

# Update Q1 2020 - Rental affordability – is purchasing cheaper than renting in Ireland?

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## Executive Summary

Ongoing 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? This study updates our previous study of Q3 2019

According to the Residential Tenancies Board<sup>1</sup> “the year-on-year growth rate of the national standardised average rent increased to 8.2 per cent in Q3 2019. The quarter-on-quarter growth of rent prices increased to 3.3 per cent in Q3 2019, indicating a further 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.” 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 increase raises the attractiveness of ownership over rental – “For the first time since late 2012, the national average listed price fell for two consecutive quarters – with a 2.4% fall in Q4 following a 1.7% fall in Q3”<sup>2</sup>. Determining is it really cheaper to buy than rent is important 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 Ireland<sup>3</sup> 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, Limerick, 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.

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.

<sup>1</sup>[https://onestopshop.rtb.ie/images/uploads/Comms%20and%20Research/RTB\\_Rent\\_Index\\_2019\\_Q3\\_FINAL.pdf](https://onestopshop.rtb.ie/images/uploads/Comms%20and%20Research/RTB_Rent_Index_2019_Q3_FINAL.pdf).

<sup>2</sup> Source: <https://www.daft.ie/report/2019-Q4-houseprice-daftreport.pdf>

<sup>3</sup> 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 Board<sup>4</sup> “the year-on-year growth rate of the national standardised average rent increased to 8.2 per cent in Q3 2019. The quarter-on-quarter growth of rent prices increased to 3.3 per cent in Q3 2019, indicating a further 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 recently, 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. 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 increase raises the attractiveness of ownership over rental – “For the first time since late 2012, the national average listed price fell for two consecutive quarters – with a 2.4% fall in Q4 following a 1.7% fall in Q3”<sup>5</sup>. Determining is it really cheaper to buy than rent is important 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 and uplifting household income to Q1 2020 this paper estimates 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 register<sup>6</sup> (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.

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<sup>4</sup>[https://onestopshop.rtb.ie/images/uploads/Comms%20and%20Research/RTB\\_Rent\\_Index\\_2019\\_Q3\\_FINAL.pdf](https://onestopshop.rtb.ie/images/uploads/Comms%20and%20Research/RTB_Rent_Index_2019_Q3_FINAL.pdf).

<sup>5</sup> Source: <https://www.daft.ie/report/2019-Q4-houseprice-daftreport.pdf>

