Rialtas na hÉireann
Government of Ireland

Spending Review 2021 – An Overview of the Irish Housing Market and Policy

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Spending Review 2021 – Overview, Aims & Objectives

Overview

The Irish housing market has been characterised by increasing input/output prices in recent years, undermining the capacity of households to attain homeownership and the viability/supply of development in the rental sector. Various and often interrelated, systemic factors drive this phenomenon. This paper provides a broad overview and discussion of these factors and considers international approaches to housing policy that could provide insights domestically to address the current housing shortage. Irish Government expenditure on housing in recent years is analysed in the context of the above.

Aims and Objectives

- Provide overview of the Irish housing market and housing policy and factors driving supply/demand
- Assess increasing cost of inputs and impact on affordability of homeownership and rents
- Explore link between affordability and viability of development/supply
- Provide descriptive analysis of the broad set social housing initiatives and expenditures.
- Literature review of international models of public housing to identify key differences between Ireland's public housing model and European counterparts (e.g. cost rental)

Spending Review 2021 – Key Findings

Key Policy Relevant Findings

Rising Prices and Costs

- 2014 – 2020: Price of New builds increased by 10% pa. and Existing Dwellings by 5% pa.
- 10% Increase in cost of building and construction with up to 25% increase in price of selected materials (CSO).

Land market dynamics

- Speculative land hoarding by landowners and developers can restrict the supply of development land, increasing the cost of land as a housing input.
- In auctions, sites tends to be acquired by most optimistic bidders (those with highest expected unit sale prices): property developed close to the margin of viability.

Affordability of homeownership and displaced demand

- Homeownership barriers: At least 50% of households in rental market unable to afford median price of house in Dublin (amplifying demand for rental)

Increased opportunity and activity in Institutional Private Rental Sector (PRS)

- Between 2017 and 2019, 78% of development finance in housing in Ireland was international debt and equity (Lyons, 2021).

Spending Review 2021 – Key Findings

Key Policy Relevant Findings

Viability issues in Institutional Private Rental Sector (PRS)

- Lyons (2021): only one-sixth of renter households in the greater Dublin area could afford the €1,640 monthly rent that investors require to break even on an apartment with a €400,000 build cost at prevailing yields.
- Supply will be constrained if increases in input costs excessively impact the rate of return and/or the required rent level needed to attract institutional investment in the PRS.
- High input costs require rents high enough to deliver a sufficient rate of return to attract investment. If such rents become unaffordable for the large majority of renters, this may undermine the necessary level of investment to drive supply and meet demand.

Pro-cyclical capital expenditure and alternative forms of public housing

- Capital expenditure: over €1.5 billion (2008), less than €300 million (2013), close to €1.4 billion (2020). Total Housing spend in 2021 amounts to €3.09bn. Pro-cyclical capital expenditure undermines the long term, sustainable and timely supply of social housing.
- International policy/literature review identified cost rental as potential policy avenue to resolve pro-cyclicality and viability issues in public housing.