



An Chomhairle Náisiúnta Eacnamaíoch agus Shóisialta  
National Economic & Social Council

# Homeownership and Rental: What Road is Ireland On?

No. 140 December 2014

## National Economic and Social Council

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## Table of Contents

<b>Executive Summary</b>	<b>viii</b>
<b>Chapter 1</b>	
<b>Introduction</b>	<b>1</b>
<b>Chapter 2</b>	
<b>Household Tenure in Ireland</b>	<b>5</b>
2.1 Introduction	6
2.2 Household Tenure 1946–2011	6
2.3 Factors Driving Recent Changes in Tenure Mix	9
2.4 Tenure and Age	10
2.5 Tenure and Social Class	13
2.6 Tenure and Household Type	17
2.7 Geographical Patterns	19
2.8 Tenure and Nationality	20
2.9 Ownership of More than One Property	21
2.10 Tenure in a Comparative Context	23
2.11 Affordability	23
2.12 Likely Future Trends	32
<b>Chapter 3</b>	
<b>Understanding Ireland’s Evolving Tenure Mix</b>	<b>33</b>
3.1 Introduction	34
3.2 The Role of Government Policy and Credit Conditions	34
3.3 Where Are We Now: Stability or Change in the Role of Owner-Occupation?	39
<b>Chapter 4</b>	
<b>Explore Aspirations, Advantages and Possibilities for Homeownership and Rental</b>	<b>43</b>
4.1 The Relative Advantages of Homeownership and Renting	45
4.2 Towards an Understanding of Policy Possibilities for Homeownership and Rental	55
4.3 Summary of Discussion on Policy Options for the Future	61
<b>Bibliography</b>	<b>63</b>

## List of Tables

Table 2.1:	Breakdown of Permanent Private Households by Tenure, 1946–2011	7
Table 2.2:	Estimated Percentage of all Private Households in State-supported or Privately Paid Accommodation, 2002–2011	8
Table 2.3:	Headship Rates by Age Cohort, 1966–2011 (%)	11
Table 2.4:	Occupancy of Heads of Household (all Private Households) by Age Group (%), 2011	11
Table 2.5:	Occupancy of Heads of Household (all Private Households) by Age Group (%), 1991	12
Table 2.6:	Percentage of Heads of Households (all Private Households) Aged 35–44, and Over-65, who are Owner Occupiers, by Social Class and Census year, 1991–2011	14
Table 2.7:	Percentage of Owner-Occupied Households in Urban and Rural Areas, 1991–2011	19
Table 2.8:	Percentage of Population in Owner-occupation in European Countries, 1996–2012	24

## List of Figures

Figure 2.1:	Proportion of Household Heads (all Private Households) in Each Age Group that Own, and Rent Privately, 1991, 2002, 2006 and 2011	13
Figure 2.2:	Gap between Percentage of Heads of Household (all Private Households) Aged Over 65 Who Own, and Heads of Households Aged 35–44 Who Own, 1991–2011	15
Figure 2.3:	Percentage of Heads of Household (all Private Households) with a Mortgage, by Household Type, 2002–2011	18
Figure 2.4:	Percentage of Heads of All Private Households Renting from a Private or AHB Landlord, by Household Type, 2002–2011	18
Figure 2.5:	Changes in Occupancy of Permanent Private Households, Irish and 'Other' Nationality, 2006–2011	22
Figure 2.6:	Ratio of New House Prices to Average Gross Industrial Earnings, Ireland, 1994–2013	25
Figure 2.7:	Mortgage Repayments as a Percentage of Net Income (two earners)	26

Figure 2.8: Average Weekly Household Disposable Income of Each Household Tenure Type, as a Percentage of Average Income	28
Figure 2.9: Weekly Rent or Mortgage Expenditure as a Percentage of Total Household Expenditure (by Household Tenure)	29
Figure 4.1: National House Prices in Nominal and Real Terms, 1974–2013,	48
Figure 4.2: Spectrum of Possible ‘Ownership’ Models	59

### **List of Boxes**

Box 3.1: Government Support for Homeownership—Selected Countries	38
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## Abbreviations

### AHB

Approved Housing Bodies

### CALF

Capital Advance Leasing Facility

### CAS

Capital Assistance Scheme

### CLSS

Capital Loan and Subsidy Scheme

### CPI

Consumer Price Index

### CSO

Central Statistics Office

### DECLG

Department of the Environment, Community and Local Government

### DEHLG

Department of Environment, Heritage and Local Government (pre 2010)

### ECHP

European Community Household Panel

### EU

European Union

### LA

Local Authority

### LTV

Loan-to-value

### LTI

Loan-to-income

### PDH

Principal Dwelling Home

### PTRB

Private Residential Tenancies Board

### RAS

Rental Accommodation Scheme

### SILC

Survey on Income and Living Conditions

### NAMA

National Asset Management Agency

### NESC

National Economic and Social Council



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This is the second report to emerge from NESC's current programme of work on housing policy. It looks at the evolving balance between homeownership and rental accommodation, discusses likely trends and raises policy issues that need to be discussed.

## Tenure of Irish Households

Ireland's rate of homeownership peaked, at 80 per cent of households, in 1991, with private rental accounting for 8 per cent and social renting for 10 per cent. By 2011, owner-occupation had fallen to 71 per cent, while 19 per cent of households rented from a private landlord, and 9 per cent rented from a local authority or voluntary association (known as Approved Housing Bodies—AHBs). In urban areas almost one third of households now rent their dwelling (including social rental). These changes can be related to changes in household formation, immigration, incomes, house prices and access to credit, as well as the decline in local-authority provision. Irish homeownership rates are now close to the EU averages (67 per cent for the EU-15 and 71 per cent for the EU-28). However, in many EU countries ownership rates are rising, while in Ireland they are falling.

Tenure varies significantly across social groups. Mortgage-holding is declining most among young people in the unskilled, semi-skilled and skilled manual classes, particularly the former. The proportion of single-person and lone-parent households that rent has increased significantly over the past 20 years. Owner-occupation is much higher among households headed by Irish nationals (77 per cent) compared to non-Irish nationals (34 per cent). Having fallen during the economic boom, the age at which people get a first mortgage is increasing.

Affordability pressures have always been greater in Dublin than the national average, with Cork and Galway also relatively expensive. Housing costs weigh differently on different households. Those renting from a private landlord pay the highest proportion of their income on rent—an average of 25 per cent in 2009–10. International comparisons show that Irish house prices (per square metre) are about 'average' in the EU, similar to those in the Netherlands, Denmark, and Belgium. Dublin prices are comparable to those in Amsterdam, Brussels and Lyon, but well below those in Paris and London. The current increase in prices may change this.

## Understanding Ireland's Evolving Tenure Mix

Government policy played a significant role in promoting a high level of homeownership in earlier decades through subsidies such as local-authority loans and mortgage interest relief. Tenant purchase was a particularly significant way in which owner-occupation was encouraged. The falling share of ownership reflects gradual removal of subsidies since the 1980s, and changing economic and social conditions.

While the continuing high level of homeownership suggest, an element of stability, for a range of economic and social groups—younger adults, newly setting up home, seeking to live in or near the centres of employment and, most of all, those on low incomes or in single-parent and single-earner households—housing conditions and housing tenure choice are changing quite considerably. While homeownership was traditionally high across the class spectrum, it seems likely that in the coming decades housing options will differ more. Existing trends in availability, affordability, incomes and household size suggest that those with lower incomes and in single-adult households are less likely to have mortgages, and therefore be on track to homeownership, than those from higher social classes.

## The Relative Advantages of Homeownership and Renting

In setting the direction of future housing policy, it is important to consider the advantages and disadvantages of different tenures. Private renting has the advantage of low-entry costs, no investment risk, flexibility and no liability for major repair bills. However, in Ireland private renting provides less security of tenure than owning or renting from a local authority, and tenants are uncertain about future rents that are market-determined. An important disadvantage is that the payment of rental income does not help the renter accumulate an asset. This is a key advantage of mortgage-holding—in a stable housing market. The main disadvantage of homeownership is the investment risk that can occur when buying in an unstable market, and exposure to rising interest rates. On balance, in the Irish context there are real financial advantages to homeownership compared to renting. But the advantages of homeownership depend on the alternatives available. In many EU countries it is not necessary to buy a home to achieve security, and rental from voluntary bodies or private landlords provides security of tenure and more predictable rents.

Renting from a local authority or AHB has advantages in terms of both cost and security of tenure. But provision has been limited for several decades and there are long waiting lists. While most local-authority housing is successful, some estates have failed and this has led some to have a negative image of social housing. With the decline in local-authority construction, social renting has increasingly moved from local authority-owned to private-sector accommodation, paid for by rent supplement or the Rental Accommodation Scheme (RAS).

## Exploring Aspirations and Policy Possibilities for Homeownership and Renting

The overarching goals of housing policy are (i) affordability (ii) sustainability (economic, social and environmental) and (iii) equality and social inclusion. It is important to ask how different forms of housing tenure can serve these goals. The trends in Ireland's tenure mix and the relative advantages of homeownership and rental, discussed in this report, pose some challenging questions that Irish housing policy must now address.

- Given the existing advantages of homeownership, does policy wish to promote it or improve the availability and relative attractiveness of long-term rental?
- Are these goals complementary or conflicting?
- What is the feasibility of homeownership for different kinds of households in the coming decades?
- What supply-side, demand-side and other policy approaches are available to promote either homeownership or secure rental occupancy?
- What is the relationship between possible ways of promoting homeownership and the policy approaches to social housing and cost rental advocated by the Council in its June 2014 report and enunciated in the Government's recent budget statement and *Social Housing Strategy*?

However these questions are answered, policy needs to achieve four overarching outcomes:

- Stable and sustainable housing supply management;
- Greater balance between the shares of homeownership and rental, to address affordability problems and dampen housing-market and macroeconomic instability;
- Social support to address housing needs, which are conducive to good economic performance, social cohesion and equality of opportunity; and
- Affordable and sustainable housing options for intermediate households.

In exploring how to achieve these broad outcomes it is important to consider possibilities for greater security of tenure in rental accommodation, cost rental and shared ownership.

# Chapter 1

## Introduction

This is the second report to emerge from NESCC's current work on housing policy.

The first report, *Social Housing at the Crossroads*, focused on the most pressing aspect of Ireland's housing system. It identified severe problems in each of the three channels of social housing provision: local-authority housing, provision by voluntary associations (hereafter referred to as approved housing bodies or AHBs), and social housing supports for eligible low-income tenants in the private rented sector.

It recommended that policy must now create effective approaches on three fronts:

- Financial mechanisms capable of funding the quantity and quality of housing we require;
- Policies to grow cost-rental<sup>1</sup> provision that will gradually shape the overall rental sector; and
- Direct public-policy influence on housing supply and urban development.

These recommendations are reflected in important recent and ongoing policy developments—Budget 2015 allocated €2.2bn for increased provision of social housing by local authorities and AHBs.

As noted in the Council's 2014 June report, a range of public bodies—such as key Government departments, local authorities, NAMA, the Housing Finance Agency and the European Investment Bank—are undertaking significant initiatives to deliver off-balance-sheet funding for both new provision and refurbishment by both local authorities and AHBs.

Further important policy developments are contained in the recently published *Social Housing Strategy*.

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<sup>1</sup> Cost rental is defined as rental housing, irrespective of ownership, where the rents charged cover only the actual incurred costs of the dwelling. This differs from profit rental, where the rent charged is what the market will bear.

This report takes a wider view of Ireland’s housing system. It argues that the goals of housing policy should be:

- Affordability;
- Sustainability (economic, social and environmental); and
- Equality and social inclusion.

In this context, the report is primarily an empirical study of Ireland’s changing tenure mix rather than a set of policy recommendations from the Council. We believe that an objective analysis of existing trends and the relative attractions of homeownership and rental in the current housing system is an important prelude to the formulation of strategic housing policy.

In Chapter 2 the evolving balance between homeownership and rental accommodation in Ireland is documented and analysed, particularly over the last 20 years. It considers the affordability of housing, particularly owner-occupation. It also looks at the prevalence of homeownership in Ireland relative to other European countries. This empirical analysis provides a foundation for later discussion, of a number of critical issues. The first is whether we are witnessing a permanent reduction in the share of owner-occupation or merely the effects of the crisis and associated blockages in the functioning of the housing market. A related issue is the scope and degree of segmentation; regardless of the continuing significant share of owner-occupation, will it be the case that in the coming decades many households will have little chance of buying their own home and will effectively reside in either the private rental sector or social housing of some kind? A third issue concerns Ireland’s housing and housing tenure mix in an international context.

Chapter 3 draws on this analysis to reflect on the evolving tenure mix. It highlights the strong role of public policy—particularly mortgage-interest tax relief and tenant purchase—in giving Ireland one of the highest rates of homeownership in earlier decades. It notes that national data can suggest a significant degree of stability in tenure mix—with continuing high levels of both outright ownership and mortgages. But it suggests that this conceals significant change at a more fine-grained level. While it is difficult to extrapolate future trends from the period 2006–2011, which was unusual in many respects, there is reason to believe that a range of social groups—particularly those of low-income, single-earner and single-person households and lone parents—will find it difficult if not impossible to achieve homeownership in the decades ahead.

The final chapter considers the relative advantages and disadvantages of homeownership and other tenures, before suggesting that current trends pose some stark questions for Irish society and public policy. Among these are:

- Given the existing advantages of homeownership, does policy wish to promote it or improve the availability and relative attractiveness of long-term rental?
- Are these goals complementary or conflicting?



- What is the feasibility of homeownership for different kinds of households in the coming decades?
- What supply-side, demand-side and other policy approaches are available to promote either homeownership or secure rental occupancy?
- What is the relation between possible ways of promoting homeownership and the policy approaches to social housing and cost rental advocated by the Council in its June 2014 report and enunciated in the Government's *Social Housing Strategy*?

The Council argues that Ireland must now explore aspirations, possibilities and goals for homeownership and rental as a long-term housing option. It notes that the starting point of any discussion of future tenure mix and housing goals must be the recognition of three basic facts:

- (i) The general superiority of homeownership over rental for individual households in Ireland, given limited security of tenure and the risk of rent increases;
- (ii) The instability of the kind of housing market that Ireland has developed, which creates large societal costs and can qualify the advantages of home purchase for individual households; and
- (iii) The challenge of housing affordability that faces a significant share of households—evident in both the hurdles to homeownership and the difficulty of achieving secure occupancy in the rental sector—which can exacerbate inequality and exclusion, and weaken social cohesion.

In exploring ways to deliver these broad policy requirements and goals, it is necessary to consider not only all feasible supply-side and demand-side instruments but also a range of ownership options and ownership rights.

# Chapter 2

## Household Tenure in Ireland

## 2.1 Introduction

This chapter examines the proportion of households living in different tenures in Ireland since the mid-twentieth century, with a particular focus on the situation since the early 2000s. Since 1991, when the rate of owner-occupation in Ireland reached its height, there has been much change in tenure types, and this section will outline the varied patterns that underlie the current national average. After that, the affordability of Irish house purchase and renting will be outlined. Finally, an assessment of what this data tells us will be provided.

## 2.2 Household Tenure 1946–2011

Household tenure in Ireland has changed since the mid-twentieth century, although owner-occupation has been the predominant tenure throughout that period. As outlined in Table 2.1, in 1946 over half (53 per cent) of households owned their home, and owner-occupation continued to rise, to a peak of 80 per cent in 1991— one of the highest rates of homeownership in Western Europe (Drudy, 2007). Homeownership levels remained broadly stable for the subsequent decade, but fell nearly three percentage points between 2002 and 2006, and by a further 6.5 percentage points between 2006 and 2011. This brings Ireland's rate of owner-occupation, at 71 per cent, closer to the EU-15 average of 67 per cent (in 2012).

In line with this, the tenure share of the rental sector had been falling for decades, particularly private renting. However, the latter began to increase from the 1990s, with the sharpest growth evident between 2006 and 2011.

**Table 2.1: Breakdown of Permanent Private Households by Tenure, 1946–2011**

	1946	1961	1971	1981	1991	2002	2006	2011
Owner-occupied	52.6	59.8	70.8	74.7	80.0	79.8	77.2	70.8
Private Renting	26.1	17.2	10.9	10.1	8.1	11.4	11.0	18.8
Social Renting <sup>2</sup>	16.5	18.4	15.9	12.5	9.8	7.1	10.3	8.9
Other	4.7	4.6	2.4	2.6	2.1	1.7	1.5	1.6
<b>Total</b>	<b>99.9</b>	<b>100</b>	<b>100</b>	<b>99.9</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Data abstracted from Figure 1 of Norris (2013).

The proportion of the population renting local-authority dwellings has meanwhile fallen from a high of 18 per cent in 1961 to 9 per cent in 2011.<sup>3</sup> This fall was strongest between 1961 and 1991, linked to high rates of tenant purchase of these dwellings from the 1960s to 1980s, followed by little construction of local-authority housing from then on. However, the proportion of those living in state-supported social housing may not be clear from Census data. Increasingly, the state has relied on rent supplement to pay for housing for those who are unable to meet the costs of housing themselves, and in 2011, 96,803 households were supported by rent supplement.<sup>4</sup> However, rent supplement is paid to the tenants of private-sector landlords, and so those living in these homes are likely to record themselves as renting from a private-sector landlord.<sup>5</sup> This means that the proportion of households living in homes where rent is paid through state funds is not clear from the Census data. The following table reclassifies the proportion of permanent households by tenure, from 2002 to 2011, to estimate the proportion that own, the proportion that pay rent to a private landlord from their own means, and the proportion whose rent is paid through state support.

