

Addressing the Current Housing Situation

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Outline

- Economic Environment
- Housing Demand
- Housing Supply
- Financing Investment
- Conclusions

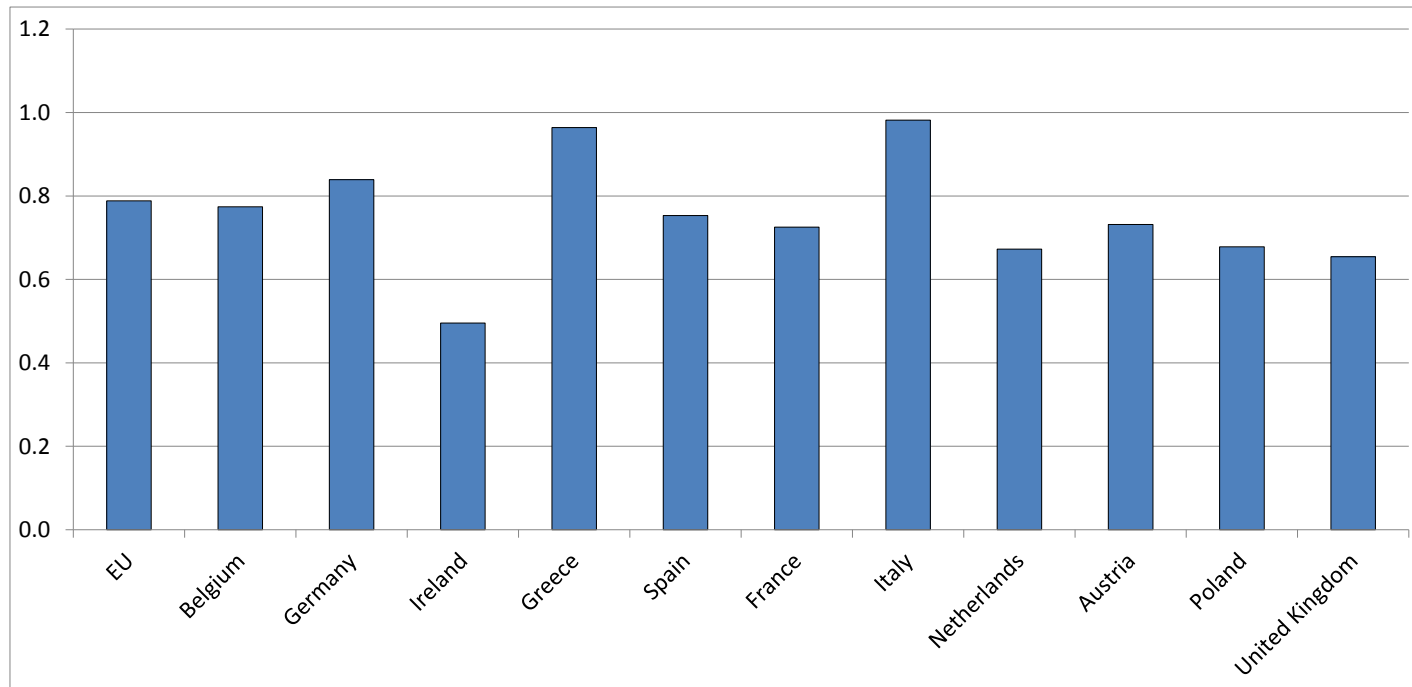
Economy today: positioned for growth

- The future is unknown – look at scenarios
 - In the past – too pessimistic
 - Choosing no regrets policies for future
- Domestic pressures for growth
- Investment too low to sustain growth
 - Need more housing and infrastructure for growth
- Public finances – adjustment completed
 - May need to tighten fiscal policy to make room for growth
- Risks – Brexit, Trump etc.
- Climate change an important consideration

Housing Market

- Deleveraging continues
- Diversity of household experience
 - Younger cohort Under 35s v 35-50
- Demographic pressures
 - Rising household numbers
 - Upward pressure on rents and house prices