<sup>6</sup> Source: CSO.ie

## What is an affordable rent level?

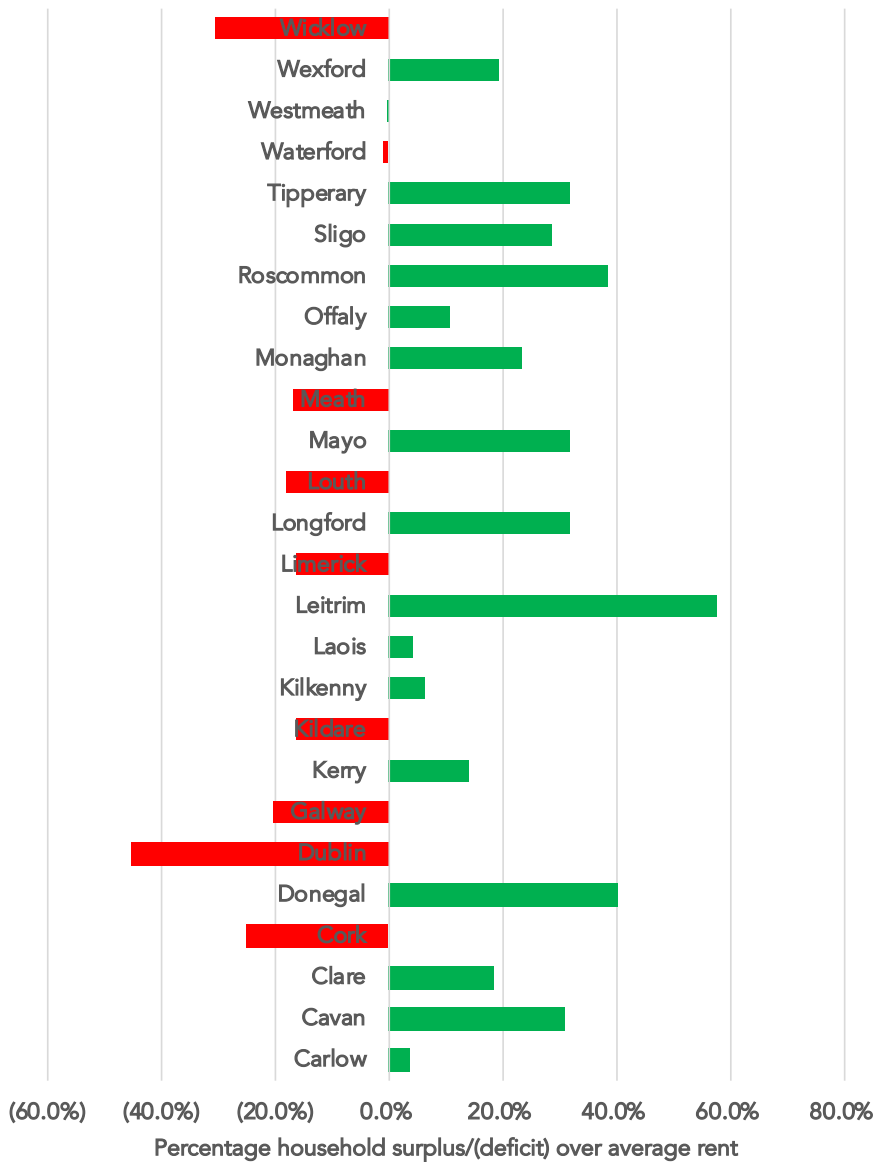
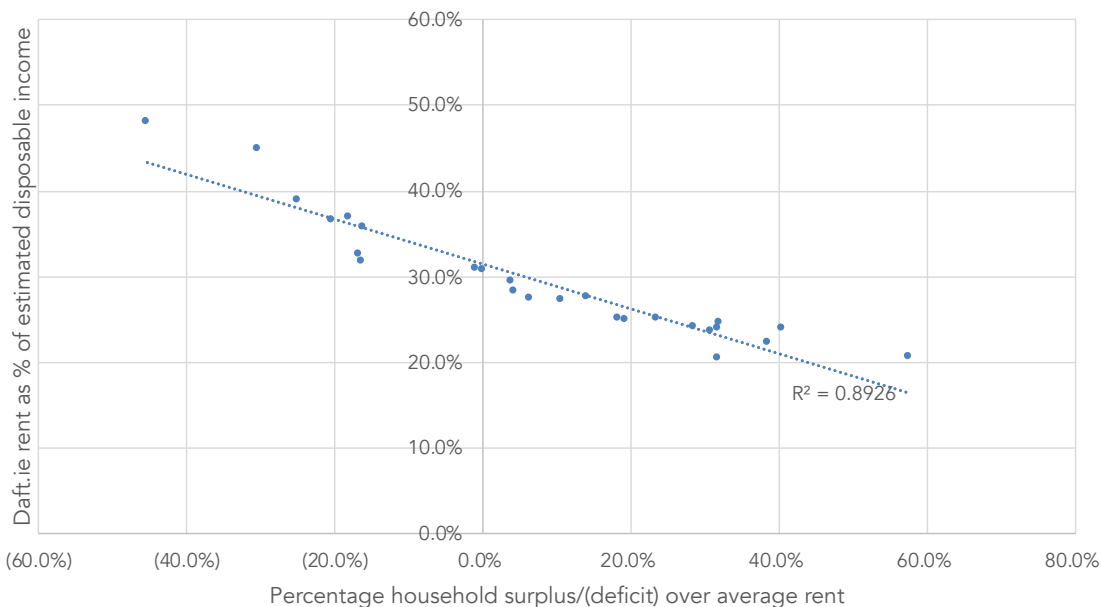


Figure 1 – Household funds available for housing cost v Daft.ie average rent<sup>7</sup>

