

Rental affordability – is purchasing cheaper than renting in Ireland?

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Executive Summary

Affordability issues in the housing market are resulting in increasing numbers renting. This situation is exerting upward pressure on rents and now creating rental affordability issues. This raises the questions is it more affordable to buy than rent and what is an affordable rent for households?

According to the Residential Tenancies Board¹ “the year-on-year growth rate of the national standardised average rent slowed marginally to 7.0 per cent in Q2 2019. The quarter-on-quarter growth of rent prices increased to 3.0 per cent in Q2 2019, indicating a strengthening in the quarterly inflation. It is likely that affordability issues in the housing market are resulting in an increasing number of people moving into the rental sector, exerting upward pressure on rents”.

Given this continued increase in rental costs, the current slowdown in the rate of housing price increase² raises the attractiveness of ownership over rental. Determining is it really cheaper to buy than rent is important for the State when looking to create solutions to address current housing provision issues, and, for developers when determining the target market and price level for their housing product?

This paper calculates estimated median household income levels in each county in Ireland³ and determines the proportion of household income available for housing costs. This proportion of household income available towards housing costs is then compared to average rents in each county to determine the affordability of renting in that county. This analysis highlights that:

- Average rents are not affordable in Wicklow, Meath, Louth, Kildare, Galway, Dublin and Cork for households with median income levels, and
- When rent is above 33% of estimated household disposable income it becomes unaffordable for a median household to rent.

From the CSO property price register (and in particular first-time buyer house price data) the cost of a 30-year mortgage to buy a median FTB home is calculated for each county. This cost is then compared with average rental cost in that County. This element of our analysis highlights that:

- It would be cheaper to purchase than rent in the majority of counties in Ireland.
- However, Central Bank income multipliers for lending may have to increase to allow such households to purchase given borrowing limit imposed by a 3.5x income multiplier.

Given (for the seventh month in a row) the number of homeless people in Ireland exceeds 10,000, a sustainable level of housing supply needs to be provided with significant acceleration in construction required to rapidly increase housing numbers, more readily meet demand, reduce rental costs and bring down homeless numbers.

The issues around housing provision and housing affordability are complex and affect every family but none more so that the vulnerable people in our society – a functioning rental market needs to be in place with a range of options provided by state and private sector available for families. Options that need to be considered include a structured cost rental model using low cost loans, increased rent supplements and housing assistance payment rates in line with market rent. At the same time a balance needs to be made between the Central Bank’s safeguarding of financial stability and the ability of households to get loans costing less than current rental cost to purchase affordable homes.

¹https://onestopshop.rtb.ie/images/uploads/Comms_and_Research/RTB_Rent_Index_2019_Q2_FINAL.pdf

² Source: <https://www.daft.ie/report/2019-Q3-houseprice-daftreport.pdf>

³ Source: Keogh Consulting calculations from 2017 SILC data

Introduction

Affordability issues in the housing market are resulting in increasing numbers renting. This situation is exerting upward pressure on rents and now creating rental affordability issues. This raises the questions is it more affordable to buy than rent and what is an affordable rent?

According to the Residential Tenancies Board⁴ “the year-on-year growth rate of the national standardised average rent slowed marginally to 7.0 per cent in Q2 2019. The quarter-on-quarter growth of rent prices increased to 3.0 per cent in Q2 2019, indicating a strengthening in the quarterly inflation. It is likely that affordability issues in the housing market are resulting in an increasing number of people moving into the rental sector, exerting upward pressure on rents. Despite the increase in housing completions in 2018, the level of supply remains significantly below the level of structural demand. The economy is also operating close to full employment, which is likely exacerbating any economic pressures through the affordability channel. While the ongoing Brexit uncertainty is likely to suppress economic activity towards the end of 2019, these factors will not have kicked in for the current quarter. A significant increase in the number of properties available for both sale and rent will be required in order to temper the rapid growth in rent prices.”

Given this continued increase in rental costs, the current slowdown in the rate of housing price increase⁵ raises the attractiveness of ownership over rental. Determining is it really cheaper to buy than rent is important for the State when looking to create solutions to address current housing provision issues, and, for developers when determining the target market and price level for their housing product?

Starting from 2017 SILC data this paper calculates estimated current household income levels in each county in Ireland and determines the proportion of household income available for housing costs. This proportion of household income available for housing costs is then compared to average rents in each county to determine the affordability of rent in that county.