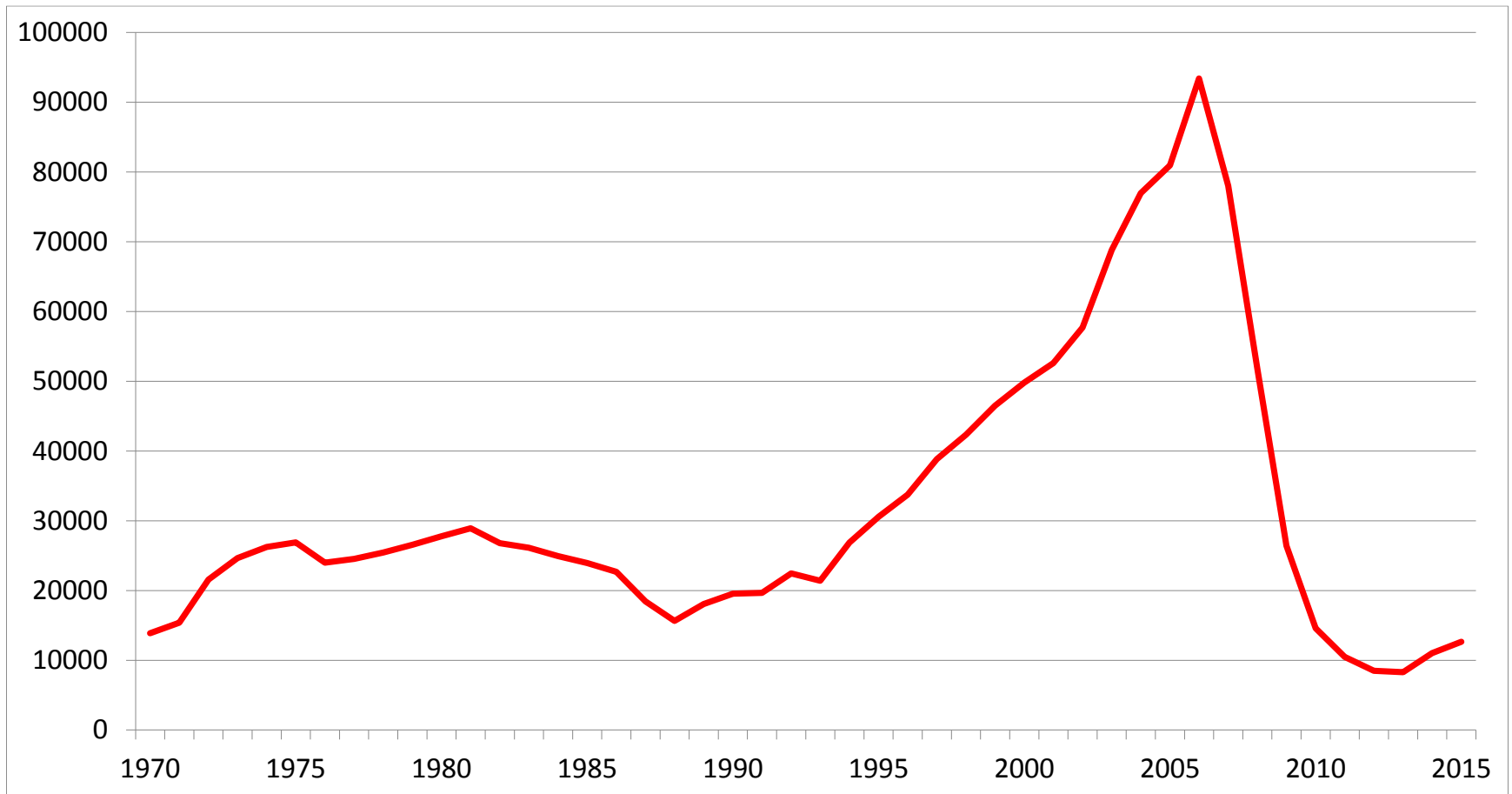
Ratio of deaths to population aged 25



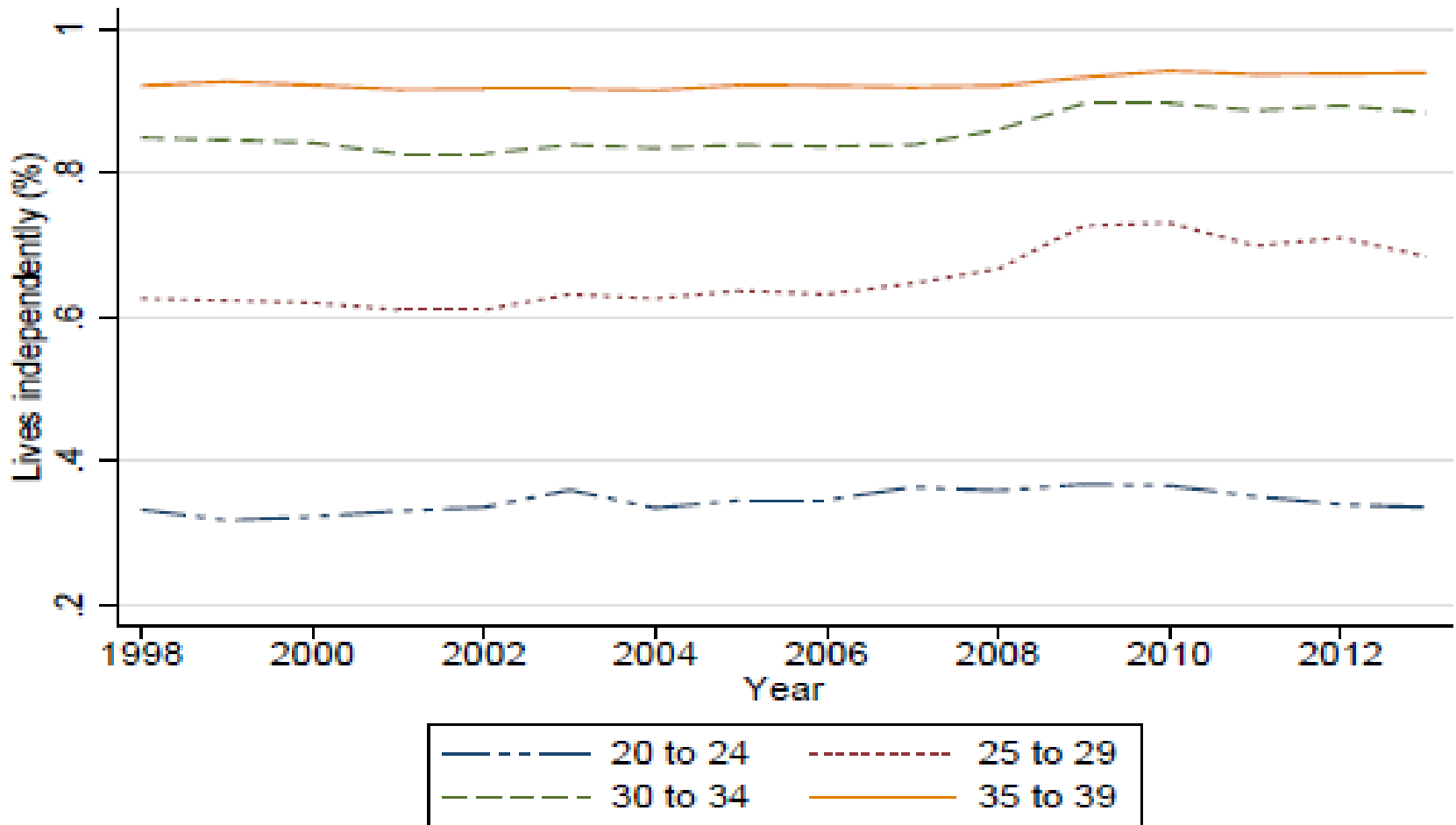
Alternative Scenarios for New Household Formation in Ireland

	Number of Households, 2030	Increase, 2011-2030	Annual average Increase, 2011-2030
Base: Headship constant at 2011 rates	2.01 million	356,000	19,400
Trend in headship: Census 2002-2011	2.14 million	481,000	25,600
Trend in headship: Census 2006-2011	2.29 million	635,000	33,300
Converge to 2011 headship rates in England and Wales by 2030	2.15 million	499,000	26,500
Higher Immigration, +15,000 per annum	2.26 million	607,000	31,900
Higher Emigration, +15,000 per annum	2.01 million	355,000	19,000