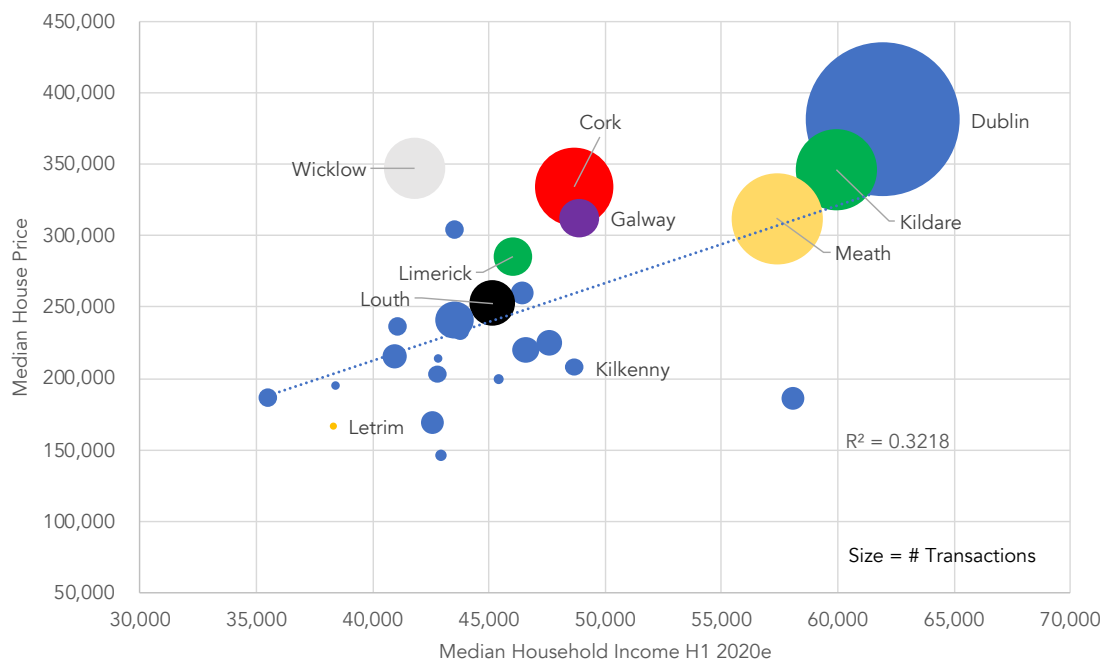
Our calculations (outlined in Table 1 - Estimated household income levels, income available for housing costs, surplus/deficit over average rent & loan cost comparison) summarised in the above figure illustrate that average rents are not affordable in Wicklow, Meath, Louth, Limerick, Kildare, Galway, 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.

<sup>7</sup> Source: [www.Daft.ie](http://www.Daft.ie), Keogh Consulting calculations Q1 2020. % = (Disposable income – Non housing costs)/Daft average rent for county



**Figure 2 – % Surplus/Deficit Available for Housing v Average Rent % of Disposable Income Q12020**

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 January 2020**

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 (using a mortgage) is better than renting in certain locations.

