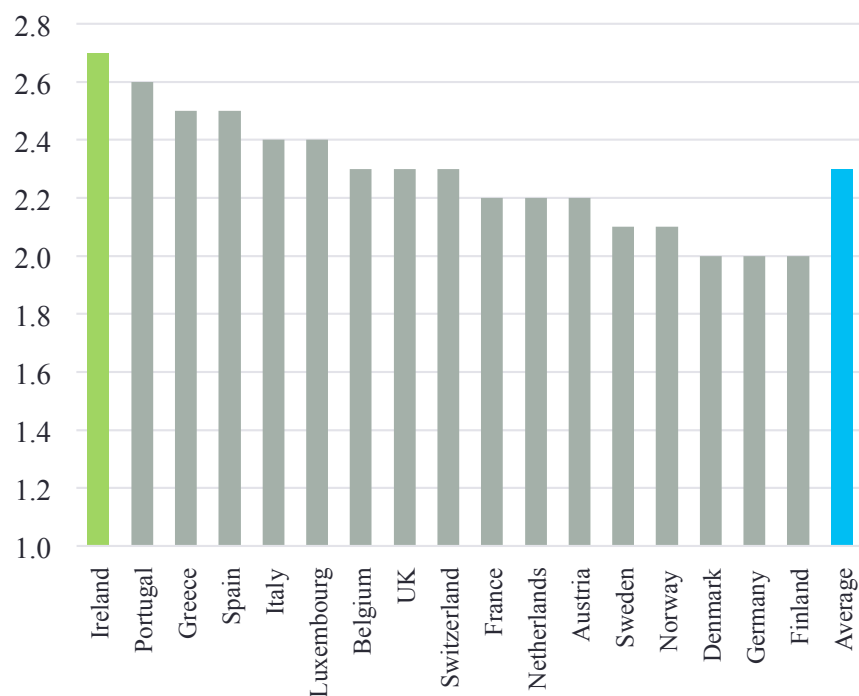
Looking forward to the discussion

If you'd like the slides or to get in touch:

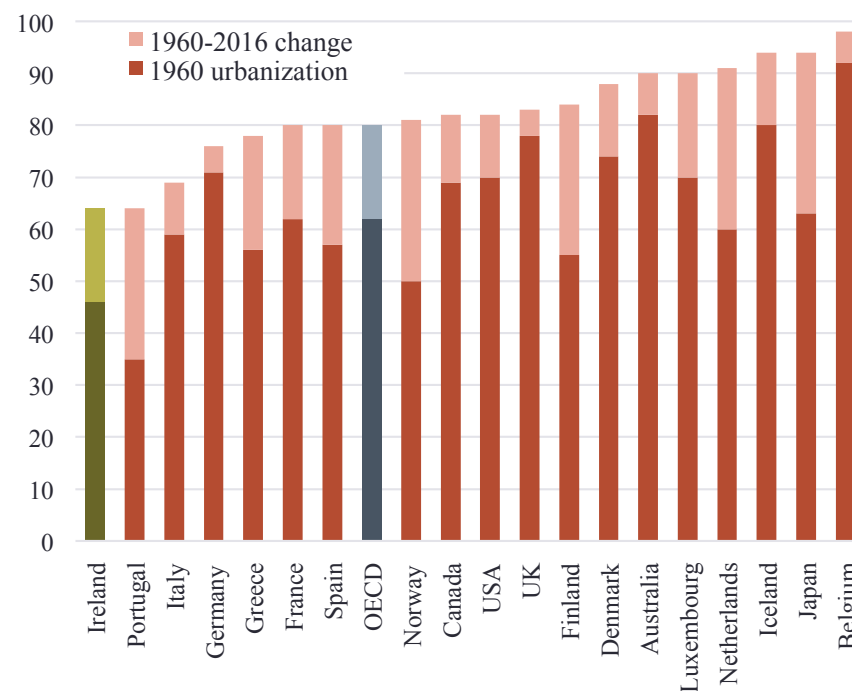
ronan.lyons@tcd.ie

Significant additional housing need stems from Ireland’s outlier status on two important graphs: household size and urbanization rate

Average household size, by country (2014)