<sup>2</sup> Those renting from a local authority and those renting from a voluntary housing body.

<sup>3</sup> The introduction of RAS (the Rental Accommodation Scheme) in 2004 led to local authorities leasing houses from private landlords to rent to eligible households. Local-authority acquisition of dwellings from developers at market rate, through the Part V provision of the Planning and Development Act 2000, also helped increase the proportion of homes let by local authorities.

<sup>4</sup> Statistical Information on Social Welfare Services 2011.

<sup>5</sup> The census does not ask what source rent is paid from.

**Table 2.2: Estimated Percentage of all Private Households in State-supported or Privately Paid Accommodation, 2002–2011**

	2002	2006	2011
Living in owner-occupied accommodation	77.3	74.6	69.7
Living in privately paid rental accommodation <sup>6</sup>	8.7	9.4	15.7
Living in state-supported rental accommodation <sup>7</sup>	9.2	11.2	11.5
Other	4.8	4.8	3.1
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: See footnotes 6 and 7.

Table 2.2 shows that the proportion of households in owner-occupied housing is falling, while those in private rental accommodation is rising, but it also shows the proportion living in state-supported rental accommodation is higher than the undifferentiated Census data shows. The proportion in state-supported accommodation in 2011 seems in reality to be more similar to that pertaining in the 1980s and early 1990s, when the number of households in receipt of rent supplement was much lower (28,800 in 1994 for example<sup>8</sup>).

Some households living in mortgaged homes in arrears may also be indirectly supported by the state, at least to some degree. At the end of June 2011, over 55,000 residential mortgages were in arrears for more than 90 days (Central Bank of Ireland, 2011). Few have been repossessed by banks. At the end of 2011, 18,988 households were receiving mortgage-interest supplement payments, which are paid

<sup>6</sup> This is the proportion of all households renting from a private landlord, minus those on rent supplement for over 12 months. The latter figure is available for Census years 2002, 2006 and 2011 (from *Statistical Information on Social Welfare Services* for these years), and gives an indication of the number who are becoming long-term dependent on state-supported housing.

<sup>7</sup> The proportion of all households renting from a local authority, plus those on rent supplement for 12+ months, plus those renting accommodation from a housing association. The housing association data for 2002 (when renting from a voluntary landlord was not included in the Census questions) has been sourced from Department of Environment, Community and Local Government online social and affordable housing statistics (found in a number of Excel files which can be accessed from this at <http://www.environ.ie/en/Publications/StatisticsandRegularPublications/HousingStatistics/>). This information is regularly updated and so it is not possible to provide a web link to a particular tab of Excel files. Instead readers can search through the tabs in these files to find the particular figures they are interested in) on dwellings built with the Capital Assistance Scheme (CAS) and Capital Loan and Subsidy Scheme (CLSS), with an addition of 2,000 dwellings, as this number was owned by housing associations before CAS and CLSS were established.

<sup>8</sup> See Norris *et al.*, 2008. They note that comprehensive data on rent supplement is not available for the period before 1994.

to certain households who no longer have the means to pay their mortgage repayments.<sup>9</sup>

### 2.3 Factors Driving Recent Changes in Tenure Mix

Clearly there has been significant change in the proportion of Irish households renting privately and living in owner-occupied housing from 1991 on. This can be related to important changes in the Irish economy and society. From the late 1990s to 2002, the economy grew significantly, as did employment, population and incomes, particularly in large urban areas. There was high immigration, and the proportion of women in the workforce almost doubled.<sup>10</sup> With many young people in the population, new household formation also grew. These changes had an impact on the housing market and tenure mix. There was a shortage of housing supply, particularly in urban areas, and this, linked with income growth, more dual-income couples and freer access to credit, led to increased house prices. While many young people bought houses, a growing proportion of young people, and most immigrants to Ireland, also chose to rent. This was facilitated by Government schemes to increase the supply of property built to rent. It is not surprising, therefore, that Census 2006 shows an increase in the proportion renting privately, and a decline in the proportion living in owner-occupied dwellings.

Significant changes are also evident between 2006 and 2011. However, this period is unusual given the scale of the economic crisis. After reaching a peak of growth and employment in 2007, the economy contracted and unemployment increased sharply. The housing market followed a similar pattern. Purchase prices reached a peak in the third quarter of 2007, but then fell precipitously. By the end of the second quarter of 2011, house prices nationally had fallen by 47 per cent, and in Dublin by over 50 per cent, since mid-2007 (Daft.ie, 2011a). Rents had also fallen continuously from early 2008 to April 2011 (Daft.ie, 2011b). In this context it is hardly surprising that the proportion of the population renting privately had grown significantly, and that the rate of owner-occupation had fallen. Younger people who had not already bought houses would have seen little reason to buy, and many reasons not to, with not only low rents and falling house prices, but also the knowledge that many of those slightly older than them were in serious negative equity. Access to credit was also reduced, as were secure incomes, due to the rise in unemployment. And renting had become a more attractive proposition since 2004 legislation improved security of tenure for tenants. Older people who had sold would have been likely to postpone purchasing for the same reasons.

To assess change in tenures, and to try to ascertain if the recent changes are likely to be permanent, NESC has analysed data on the tenure of heads of households in

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<sup>9</sup> Statistical Information on Social Welfare Service 2011.

<sup>10</sup> It increased by 83 per cent between 1995 and 2006, according to Kavanagh, (2007).

Censii 1991, 2002, 2006 and 2011, which has been made available by the CSO. Key findings from this analysis are outlined in the following sections, looking at variations by age, social class, household type, geography and nationality.

## 2.4 Tenure and Age

Norris and Winston (2013) show that headship rates (that is, the percentage of all people in an age group who are household heads—whether renting or owning) among younger people in Ireland have increased almost constantly since the 1960s, in line with access to housing, the labour market and education.<sup>11</sup> Greater access to these has contributed to more young people being able to establish their own households, rather than live with parents, other relatives or friends.

In the 1960s and 1970s, this growth was assisted by high public expenditure on social housing, high wage growth and inflation, which led to falling mortgage debt, and Government supports for private homeownership. In the 1980s and early 1990s, there was a slight fall in the headship rate for those aged under 25, in particular, in line with the fall in employment among young people and the decline in social housing output. From the late 1990s to the mid-2000s, headship rates grew once more among those under 30, linked to the economic growth and other factors outlined earlier.

Census 2011 shows a slight decline in headship rates among those aged under 25. The proportion of all young people<sup>12</sup> living in non-family households (flat-shares etc.) had fallen from 22 to 18 per cent (CSO, 2012a), and the percentage living at home with their parents had increased from 59 per cent in 2006 to 66 per cent in 2011. These changes can be related to falling employment and rising unemployment among those under 25, who have been particularly badly affected by the unemployment crisis. For those who had not purchased homes, credit is less available, and in a falling market there was little incentive to purchase. Meanwhile, headship rates for older households have increased (see Table 2.3), including for the 25–34 age group, as outlined below.

It is also interesting to look at the type of tenure in which younger and older people are living. Table 2.4 shows that in 2011, heads of household aged under 24 were most likely to rent, while those aged 35–44 were most likely to have a mortgage, and those over 55 most likely to own.

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<sup>11</sup> Headship rates for younger adults are lower in Ireland than in other EU countries. This may reflect higher costs for establishing an independent household in Ireland, the tradition for third-level students to live with their parents in Ireland, etc. See Duffy *et al.*, 2014.

<sup>12</sup> Not just young people who are head of a household.

**Table 2.3: Headship Rates by Age Cohort, 1966–2011 (%)**

Age Cohort	1966	1971	1979	1981	1991	2002	2006	2011
20-24	6.8	9.4	15	15.8	14	18.9	19.3	18.5
25-29	31	33.8	31.3	32.5	29.8	31.2	33.8	35.3
30-34			40.1	41.7	42.8	42.9	45	46.8
35-39			43.3	45.2	47.6	47.8	49.2	50.9
40-44			45.7	47	49.6	50.8	51.3	53.0
45-64	51.1	51.3	52.2	53	54.8	54.2	55.3	56.1
65+	45.7	55.2	59	57.4	61.1	61.9	62.6	62.9

Source: Norris & Winston, 2013; Census 2011 (NESC calculations), based on figures from CSO (2012a & 2012b).

**Table 2.4: Occupancy of Heads of Household (all Private Households) by Age Group (%), 2011<sup>13</sup>**

	Own outright	Own with a mortgage	Renting from private landlord	Renting from local authority
0–24	3.3	5.8	74.2	9.4
25–34	3	39.3	44.3	8.7
35–44	9.1	59.8	19.4	8.4
45–54	29.6	49	10.3	8.2
55–64	58.4	24.8	5.3	8.0
Over 65	81.3	5.3	2.5	5.8

Source: NESC analysis of CSO special run on Census 2011.

<sup>13</sup> The figures in each row do not sum to 100 as data on those renting from a voluntary agency, or living rent-free, were not included. For those aged under 24, these represent 7 per cent of tenures, and for all other groups, 5 per cent or less.



There has been some change in these patterns since 1991, as comparison with Table 2.5 shows. For example, although renting from a private landlord is the preferred tenure of heads of households under 24 years of age in both years, the proportion that rent has increased significantly since 1991. The proportion of heads of households over 65 years of age who own outright has also increased significantly in those 20 years. And the age when the majority of heads of household first have a mortgage has moved from 25–34, to 35–44.

**Table 2.5: Occupancy of Heads of Household (all Private Households) by Age Group (%), 1991**

1991	Own outright	Own with a mortgage*	Renting from private landlord	Renting from local authority
0–24	6.2	15.8	56.8	12.8
25–34	9.1	59.3	15.3	12.4
35–44	19	63.2	5.2	10.2
45–54	35.9	45.9	3.3	8.4
55–64	56.8	27.9	3	8.4
Over 65	69.1	13.1	4.1	8.3

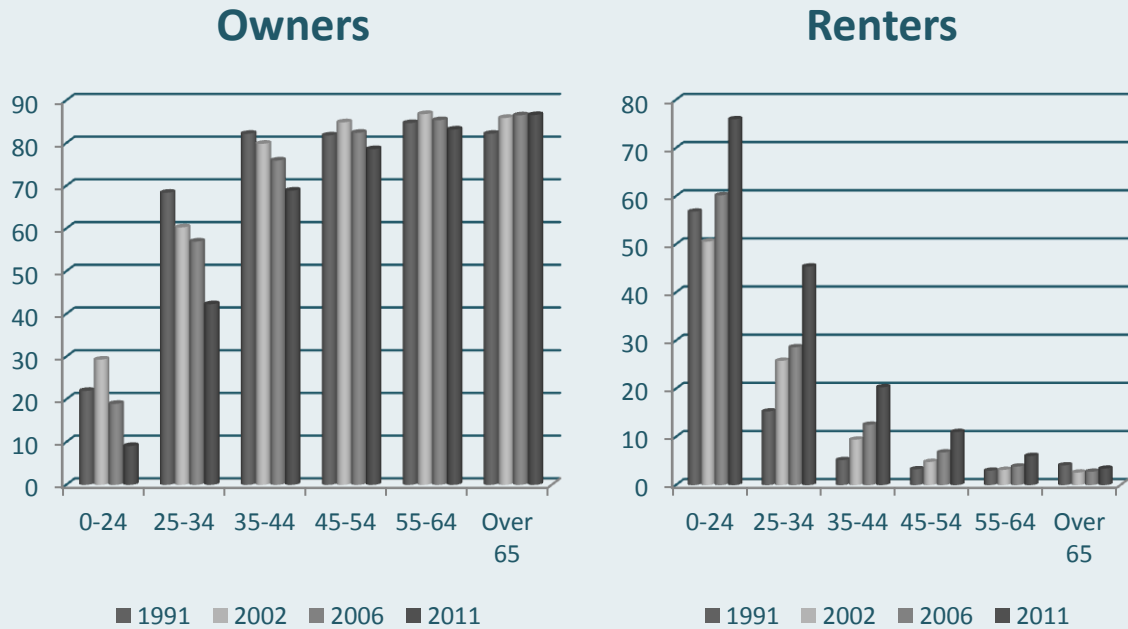
**Source:** NESc analysis of CSO special run on Census 1991.

**Note:** \*This includes those purchasing from a local authority.

There has been a widening gap between 1991 and 2011 in the proportion of heads of household in each age group who rent and who own, although it is smaller in older age groups, as outlined in Figure 2.1. It is most evident in the 25–34 and 35–44 age groups, with the proportion who own declining in each census, while the proportion renting from a private landlord increases.

This data all suggests that younger age groups are buying at an older age. Although this pattern is most evident when comparing 2006 to 2011, the data shows that the trend has been evident since 1991.

**Figure 2.1: Proportion of Household Heads (all Private Households) in Each Age Group that Own\*, and Rent Privately^, 1991, 2002, 2006 and 2011**



**Source:** NESc analysis of CSO special run on Censii 1991, 2002, 2006 and 2011.

**Note:** \* All owing outright, and those buying from the local authority, and those buying with a mortgage.

^ 2006 and 2011 includes those renting from an AHB

## 2.5 Tenure and Social Class

Historically, Ireland is unusual in having a high level of homeownership among all classes, facilitated by tenant purchase of local-authority housing, which was heavily subsidised by the state, part of what Tony Fahey terms 'asset-based welfare'.<sup>14</sup> Take-up of tenant purchase was highest from the mid-1970s, and by 2000, 70 per cent of households with incomes in the lowest quintile were homeowners, not that much different to the 90 per cent of households in the top income quintile (Norris & Fahey, 2011: 459–69). However, with the sharp decline in local-authority housing construction and other supports for low-income buyers from the mid-1980s, this option is no longer available for many younger people in socio-economic groups with lower incomes. This can be seen in the Census data for different social classes, from 1991 on. Table 2.6 compares the proportion of heads of household over 65

<sup>14</sup> See Fahey, 2002 and Norris & Fahey, 2011.

years of age that own to the proportion of heads of households aged 35–44 that own,<sup>15</sup> by social class and age group, for the 1991–2011 period.

In all years, heads of households aged 35–44 were the age group most likely to have a mortgage, and so looking at this group provides a good indicator of the rate of ownership in future years.

Table 2.6 shows that, overall, the proportion of heads of household over-65 years of age that own has been increasing gradually up to 2011, but the proportion of heads of households aged 35–44 that own has been decreasing.

**Table 2.6: Percentage of Heads of Households (all Private Households) Aged 35–44, and Over-65, who are Owner Occupiers,<sup>16</sup> by Social Class and Census year, 1991–2011**

Year	Age Group (year-olds)	Professional workers	Managerial & technical	Non-manual	Skilled manual	Semi-skilled	Unskilled	All others gainfully occupied*	Total
1991	35–44	91.0	90.5	88.0	84.8	77.1	64.9	51.7	82.1
1991	Over-65	88.7	89.2	87.2	85.0	80.2	72.7	80.0	82.2
2002	35–44	83.6	87.6	85.2	83.9	77.1	65.5	53.8	79.9
2002	Over-65	88.9	93.0	90.3	87.8	85.5	80.5	81.9	85.9
2006	35–44	84.0	86.3	81.9	79.2	71.9	57.7	43.5	75.9
2006	Over-65	87.7	92.7	91.0	88.1	85.1	79.6	81.1	86.5
2011	35–44	80.0	80.9	75.2	71.3	63.8	49.0	31.7	68.8
2011	Over-65	89.4	92.5	90.7	87.7	85.1	78.5	81.8	86.6

**Source:** Special run of Censii 1991, 2002, 2006 and 2011, made available to NES by the CSO.

**Note:** \*1991 figures here include unknown.

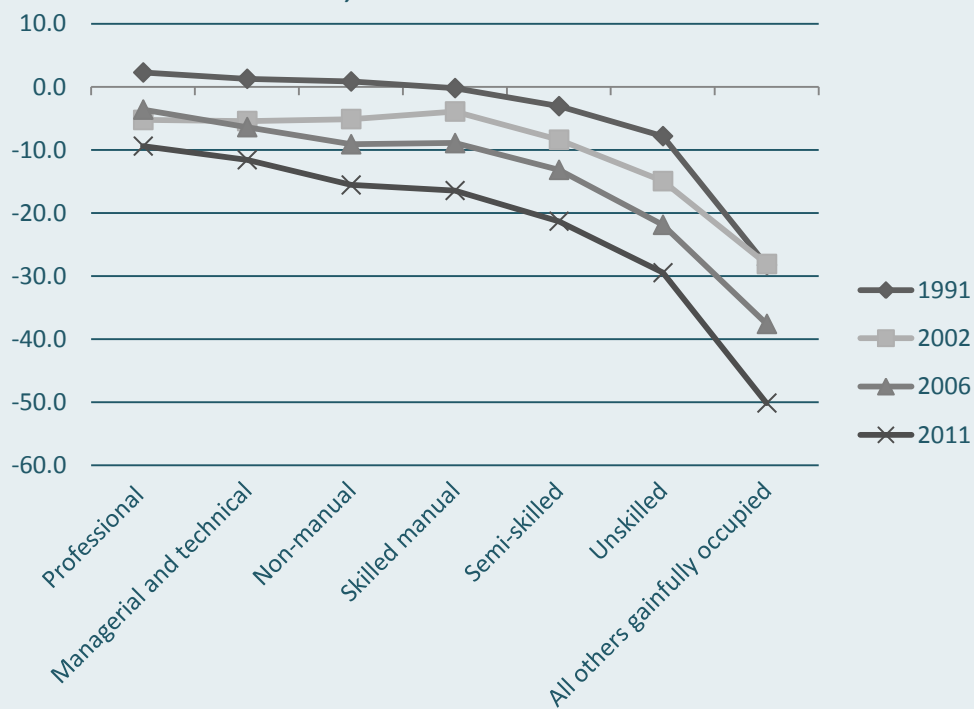
<sup>15</sup> Ownership is calculated by adding the proportion of heads of household who own outright, with the proportion with a mortgage, and with a local-authority loan.