## Is it better to buy than rent?

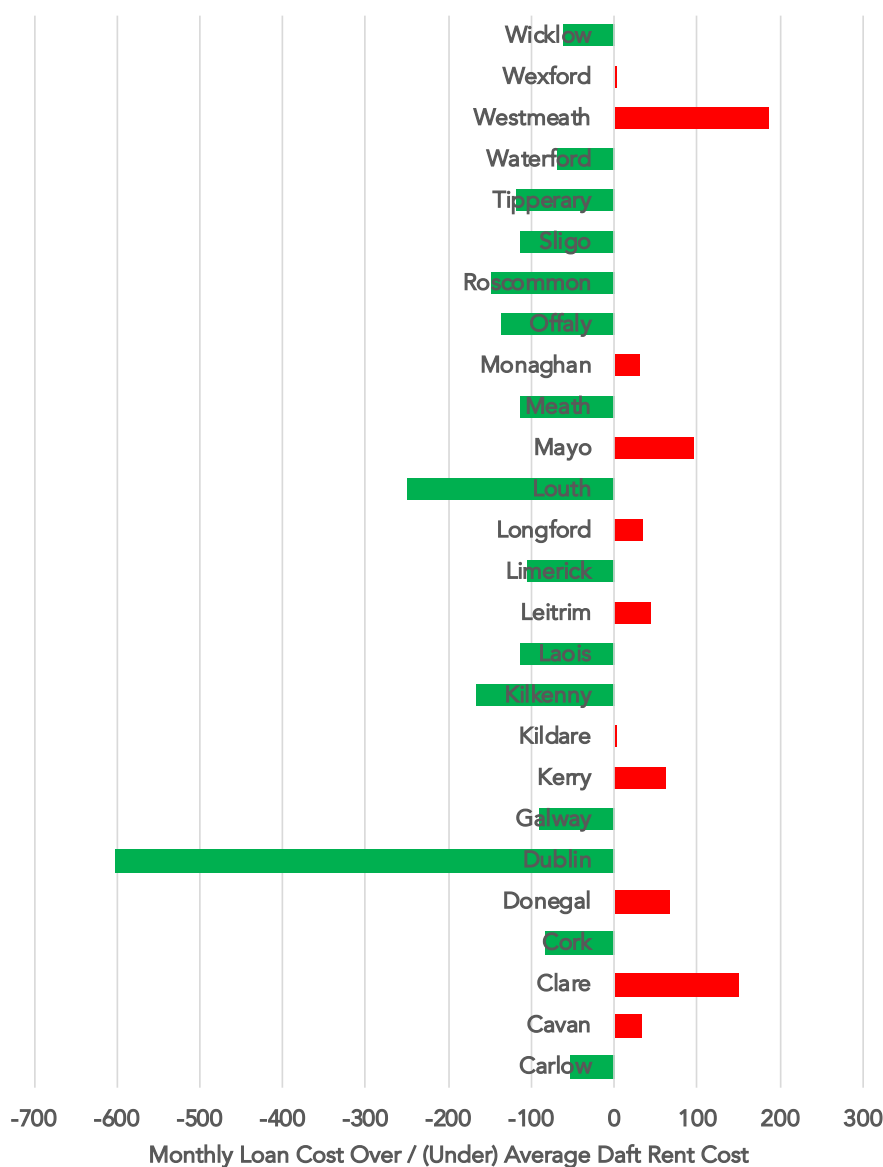
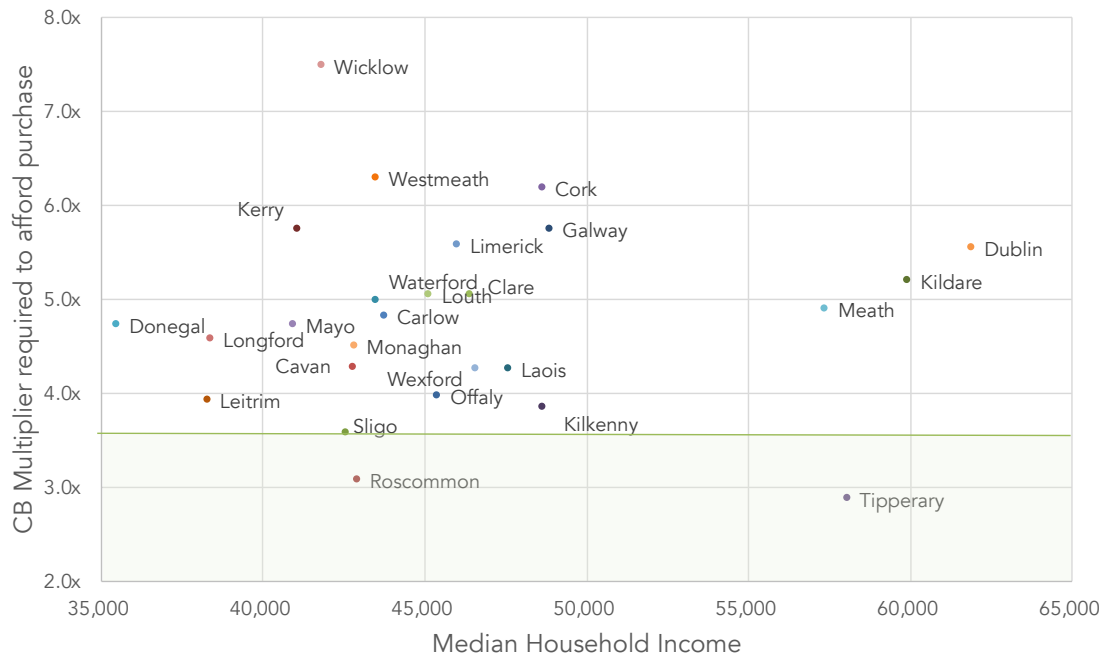


Figure 4 - 30-year loan cost v average Daft monthly rent cost<sup>8</sup> Q1 2020

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.