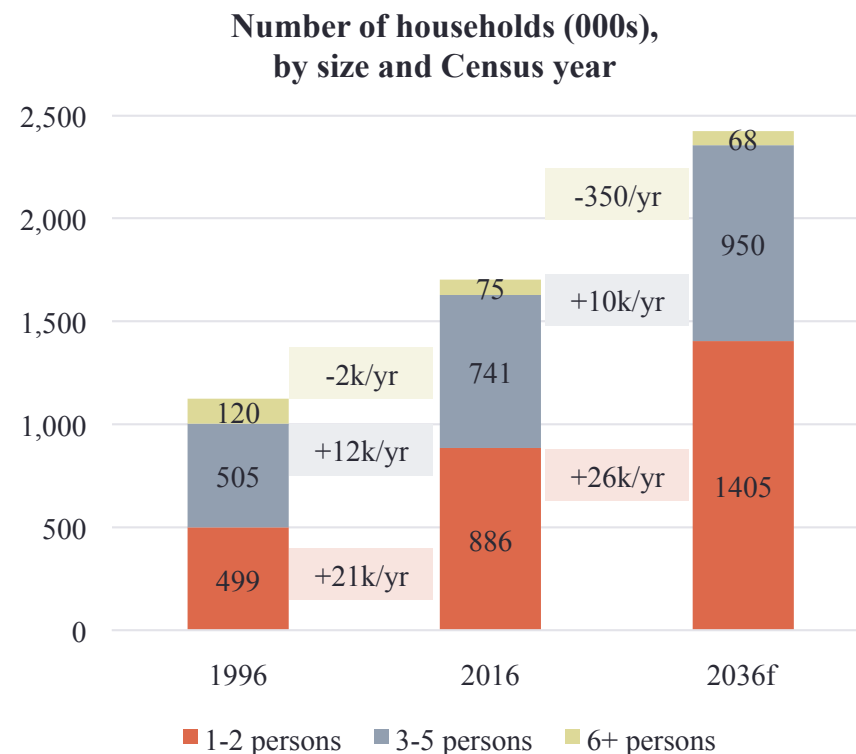
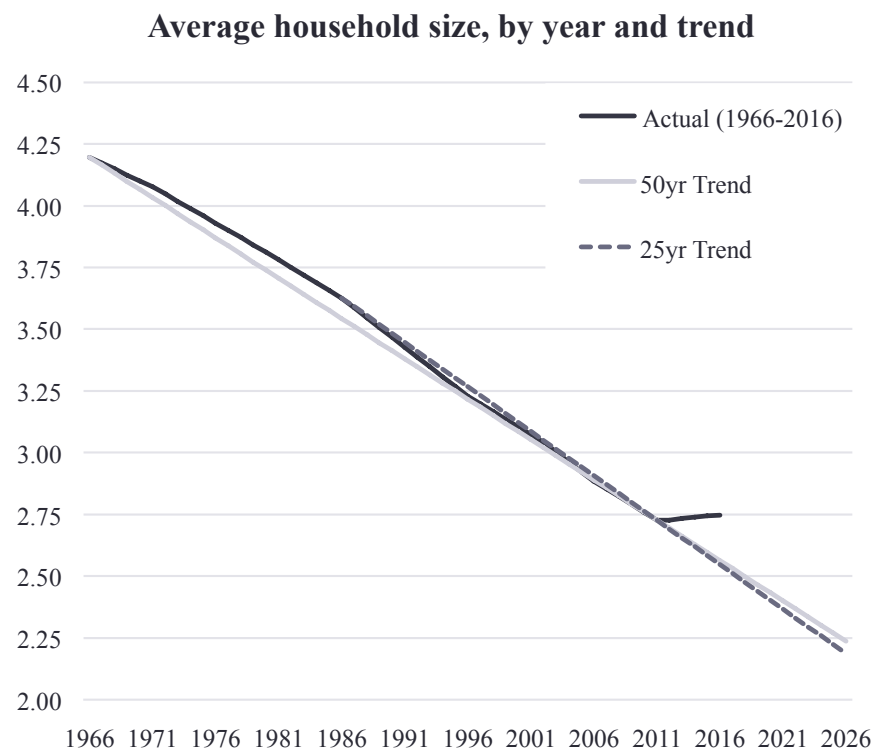


Urbanization rates, 1960-2016 by country



Source: Hyostat 2016; UN World Urbanization Prospects (2016)

