Just how affordable is housing for Ireland's first-time buyers?

EY DKM

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Executive Summary

How affordable is it to take your first step on the property ladder? We consider this question in the following report, using the EY Housing Tool. This unique model supports an assessment of affordability using two factors: the first, whether first-time buyers can afford the mortgage repayments on the property; and second, their ability to accumulate a sufficient deposit for that property in the first place.

Our analysis shows that nearly half of all counties in the Republic of Ireland are unaffordable, based on the two factors: we discovered that in 46% of Ireland's counties, property purchase for first-time buyers is extremely challenging. Although in urban centres such as Dublin and Cork, this may have been expected, the following report sheds light on the increasing affordability challenge in other areas, both rural and urban, across the country.

The tool shows that for most of the country, the main barrier to home ownership is the deposit: in some counties, it could take more than 10 years to save a sufficient amount, due to both high house prices and rental prices. If this affordability issue is to be tackled, Central and Local Government will need to develop approaches which address both sides of this challenge, delivering affordable houses to both buy and rent.

The end of the owner occupier?

The all-important purchase of a first home is, for many people, a landmark moment. Yet, something that was once seen as a rite of passage is simply not realistic for many people in Ireland today. Whereas once, buying a property was difficult, now it may be unrealistic for many.

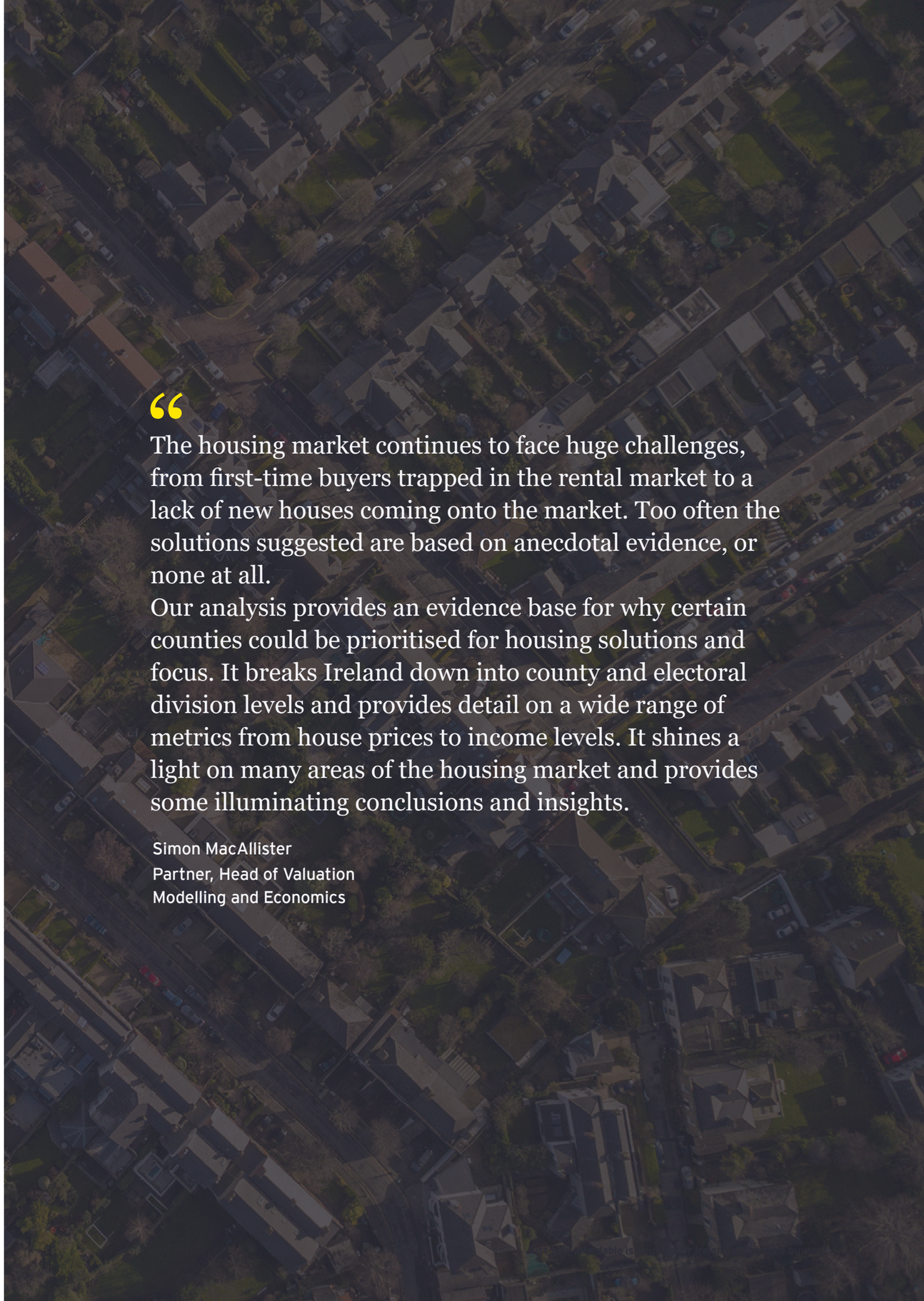
Owning property has taken a backseat to the increasingly popular rental market, and over the last 20 years there's been a significant rise in those living in rental accommodation. Whereas in 1991, only 8% of Dublin's households lived in rented accommodation, by 2016 the figure had risen to 20%, with a notably high percentage of rented properties in the centre of the city[1]. Is owning a home no longer so important to today's population, or is it simply no longer affordable?