<sup>16</sup> Owner occupiers are outright owners, purchasing with a private loan or mortgage, and/or purchasing from a local authority.

Figure 2.2 shows the gap between the proportion of over-65-year-olds that own, and the proportion of heads of households aged 35–44 that own, by social class, between 1991 and 2011. A positive figure in the diagram indicates a greater proportion of 35–44-year-olds than over-65-year-olds are owner occupiers, as in 1991, when 35–44-year-olds in the top four social classes were more likely to be owner-occupiers than the over-65-year-olds in these classes. However, with owner-occupation declining, it is not surprising the graph shows mostly negative figures, with the proportion of heads of households aged 35–44 that own declining relative to the proportion of over 65 year olds who own.

The graph also shows that the gap between the proportion of heads of households aged 35–44 that own, relative to heads of households over 65 years of age that own, is largest for the semi-skilled, unskilled and other social classes, reflecting the fact that much less 35–44-year-olds are buying in these groups compared to their older peers. The gap between heads of households aged 35–44 who own in the semi-skilled, unskilled and other social classes has also increased over time in comparison to the ownership levels of their 35–44-year-olds peers in other social classes. The raw data shows that, for example, in 1991, 65 per cent of 35–44-year-old unskilled heads of household were owner-occupiers, but in 2011 this figure was 49 per cent, a fall of 16 percentage points. For professional heads of households aged 35–44, the fall was 11 percentage points, from 91 per cent to 80 per cent.

**Figure 2.2: Gap between Percentage of Heads of Household (all Private Households) Aged Over 65 Who Own\*, and Heads of Households Aged 35–44 Who Own, 1991–2011**



**Source:** Special run of Censii 1991, 2002, 2006 and 2011, made available to NESC by the CSO.

**Note:** \*All who own outright, plus those purchasing from a local authority (LA) and with a mortgage.

As we discuss later, this suggests that in future the rate of outright ownership among the semi-skilled, unskilled and other social groups is likely to be much lower than the rate for those in the professional, technical/managerial and non-manual classes, unlike the current situation.

Analysis of census data shows that the proportion of those who purchased through local-authority tenant-purchase schemes was highest in the unskilled, semi-skilled and skilled manual classes. In 1991, between 9 and 13 per cent of heads of households in these groups were purchasing from a local authority. By 2006, these figures had dropped to between 3 and 4 per cent;<sup>17</sup> and in 2011 the figures were not collected, but would have dropped further. It is these social classes that show most change in tenure type over the past 20 years, as both local-authority rental accommodation and local-authority tenant purchase declined. The response of households in each social class varied. In the unskilled households, a decline of 20 percentage points in the proportion of those living in local-authority accommodation between 1991 and 2011 was matched by an increase of 17 percentage points in the proportion living in privately rented accommodation. Among the semi-skilled, there was a decrease of 13 percentage points in the proportion living in local-authority accommodation, but an increase of 14 per cent in those in private rental accommodation, as well as an increase of 5 per cent in those with mortgages. In the semi-skilled class, a similar pattern of declining local-authority accommodation, matched with an increase in both mortgages and private rental, was also evident.

Further data suggests that the number owning outright is likely to be lower in 20–30 years time than it is currently. In 2011, 3.4 per cent of all private households headed by a person aged over 65 were in rented properties (properties rented either from a private landlord or an AHB). But 20 per cent of households headed by a 35–44-year-old were renting, and 11 per cent of households headed by 45–54-year-olds. The proportion of households renting privately was also highest for the semi-skilled, unskilled, others, and not-stated social class groups.<sup>18</sup> Although these figures may fall somewhat as rents increase, ownership will still remain difficult for those with lower incomes and precarious employment. This suggests that in future a larger proportion of older people will need to pay housing costs in retirement, as fewer will have outright ownership of the properties in which they live. As most of these older people are likely to be in the less well-off social classes, this could mean larger costs for the state if it needs to support pensioners on low incomes to pay their housing costs.

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<sup>17</sup> All data cited in these paragraphs is from the special run of occupancy data from Census 1991–2011, which was supplied to NESC by the CSO.

<sup>18</sup> The proportion of all heads of household renting in these classes was 22, 21, 25 and 36 per cent respectively. The national average was 19 per cent.

It is possible that inheritance from their parents' homes may help some in the less well-off social classes to purchase a home later in life. However, such a home is likely to be of less value than the homes of the parents of those in higher social classes, and so may not have a strong influence on the overall pattern of owner-occupation.

## 2.6 Tenure and Household Type

Another key dimension is the way in which tenure mix varies for different household types. As Figure 2.3 and 2.4 overleaf show, between 2002 and 2006, couples without children and one-person households increased their mortgage-holding to some extent, but between 2006–2011 mortgage-holding among all household types fell.<sup>19</sup> At all times, the proportion of lone parents and one-person households with a mortgage was low, between 20 and 30 per cent.

There was an increase in the proportion of all household types renting privately throughout this period, but particularly from 2006 to 2011.

Households made up of couples with children showed the least change in tenure type from 2002 to 2011. Almost 60 per cent of these households were living in a home with a mortgage in all Census years, and proportionally there was a small relatively small move from accommodation with a mortgage to the private rented sector. This may reflect the fact that most of these households are older and so may have bought homes before the extreme volatility in the housing market from 2005 on. It may reflect a desire by families with children to live in owner-occupied housing at this stage of their lives. As will be outlined later, this tenure offers the strongest security.

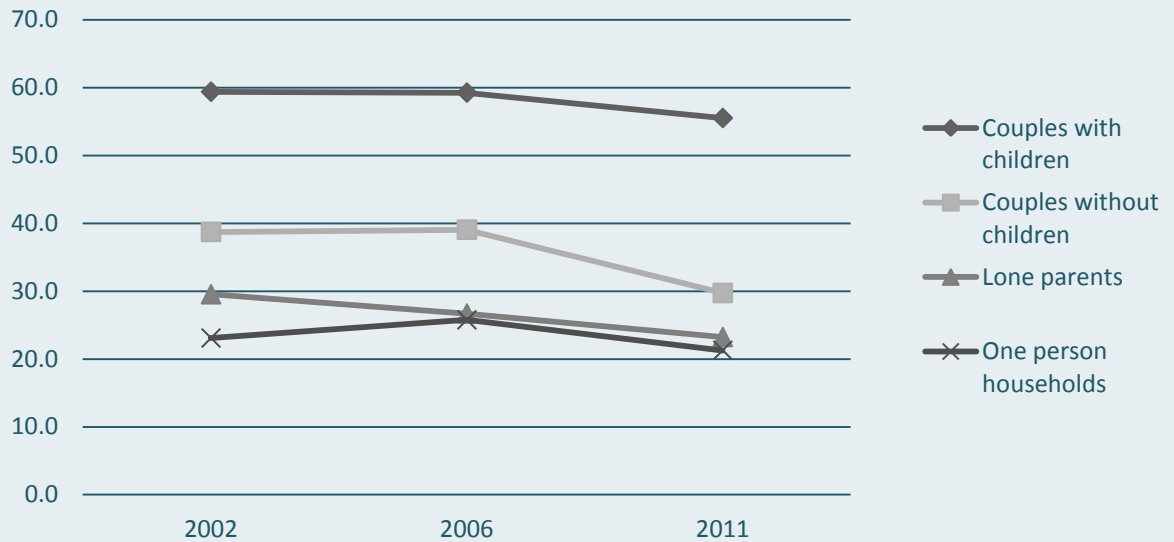
Lone-parent households have meanwhile shown a steady decline, since 2002, in the proportion with a mortgage. Instead there has been a strong increase in the proportion who rent privately, and some increase in the proportion who rent from a local authority. Over 20 per cent of one-parent households now rent from a local authority.

Outright ownership is not shown in the graphs here, but the remainder of the households are outright owners of their homes. Outright ownership is concentrated among older age groups, with approximately 75 per cent of outright owners aged over 55 in 2011.

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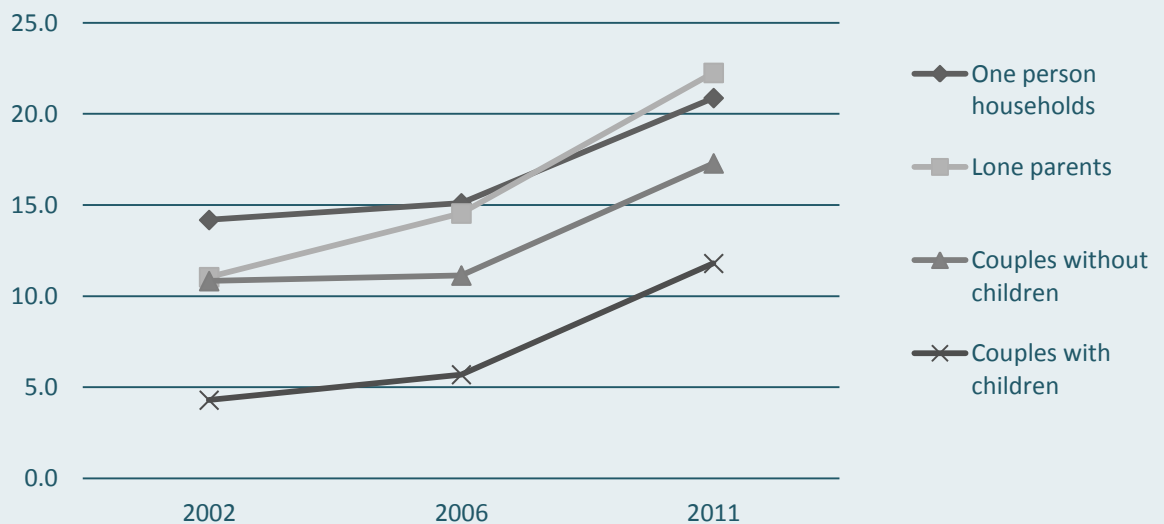
<sup>19</sup> These tables do not include tenure of households made up of a related family and other unrelated persons. Such households accounted for 12 per cent of all households in 2011.

**Figure 2.3: Percentage of Heads of Household (all Private Households) with a Mortgage, by Household Type, 2002–2011**



Source: CSO special run.

**Figure 2.4: Percentage of Heads of All Private Households Renting from a Private or AHB Landlord, by Household Type, 2002–2011**



Source: CSO special run.

Note: This includes those renting from an AHB.

## 2.7 Geographical Patterns

Census data shows that in rural areas there has been little change in tenure from the early 1970s onwards. Urban areas have, however, experienced variation in this, with homeownership rates growing from 38 per cent in 1961 to a peak of 74 in 1991, with this persisting until 2002. Ownership in urban areas then declined to 70 per cent by 2006, which may reflect the strong growth in urban house prices in the mid-2000s. Urban ownership then declined further to 62 per cent in 2011 (Table 2.7). Ownership among rural households also fell for the first time in fifteen years, by three percentage points, between 2006 and 2011. It is likely that some of the decline between 2006 and 2011 reflects consumers reacting to falling house purchase and rental prices.

**Table 2.7: Percentage of Owner-Occupied Households in Urban and Rural Areas, 1991–2011**

	1991	2002	2006	2011
Owner-occupied	80.0	79.8	77.2	70.8
Rural	88.8	88.7	88.2	85.1
Urban	73.1	74.0	70.4	61.6

Source: CSO (2012b).

There has been a corresponding increase in renting in urban areas, with the proportion of households renting privately in Dublin increasing from 20 per cent in 2006 to 32 per cent in 2011 (National Transport Authority, 2013) and in Galway from 19 per cent to 38 per cent (*ibid.*). Cork also has a high level of rented accommodation.

Just under half of those living in a form of State-supported rental housing<sup>20</sup> in 2011 were in Dublin (34 per cent of the total) and Cork (12 per cent of the total). Of the eight counties with a higher than average proportion of the population in state-supported rental housing, all but two (Waterford and Cork) were in Leinster.<sup>21</sup>

<sup>20</sup> This is local-authority owned accommodation, and accommodation paid for by RAS and rent supplement. The data is drawn from the Department of the Environment's online social and affordable housing statistics (see footnote 7 for further information on this resource), and from the Department of Social Protections' *Statistical Information on Social Welfare Services 2011*.

<sup>21</sup> The remaining six are Carlow, Dublin, Wexford, Longford, Wicklow and Louth.



Returning to ownership, households that are owned outright are most likely to be in western counties (Mayo, Roscommon, Kerry and Leitrim), while those with a mortgage are most likely to be located in the east around the larger towns and cities, in the ‘commuter belts’ of Meath, Kildare and Fingal (Gleeson, 2014). This is likely to be linked to the availability of employment opportunities nearby, and lower house prices than in the more central areas, as the commuter belts are popular with young couples working in nearby cities, while the population of more peripheral areas is older. Prices are also usually lower in more peripheral areas (where they are not holiday locations), which assists outright ownership. Lower prices can be related to lower incomes, as well as cheaper land and construction costs.

A further issue in the geography of Irish housing developments is the extent to which one-off rural houses are favoured.<sup>22</sup> In the early 2000s, approximately one-third of Irish houses were one-off, but this had reduced to one-quarter in 2011.<sup>23</sup> Altogether, one-sixth of all private dwellings built since 2001 were one-off houses. One-off houses are predominantly located in rural counties, particularly in the west. Sixty per cent of households in County Galway are in one-off houses, 54 per cent in Roscommon and 50 per cent in Mayo (CSO, 2012b). These houses are often cheaper than those built by a developer, as they are commonly built on land already owned by the household or relatives. There is a strong overlap between the areas where outright ownership is high and where one-off houses predominate.

## 2.8 Tenure and Nationality

Immigration has had an effect on the composition of tenures in Ireland, as the proportion of non-Irish nationals in the population increased from 6 per cent in 2002, to 12 per cent in 2011. Owner-occupation remains high among Irish nationals, at 77 per cent in 2011 (down from 82 per cent in 2006), but only 26 per cent of other nationalities are owner-occupiers. Instead, private renting is the latter’s predominant form of tenure, at 68 per cent. This can be partly related to where non-Irish nationals live—they are much more likely to live in urban areas, which have lower owner-occupation, than in rural areas.<sup>24</sup> Clearly, their transitory status also leads to renting being attractive. While an increasing number are remaining long-term in Ireland, for those who do not plan to stay long-term, or who are unsure if they will, renting is the most suitable tenure. Ownership among non-

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<sup>22</sup> Census 2011 defines these as houses with their own sewerage system. Two-thirds were located 1–5km from the nearest town.

<sup>23</sup> However, during the downturn, with so few developers building, the proportion of one-off houses built has increased. In the second quarter of 2011, 34 per cent of planning permissions granted for individual units were for one-off housing. See <http://www.cso.ie/px/pxeirestat/Statire/SelectVarVal/saveselections.asp>, accessed 9 October 2014.

<sup>24</sup> Six per cent of those living rural areas in 2011 were non-Irish nationals, compared to 15 per cent of those in urban areas (CSO, 2012d).

Irish nationals has increased between 2006 and 2011, but from a low base, and is still low.

There are also variations in tenure among ‘other nationals’. Over 60 per cent of heads of household who are UK nationals are owner-occupiers, compared to 5 per cent of Polish nationals. In general, those from the EU accession states are least likely to own of all groups, with less than 10 per cent of these nationals owning their accommodation. This has contributed to the decreasing proportion of owner-occupation in Ireland between 2002 and 2011. In 2002, Eastern Europeans made up 0.3 per cent of Ireland’s population, but by 2011 they made up 4.5 per cent of it.<sup>25</sup>

However, the increase in private renting is not only among non-Irish nationals. Private renting among Irish national heads of household doubled between 2006 and 2011, with over 12 per cent renting in 2011. As Figure 2.5 overleaf shows, the increase in renting has been split evenly between the households headed by Irish nationals and by other nationals. The increase in outright ownership, and in renting from local authorities,<sup>26</sup> has, however, been almost totally among Irish nationals. Similarly, the decrease in households living in mortgaged properties has been concentrated among Irish nationals.

Duffy *et al.* (2014) also note that migrants to Ireland tend to have higher headship rates than the Irish-born population, leading to greater demand for (rental) housing.