House completions



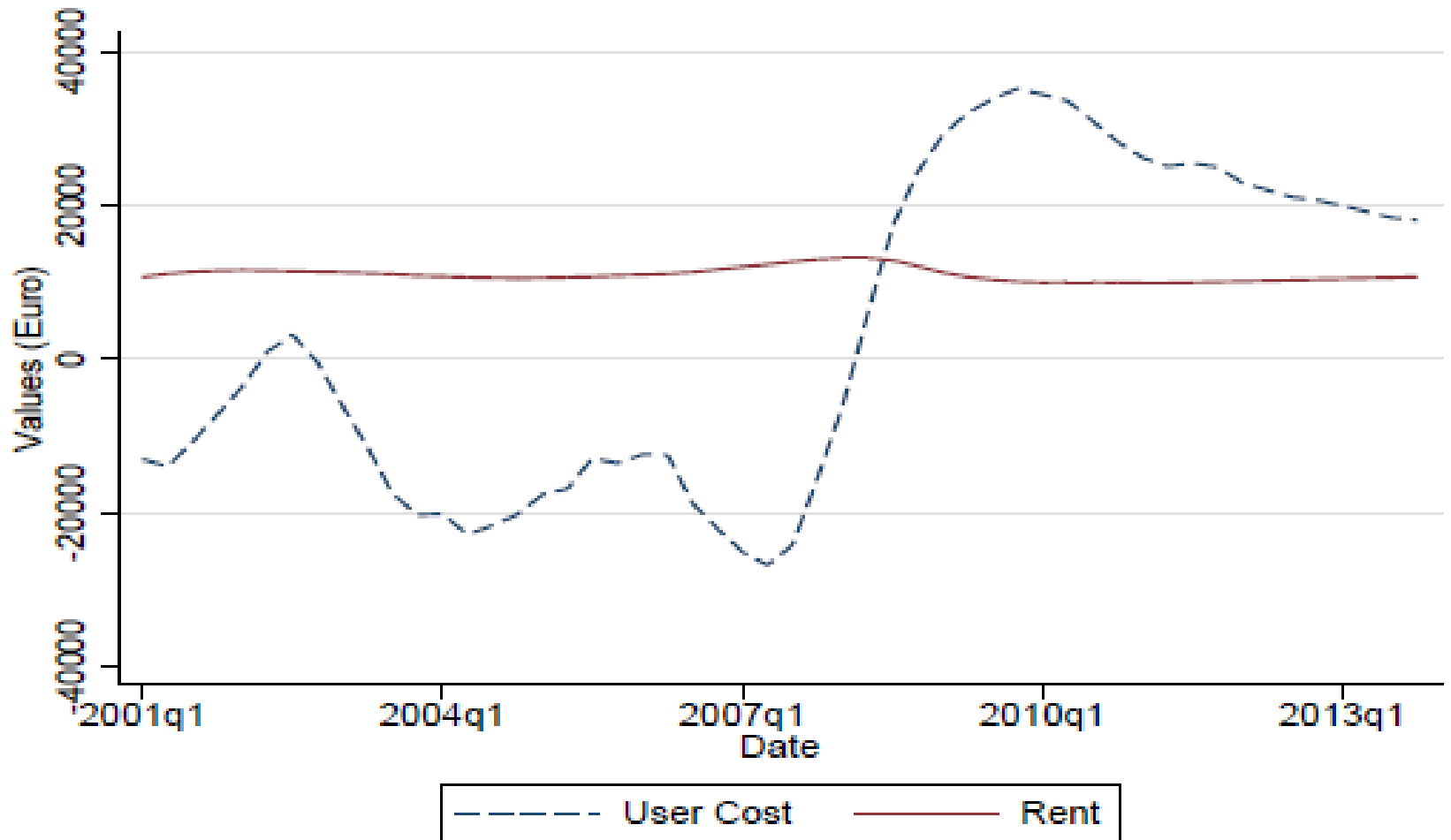
Household formation by age group



Household Formation by age group

- Post 2008 – very big fall in rents
- Younger people who had a job could afford to:
 - Move out from home at an earlier age
 - Could afford to rent own apartment rather than share;
- There was a big increase in “headship”
 - Moved Ireland to a more EU (Germany, UK) experience
- Higher rents to today
 - Reversing the process, leading to a fall in headship
- If priority groups are to be housed with a fixed supply:
 - Need to squeeze out existing households or discourage new households - price