To answer that question, we will look at the evidence to discover if this trend is really due to the lack of affordability. While incomes have grown recently, rents have grown much faster, putting an ever-increasing pressure on our ability to save. We'll also demonstrate that in many parts of the country, the difficulty in gathering a deposit may be a key obstacle for first-time buyers.

This research uses a variety of data drawn from publicly available sources: using this information, we have developed a Housing Tool based on a wide variety of indicators to investigate housing affordability, both at the County and Electoral Division level. The tool allows for a detailed understanding of affordability by location across the Republic of Ireland.

The findings can be used by organisations, including mortgage institutions and local authorities to inform housing strategies, and by policy makers, builders and developers to assess market demand. It can support authorities in identifying where the pressures on first-time buyers are greatest, and where opportunities to attract new households into more affordable areas exist.

1 https://www.cso.ie/en/releasesandpublications/ep/p-cp1hii/cp1hii/tr/



"The housing market continues to face huge challenges, from first-time buyers trapped in the rental market to a lack of new houses coming onto the market. Too often the solutions suggested are based on anecdotal evidence, or none at all.
Our analysis provides an evidence base for why certain counties could be prioritised for housing solutions and focus. It breaks Ireland down into county and electoral division levels and provides detail on a wide range of metrics from house prices to income levels. It shines a light on many areas of the housing market and provides some illuminating conclusions and insights.

Simon MacAllister
Partner, Head of Valuation Modelling and Economics

Repaying the mortgage

Most first-time buyers living in rented accommodation are generally younger, and at earlier stages of their career, than those earning an 'average salary', according to evidence from sources such as the Household Budget Survey.

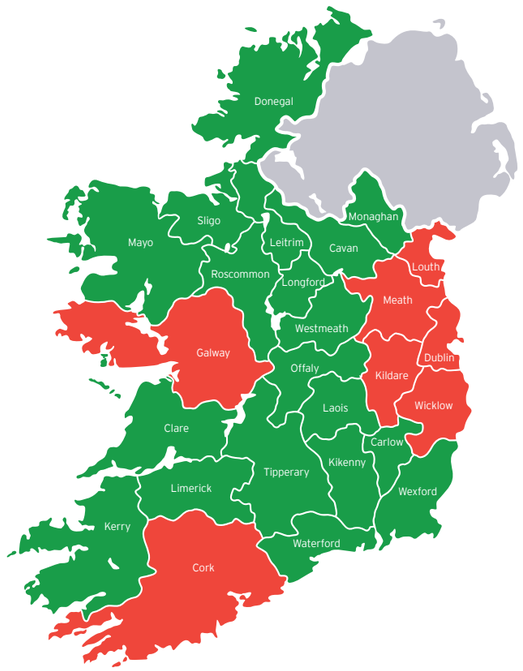
Therefore, assessing median house prices against the average household income in particular areas is not an accurate measure for most first-time buyers, whose earnings are approximately 89% of the average. Taking this into account, in our tool, we have consequently reduced the average First-Time Buyer (FTB) household income to reflect this. This adjustment, however, does not appear to have a major impact on affordability.