Additionally, from the CSO property price register⁶ (and in particular first-time buyer house price data) the cost of a 30-year mortgage to purchase a First Time Buyer (FTB) home is calculated for each county. This cost is then compared with average rental cost in that County to evaluate the rent/buy decision in that county.

⁴https://onestopshop.rtb.ie/images/uploads/Comms%20and%20Research/RTB_Rent_Index_2019_Q2_FINAL.pdf. The figures, which are compiled in conjunction with the Economic and Social Research Institute (ESRI), are based on actual rents paid on more than 19,000 tenancies registered with the board

⁵ Source: <https://www.daft.ie/report/2019-Q3-houseprice-daftreport.pdf>

⁶ Source: CSO.ie

What is an affordable rent level?

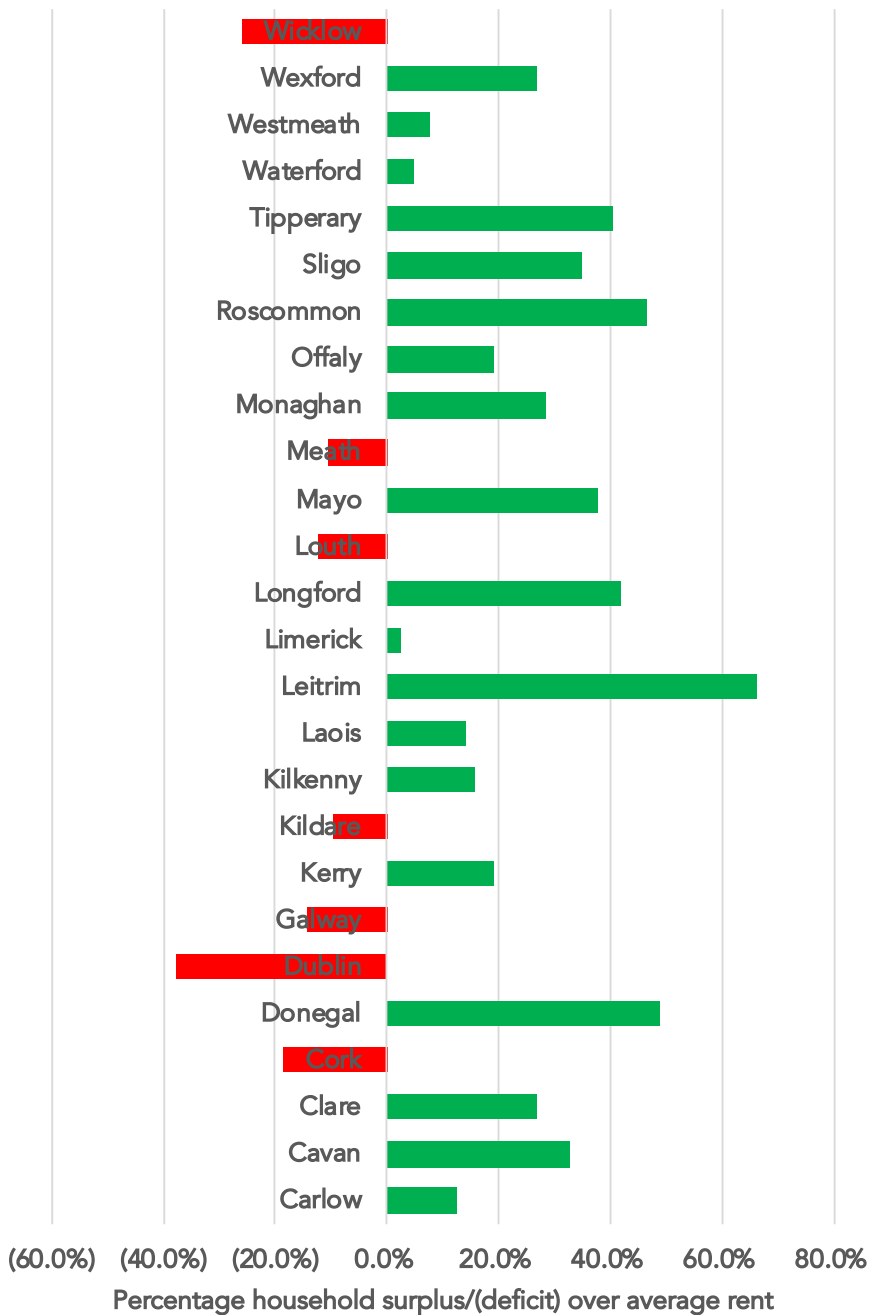


Figure 1 – Household funds available for housing cost v Daft.ie average rent⁷