## 2.9 Ownership of More than One Property

Norris *et al.* (2010) show that ownership of holiday homes increased strongly in Ireland between 1991, when it was at 1 per cent of all dwellings, and 2006, when it was at 3 per cent (it remained at 3 per cent in 2011).<sup>27</sup> They also note that holiday-homeownership rates could be higher than that suggested in the Census,<sup>28</sup> as Survey on Income and Living Conditions (SILC) data shows that in 2006, over 6 per cent of Irish people owned at least one holiday home (although some of these homes may be abroad). Some of the growth in ownership of second properties was supported by Government policies to promote construction in rural areas (e.g. the Seaside Resorts Scheme). It can also be related to rising affluence, with higher professionals and managers more likely to own second homes. Holiday-homeownership is concentrated in rural and coastal regions, e.g. Donegal, where

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<sup>25</sup> See Census 2006 Volume 4 Usual Residence, Migration, Birthplaces and Nationalities and Census 2011 Profile 6 Migration and Diversity—A profile of diversity in Ireland.

<sup>26</sup> This increase is accounted for by the number of properties leased by local authorities through RAS, as very few new properties were built by/for local authorities between 2006 and 2011.

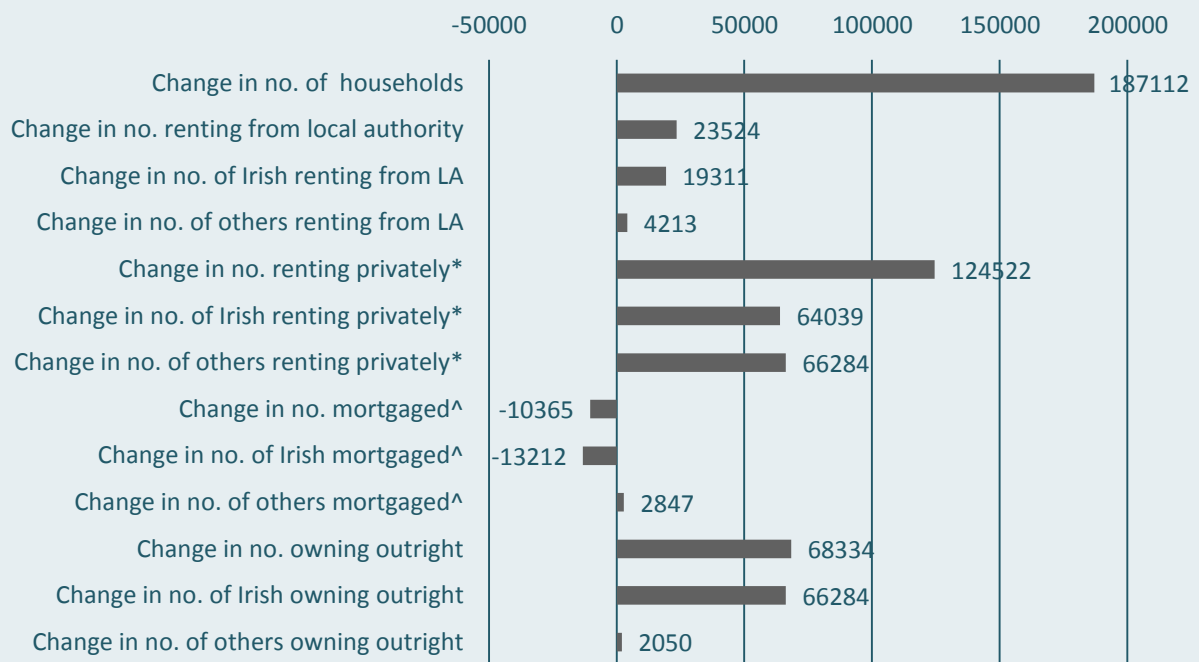
<sup>27</sup> These figures refer to holiday homes in Ireland.

<sup>28</sup> As some properties classified as vacant in the Census are actually holiday homes.

11 per cent of houses were holiday homes in 2011; followed by Kerry, Cork county, Wexford and Clare.

Further support for ownership of a second property came from the introduction of buy-to-let mortgages in the 2000s. These took up an increasingly large proportion of all mortgages, growing from 17 per cent in 2003 to 26 per cent in 2006 (Norris & Coates, 2010). At the end of December 2013, there were over 145,000 buy-to-let mortgages, which represents 45 per cent of all privately rented properties recorded in Census 2011. A recent representative survey of landlords in Ireland found that half were in the professional socio-economic group, and their average age was 51. Two-thirds were working full-time. 70 per cent of the landlords have an outstanding debt on their property, and for 71 per cent of these, the rent did not cover their debt repayments (DKM Economic Consultants, 2014).

**Figure 2.5: Changes in Occupancy of Permanent Private Households, Irish and 'Other' Nationality, 2006–2011**



**Source:** Calculated from CSO, *Census of Population*, 2006 and 2011.

**Note:** ^mortgage figures for 2006 includes purchasing from local authority

\*private renting includes renting from an AHB.

## 2.10 Tenure in a Comparative Context

Before considering the affordability of Irish housing, it is interesting to look at Irish tenure in comparison to that in other EU countries.

The gap between Ireland and other European countries in the level of homeownership is less prevalent than it was in the past. Owner-occupation is now the tenure of the majority of the population in every EU country. The share of the population in owner-occupation in Ireland in 2012 was 70 per cent, the same as the EU-28 average and not that much higher than the EU-15 average (66 per cent).<sup>29</sup> Ireland's level of owner-occupation (as a share of the population) is now the same as Sweden's. As outlined in Table 2.8 overleaf, some European countries have a substantially lower level of owner-occupation: Germany (53 per cent), Austria (57 per cent) and Denmark (64 per cent). The lowest level of owner-occupation is in Switzerland (44 per cent).

The data presented here are national averages. There are significant variations in the pattern of owner-occupation by age and area of residence in EU countries, as discussed above in relation to Ireland.

## 2.11 Affordability

Affordability covers a wide variety of issues including housing prices, incomes, creditworthiness, housing quality, housing policies, supply, and individuals' decisions regarding how much expenditure they wish to devote to housing (Norris, 2014). Lack of affordability can result in people being homeless, at risk of being unable to sustain their rent or mortgage payments, unable to purchase a dwelling on the open market or devoting a disproportionate share of income to cover housing costs.

This section looks at three measures of the affordability of purchasing a home in Ireland over time, and provides some data on the affordability of ownership in comparison to renting publicly or privately. It also considers data on mortgage and rent arrears, which provide another indicator of affordability. Finally, the affordability of homes in Ireland is compared to the situation in other countries.

### 2.11.1 Ratio Measures of Affordability

The ratio between average house prices and average household incomes indicates the proportion of household income being spent on housing. Lower-income

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<sup>29</sup> The figures on owner-occupation quoted here refer to the share of the population in this tenure. The situation may be somewhat different if owner-occupation is measured in terms of households. The population figures are used here as recent figures are available on this basis from Eurostat.

households spending more than a particular proportion of their gross income (often 30 per cent) on housing are defined as suffering affordability problems.

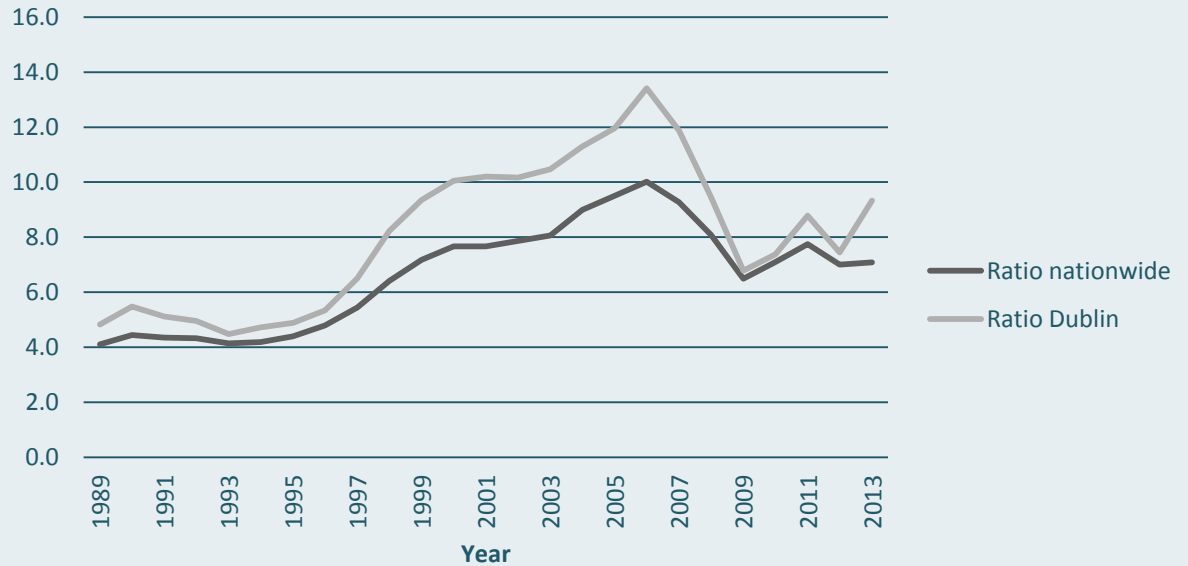
Drudy (2007) shows that in 1984, the average price of a new home in Ireland was €45,427, while the average industrial wage was €10,641, a ratio of 4.3 to 1. By 1994, the ratio had decreased slightly to 4.2, and in Dublin it was 4.7. But by the end of 2006, the ratio of average new house prices to annual average industrial earnings had deteriorated to 10 to 1 for the country as a whole and to 13.4 to 1 in Dublin. These ratios were even higher for central locations in Dublin. However, affordability improved from then to 2013, when it was at late-1990s levels. Figure 2.6 shows the change in these ratios between 1994 and 2013.

**Table 2.8: Percentage of Population in Owner-occupation in European Countries, 1996–2012**

	1996	2001	2006	2011	2012
Norway	:	:	83.7	84.0	84.8
Spain	89	92	:	79.7	78.9
Greece	86	90	:	75.9	75.9
Portugal	74	77	75.5	75.0	74.5
Italy	80	83	72.9	72.9	74.1
Finland	72	70	73.3	74.1	73.9
Belgium	76	81	73.7	71.8	72.3
Luxembourg	76	75	:	68.2	70.8
Sweden	:	:	68.8	69.7	70.1
Ireland	83	83	78.0	70.2	69.6
Netherlands	59	57	65.4	67.1	67.5
United Kingdom	75	72	71.4	67.9	66.7
Denmark	:	:	67.4	67.1	64.3
France	65	62	62.5	63.1	63.7
Austria	64	71	:	57.5	57.5
Germany	50	:	:	53.4	53.3
Switzerland	:	:	:	43.8	43.8
New Member States (12 countries)	:	:	:	86.7	86.8
EU (15 countries)	70	75	:	66.5	66.5
EU (28 countries)	:	:	:	70.6	70.6

Source: Extracted from Eurostat database, 26 June 2014.

**Figure 2.6: Ratio of New House Prices to Average Gross Industrial Earnings, Ireland, 1994–2013<sup>30</sup>**

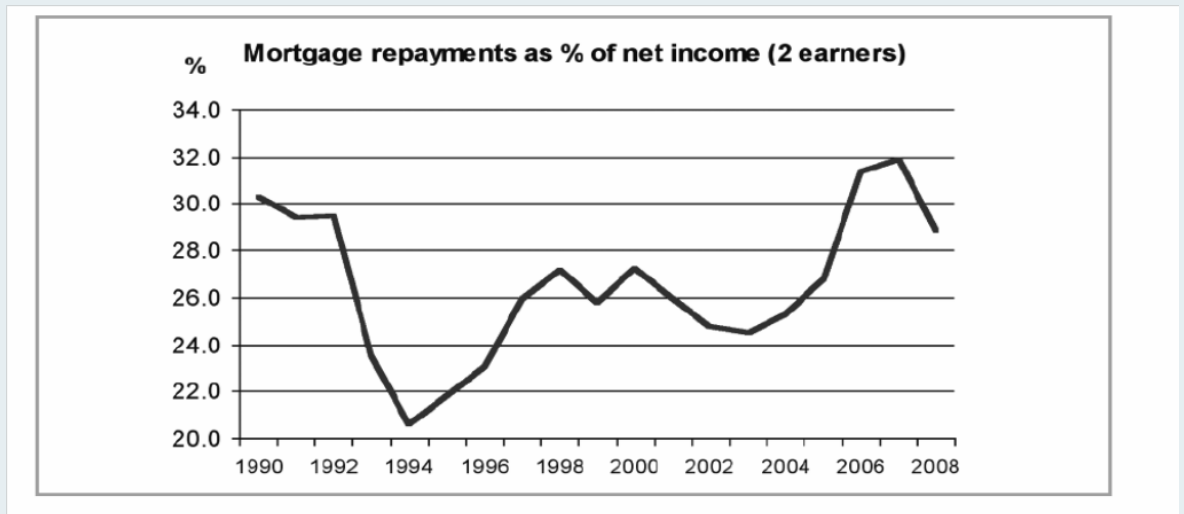


Source: See footnote 32.

Another ratio measure on mortgage affordability is mortgage repayments as a percentage of *net* income for double-income earning households. This measure shows variations in affordability between the early 1990s and mid-2000s, some of which can be linked to changes in interest rates (e.g. they declined in the early 2000s). This is one factor that explains why so many homes were purchased in the 2000s. However, as shown in Figure 2.7 below, from 2004 to the height of the Celtic Tiger boom in 2006–7, affordability declined markedly—a factor now reflected in mortgage arrears, which are more likely among those who purchased in the mid 2000s.

Figure 2.7 shows affordability over time, based on a two-earner household, with one person earning the average non-industrial wage and the other earning the average industrial wage; and the mortgage outgoings based on a 20-year mortgage, with a 5-per-cent interest rate and an average national house price of €305,269.

<sup>30</sup> Data for 1989–2003 is from NES, (2004b). Earnings data from 2003 was supplied by the CSO, for average weekly earnings for industrial workers (NACE 1 Rev for 2003–2006, and NACE Rev 2 from 2007 on). Earnings data is for Q4 each year from 2007 on. House prices from Department of Environment, Community and Local Government online data base, accessed 1 July 2014 (See footnote 7 for further information on this resource).

**Figure 2.7: Mortgage Repayments as a Percentage of Net Income (two earners)**

Source: DEHLG, (2009).

This index is no longer produced, but a similar one collected by EBS/DKM shows that after 2008, the cost of a two-earner, first-time buyer couple on average incomes servicing a 25-year (rather than 20-year) mortgage fell to 14 per cent of net income by summer 2012. However, this cost had increased again to 19 per cent by February 2014. Nineteen per cent represents the average national cost, and there are counties where prices are much lower—and also much higher. Looked at regionally, the data points to the development of a ‘three tier market’ across the country. Prices are currently most expensive in Dublin, followed closely by Wicklow and Kildare. These are the least affordable counties in which to live, requiring between 19 and 23 per cent of net income to repay this mortgage in early 2014. They are followed by Meath, Cork and Galway, with affordability at 15 per cent of net income. These counties together reflect the main city and commuter-belt areas. At the other end of the scale, Roscommon, Cavan, Leitrim and Longford are least expensive, requiring 8 per cent of net income to fund this mortgage. In most other counties, mortgage repayments cost approximately 10–12 per cent of net income.<sup>31</sup> It is also important to note that at a more fine-grained level—for example, even within electoral districts—there is often considerable variation in property prices. Repayments are also increasing for new mortgagees, as these are on variable interest rates, which many banks are increasing in order to compensate for the losses being made on tracker-mortgage interest rates.

<sup>31</sup> EBS/DKM Irish housing affordability index April 2014, [http://dkm.ie/en/publications/affordability\\_index](http://dkm.ie/en/publications/affordability_index), accessed 30 June 2014.

The EBS/DKM data also shows that in February 2014, a single first-time buyer on average earnings would pay 38 per cent of their net income on mortgage repayments, at the limit of what is considered to be a cost burden in the international literature (30 per cent of *gross* income) (*ibid.*). Census data outlined earlier shows that the groups least likely to have a mortgage, and most likely to rent, are indeed single-person households, or those headed by lone parents, and that it is couples with children who are most likely to have a mortgage.<sup>32</sup>

The Central Bank has recently published a consultation paper on limits in mortgage borrowing, proposing the introduction of limits on the loan-to-value (LTV) and loan-to-income (LTI) ratio of mortgages from January 2015. The proposals will:

- Restrict new lending for principal dwelling houses (PDH) above 80-per-cent LTV to no more than 15 per cent of the value of all new PDH loans;
- Restrict new lending for PDHs above 3.5 times LTI to no more than 20 per cent of the value of all new PDH loans; and
- Restrict new lending to buy-to-let above 70-per-cent LTV to no more than 10 per cent of the value of all housing loans for investment purposes.<sup>33</sup>

First-time buyers now comprise approximately half of those drawing down mortgages (IBF & PwC, 2014). The proposal on LTV values is likely to cause some difficulty for them, particularly if they have to rent accommodation in a large urban area while saving a deposit. To buy a €200,000-dwelling, a first-time buyer would need to save €40,000. However, the limits on LTI ratios should help to sustain affordability in housing prices.

### 2.11.2 Residual Measures of Affordability

Residual measures look at absolute levels of expenditure and examine whether the income that remains after housing costs is sufficient to cover other essential household expenditure.