The only areas with median house prices of, and over, 3.5 times the average first-time buyer household income - a level generally considered the cut-off point for affordability - are the urban areas of Dublin, Cork and Galway. In all of the other areas of Ireland, houses are relatively affordable using this metric of ability to repay the mortgage.

Top 5	
County	Mortgage to Income ratio
Longford	2.1
Leitrim	2.1
Roscommon	2.6
Sligo	2.6
Tipperary	2.7

Bottom 5	
County	Mortgage to Income ratio
Cork	4.2
Meath	4.5
Kildare	4.7
Wicklow	4.9
Dublin	4.9

Figure 1: Ratio of Mortgage to FTB income



"Ireland is an economy of contrasts, and the tool's analysis provides striking evidence of the differentials in housing affordability. In half of the country a deposit would take three years or more to save meaning that for many, house ownership is currently out of reach.
This mismatch can be seen as a consequence of the success of the Irish economy but that does not provide much comfort to those it impacts. This lack of affordability presents a threat to competitiveness, especially in areas of the country, such as Dublin or Galway where the pressures are the most acute.

Ben Warner
EY-DKM Assistant Director

Building up the deposit

In most of the country, when looking at the ability to repay a mortgage, it may appear that houses are generally affordable for first-time buyers. However, this ignores the requirement to have a deposit, which is increasingly difficult for potential buyers, living in the rental market, to get together.

The tool uses publicly available data to calculate the time taken to raise a sufficient deposit based on four factors:

- Net household income
- Household expenditure
- Rental prices
- House prices

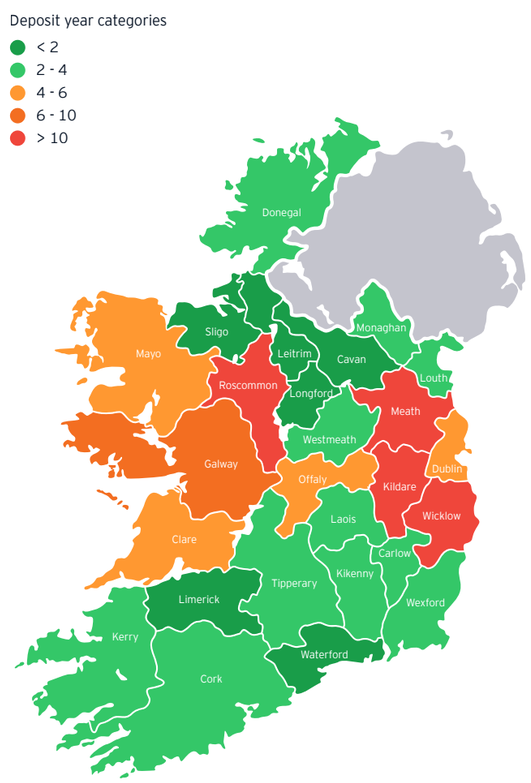
The combination of these data sources provides a measure of the years needed to save for a deposit.

First, we calculate the average household income for a first-time buyer in rented accommodation and then subtract living costs and rents to calculate the total annual amount available to be saved.

The required deposit is taken to be 10% of the median house price, based on Central Bank mortgage rules: this is then divided by the annual savings to calculate the time required to save the deposit. (The calculation is therefore for households living in rented accommodation, rather than living at home, though the tool can consider those who live with their parents, if required.)