User cost of housing



Tenure Choice, 30-34 year olds

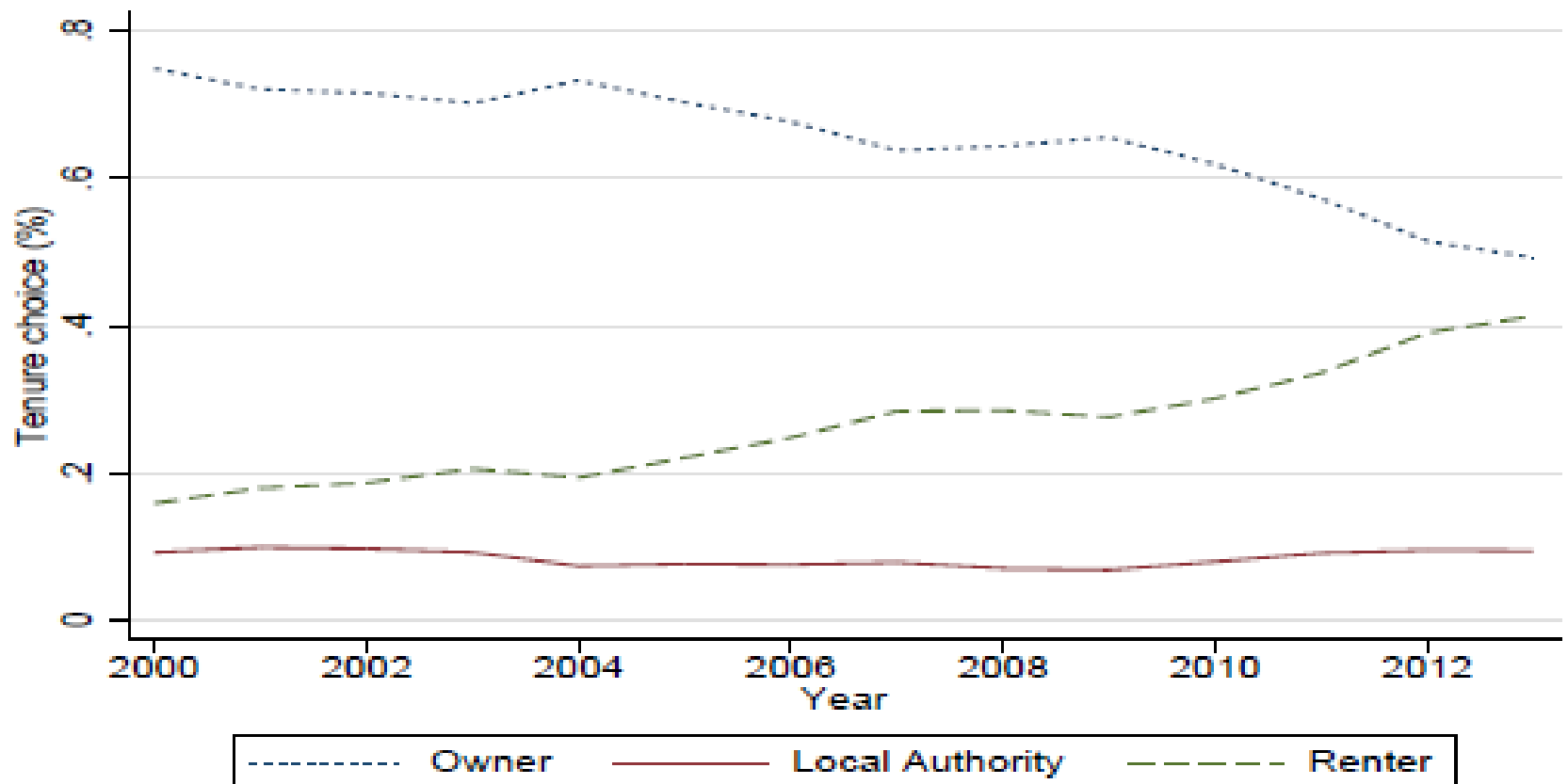


Figure 5: Tenure choice of 30-34 age-group, 2000-2013

Household tenure

- Crisis may have changed preferences
- Lower home-ownership: economy less vulnerable
- Low home-ownership among 30-35 cohort
 - Under-indebted
 - A cohort of people, many of whom would like to buy
 - Can afford to buy
 - Also, cohort in early 30s that might want different accommodation
 - Pressure on prices
- Demographic pressures will continue to be intense
- Price needs to adjust in absence of supply
- Measures to increase buying power of under 35s: would only raise prices

Supply Problem

- If fail to increase supply
 - Will affect economy's competitiveness
 - Will affect future growth (Duffy, FitzGerald and Kearney, 2005)
 - Will reduce return of emigrants / immigration
 - Reducing inflow of new business
- Major problem of slow supply response
 - Finance? Regulation? Entrepreneurial deficit?
 - A lot of different factors

Supply Issues

- Cost of building – why so high?
- Regulation – adds to costs
 - Size, north facing, height, zoning etc.
 - An issue for local authorities and Department
- Vacancies – facilitating & incentivising change
- Land
 - The profit from a rising market accrues to land
 - Taxation to drive change and recoup excess profits
- Finance for building?

Financing Investment

- Financial system may be able to finance housing up to 2010 (McQuinn, 2016)
- Thereafter growing problem
 - Possible solution private sector invest to rent?
- Social Housing
 - New model? Learn lesson of UK and Irish Water
 - Off balance sheet means moving risk
- Infrastructure

Conclusions

- Demand for housing driven by growth and demography
- Tackling supply constraints crucial
- Problem that economy is at capacity
 - Even if state has money to invest it will need to raise taxes to stop overheating
 - Don't repeat mistakes of the past
- Longer term – new financing models?