Household Budget Survey data from 1973 to 2009–10 shows change in the average weekly household disposable income of each tenure type over this time period: see Figure 2.8 overleaf. This data shows that there is now greater disparity between the incomes of those in different tenure types than in the past. In 1973, there was a gap of 40 percentage points between the average disposable income of those who rented from a local authority and those with a mortgage. By 2005–6, when the gap

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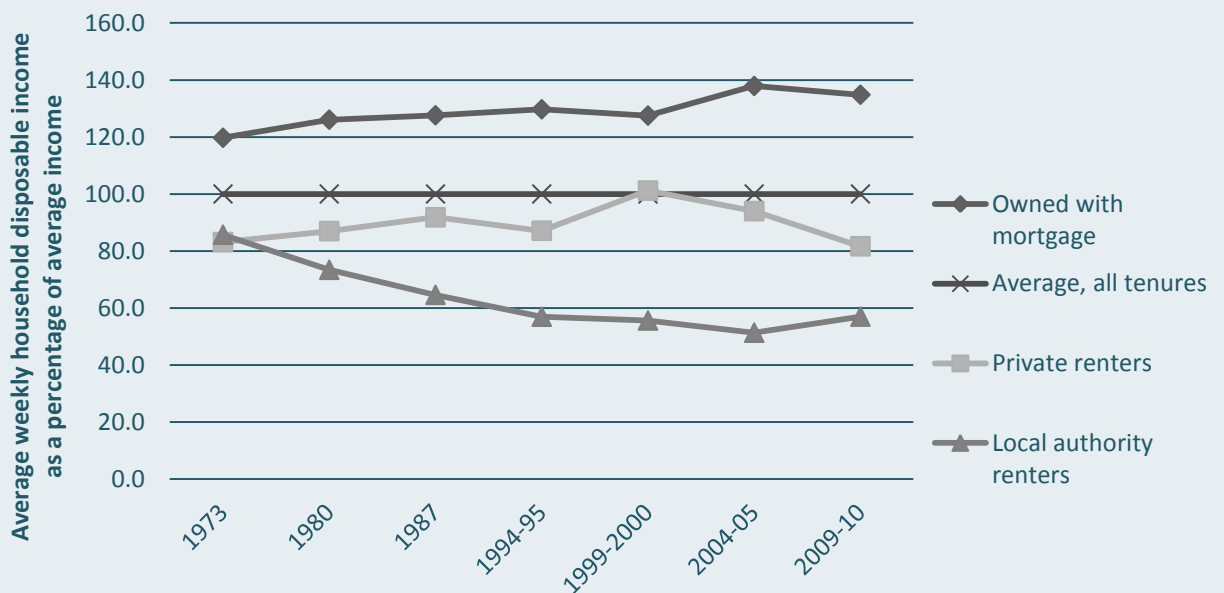
<sup>32</sup> Couples with no children and single-person households are most likely to own outright. This may be related to age, as 48 per cent of heads of household who are outright owners are aged over 65. Couples living without children may be older, and the Census also shows 46 per cent of those aged over 65 are either single, widowed or separated/divorced.

<sup>33</sup> See <http://www.centralbank.ie/press-area/press-releases/Pages/CentralBankpublishesnewmacro-prudentialmeasuresformortgagelending.aspx>, accessed 9 October 2014.



was highest, it was almost 90 percentage points. It has declined slightly since. It also shows that since 1999–2000 there has been widening disparity between the incomes of those with a mortgage and those renting. The disposable incomes of those with a mortgage are now further above average and the disposable incomes of those renting are now further below average than they were before 1999–2000. This fits with the decreasing proportion of mortgage-holding among those in lower social classes. It may also be influenced by the increasing proportion of those in the private rented sector on rent supplement, which has increased significantly since the early 1990s.

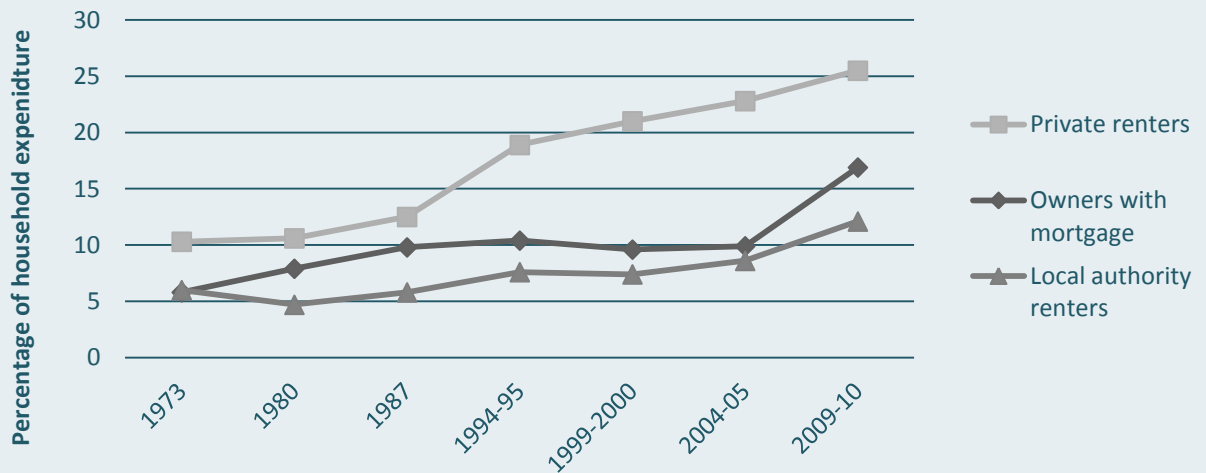
**Figure 2.8: Average Weekly Household Disposable Income of Each Household Tenure Type, as a Percentage of Average Income**



Source: *Household Budget Surveys, 1973 to 2009–10.*

The proportion of household expenditure spent on housing by each tenure type follows a similar pattern—see Figure 2.9. While the proportion spent on housing has increased for all tenure types, this increase has been sharpest among those renting privately, since 1987. It has also risen sharply for those with mortgages, but only since 2004–5, possibly reflecting higher repayments on the larger mortgages taken out in 2006–7.

**Figure 2.9: Weekly Rent or Mortgage Expenditure as a Percentage of Total Household Expenditure (by Household Tenure)**



Source: Fahey & Duffy, (2007); CSO, (2007, 2012c).

These figures represent averages, and they may be higher in some areas, such as Dublin, where rents and mortgages are particularly high. It is also very likely that the proportion of household expenditure spent on private rents has increased since 2009–10, as rents have increased, while incomes have fallen.<sup>34</sup>

### 2.11.3 Rent and Mortgage Arrears

Rent and mortgage arrears are another indicator of affordability, and both have increased since the height of the Celtic Tiger. The proportion of mortgages in arrears has increased from practically zero in 2004, to 12 per cent (90,343) of mortgage accounts for PDHs being in arrears for more than 90 days by June 2014.<sup>35</sup> The situation of mortgages on buy-to-let properties is worse, with 31,749 buy-to-let

<sup>34</sup> The CSO's earnings and labour costs data shows that the average weekly income of all employees in the fourth quarter of 2009 was €717, and had fallen to €689 by the first quarter of 2014. See [http://www.cso.ie/quicktables/GetQuickTables.aspx?FileName=EHQ03.asp&TableName=Earnings+and+Labour+Costs&StatisticalProduct=DB\\_EH](http://www.cso.ie/quicktables/GetQuickTables.aspx?FileName=EHQ03.asp&TableName=Earnings+and+Labour+Costs&StatisticalProduct=DB_EH), accessed 7 July 2014. As incomes have fallen, mortgage repayments would also take up a higher proportion of income, but mortgage repayment costs have not risen as fast as rents. Mortgage repayment costs also present a mixed picture, as those on tracker mortgages have benefited from a decline in interest rates, while those on variable rates have experienced an increase.

<sup>35</sup> See <http://www.centralbank.ie/polstats/stats/mortgagearrears/pages/releases.aspx>, accessed 24 September 2014.

accounts in arrears of more than 90 days at the end of June 2014, representing 22 per cent of all buy-to-let mortgages. Some recovery is beginning to show in these figures, with the proportion of all mortgages in arrears declining slightly now. Meanwhile 6,275 local-authority mortgages were also in arrears of more than 90 days by October 2013. This represents 31 per cent of the total number of these loans, up from 24 per cent at the end of March 2010.<sup>36</sup> While the share of arrears on local-authority mortgages made available to people on lower incomes to buy houses is considerably higher than those on standard mortgages, in absolute terms the volume of local-authority mortgage debt is small: there was €1.1bn outstanding in local-authority loans in the final quarter of 2013, which represents just over 1 per cent of total outstanding loans for house purchase as reported by the Central Bank (€83.7bn).

Those most likely to be in arrears of over 90 days with bank mortgages are: those who took out mortgages in 2006 and 2007 (Lydon & McCarthy, 2011); those living in the Midlands, Border and Mid-East regions (which have higher vacancy rates, unemployment rates and distressed properties in negative equity: Kennedy & McIndoe Calder, (2011); and those with a high repayment relative to their income (McCarthy & McQuinn, 2011). Households with a high repayment relative to their income are more likely to be made up of one adult (either with or without children); and this adult is more likely to be single, female, younger (aged 38, compared to 43 on average), highly educated, and living in an urban area (Kelly *et al.*, 2011). Those whose mortgages are in arrears are more likely to be unemployed, in precarious employment, and/or have had reductions in income from employment (Burke-Kennedy, 2014).

As outlined in NESC (2013), SILC data shows that those in consistent poverty are three times more likely to be in mortgage/rent arrears; and where a household is in mortgage arrears, it is proportionately more likely to have a head of household whose highest level of education is primary or none; who is ill/disabled, unemployed, or on home duties; and who is a lone parent.

In terms of rents in arrears, the most recent data shows that total local-authority rent arrears increased from €32.9m on 1 January 2008, to €58.5m on 31 December 2011. In Dublin City Council, 2011 figures show that 21 per cent of rent was in arrears. This is estimated to represent 13,400 tenants in arrears (O'Sullivan, 2012). These figures are considerably higher than in 2006, when 14 per cent of rent was in arrears (Dublin City Council, 2007).

Such data does not exist for private tenancies, but information from the Private Residential Tenancies Board (PTRB) shows that in 2011, 32 per cent of dispute applications received were related to rent arrears, compared to 19 per cent in 2007.

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<sup>36</sup> From written reply to PQ 9062/12, accessed at <http://debates.oireachtas.ie/dail/2012/02/16/00132.asp>, 13 September 2012; and answered by Minister for State Jan O'Sullivan; by Deputy Bernard J Durkan on 23 Tuesday October 2012, accessed at <http://oireachtasdebates.oireachtas.ie/debates%20authoring/debateswebpack.nsf/takes/dail2012102300011?opendocument#Local%20Authority%20Housing>, on 13 December 2012; and from MacCarthaigh (2013).

The PRTB considers that this increase is a reflection of the overall economic situation (PRTB, 2008, 2012). SILC data for 2012 also shows that among households who rented, 19 per cent had missed making rent payments on time at some stage in the previous 12 months (CSO, 2013).

As outlined in NESF (2013), SILC data shows that in both 2006 and 2010, heads of household with secondary education only were most likely to have been in rent arrears in the previous year, as well as heads of household in income deciles 1 and 2, lone parents or 'other households with children', and heads of household who are unemployed, on home duties, or ill/disabled. These figures show again the polarisation in housing conditions, with those on lower incomes, of lower social classes, and lone parents, least able to afford their accommodation costs.

#### 2.11.4 Affordability in an International Context

Figures from a Deloitte survey of 15 European countries (plus Israel) indicate that in 2013, Irish new housing was the sixth-most affordable of the 16 countries surveyed. Affordability in this context was measured as the ratio of average purchase price for a standard-sized new dwelling (70 square metres) to average gross salary.<sup>37</sup> The least affordable housing was in the UK, Russia and Israel. They all had average prices in the region of €4,000 per square metre. Ireland was in the group of countries with average prices at around €2,000 per square metre. Countries with a similar level of prices to Ireland for new dwellings in 2013 were the Netherlands, Denmark and Belgium (Rádl Rogerová *et al.*, 2014).

This survey also looked at prices in key cities, and found four where prices exceeded the national average by more than 200 per cent (Prague, Hamburg, London and Paris); and a further seven capital cities for which prices exceeded the national average by more than 50 per cent (Lisbon, Warsaw, Berlin, Vienna, Madrid, Copenhagen and Amsterdam). Dublin's premium relative to the national average was below this level. The survey showed that prices per square metre in Dublin were similar to prices in Amsterdam, Brussels and Lyon and well below Paris and London.

The affordability of Irish housing in 2013 is confirmed by the annual Demographia survey of housing affordability in 360 metropolitan housing markets in the English-speaking countries, along with Hong Kong, Singapore and Japan (Cox & Pavletich, 2013). This survey measures housing affordability as the ratio of median house prices to gross median household income. The rationale for focusing on median house prices and incomes is that the survey seeks to reflect the situation as experienced by a representative household. House prices and income ratio measures in Ireland normally refer to the mean rather than the median.

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<sup>37</sup> The Deloitte calculation uses the same standard size of house (70 square metres) for each country although the actual average size difference varies across countries. Hence this calculation is a measure of affordability of housing per square metre.

In 2013, the average ratio of median house prices to median incomes for Ireland was just under three and Ireland was the most affordable housing market among the nine countries in the Demographia survey. The ratio for Ireland in 2013 was just below the US (the next most affordable). The survey also examined the affordability ratio in what they refer to as 85 'major markets'; these are housing markets with over 1 million population, including Dublin. The ratio for Dublin was estimated at 3.7. Demographia considers that a ratio of 3.0 or less is 'affordable'. Only 14 major markets, all of which were in the US, made it into the 'affordable' category. Dublin came into the next category (3.1–4.0), referred to by Demographia as 'moderately unaffordable'. This would place Dublin as one of the more affordable major housing markets among the seven non-US countries in the Demographia survey.

However, house prices are now rising strongly in Ireland, and this is likely to reduce affordability, particularly in urban markets. House prices now (October 2014) are higher than those used in the international comparisons presented above. The Central Bank proposals (outlined above) to limit the proportion of mortgages where the loan is over 3.5 times gross annual income may help contain the growth of house prices.

## 2.12 Likely Future Trends

The overall integration of this data is discussed in Chapter 3, which considers how best to understand Ireland's changing tenure mix.

# Chapter 3

## Understanding Ireland's Evolving Tenure Mix

## 3.1 Introduction

This chapter considers how we should understand Ireland's evolving tenure mix. Section 3.1 explores the role of government policy and changing credit conditions in driving the increased share of homeownership from the 1960s to the early 1990s. In those decades government strongly supported homeownership with a range of subsidies. These were gradually reduced, although a number of policy aspects such as remaining mortgage interest relief, absence of capital gains tax and non-taxation of imputed rents, still favour homeownership.

Section 3.2 asks where we are now. Should we expect stability or change in these respective roles of homeownership, private rental and social-rental housing? Although aggregate national data suggest a high degree of stability—with owner-occupation levels remaining high—a more fine-grained examination of the data, as provided in Chapter 2, suggests we are witnessing significant long-term change. In particular, a range of household types and income groups are likely to have limited prospects of buying their own home and will, therefore, be reliant on either the private rental sector or greater provision by local authorities (or other public bodies) and approved housing bodies (AHBs).

## 3.2 The Role of Government Policy and Credit Conditions

In seeking to understand the long-term and more recent evolution of Ireland's tenure mix, it is vital to recognise the central role of government policy. One of the main factors influencing the high rate of owner-occupation in Ireland—and, through much of the 20<sup>th</sup> century, the falling share of rental accommodation—has been a range of government incentives aimed almost exclusively at homeowners.

Norris (2013) outlines the range of public subsidies and methods of regulation which supported high rates of homeownership. First, there was a range of tenant-purchase schemes, which were first introduced in rural areas in 1936. The background to this was rural land reform from the 1890s, arising from the Land War, which agitated to improve the lot of tenant farmers, and ultimately to

redistribute land to tenants. Various Acts allowed farm tenants to purchase farms from their landlords, and led to demands for a similar tenant-purchase scheme on the part of agricultural labourers, who were excluded from the land-reform transfers. As a result, schemes that allowed rural tenants to purchase dwellings built by local authorities were introduced. In the 1950s, these schemes became particularly generous, with purchase annuities for rural cottages reduced to 50 per cent of current rents. By 1964, 80 per cent of the 87,000 rural cottages that had been built to that date had been transferred to private ownership. This led to pressure to introduce such a scheme in urban areas, which happened in 1966. The result was that by the 1990s, of the 330,000 local-authority dwellings built over the previous century, 220,000 had been sold to tenants. These accounted for a quarter of all homes in private ownership at the time, and were a significant support to those on lower incomes (Fahey, 2002). From 1925, the Government also enabled housing development by co-operatives, which built 27 per cent of all private housing in Dublin between 1933 and 1938.

In terms of finance, the government provided grants to help people to buy, and also set up a Local Loans Fund that borrowed money from commercial sources and lent it on to local government in rural areas, to fund mortgages and construction. Local authorities became the main source of mortgage finance during the 1940s and 1950s, due in part to the lower-down payments required compared to those in commercial building societies. Grants for home purchase were also available. Overall, O'Connell (2004:26, cited in Norris) has estimated that by the early 1960s, almost 30 per cent of the cost of a standard suburban house could be recouped from the government by the purchaser.