To reflect current regulatory limits, the tool assumes that no household can raise a mortgage of more than 3.5 times their household income. Where the median house price is greater than this (i.e. in the urban areas) it is assumed that they will buy the optimum house they can afford. Based on this approach, the tool calculates that on average, across the state, it would take a first-time buyer between three and four years to gather a deposit. However, within the figure, there is significant variation at regional level and therefore it is vital to drill down further into the data.

Figure 2 - Number of years for a FTB to save for a deposit



Top 5	
County	Deposit Years
Leitrim	1.3
Waterford	1.6
Sligo	1.6
Cavan	1.7
Longford	1.9

Bottom 5	
County	Deposit Years
Meath	15+
Wicklow	15+
Kildare	15+
Roscommon	10.4
Galway	8.3

Drilling down into the metrics: what data do we use?

The housing tool allows for investigation of the significant differences across the country, both in terms of the property market (i.e. house prices), but also in terms of living costs and income, providing an unparalleled level of detail.

Our approach draws together multiple data sets and then combines them to produce new and unique variables. Many of the data sets used are based on surveys which are, however, only conducted on an infrequent basis. We have therefore updated these figures to the most recent year, using suitable estimates of growth. All other data sets used in this report are based on actual 2018 data.

The key data sets are:

- Household Budget Survey: 2015
- County Incomes and Regional Accounts: 2015
- Survey of Income and Living Conditions: 2016
- National Census of Population: 2016
- Average earnings figures: 2018
- Property Price Register: 2018
- Residential Tenancies Board Ireland: 2018

How affordable are deposits in Ireland?

As the tool calculates affordability on a location-specific basis, it gives a highly detailed view of affordability and assesses the challenges at a granular level. This includes looking at the reality of first-time buyers being able to accumulate a 10% property deposit in different counties.

The key Dublin commuter counties of Wicklow, Meath and Kildare remain highly unaffordable but are now joined by Roscommon. This is despite the fact that Roscommon has a house price to income ratio of only 2.9: it is, however, the rental rates and income levels for this area which makes Roscommon unaffordable.

Cork and Limerick though, both have a much better balance of income, rental prices and house prices. In addition, in the areas around the aforementioned cities, property is much more affordable: this makes it more viable for first-time buyers to buy outside of Cork or Limerick and commute in, unlike the unaffordable areas surrounding Dublin.

When focusing on the ability to raise a deposit, interestingly, urban Dublin, Galway and Cork all become more affordable using this measure, due to higher incomes relative to rents, meaning more opportunities to save. For instance, in Dublin it would only take 4.3 years to save up for a mortgage of 3.5 times household income. The buyer would, however, have to buy a house which was below the median price.

Areas with the lowest household incomes, such as Donegal, also do not come out best because the house prices are not sufficiently low to compensate. The counties of Leitrim and Waterford are the most affordable, using this measure: in Leitrim, for example, it would be possible to save for a deposit in just over one year if the household avoided major items of discretionary spending.

Where is the most affordable location?

The tool also introduces an overall affordability measure to help consider the entire country based on both the ability to pay the mortgage and the time needed to save for a deposit. This is based on the average rank for both measures discussed previously.

The map shows an output from the model with counties ranked from 1 (highly affordable) to 5 (not at all affordable).