Our calculations (outlined in Table 1 - Estimated household income levels, income available for housing costs, surplus/deficit over average rent & loan cost comparison) summarised in the above figure illustrate that average rents are not affordable in Wicklow, Meath, Louth, Kildare, Galway, Dublin and Cork for households with median income levels. For these locations a range of housing options need to be provided by the State and private sector for low income households.

⁷ Source: www.Daft.ie, Keogh Consulting calculations. % = (Disposable income – Non housing costs)/Daft average rent for county

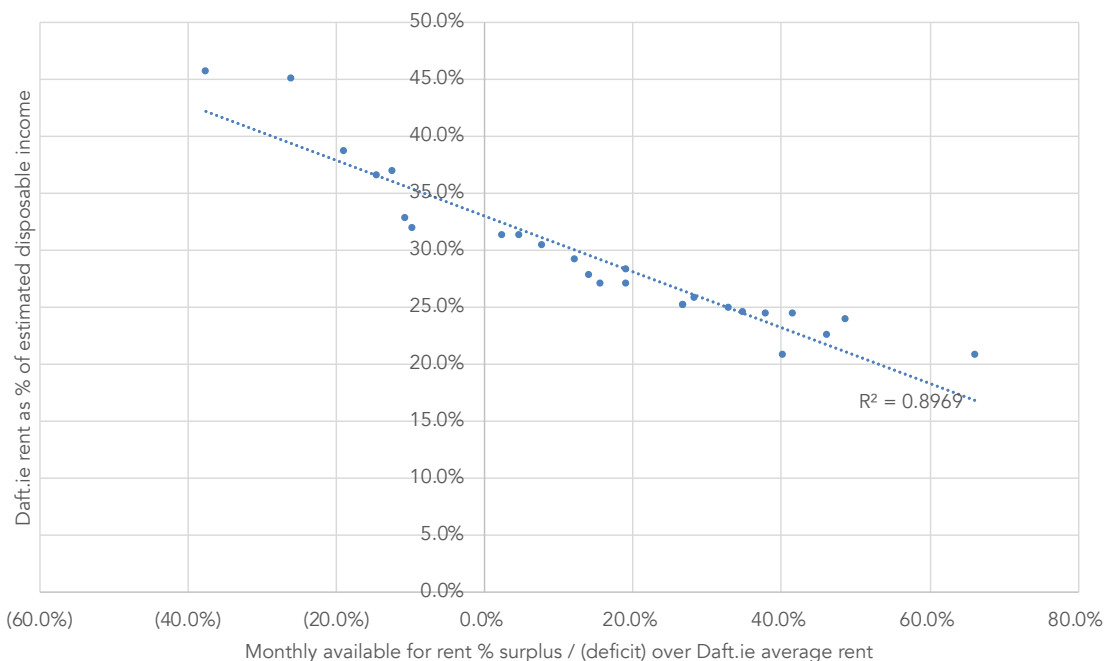


Figure 2 – % Surplus/Deficit Available for Housing v Average Rent % of Disposable Income

When we analysed the disposable income threshold where rent becomes unaffordable our calculations indicate that when rent is above 33% of estimated household disposable income it becomes unaffordable for a household with median household income levels to rent.