Due to the expense of these schemes, Government in the 1970s began to limit access to some subsidies and loans to first-time buyers, and a limit was placed on the amount of mortgage interest that was tax deductible. However, the ceiling was high at first and the mortgage interest relief still covered 22 per cent of the total costs of servicing an average building society mortgage in 1975.

Ireland experienced a long economic and fiscal crisis from 1979 to 1987. The actions taken in 1987 and subsequent years to address the crisis included significantly reduced income limits for access to local-authority mortgages. As a result, these mortgages fell from a quarter of mortgages in the early 1980s to 2 per cent by the early 1990s, and have remained below this level. In fact, since 1999, the number of new local-authority loans approved has not exceeded 218 per annum.<sup>38</sup> Indeed, from the late 1980s, fewer local-authority houses were built, and this, coupled with the smaller number and lower income of the more residualised tenants remaining, meant that tenant purchase declined considerably. Between 1994 and 2006, only 21,402 local-authority homes were sold. The peak years in this period were the late 1990s, with over 2,000 homes sold each year between 1996

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<sup>38</sup> See Department of Environment, Community and Local Government social housing statistics on loan approvals. See footnote 7 for further information on this resource.



and 1999 (Drudy, 2007). Government also abolished three of the four home-owner grants, although it did retain some supports for low-income buyers. Such supports were somewhat increased again in the 1990s, with the introduction of a number of schemes. These included the Shared Ownership Scheme (a rent/buy scheme for low-income earners), the Mortgage Allowance Scheme (a grant to local-authority tenants who surrendered their tenancy and bought a home) and the Affordable Housing Schemes<sup>39</sup> and Initiative (enabling local government to build and sell at cost to low-income owners). The number benefitting from these schemes was, however, quite low. For example, over half a million houses were built between 2002 and 2012, and in that period, only 5,225 persons availed of the shared-ownership scheme. Likewise, 16,764 houses were provided under the Affordable Housing Scheme between 2002 and 2012, and the Affordable Housing Initiative delivered a total of 1152 affordable homes (DECLG, 2014).<sup>40</sup>

In tandem with its reduction of supports for universal homeownership, government facilitated financial markets to support homeownership. The 1980s saw the deregulation of Irish commercial banking, and banks slowly took over as the primary source of mortgages. This continued throughout the 1990s and 2000s. The economy and population also grew. Housing supply lagged behind, and to address this, the Government reformed land-use planning and land servicing in the late 1990s to promote building by private developers. As a result, output did increase, but a significant part of the output was outside the main population centres. Together these factors contributed to high housing inflation, particularly in Dublin. In addition, UK banks entered the Irish market, EU bank funding became available to Irish banks, the number and value of mortgages taken out grew, and the terms of mortgage repayment lengthened. Government did not limit this credit availability in any significant way, and the availability of this credit played an important role in high house-price inflation (Norris & Coates, 2010). The influence on homeownership was mixed. Purchasing became more difficult for low-income households, despite the continued existence of some Government supports for this group. However, many households still purchased, often through taking out large mortgages. At the same time, the proportion of buy-to-let mortgages increased significantly. In fact, between December 2003 and December 2006, the proportion of outstanding mortgages taken up by buy-to-let investors increased from 17 to 26 per cent. In the same period, the share of mortgages held by homeowners declined from 82 to 73 per cent (Norris, 2013).

After the 2007 global financial crisis, Ireland's banks lost deposits and were unable to access international market funding, one of the factors that led to a collapse in mortgage lending. New mortgages declined from 111,253 in 2006 to 11,227 in 2011. At the same time, Government reduced mortgage-interest tax relief, and in

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<sup>39</sup> There were two such schemes—the 1999 Affordable Housing Scheme, and the 2000 Part V Affordable Housing. The latter sold affordable housing bought by local authorities under Part V, which required developers to provide a proportion of housing for sale at lower prices to local authorities for social and affordable housing. See NESG, 2014.

<sup>40</sup> The Affordable Homes Partnership a related scheme, also delivered 718 homes.

2011 closed all of its affordable housing schemes to new applicants<sup>41</sup> (although the legislation underpinning them has not been repealed). The main tenant-purchase scheme was also suspended, pending introduction of a new incremental tenant-purchase scheme.<sup>42</sup> This scheme has now been included in the Housing (Miscellaneous Provisions) Bill 2014.

The creditworthiness of many borrowers deteriorated with increased unemployment. These factors led to a further decline in owner-occupation. The collapse in house prices associated with the financial crisis also influenced this, as prospective buyers were reluctant to purchase while prices were falling.<sup>43</sup> Some recovery in house prices is now occurring, leading to a higher number of house purchases in 2013 and 2014.

A residential property tax has been introduced recently,<sup>44</sup> and can be seen as a further roll-back of support for owner-occupation, although the rates of property tax are low (0.18 per cent of the value of the property per year).<sup>45</sup> However, other support for homeownership continues. There is no capital gains tax on principal private residences, and no tax on imputed rental income. In addition, the Government is sustaining owner-occupation in some of the measures it has taken in response to the acute problems arising from the economic and banking crisis. In particular, the Central Bank has introduced requirements to delay repossession of dwellings for a certain time period where the mortgage is in arrears and the mortgagee is co-operating with the lender.<sup>46</sup> In December 2013, almost 100,000 mortgages on principle private residences were in arrears of over 90 days, but only 1,014 repossessed homes were in the possession of the banks.<sup>47</sup> The Department of the Environment also states that it is committed to supporting access to homeownership for lower-income households, but the schemes that remain in place to support this are few, and the number benefitting from these is extremely low.<sup>48</sup>

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<sup>41</sup> See <http://www.citizensinformation.ie>.

<sup>42</sup> There is an existing incremental purchase scheme but this is a limited scheme that only applies to designated new local authority and AHB houses.

<sup>43</sup> The Department of Environment, Community and Local Government's online housing statistics (see footnote 7 for further information on this resource), show that the average national price of a second-hand house fell continuously from €377,850 in 2007 to €249,132 in 2012.

<sup>44</sup> The property tax introduced in the 1980s was targeted at the most wealthy and was later abolished. Property tax for all homeowners was introduced in Budget 2013.

<sup>45</sup> A property tax rate of 1.2 per cent in Taiwan is judged to be low by Tang (2007).

<sup>46</sup> Currently a dwelling may not be repossessed for at least eight months under the Central Bank's Code of Conduct on Mortgage Arrears. This Code has been revised a number of times, and the time period during which repossession cannot proceed has varied. For more detail, see [http://www.citizensinformation.ie/en/housing/owning\\_a\\_home/mortgage\\_arrears/mortgage\\_arrears\\_resolutions\\_process.html](http://www.citizensinformation.ie/en/housing/owning_a_home/mortgage_arrears/mortgage_arrears_resolutions_process.html), accessed 11 July 2014.

<sup>47</sup> See [http://www.centralbank.ie/polstats/stats/mortgagearrears/Documents/2013q4\\_ie\\_mortgage\\_arrears\\_statistics.pdf](http://www.centralbank.ie/polstats/stats/mortgagearrears/Documents/2013q4_ie_mortgage_arrears_statistics.pdf), :6, accessed 8 July 2014.

<sup>48</sup> See <http://www.environ.ie/en/DevelopmentHousing/Housing/HomeOwnership/>, accessed 10 July 2014.

There are very few countries that do not provide policy support for homeownership. The supports take different forms: subsidies, grants, savings incentives, mortgage guarantees, interest subsidies and reliefs and housing allowances. Box 3.1 notes some of the approaches used, particularly policy that has stimulated a new supply of homes that are subject to sales-qualification periods and conditions.

In contrast to the Irish Government's supports for owner-occupation, there had been little Government support in Ireland for rental accommodation and, over several decades, greatly reduced investment in the construction of social housing. However, the latter has been balanced to some extent by the large increase in rent supplement and RAS<sup>49</sup> recipients, who are housed in private rental accommodation. Under rent supplement, landlords are paid market rent (subject to prescribed maximum limits) with some contribution from tenants. There has also been state support for the construction of social housing by AHBs (see NESC, 2004a; 2014).

### **Box 3.1: Government Support for Homeownership—Selected Countries<sup>50</sup>**

- **Germany, Finland and Hungary: Government-supported savings schemes.**
- **Finland, Portugal and Hungary: Grants and subsidies for low-income households.**
- **Norway: Subsidies and cheap loans and land at below-market prices for the co-operative sector.**
- **Austria: Balanced support of all tenures types but expenditure is not particularly high compared to other countries.**
- **Spain: Supports for social housing are almost exclusively focused on subsidising owner-occupation, primarily through soft financing for houses sold at regulated below-market prices with resale prices set by government for defined qualification periods.**
- **Asia: Large scale sales of public housing to tenants, at high discounts enabled by the state's ownership of nearly all land (e.g. Singapore and China).**

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<sup>49</sup> The Rental Accommodation Scheme (RAS). This was introduced in 2004, and those on long-term rent supplement can be transferred to it. The accommodation is leased from the private and voluntary sector by local authorities. The social housing leasing scheme, and other leasing schemes, provide a similar service.

<sup>50</sup> This box draws on two sources (Elsinga *et al.*, 2007: 318; Hoekstra *et al.*, 2010: 130).

The private rental sector was virtually unregulated until the early 2000s, but in 2004 the Residential Tenancies Act was introduced, which greatly improved security of tenure, and provided market-related rent control, although this is still relatively weak when compared to other EU countries (Cuerpo *et al.*, 2014). After the abolition of legislation that froze rents in the early 1980s, deterring investment in the sector, the supply of rental accommodation was incentivised by various Government schemes, such as Section 23, which supported construction of housing to let, from the 1980s on. These schemes provided generous tax relief to builders and/or purchasers of apartments and small townhouses in designated urban areas.<sup>51</sup> However, these schemes have been closed, and the tax treatment of landlords has changed since 2008, with much higher rates of tax due on rental income. A recent representative survey of landlords showed that 70 per cent have an outstanding debt on their property, and for 71 per cent of these, the rent did not cover their debt repayments. Twenty-nine per cent planned to exit the sector as soon as possible (DKM Economic Consultants, 2014). Meanwhile, the increase in rent-supplement recipients may have sustained the demand for rental accommodation, particularly since the mid-2000s when the number of recipients increased from 50,000 to over 97,000 in 2010. For tenants, tax relief on rent was introduced in the 1990s, although it is now being phased out, as part of the tenure-neutral housing policy of the Department of the Environment and Local Government. These factors all help to explain the increase in the population that rents. Other factors also supported this increase, such as the increase in immigration, the high costs of buying, falling rents at certain times, and, more recently, difficulties accessing credit, as well as concerns about losing money on home purchase.

### 3.3 Where Are We Now: Stability or Change in the Role of Owner-Occupation?

As noted in the introductory section, the empirical analysis in this report is designed to answer some key questions of policy relevance concerning the degree of change in Ireland's tenure mix, the likely degree of segmentation in the housing system, and Ireland's position in an international perspective.

In assessing likely future trends in tenure mix, we have to acknowledge a degree of uncertainty. The most significant increase in rental share has occurred in the periods 2000–05 and 2006–present—although it should be noted that the share of owner occupation peaked as long ago as 1991. Both periods were unusual viewed historically. The earlier period saw unprecedented increases in income, immigration, credit creation and construction, combined with rising house prices.

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<sup>51</sup> See McCabe (2010). Other schemes included Section 50, which provided tax relief in relation to construction of student accommodation.

The period between 2006 and 2011 was unusual given the dramatic reduction in employment, incomes, house prices and, to a lesser extent, rents. Consequently, there is a limit to what we can infer, and extrapolation of recent trends could well prove inaccurate.

As outlined above, at first sight it might seem that not very much has changed and that, in particular, Ireland is not distinctive as regards the place of owner-occupation in the overall housing system. As recorded in Census 2011, owner-occupation remains the dominant tenure, at 71 per cent, down from a peak of 80 per cent in 1991. As noted in Section 2.10, Ireland's share of owner-occupation in 2012, at 69.6 per cent, is not that far above the EU-15 average of 66.5 per cent. Many of the 12 additional member states, especially those in Central and Eastern Europe, have very high rates of homeownership, following privatisation of formerly state-owned housing, and this pulls the EU-28 average up to 70.6 per cent. Although the overall share of owner-occupation has fallen from a peak of 80 per cent in 1991 to 71 per cent in 2011, among Irish nationals it remains at 77 per cent.

Indeed, there is reason to expect some return to house purchase and owner-occupation in the coming years. Research by Byrne *et al.* (2014) suggests that there will be some increase in owner-occupation. It contends that one reason for the high increase in renting among younger people between 2006 and 2011 was the fall in rental prices, and the steep decline in house prices from 2008 on, which gave little incentive to investing in homeownership. Byrne *et al.* consider that the current rising costs of rent and of house prices are likely to push owner-occupation up again. Rental prices in Dublin have increased by 15 per cent in the year to June 2014, and in the Dublin commuter counties by 11 per cent (Daft.ie, 2014a). And even though purchase prices in Dublin have increased by 21 per cent in the year to April 2014, and are beginning to increase in the rest of the country for the first time since 2007 (Daft.ie, 2014b), purchasing is now less expensive than renting, based on a 30-year mortgage, in most parts of the country (*ibid.*). Byrne *et al.* estimate that 2.6 per cent of current renters will wish to switch to owner-occupation. They also see an overhang of potential buyers, which is continually growing. While the authors note that it is difficult to assess how much the crisis will lead to a permanent change in preference away from homeownership, their analysis suggests that owner-occupation will increase again to some degree among those aged over 25.<sup>52</sup>

Furthermore, we need to be aware that the share of owner-occupation and rental at any given time gives a partial picture of the underlying tendencies and preferences. For example, the age at which people enter homeownership fell significantly during the economic boom and may be rising again now. The latter trend will show up in a lower overall share of ownership at any given time, but over

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<sup>52</sup> The Irish Banking Federation is finding also that the volume of mortgage drawdowns is improving somewhat, although it is still low. They find that the value of mortgages drawn down is increasing strongly—evidence of rising prices. See IBF & PwC (2014: 5).

a lifetime the rate of ownership might be no lower. International housing analysis distinguishes between contexts where rental accommodation is a long-term option, yielding security, and those where it remains a transitory category or one used by those who have no other option.

Although aggregate data suggest a high degree of stability, closer analysis suggests that this impression of stability in a high share of owner-occupation is probably misleading and that some significant changes are almost certainly underway. There are several reasons why national averages, while important, are not a good guide to underlying dynamics and associated policy challenges. One is that, by their very nature, housing and housing-tenure averages are slow-moving variables, since most households live in a small number of properties over a lifetime and change occurs more across generations than within them. A second, related, reason is that Ireland's housing system has, historically, some features that provide a strong element of stability in the national data. Most striking is the high share of heads of household that own their homes outright—currently 36 per cent. Indeed, as shown above, this share has been remarkably high across the social-class spectrum, although this is now changing. Outright ownership also has a strong geographic and age profile, which can reinforce the impression of stability, being particularly high in Western counties, among those aged over 55 and for one-off rural houses.

When we factor out these strong elements of stability, we find that for a range of other economic and social groups—younger adults, newly setting up home; migrants; those seeking to live in or near the centres of employment opportunity; and, most of all, those on low incomes—housing conditions and housing-tenure choice are indeed changing quite considerably. Some among these groups are in mortgage difficulty or have negative equity. Many others have little prospect of buying their own homes and are mainly reliant on the private rental sector and, for a minority, social housing. Furthermore, as indicated in Section 2.5, the class profile of housing and tenure type is likely to continue changing over the next 20 years. In particular, existing trends in availability, affordability, incomes and household size suggest that those with lower incomes and in single-adult households are much less likely to have mortgages, and therefore be on track to homeownership, than those from higher social classes. In recent trends, owner-occupation is declining among all social classes, but is declining most among those in lower social classes, particularly the semi-skilled and unskilled. This trend has been evident since 1991 and is likely to be long-term, given the decline in local-authority tenant-purchase opportunities. Furthermore, the trends of the last decade or more suggest that, in the absence of significant policy change, those in the private rental sector are likely to experience the greatest pressures of affordability. Social polarisation is also evident in second-homeownership and buy-to-let properties. These properties are much more likely to be owned by professionals. It also seems that some are let to the growing proportion of semi-skilled and unskilled who rent. However, purchase

of investment homes has dropped sharply<sup>53</sup> so this pattern may be less evident in future.

Furthermore, although the share of owner-occupation in Ireland is not that different from a range of EU-15 member states, it would not seem correct to infer from this that Ireland is converging on a European norm. First, the direction of change is different, with Ireland experiencing falling rates of owner-occupation while several continental European countries see a rising share. Second, many continental countries combine owner-occupation with a more developed and regulated private rental sector than in Ireland, and a larger social housing sector. Indeed, in some of the countries with the most effective housing systems, the regime bridges the gap between private rental and social housing through cost-rental and housing-benefit payments.

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<sup>53</sup> They made up 4–5 per cent of mortgages approved to date in 2014 (IBF & PwC, 2014); compared to 26 per cent in 2006 (Norris, 2013).