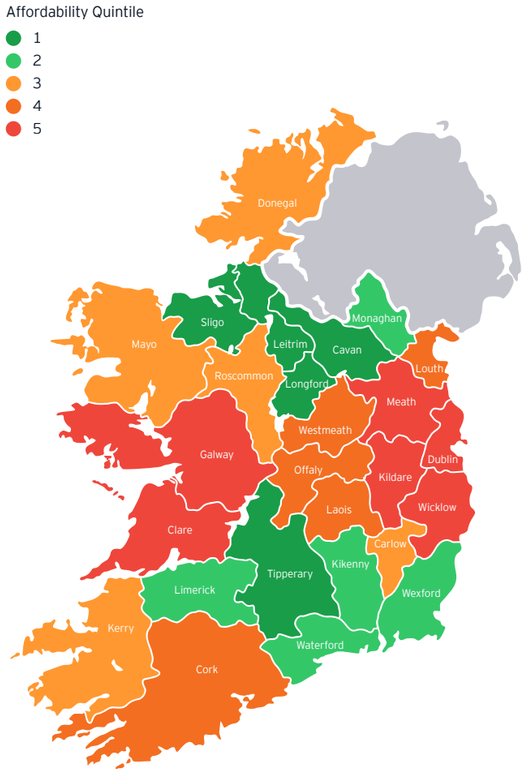
The table below sets out the top and bottom five counties to live in for a first-time buyer household, deciding where to live based purely on the desire to afford their own house. It does not consider individual factors such as type of work, quality of life, promotion opportunities, lifestyle choices, commuting patterns etc.

Not all those in the rental market will be seeking to buy, and for them, desirability will not be driven by house prices, but rather rental markets and incomes. It does, however, suggest that the focus on large cities due to their higher incomes may not be the route to house ownership.

Top 5	
County	Rank
Leitrim	1
Longford	2
Sligo	3
Cavan	4
Tipperary	5

Bottom 5	
County	Rank
Wickow	26
Kildare	25
Meath	24
Dublin	23
Galway	22

Figure 3 - FTB Affordability Index



"The focus on encouraging construction activity is welcome, however simply building more houses is in itself not the solution. It is vital that the balance between owner occupied and build-to-rent developments is carefully managed to deliver affordable rents which will not only increase living standards but free up money to save for a deposit.
Our analysis sheds light on the scale of the challenge facing Ireland if it is to achieve the Project 2040 plan, whilst at the same time showing the opportunities available to areas other than Dublin to attract talent to their areas.

Annette Hughes
EY-DKM Director and Housing Construction Lead

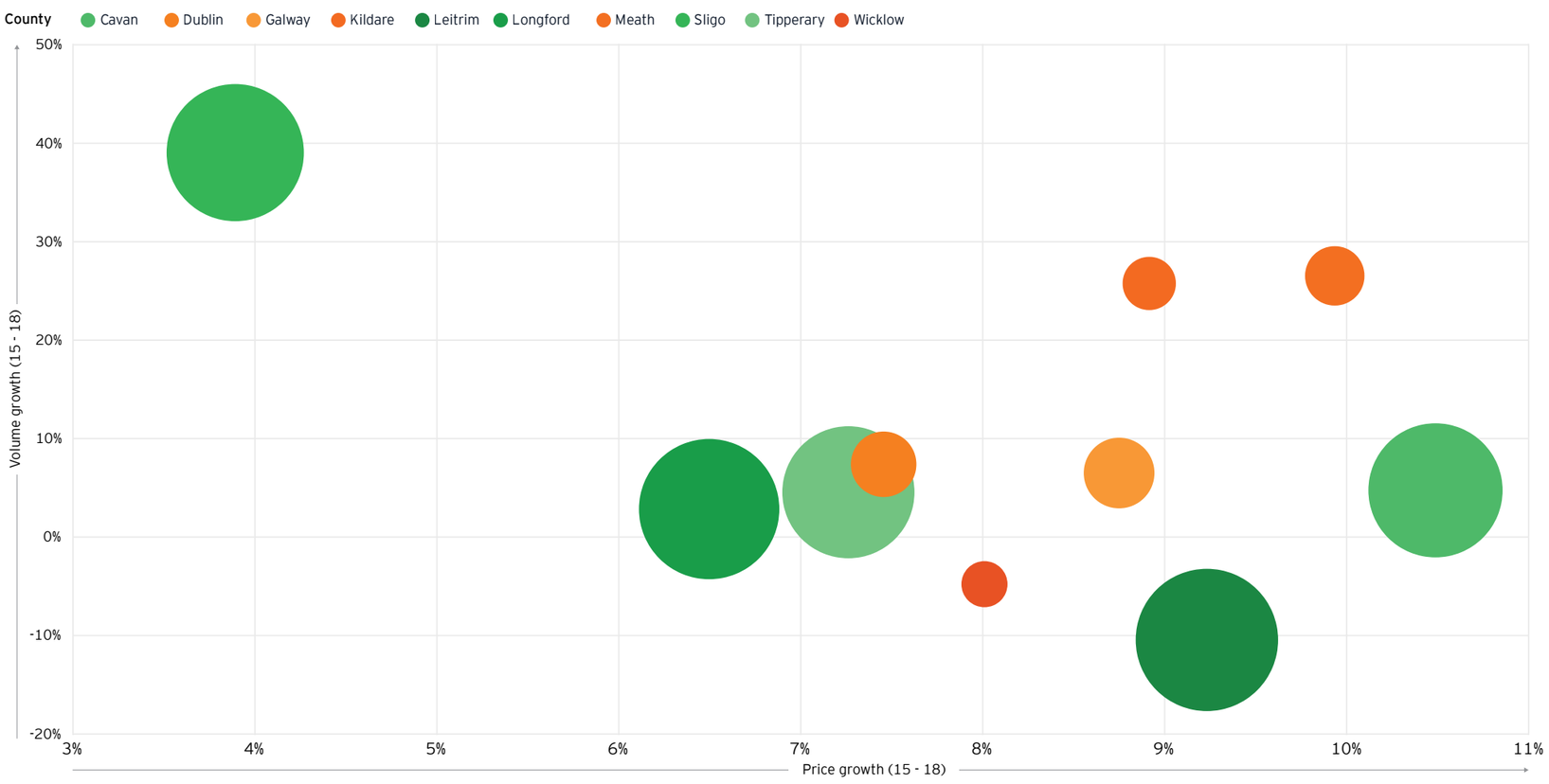
Is affordability driving the market?