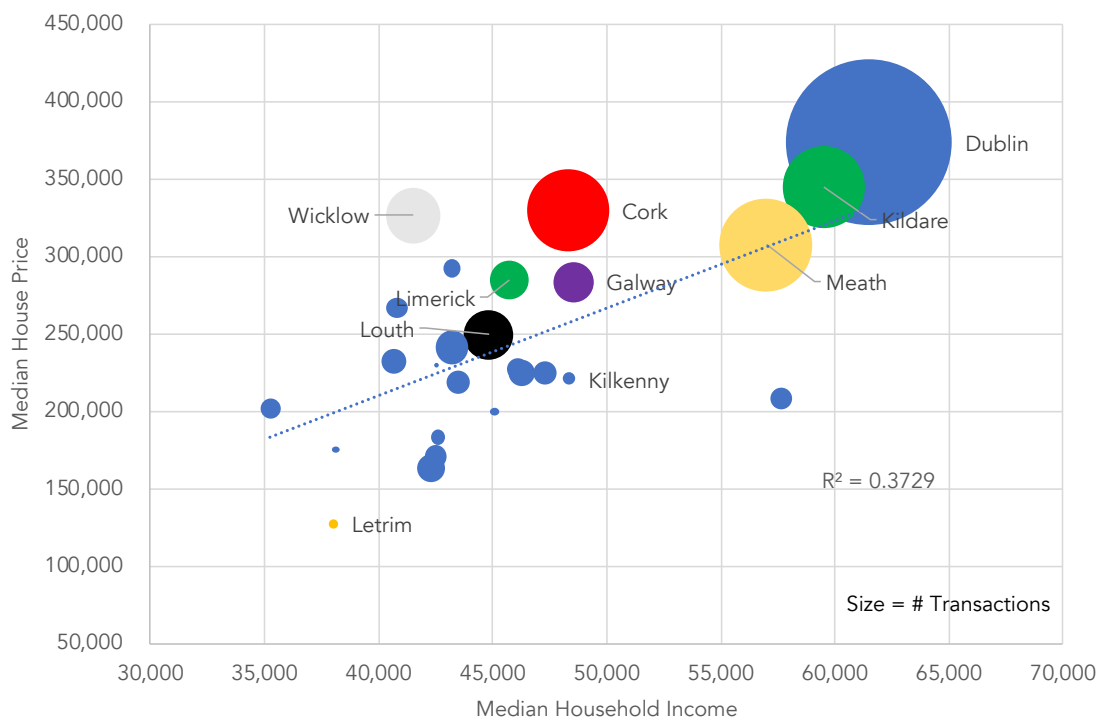


Figure 3 – 12-month FTB household transactions to July 2019

Analysis of the CSO property price register allowed a picture of the FTB housing price landscape to be drawn for a particular location in the market and to examine whether purchasing is better than renting in certain locations.

Is it better to buy than rent?