# Chapter 4

## Explore Aspirations, Advantages and Possibilities for Homeownership and Rental



The data on the changing tenure mix in Irish housing outlined in this report has important and complex implications for Irish housing policy that need to be explored. The overarching goals of housing policy are (i) affordability (ii), sustainability (economic, social and environmental) and (iii) equality and social inclusion. It is important to ask how different forms of housing and home ‘ownership’ can serve these goals. In particular, it is now necessary to explore Ireland’s aspirations, goals and possibilities for homeownership and rental accommodation. The Council suggests a focused process to explore and clarify the advantages and disadvantages of different tenures, aspirations for homeownership, possible ways in which such aspirations might be met, the feasibility of policy measures to promote a high level of ownership, and comparison of these with measures to support the emergence of a larger rental sector that can provide secure, affordable, long-term occupancy. Indeed, the cost-rental approach outlined in NESCs report *Social Housing at a Crossroads* is designed to do that.

The Council begins that exploration in this final part of the report. In the next section we discuss the relative advantages of homeownership and rental. This both confirms the widely recognised advantages of homeownership in Irish conditions and shows that these advantages are context-dependent, reflecting the limited prospects for secure and affordable long-term rental. This poses profound questions to Irish housing policy and the report closes by identifying these and suggesting the kinds of deliberation and analysis necessary to answer them.

Such a systematic and honest exploration is necessary for a number of reasons. One is that the conditions for achievement of homeownership—material, economic, demographic and financial—seem to have changed from past decades. It is far from clear that, without major additional policy measures, several groups (particularly those on low income, lone parents and single-person households) will be able to achieve homeownership at the levels that prevailed in earlier decades. A second is that, as noted above, housing policy is especially prone to policy incoherence in which demand-side subsidies, supply-side subsidies, regulation and direct state action are combined in an ineffective, and sometime self-cancelling, way. A third, related, reason is that in the area of housing, and homeownership in particular, all sorts of ideas are suggested. We need some coherent way to assess and, if necessary, combine them. For example, to promote homeownership it is suggested by various observers and groups that:

- Development levies be reduced;
- VAT on sale of new homes be adjusted;

- Standards, such as apartment sizes or energy-efficiency requirements, be relaxed;
- State lands be brought into development in new ways or on new terms;
- Measures be taken to encourage older people to move out of under-occupied housing;
- Mortgage ceilings be relaxed, or not increased to the levels proposed by the Central Bank;
- Shared ownership or co-operative housing schemes be promoted more widely.

Such a plethora of suggestions and supposed silver bullets can leave policy-makers and households confused about the feasibility of the aspiration to homeownership and the possible measures that could help to realise it. While each of these suggestions might contain an element of validity, is a particular point being elevated into *the* point? We need a wider framework in which to place these divergent ideas. Ideas about possible ways of promoting homeownership need to be put in coherent relation to the policy thrusts concerning social housing, cost rental and planning set out by Government and others, including the Council.

## 4.1 The Relative Advantages of Homeownership and Renting

Homeownership is typically considered to have a number of advantages over other tenures. The two most widely cited advantages are the accumulation of an asset and security of tenure.

### 4.1.1 Homeownership as the Accumulation of an Asset

A major attraction of owner-occupation compared to renting is the ability to acquire an asset over time. When a house is acquired through a mortgage, initially the repayments are almost all interest. Over time the real value of the debt normally falls, both because of the effect of repayments of principal and on account of the impact of inflation. Eventually, a home is acquired outright. The purchase of a home is an important part of lifetime financial planning for many people. Where a home is owned outright in retirement, this helps balance expenditure with the lower income normally received at that stage of life. By contrast, with private rental there is a continuing liability to pay the market rent that will typically rise over time. For example, the asking rent for a three-bedroom house in Dublin 17 in the first quarter of 2014 was €1,200 per month (Daft.ie, 2014c). If this rent rises by 2 per cent annually, then over a 30-year period one would incur total expenditure of close to €600,000 in rent and still have a need to meet future rental payments. Purchasing the same home, at a price of approximately €200,000, would cost

€1,037 per month on a 30-year, 100 per cent mortgage with an interest rate of 4.7 per cent. The total amount paid would amount to €373,420—much less than the rent incurred. In fact, at current interest rates, even if the mortgage taken out was for €300,000, the total credit paid would be less than the expenditure in rent.<sup>54</sup> And after 30 years, the cost of accommodation would be dramatically reduced and the purchaser would own an asset.

The calculations for the expenditure on mortgages is based on the current level of mortgage interest rates. House buyers are exposed to the risk of increases in interest rates in future years. House buyers in Ireland have an exceptionally high reliance on variable-rate mortgages. There is scope to address this by switching to a system of using long-term bonds to raise mortgage finances, as done in Denmark (Lyons, 2014).

The vast majority of people aged over 65 in Ireland own their own homes. Housing wealth rises with income, but even in the lowest-income group (weekly income of up to €400) of older people (aged over 50) there is considerable housing wealth of approximately €100,000 per household. This rises to over €330,000 for the highest-income group. Tenant purchase has historically been a significant factor in the housing wealth of the lowest-income group (O’Sullivan & Layte, 2011).

The long-term implications of declining owner-occupation in the UK for future pensioners and for public expenditure are examined in a report by a UK think tank, the Strategic Society Centre (Lloyd, 2012). This study projected that homeownership would increase among retired people and reach a peak of 85 per cent in 2026, and stabilise for a decade. However, higher renting among the current cohort of younger people was projected to lead to a subsequent fall in homeownership among pensioners to 60 per cent by 2060. The rise in the number of pensioners who rent their accommodation is projected to result in an increase in expenditure on housing benefit from £5.32bn in 2009 to £13.45bn in 2060. It is argued by Lloyd that this implies a strong public-policy interest in seeking to achieve the highest rate of homeownership that is consistent with other policy objectives.

The influential American housing economist, Robert Shiller, argues that the average person has an exaggerated view of the financial returns from investing in housing (Shiller, 2009). He shows that over the period 1890–2004, average US national house prices increased by 66 per cent in real terms (i.e. after inflation) on a quality-adjusted basis. This represents an average annual real return of 0.4 per cent.<sup>55</sup> Thus he argues that the widespread belief that housing provides an exceptionally good financial return is what economists call ‘money illusion’: ‘since homes are

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<sup>54</sup> The price is based on the asking prices listed on myhome.ie for Dublin 17 three-bed homes that command rent of approximately €1,200 per month on Daft.ie. The repayment figures are calculated using the myhome.ie mortgage calculator—see <http://www.myhome.ie/calculators/mortgage>, accessed 30 October 2014. These figures do not include additional costs of ownership such as maintenance. Comparisons of renting and buying vary by area.

<sup>55</sup> The returns would be higher in certain major cities, such as Boston and Chicago, but this could not have been confidently predicted.

relatively infrequent purchases, people still remember the prior purchase price from a home long ago and are surprised at the difference between them (when prices including consumer prices were much lower) and now' (*ibid.*: 20).

The estimated real annual average return on housing for the US, estimated by Shiller, refers to capital appreciation. In addition to this, homeowners derive the benefit from living in their own home. If house prices rose on average somewhat ahead of inflation, this implies that the return from occupying one's home represented a real (i.e. after inflation) return. When a house is purchased with a mortgage, the average long-run return on the owner's own investment (i.e. the deposit) would have been considerably higher.

It is often thought that because of a combination of population growth, rising prosperity and limited land in cities, it is inevitable that house prices will rise faster than consumer prices. Shiller suggests three reasons why this may not be so. First, technological progress in construction tends to help make housing cheaper over time. Second, in many US cities there is no shortage of land for expansion, meaning land is not a scarce factor, either. Third, even in cities such as Los Angeles, Boston or London, which are land-constrained, there is mechanism to limit price increases:

When home prices rise to the point that mortgage payments take up a large share of family income, there is a powerful incentive to move to a lower-cost area. This safety valve tends, in the long term, to prevent the price of homes rising too much in inflation-corrected terms, and to burst bubbles that have inflated too far. The safety valve is more effective in cities where buildable land is abundant nearby, but is also effective in cities far from buildable land, because people and businesses will, if prices rise high enough, move far way, even leaving the area completely (*ibid.*: 24).

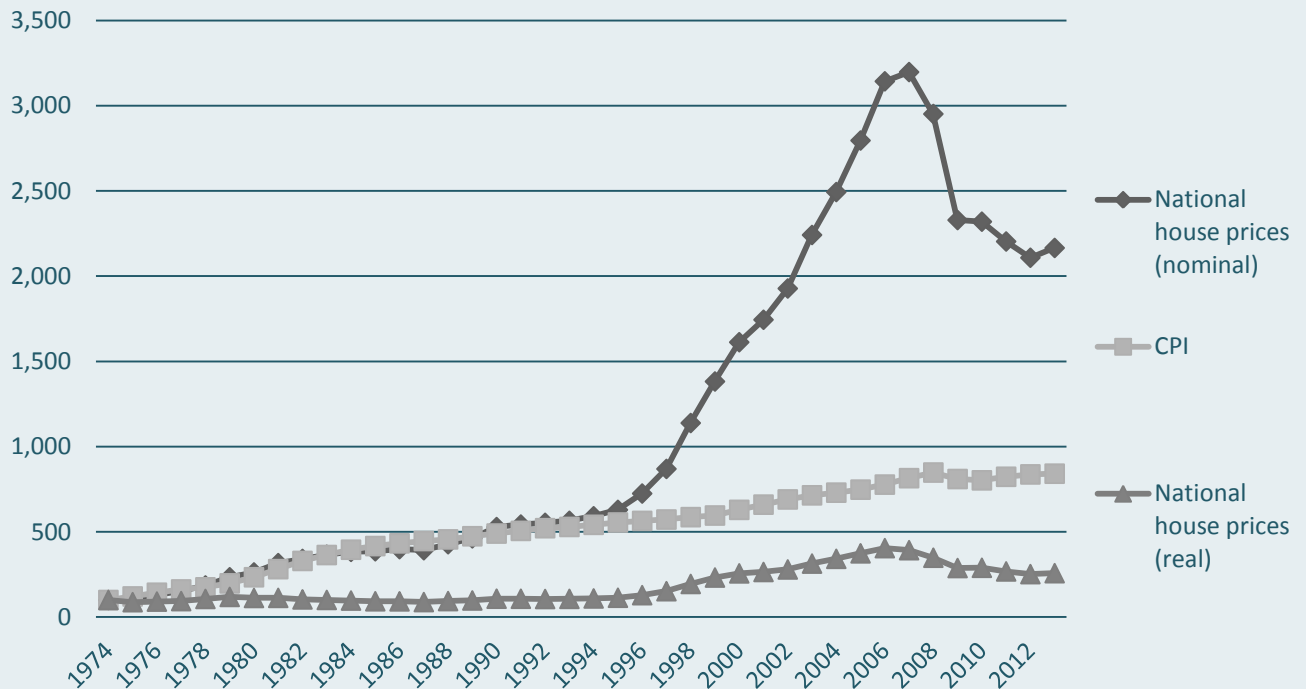
As a result of these dynamics, in 'glamorous, speculative cities ... there has been a tendency for house prices to rise and to crash but to show little long-term trend' (*ibid.*: 24).

Very long-run house price-data are not available to measure long-run real house-price growth for Ireland. National house-price data are available from 1974 although these are not adjusted for quality. Over the period 1974 to 1994, Irish house prices increased sixfold in nominal terms. However, most of this increase was in line with the increase in the consumer price index (CPI) so that in real terms Irish house prices increased by 9 per cent over this period, a real annual increase of 0.4 per cent. Since the mid-1990s, Irish house prices increase dramatically in both nominal and real terms. In 2013, national house prices were 3.7 times higher than in 1994 in nominal terms and 2.5 times higher in real terms, see Figure 4.1 overleaf. Over the extended period 1974 to 2013, the average annual growth in national prices in real terms, was 2.5 per cent. When one adds the implicit return from the benefit of occupying one's house, this represents a considerable real rate of return.

Even if the capital appreciation on housing were modest in real terms and lower than usually considered, this does not establish renting as a better choice than owning. Those who buy a house with a mortgage acquire an asset over time while

those who rent incur similar or greater expenditure without acquiring an asset. Provided there is not a decline in asset values, the ownership option will be more attractive financially over the longer term. Later in this section we discuss the advantages and disadvantages of rental.

**Figure 4.1: National House Prices in Nominal and Real Terms, 1974–2013, 1974=100**



Source: [www.environ.ie](http://www.environ.ie) and [www.cso.ie](http://www.cso.ie).

The huge fall in property prices (followed by some recovery) in Ireland in recent years is a qualification to the asset accumulation benefit of owner-occupation. Indeed, there is a long-run pattern of boom and bust cycles, although these are mostly less pronounced than the current one. Instead of accumulating assets, many homeowners find themselves in negative equity, as shown in the data on negative equity and mortgage arrears presented in Section 2.11.3 above. This points to the need for reforms to reduce the volatility of house prices. The recently proposed regulations by the Central Bank regarding loan-to-value (LTV) and loan-to-income (LTI) ratios should contribute to stability, although they impose a cost on a particular group of potential house buyers.

Another risk for house buyers is that of an increase in interest rates from their current low level.

### 4.1.2 Security of Tenure

A significant benefit of owner-occupation is enhanced security of tenure relative to renting. In some countries, renters enjoy considerably greater long-term security of tenure compared to Ireland. However, owner-occupiers who own outright will still enjoy greater long-run security since continued occupation is not dependent on the ability to pay the market rent. A related benefit of ownership is greater control over one's dwelling in regard to matters such as decoration and improvements.

The *European Quality of Life Survey* found that the most significant impact of housing on life satisfaction was through concerns about the security of housing (Eurofound, 2013). Across all the European countries in the survey, around 6 per cent of respondents considered that it was quite likely or very likely that they would have to leave their home. Almost one-third had been unable to meet a planned mortgage or rent payment in the past 12 months. Concerns about housing security are related to tenure. The share of those who considered it likely that they would have to leave their accommodation was highest for people in private rental accommodation (9 per cent) while it was lowest for those who owned their homes outright (3 per cent) (Eurofound, 2012).

It is sometimes proposed that Ireland's colonial history has resulted in a particularly strong value being placed on security of tenure and this is the reason for Ireland's relatively high (until recent years) rate of owner-occupation. Fahey has traced the influence of the land reforms in the nineteenth century on the evolution of Irish housing policy. Preferences alone cannot explain the growth of owner-occupation in Ireland but the policies that supported homeownership were probably influenced by historical land developments. The Land Acts enabled tenants to buy their farms from landlords using loans from the British Government. These Acts led to the transfer of 58 per cent of farmland to tenants by 1922. Since farms contained houses, this also directly expanded rural homeownership. In addition, this policy established a precedent on largescale state intervention affecting the transfer of capital assets (Norris, 2013). In subsequent decades, housing policy evolved to support tenant purchase in rural areas and eventually in urban areas on highly subsidised terms. It is noted by Fahey that 'privatised local-authority dwellings now account for about one-in-four of the owner-occupied dwellings in Ireland, and are a major reason why the overall level of owner-occupation in this country ... is so high by European standards' (Fahey, 1999: 3). The historical development of Ireland's policy on homeownership is discussed in more depth in Chapter 3.

### 4.1.3 Wider Benefits of Homeownership

Beyond asset accumulation, many other advantages of homeownership have been suggested and analysed—all the way back to de Tocqueville's famous argument that ownership enhances democratic participation. A recent comprehensive survey of the literature by Rohe and Lindblad reached the following conclusion:

The updated literature review presented above does provide support for several social benefits of homeownership. Even after taking self-selection and several confounding variables into account there is

considerable evidence that positive homeownership experiences result in greater participation in social and political activities, improved psychological health, positive assessments of neighbourhood, and high-school and post-secondary school completion. The jury is still out, however, on several other claims including improved physical health, and both the cognitive abilities and positive behaviours of children (Rohe & Lindblad, 2013: 45).

#### 4.1.4 Relationship Between Dwelling Type and Tenure

There is an association between houses/apartments on the one hand and ownership/renting on the other. Across the EU, houses are more likely to be owned than are apartments. This association, however, is much weaker in the Southern European countries (Spain, Italy, Greece and Portugal). In these countries there is relatively little difference in owner-occupation between houses and apartments. For example, in Spain, 90 per cent of houses are in owner-occupation while 82 per cent of apartments are in this tenure. Elsewhere in the EU, houses are predominantly owner-occupied while apartments are mainly rented (Hoekstra, 2005).

In the US, it is single-family *detached* houses that have the highest rate of homeownership (87 per cent in 2000) while just 13 per cent were rented. The ownership rate for *attached* single-family houses was considerably lower (65 per cent in 2000). Glaeser (2011) identifies this as a middle type of dwelling in which both owning and renting seem attractive. It is in the large apartment blocks that ownership rates are low, at 13 per cent for 50-family or larger buildings in 2000. This pattern is also evident in Ireland. In 2011, 87 per cent of detached houses were in owner-occupation with just 13 per cent rented. However, almost one-third of semi-detached and terraced houses were rented.

The relationship between tenure type and dwelling type has significant environmental implications. Because homeownership tends to be of houses rather than apartments, it is argued by Glaeser that the subsidisation of homeownership encourages low density development and higher energy consumption (*ibid.*).