If areas like Dublin, Cork and Galway are not the most affordable, will this have an impact on house prices? Is there any evidence that first-time buyers are already moving to areas where houses are seen as more affordable?

If this is the case, then the housing markets in these counties should grow faster than in less affordable counties. To assess this, we focused on whether the most affordable counties have grown faster than those which are increasingly unaffordable.

The diagram plots the top and bottom five counties in terms of house price and transaction volume growth. The size of the bubble represents the affordability *(the larger the bubble the more affordable the county is)*. The more affordable counties *(marked in green)* do not appear to be growing any faster, on average, than the less affordable counties *(marked in red)*. For example, both Sligo and Cavan are highly affordable but Sligo has extremely low growth in terms of price (3.9% over 4 years) but high growth in terms of transaction volumes (39%). Conversely, Cavan is the opposite, with strong growth in terms of price (10.5%) but more modest transaction volumes growth (10%).

Figure 4 - Volume and Price growth compared to affordability



Conclusions

These findings suggest that all of the major urban areas of Ireland are becoming increasingly unaffordable, with deposits taking many years to accumulate.

The evidence suggests that lack of affordability is driving house buyers out of those key markets and leading to increased activity in other, more rural, housing markets. This will present significant challenges for the five major cities whilst at the same time potentially providing a boost to the urban areas of other counties. However, looking beyond the main urban centres, the issue of unaffordability seems more widespread. Ultimately, out of Ireland's 26 counties, nine of them were unaffordable on the basis of the ability to raise a deposit of 10% of the median house price: seven were deemed unaffordable based on the ability to repay the mortgage should buyers be successful in gaining the deposit (on the basis that it would be more than three and a half times first-time buyers' gross household income). Whilst there may be a generational shift towards preferring renting over buying, our analysis suggests the shift towards renting is in part driven by an inability to move out of a rented property.

So, what is the future likely to hold, based on the tool's results? EY forecasts[1] that GDP growth will be 3.8% in 2019 with strong growth continuing out to 2023 and beyond. This is forecast to cause employment to continue to rise, with an additional 192,500 jobs created by 2023. The need to draw in foreign workers to meet this requirement will place even further strains on the housing market, especially in terms of the rental market. If more rental properties become unaffordable, or even unavailable, to foreign workers, they will choose to go elsewhere, with inevitable consequences for Ireland's competitiveness.