<sup>8</sup> Source: [www.Daft.ie](http://www.Daft.ie), CSO Property Price Register, Keogh Consulting calculations



**Figure 5 - Required Central Bank Multiplier in Each County<sup>9</sup> Q1 2020**

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.

<sup>9</sup> Source: Keogh Consulting calculations Q1 2020

	Median Household Income <sup>10</sup>	Estimated Household Tax <sup>11</sup>	Estimate annual non-rent spend <sup>12</sup>	Monthly available for housing	Daft.ie average rent Q4 2020	% surplus/(deficit) over average rent	Average rent % disposable income	Monthly cost 30 year loan for median house	RENT or BUY?
Carlow	43,771	4,521	27,230	1,002	965	3.8%	29.5%	913	PURCHASE
Cavan	42,792	4,242	26,621	994	760	30.8%	23.7%	792	RENT
Clare	46,431	5,279	28,885	1,022	864	18.3%	25.2%	1,014	RENT
Cork	48,649	5,911	30,265	1,039	1,386	(25.0%)	38.9%	1,303	PURCHASE
Donegal	35,497	2,269	22,083	929	662	40.3%	23.9%	728	RENT
Dublin	61,910	9,690	38,515	1,142	2,090	(45.4%)	48.0%	1,487	PURCHASE
Galway	48,880	5,977	30,409	1,041	1,309	(20.5%)	36.6%	1,217	PURCHASE
Kerry	41,087	3,756	25,561	981	860	14.1%	27.6%	923	RENT
Kildare	59,940	9,129	37,289	1,127	1,348	(16.4%)	31.8%	1,350	RENT
Kilkenny	48,674	5,918	30,281	1,040	978	6.3%	27.4%	811	PURCHASE
Laois	47,595	5,611	29,610	1,031	990	4.2%	28.3%	878	PURCHASE
Leitrim	38,293	2,996	23,822	956	607	57.5%	20.6%	651	RENT
Limerick	46,022	5,162	28,631	1,019	1,217	(16.3%)	35.7%	1,113	PURCHASE
Longford	38,394	3,022	23,885	957	726	31.8%	24.6%	761	RENT
Louth	45,151	4,914	28,089	1,012	1,237	(18.2%)	36.9%	986	PURCHASE
Mayo	40,949	3,716	25,475	980	744	31.7%	24.0%	840	RENT
Meath	57,390	8,402	35,703	1,107	1,330	(16.8%)	32.6%	1,217	PURCHASE
Monaghan	42,826	4,251	26,643	994	806	23.4%	25.1%	836	RENT
Offaly	45,413	4,989	28,252	1,014	917	10.6%	27.2%	780	PURCHASE
Roscommon	42,921	4,278	26,702	995	719	38.4%	22.3%	571	PURCHASE
Sligo	42,579	4,181	26,489	992	772	28.6%	24.1%	660	PURCHASE
Tipperary	58,054	8,591	36,116	1,112	844	31.8%	20.5%	726	PURCHASE
Waterford	43,520	4,449	27,074	1,000	1,010	(1.0%)	31.0%	941	PURCHASE
Westmeath	43,513	4,447	27,070	1,000	1,000	(0.0%)	30.7%	1,186	RENT
Wexford	46,581	5,321	28,978	1,023	858	19.3%	25.0%	859	RENT
Wicklow	41,823	3,965	26,018	987	1,417	(30.4%)	44.9%	1,356	PURCHASE

Table 1 - Estimated household income levels, income available for housing costs, surplus/deficit over average rent & loan cost comparison Q1 2020

<sup>10</sup> Keogh Consulting calculations based on uplift of SILC 2017 data Q1 2020

<sup>11</sup> Keogh Consulting income tax model based on 2 incomes per household Q1 2020

<sup>12</sup> Keogh Consulting calculations based on Insolvency Service of Ireland household spend data. Q1 2020