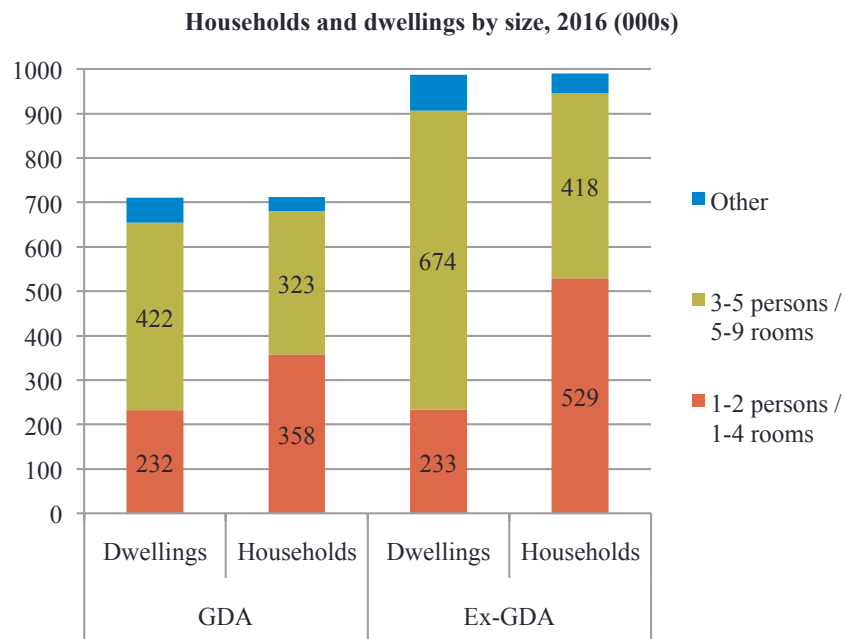
Two thirds of the growth in Irish households since 1996 has been 1-2 persons, who now form the majority of households in Ireland – a trend very likely to continue



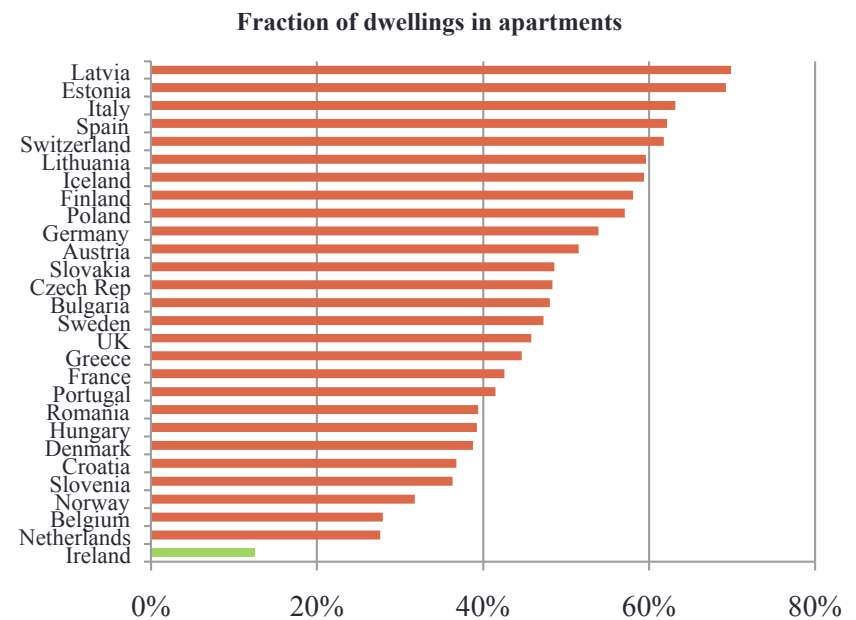
Source: Calculations based on CSO Census. Forecast for 2036 is based on CSO (2017) population projections, with an average household size of 2.3 (58% in 1-2 person households)

Comparing its stock of dwellings with its population, Ireland has no shortage of houses – rather it’s missing about 400,000 apartments

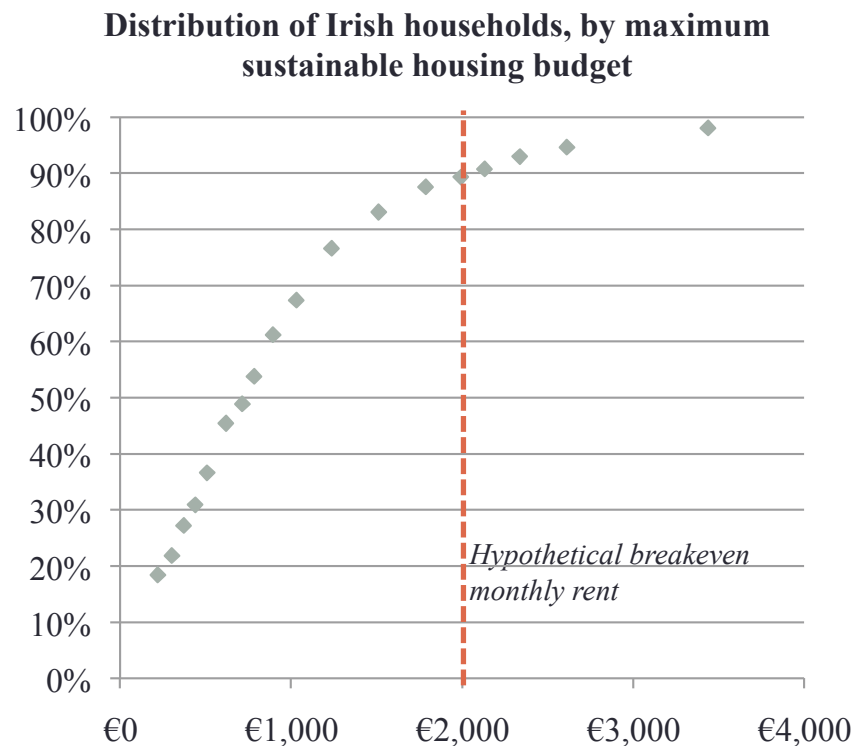
Ireland has a huge surplus of family homes