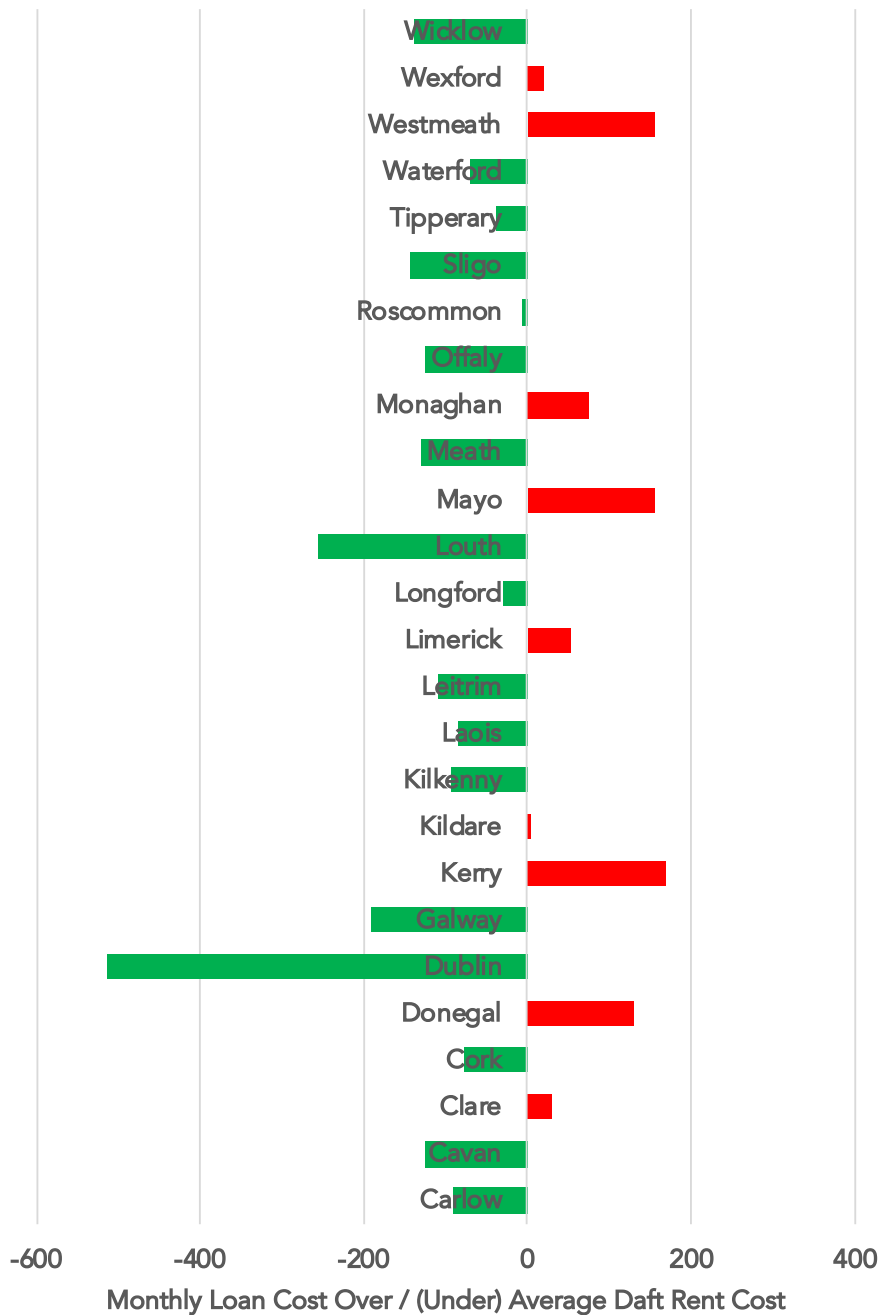


Figure 4 - 30-year loan cost v average Daft monthly rent cost⁸

Our calculations, summarised in the above figure, illustrate that it would be cheaper to BUY than rent in the majority of locations in Ireland for households with median income levels given the median price of property transactions noted in these locations. However, given the Central Bank (CB) lending rules, and in particular the loan multiplier of 3.5x household income, it is not always possible for a household to obtain a loan to purchase a home. Figure 5 - Required Central Bank Multiplier in Each County shows our estimate of the CB multiplier that would be required in each location to allow a household purchase in each county given household income levels in the county.

⁸ Source: www.Daft.ie, CSO Property Price Register, Keogh Consulting calculations