At the same time, more rural areas need to be ready to take action. Trends in working patterns and increasing broadband availability mean that jobs are no longer so tied to a single location. This, coupled with ongoing affordability issues in the urban areas, may lead to increasing numbers choosing to live outside the major urban areas whilst continuing to work in high income jobs.

The analysis presented here should resonate with the current Government policy of achieving more balanced regional development. The objectives of Project 2040 include more balanced growth across the country in terms of population, homes and job creation. With 1 million extra people expected to be living in the country by 2040, policy makers need to carefully plan for this growth, and its consequences. A policy priority must be to create viable alternatives to Dublin by encouraging the creation of jobs in areas where housing is more affordable. This has to be accompanied by adequate investment in infrastructure and services in these areas to ensure sustainable growth of communities across the country. The upside of this policy stance should be a lower requirement for social housing, thereby generating public expenditure savings.

This research is an invaluable tool to help in the delivery of these strategies by providing a more granular understanding of the challenges. These findings help identify where affordable housing is needed, but councils must consider how best to deliver this housing and how to attract private sector involvement in social housing projects, whilst also delivering best value for money.

1 https://www.ey.com/ie/en/issues/business-environment/ey-economic-eye-winter-forecast-2019

County	Affordability Rank	Deposit years	Housing affordability	Price Growth (15 - 18)	Volume Growth (15 - 18)
Leitrim	1	1.2	2.1	9.2%	-10.5%
Longford	2	1.9	2.1	6.5%	2.8%
Sligo	3	1.6	2.6	3.9%	39.1%
Cavan	4	1.7	2.7	10.5%	4.8%
Tipperary	5	2.3	2.7	7.3%	4.6%
Wexford	6	2.3	3.0	8.4%	-6.2%
Limerick	7	2.0	3.1	11.0%	7.9%
Waterford	8	1.6	3.3	10.4%	-6.4%
Kilkenny	9	2.5	3.1	8.6%	22.9%
Monaghan	9	2.4	3.2	9.5%	-29.5%
Kerry	11	3.1	3.1	8.4%	-11.3%
Donegal	12	3.4	3.0	9.1%	-8.3%
Roscommon	13	10.4	2.6	6.8%	0.8%
Carlow	14	2.6	3.2	10.7%	-10.2%
Mayo	15	5.6	2.8	6.9%	12.8%
Westmeath	16	3.3	3.2	9.8%	14.5%
Cork	17	2.5	4.2	8.8%	3.4%
Louth	17	2.8	3.9	10.9%	19.7%
Laois	19	4.0	3.3	14.1%	4.9%
Offaly	20	4.4	3.3	8.4%	0.4%
Clare	21	4.4	3.5	11.1%	-0.6%
Galway	22	8.3	3.9	8.8%	6.5%
Dublin	23	4.3	4.9	7.5%	7.4%
Meath	24	15.0+	4.5	9.9%	26.5%
Kildare	25	15.0+	4.7	8.9%	25.8%
Wicklow	26	15.0+	4.9	8.0%	-4.8%

Contact us

Simon MacAlister
Partner, Head of Valuation Modelling and Economics

E | simon.macallister@ie.ey.com
T | +353 86 830 4580

Shane MacSweeney
Partner, Head of Government and Infrastructure

E | shane.macsweeney@ie.ey.com
T | +353 87 186 9849

Neil Gibson
Chief Economist

E | neil.gibson1@uk.ey.com
T | +44 7803 728 994

Annette Hughes
EY-DKM Director

E | annette.hughes@ie.ey.com
T | +353 87 293 1533

Ben Warner
EY-DKM Assistant Director

E | ben.warner@ie.ey.com
T | +353 87 665 3752

Victor Carey
Data Analytics Assistant Director

E | victor.carey@ie.ey.com
T | +353 1 221 1171

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