Ireland is unique in the EU for dwelling mix



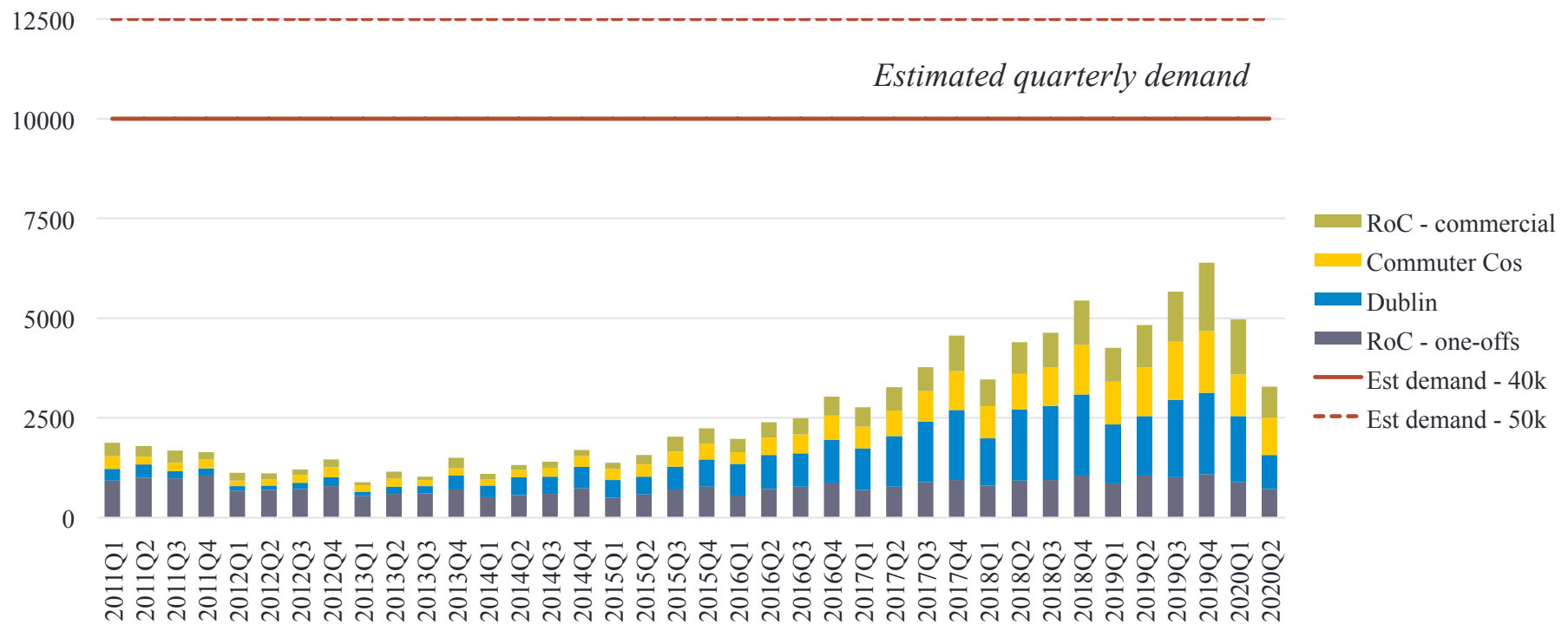
For social housing to work well, social housing systems must be connected to both construction costs and disposable income



	Status Quo Family	Scenario Family	Status Quo Single	Scenario Single
Hard costs / sqm	€1,830	€1,500	€1,830	€1,500
Min sqm	80	60	55	35
Multiplier	1.77	1.77	1.77	1.77
Total unit cost (ex land)	€259,128	€159,300	€178,151	€92,925
Cost/rent ratio	200	200	200	200
Break-even monthly rent	€1,296	€797	€891	€465
Annual gross income	€45,000	€45,000	€15,000	€15,000
Max monthly housing spend	€1,000	€1,000	€417	€417
Max sqm	62	75	26	31
Monthly subsidy required	€296	-€204	€474	€48

The number of housing completions in the GDA increased significantly in recent years but – even including commuter counties – is still below estimated demand

New homes completed by quarter, location and housing type



Source: Analysis of CSO and Department of Housing figures