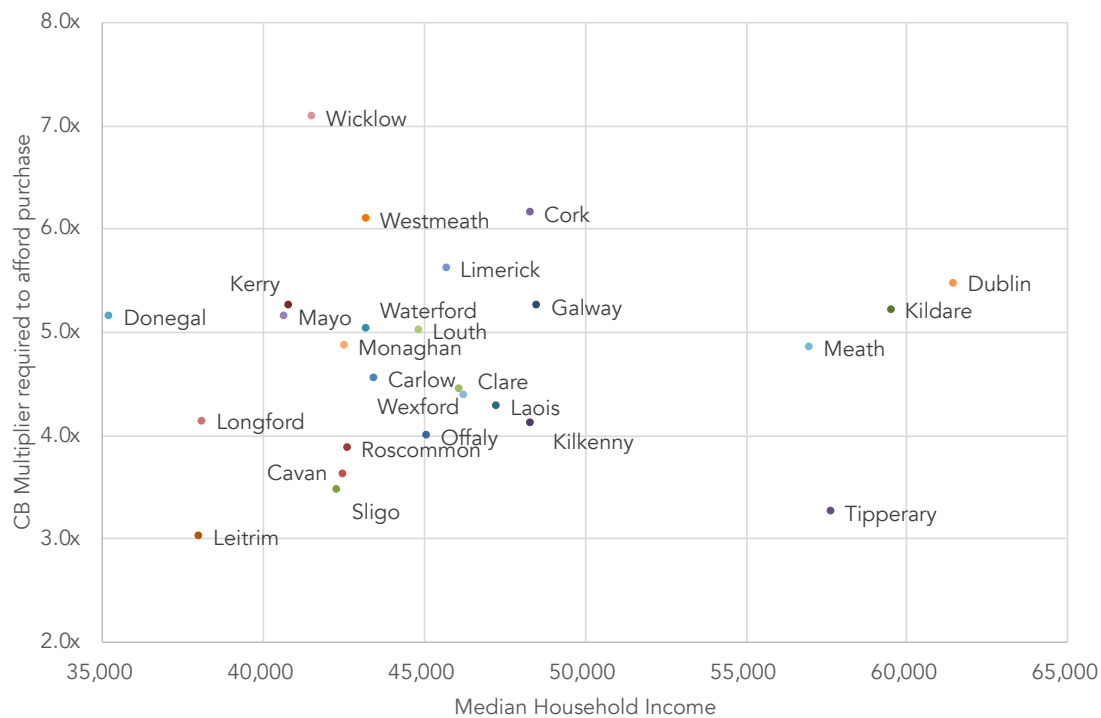


Figure 5 - Required Central Bank Multiplier in Each County⁹

It can be seen from the analysis in Figure 5 - Required Central Bank Multiplier in Each County, that in most locations a significant change in the Central Bank income multiplier would be required and that a combination of measures will probably be required targeting loan income multipliers and delivery cost of housing units.

⁹ Source: Keogh Consulting calculations

	Median Household Income ¹⁰	Estimated Household Tax ¹¹	Estimate annual non-rent spend ¹²	Monthly available for housing	Daft.ie average rent Q2 2019	% surplus/(deficit) over average rent	Average rent % disposable income	Monthly cost 30 year loan for median house	RENT or BUY?
Carlow	43,467	4,434	26,261	1,064	948	12.3%	29.1%	856	BUY
Cavan	42,495	4,157	25,674	1,055	794	32.9%	24.9%	668	BUY
Clare	46,109	5,187	27,857	1,089	858	26.9%	25.2%	887	RENT
Cork	48,311	5,815	29,188	1,109	1,366	(18.8%)	38.6%	1,287	BUY
Donegal	35,251	2,205	21,297	979	658	48.8%	23.9%	788	RENT
Dublin	61,480	9,568	37,144	1,231	1,971	(37.6%)	45.6%	1,458	BUY
Galway	48,541	5,880	29,327	1,111	1,297	(14.3%)	36.5%	1,106	BUY
Kerry	40,802	3,674	24,651	1,040	873	19.1%	28.2%	1,042	RENT
Kildare	59,524	9,010	35,962	1,213	1,341	(9.6%)	31.9%	1,346	RENT
Kilkenny	48,336	5,822	29,203	1,109	958	15.8%	27.0%	863	BUY
Laois	47,265	5,516	28,556	1,099	963	14.2%	27.7%	878	BUY
Leitrim	38,027	2,927	22,975	1,010	608	66.2%	20.8%	498	BUY
Limerick	45,702	5,071	27,612	1,085	1,060	2.4%	31.3%	1,113	RENT
Longford	38,127	2,953	23,035	1,012	714	41.7%	24.4%	684	BUY
Louth	44,838	4,825	27,089	1,077	1,228	(12.3%)	36.8%	973	BUY
Mayo	40,665	3,635	24,568	1,038	753	37.9%	24.4%	908	RENT
Meath	56,992	8,289	34,433	1,189	1,329	(10.5%)	32.7%	1,200	BUY
Monaghan	42,529	4,167	25,695	1,056	822	28.4%	25.7%	897	RENT
Offaly	45,098	4,899	27,247	1,079	906	19.1%	27.0%	780	BUY
Roscommon	42,623	4,194	25,751	1,057	722	46.3%	22.5%	716	BUY
Sligo	42,283	4,097	25,546	1,053	781	34.9%	24.5%	637	BUY
Tipperary	57,651	8,477	34,831	1,195	852	40.3%	20.8%	814	BUY
Waterford	43,218	4,363	26,111	1,062	1,013	4.8%	31.3%	941	BUY
Westmeath	43,211	4,361	26,107	1,062	985	7.8%	30.4%	1,141	RENT
Wexford	46,257	5,229	27,947	1,090	859	26.9%	25.1%	878	RENT
Wicklow	41,533	3,883	25,093	1,046	1,412	(25.9%)	45.0%	1,274	BUY

Table 1 - Estimated household income levels, income available for housing costs, surplus/deficit over average rent & loan cost comparison

¹⁰ Keogh Consulting calculations based on uplift of SILC 2017 data

¹¹ Keogh Consulting income tax model based on 2 incomes per household

¹² Keogh Consulting calculations based on Insolvency Service of Ireland household spend data.