#### 4.1.5 Maintenance

Opinions differ somewhat on the relationship between homeownership and maintenance of the housing stock. Shiller argues that homeowners are typically more likely to maintain their own homes, because there is an inherent moral-hazard problem with rental contracts: ‘the renter cannot be given proper incentives to maintain a property as would a home owner’ (Shiller, 2009: 25). This advantage applies more to houses than apartments. In the case of apartments, much of the maintenance required is for the shared infrastructure of the building, and homeowners do not have an advantage in this respect (Glaeser, 2011). In considering whether to live in an apartment or house, in Ireland, at least, anxiety about the reliability of apartment-management companies can be a real issue that tips people towards a house. Kemeny (1995) meanwhile argues that homeowners

tend to neglect maintenance in old age so that this cost is passed on to the next generation.

#### **4.1.6 Advantages and Disadvantages of Private Renting**

The major advantages of renting are low entry costs, flexibility, and absence of an investment risk. It is easier and less costly to establish a new household in the private rental sector compared to buying a property. The flexibility of renting is an obvious benefit to those whose work requires mobility and makes it easier for those who lose employment to relocate. In addition, the flexibility of renting makes it easier to move as one's needs for housing change at different stages of life. By contrast, owners are more likely to occupy family homes both before and after they actually have a need for such a home. Furthermore, when renting, maintenance is the landlord's responsibility so that one is not exposed to the risk of major repair bills.

There are also disadvantages to renting. The major disadvantage of renting on a lifetime basis is that while significant expenditure is incurred, no asset is acquired. When incomes fall during one's retirement years, the requirement to pay the market rent is likely to represent a heavy burden. It is not surprising, therefore, that private renting is comparatively rare for those aged over 65 (only 3.4 per cent of households headed by a person aged over 65 rent privately).

Renters also have no or very limited possibility of modifying their accommodation to meet their needs. In addition, in a dualist rental system of the Irish type, renters are exposed to the risk of rising rents and have more limited security of tenure compared to owning. The Residential Tenancies Act 2004 provides a degree of security of tenure for tenants. However, this is time-limited (four years) and can be ended for a number of reasons, including the landlord wishing to sell the property. Experience in other European countries shows that there is considerable scope to improve the security of tenure in Ireland.

Up-to-date information on Irish attitudes to renting and owning is available from a recent report on the private rental sector published by the Housing Agency (DKM Economic Consultants, 2014). Online interviews were conducted with a sample of 500 tenants. The survey found that a majority of tenants (61 per cent) had a positive experience of renting. This was higher among younger people, with 74 per cent of those aged 18–24 viewing their experience as positive while it was lowest in the 35–44-year-old age group (47 per cent had a positive experience of renting). Satisfaction with renting was affected by whether or not rent had increased in the past 12 months. Of the tenants whose rent increased in the past 12 months, 45 per cent had a positive experience of renting compared to 66 per cent of those whose rent had not increased.

Tenants were asked for their assessments of a number of statements about renting on a 10-point scale, from strongly disagree to strongly agree. This revealed that only a minority of tenants considered renting a satisfactory long-term option and many were reluctant renters. The survey also found:



- 45 per cent of tenants agreed that they would be more likely to rent long term if there was a possibility of rent stability (agreed rent for 3–4 years guaranteed);
- Separately, 29 per cent of tenants agreed with the statement that they would be more likely to rent long term if there was a possibility of a long-term lease (lease for 3–4 years guaranteed) (*ibid.*: 23).

This suggests that improved conditions could lead tenants to view long-term renting more favourably.

#### 4.1.7 Advantages and Disadvantages of Social Renting

The evolution of Ireland's social housing was discussed in some detail in the Council's 2004 report (NESC, 2004a). The major advantages of social renting, generally, are low rents and high security of tenure. Social-housing tenants in Ireland pay a relatively low differential rent that varies with income. One possible disadvantage is that the quality of housing management by a local authority can vary. While the quality of local-authority housing is generally very high, at certain times social-housing development was badly designed and supported with insufficient social and economic infrastructure. The increasing residualisation of Ireland's social housing has meant that, in the eyes of some, such localities have a negative image. A study of social housing by Fahey found that 'most local-authority housing had been successful and had created vibrant neighbourhoods which had merged seamlessly into the general fabric of Irish life' (Fahey *et al.*, 2011: 13). However, this research also found that 'some estates or portions of estates had failed, in the sense that they were in low demand among tenants, had waiting lists of residents who wanted to get out, and showed physical signs of neighbourhood decay' (*ibid.*).

The shortage of supply of social housing has resulted in a very long waiting list for those seeking social housing. Another disadvantage of social housing is that choice is more limited compared to that available to those with the means to buy or rent their own housing.

For many decades a key attraction of living in a local authority house was the right to buy the house at a significant discount to market value. The main right-to-buy scheme was closed to new applications in December 2012. Provision for a new right-to-buy scheme for existing tenants of local-authority houses is included in the Housing (Miscellaneous Provisions) Act 2014. Traditionally, tenants in local-authority flats did not have a right to buy, but a scheme providing for this was introduced in 2002.<sup>56</sup> While tenant purchase at a discount is undoubtedly attractive to tenants, it has the disadvantage of reducing the stock of social housing. This

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<sup>56</sup> There are additional conditions on the tenant's right to buy a local-authority apartment. These include the requirement that 65 per cent of the tenants in a complex support designation of the complex for purchase.

raises the question as to whether it can be part of a sustainable system in the years and decades ahead (NESC, 2014).

As noted elsewhere, a large number of tenants in the private rental sector receive housing supports through rent supplement, Rental Accommodation Scheme (RAS) and other leasing schemes. Some of the advantages and disadvantages of this tenure were discussed in the recent Council report *Social Housing at the Crossroads* (2014). Such tenants pay a differential rent to the local authority or housing body, while the landlord receives a payment related to market rent by the state. With rent supplement, tenants receive assistance from the Department of Social Protection in paying their rent to a private landlord.

Those in receipt of housing supports in the private rental sector generally have less security of tenure than those in local-authority or housing association property. Many share the same, limited security of tenure of other tenants in that sector. Some are in properties that have been leased on a long-term basis. In some situations, tenants may be able to secure more satisfactory accommodation, and have more choice over what accommodation they live in, through rent supplement or RAS rather than mainstream social housing. This can arise in market contexts where there is a plentiful supply of quality accommodation available in the private rented sector. However, this is not presently the case in Dublin or other major urban centres. It has become increasingly difficult to find private rental accommodation for rent supplement or RAS tenants in Dublin, while sharply increasing rents are putting some of these tenants in extreme difficulty.

#### **4.1.8 The Advantages of Homeownership are Relative and Context-Dependent**

The advantages and attractions of homeownership depend on the alternatives available. Homeownership is lower in some continental European countries compared to Ireland and other English-speaking countries. This raises the question of whether the preference for and benefits of homeownership that have been identified in English-speaking countries arise because of the absence of the type of quality rental alternative available in continental European countries.

Behring and Helbrecht analysed the reasons for the lower level of owner-occupation in some European countries. Their study (as quoted in Elsinga & Hoekstra, 2005) focuses on Germany, Austria and Sweden, and also draws comparisons with the Netherlands, Spain and the UK. They conclude that 'in the English speaking countries and the countries of Southern Europe, homeownership is actually essential to acquire a degree of personal security and to offset individual risk' (Elsinga & Hoekstra, 2005: 105). By contrast they conclude that:

In Germany, Austria and Switzerland there really is no necessity to enter into home ownership for the purpose of acquiring basic security and social acceptance. The decision to do so is entirely a matter of personal choice and can be made purely in the interests of satisfying individual housing preferences. ... The low proportion of owner-occupied properties in Switzerland, Austria and Germany is attributed

to the effectiveness of the welfare state, which renders it unnecessary to own a property in order to experience a sense of security. Tenancy protection laws play a significant part here, besides the fiscal support for landlords and the size, quality and status of the rental sector (*ibid.*: 105).

This is an illustration of the difference between unitary and dualist rental systems and the related distinction between cost rental and profit rental, explained by the Council in *Social Housing at the Crossroads* (2014). In unitary rental markets, policy supports for the supply of cost-rental homes and effective regulation of the private rental sector mean that rental accommodation is a satisfactory long-term option for much of the population. By contrast in dualist rental systems, such as Ireland, long-term tenancy in a profit-rental house or apartment is not an attractive or secure long-term option, so that those who do not qualify for the public rental sector feel they have no option but to strive for owner-occupation.

Elsinga and Hoeskra (2005) analyse data from the European Community Household Panel (ECHP) to examine the relationship between tenure and housing satisfaction in different housing market contexts. They divide European countries into three groups: English-speaking (Ireland and UK), Southern European (Spain, Italy and Greece) and countries with well-developed rental sectors (Austria, Netherlands and Denmark). However, data was not available to Elsinga and Hoekstra for Germany, Sweden and Switzerland, all of which have well-developed rental markets. They found that housing satisfaction was higher for homeowners compared to renters in both the English-speaking and the Southern European countries. This result applied after controlling for other key factors likely to affect housing satisfaction: housing quality, household size, household income and housing costs. For the countries with well-developed rental markets, the results were mixed. In the case of Austria, there was no statistically significant difference in housing satisfaction between owners and renters.<sup>57</sup> However, in the Netherlands and Denmark, homeowners had significantly higher satisfaction than tenants despite the presence of well-developed rental alternatives.<sup>58</sup>

The life satisfaction of homeowners and renters in Germany is compared by Zumbro (2014). After controlling for other factors—education, income, health, housing quality and dwelling type—homeownership was found to have a small but positive effect on life satisfaction: homeowners were 1.16 times more likely to report a higher level of life satisfaction. The impact of ownership on life satisfaction was higher for those on low incomes.<sup>59</sup> The reason, Zumbro suggests, is that those on

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<sup>57</sup> It is argued by Mundt and Amann (2010) that Austria comes close to Kemeny's prototype of an 'integrated' rental market, a unitary rental market in which the cost-rental sector has become a strong competitor to profit renting.

<sup>58</sup> It should be noted that the model used does not explain a particularly high share of the variation in housing satisfaction, ranging from 14 per cent in the UK to 29 per cent in Austria.

<sup>59</sup> For homeowners in the lowest income quintile, the odds of reporting higher life satisfaction was 1.25 times greater than for renters in the same quintile, while in the highest income quintile there was little difference in life satisfaction.

low incomes are concerned by the risk of having an inadequate income in retirement. Consistent with this was the finding that homeownership was more important to life satisfaction for those aged between 45 and 65, compared to those under 30 and even more important for those aged over 65. The perceived financial burden of maintenance costs was also found to have a negative effect on the satisfaction of homeowners compared to renters.

There is a further interesting relationship between the advantages and disadvantages of homeownership and rental—one that underlines the case for a reasonably balanced system. As noted above, homeownership has some distinct advantages in terms of both cost and security, the main potential disadvantage being the possibility of negative equity or capital loss when buying in an unstable market that experiences a house-price bust. It was also noted that a reasonably large rental sector, providing good housing options for young people and those that cannot easily afford to buy, can play an important role in promoting macroeconomic and housing-market stability (Cuerpo *et al.*, 2014). Putting these two together, it becomes clear that development of a well-functioning and appropriately large rental sector can mitigate the main downside risk of homeownership. Perhaps such stability—provided by the rental sector and those households that have to adhere to stability-oriented rules such as LTV limits—should be thought of as a public good. Like other public goods, a case could be made that homeowners, who benefit from stability, should share in the cost of its provision.

### **Conclusion**

While the perceived returns on housing investment may be exaggerated, we consider that, when the alternative is lifetime renting in a profit-rental system, there are real advantages to homeownership. Homeownership continues to offer significant attractions. Homeowners without mortgages enjoy a high level of security and relatively low housing costs. In normal circumstances, those who acquire a house with a mortgage benefit over time from a decline in the real value of the outstanding debt, and eventually acquire a valuable house. This helps with managing finances over a person's lifetime: lower housing expenditure when a mortgage is repaid helps to balance the lower income people have in retirement. If owner-occupation becomes a less common form of tenure, this raises the issue of how a future older generation could afford private rental accommodation. There is very little private rental accommodation among older people at present.

## **4.2 Towards an Understanding of Policy Possibilities for Homeownership and Rental**

The trends in Ireland's tenure mix and the relative advantages of homeownership and rental, discussed above, pose some challenging questions that Irish housing policy must now address.

- Given the existing advantages of homeownership, does policy wish to promote it or improve the availability and relative attractiveness of long-term rental?
- Are these goals complementary or conflicting?
- What is the feasibility of homeownership for different kinds of households in the coming decades?
- What supply-side, demand-side and other policy approaches are available to promote either homeownership or secure rental occupancy?
- What is the relationship between possible ways of promoting homeownership and the policy approaches to social housing and cost rental advocated by the Council in its June 2014 report, and enunciated in the Government's recent budget statement?

In discussing these questions, we begin by recognising three critical background facts:

- a) For individual households in Ireland, the general superiority of homeownership over rental, given limited security of tenure and the risk of rent increases;
- b) The instability of the kind of housing market that Ireland has developed, which creates large societal costs and can qualify the advantages of home purchase for individual households; and
- c) The challenge of housing affordability facing a significant share of households—evident in both the hurdles to homeownership and the difficulty of achieving secure occupancy in the rental sector—which can exacerbate inequality and exclusion, and weaken social cohesion.

These three background conditions contain the complex relations between individual motivation, action and outcomes, on the one hand, and collective goals and outcomes, on the other. For example, analysis of the kind undertaken by Shiller and others shows that individual optimisation (both rational and sometimes 'exuberant') in the housing market can lead to overall instability with fairly disastrous collective outcomes. At the very least, the interrelations between these three features of the housing environment, and between the individual and the collective, suggest that policy will not succeed if it seeks to respond to each of these facts separately. An example would be to see the superiority of homeownership over rental for individuals as the basis for the kind of homeownership-based overall housing policy that Ireland pursued in earlier decades. Indeed, Irish and international experience demonstrates how separate policies on homeownership, social housing and stability often prove disappointing.

Given the critical backgrounds (as listed in a, b and c above), we would seem to need a policy that delivers four high-level elements:

- w) **Housing supply management:** While housing markets sometimes over-produce, in some places they have a chronic tendency to scarcity, excess demand and windfall gains for those in control of particularly scarce or strategic assets;
- x) **Greater balance** between the shares of homeownership and rental—this can help to address problems of affordability, but can also play an important role in dampening housing-market and macroeconomic instability;
- y) **Social supports** that address housing needs and are conducive to good economic performance, social cohesion and equality of opportunity;
- z) **Affordable and sustainable housing** options for intermediate households.

It should be clear that these are broad policy requirements and goals, and invite exploration of what specific policy instruments could deliver them. These broad goals are partly reflected in the policy recommendations made by the Council in *Social Housing at the Crossroads*: specifically its argument on the desirability and feasibility of supply-side measures (involving off-balance-sheet capital and public land) to increase the provision of social housing and develop a cost-rental segment that can gradually shape the overall rental sector. It is continuing work to assist Irish policy in addressing these questions. But that report, focused as it was on social housing, leaves several important housing-policy questions unanswered, such as those listed at the start of this section. The argument of this report is that, in order to formulate an effective overall housing policy, these questions must now be discussed in an honest, inclusive and rigorous manner.

As regards achieving greater balance between the shares of homeownership and rental, it is sometimes suggested to be all about improving the image and perception of renting as a long-term housing option. There are indeed historical and cultural factors that reinforce the widespread aspiration to homeownership in Ireland. But the argument that focuses on history, culture, image and perception glosses over the hard fact that homeownership has concrete advantages—in terms of cost, life-time return and security—over rental.

Thus the argument that highlights the need to improve the image and perception of the rental sector and the long-term rental option can tend to deflect attention from examination of the reasons why it is currently a financially inferior option and less secure. It therefore deflects from serious exploration of the kinds of measures necessary to put it on a par with homeownership.

As noted in *Social Housing at the Crossroads*, housing policy should be thought of as more like education or health policy than welfare policy—it inevitably affects the whole population. Indeed, this relates to a third, more general, point: housing policy, including policy with respect to a tenure such as owner-occupation, should,

first and foremost, be about *getting people into quality affordable housing* (and making it possible for them to stay)—i.e. housing as a verb, not a noun. In other words, with respect to any tenure (whether it be owner-occupation, private rental or social rental), the main focus should be on those in need of or seeking housing (or at risk), rather than on those who are already adequately housed, or the housing tenure per se. In reality, policy often takes the reverse approach, creating (or ignoring) pressures on the younger generation and those in need, and supporting the interests of well-housed older incumbent groups, an effect that was particularly pronounced in Ireland’s approach to housing during the economic boom and to some degree since the crisis.

#### 4.2.1 Identifying Supply-Side, Demand-Side and Ownership Policy Options

The standard approach in housing analysis is to distinguish supply-side and demand-side policy instruments. Supply-side instruments reduce the cost of providing housing and encourage its supply. Demand-side measures enhance the ability of individual households or groups to buy or rent housing. We suggest that as well as exploring all feasible supply-side and demand-side instruments, it is important to begin by considering the range of ownership options and ownership rights.

Homeownership and various other tenures (such as social renting, cost rental and shared ownership) are not so categorically distinct as we are inclined to think. ‘Ownership’ can be a matter of degree. Different tenures can be seen as on a spectrum: at one end lies a maximal form of ownership (with unfettered right to use, transfer and sell) and, at the other, rental of a home with no security of tenure.<sup>60</sup> In fact, in most developed societies the spectrum of ownership does not include these endpoints.<sup>61</sup> In between lie a range of degrees of ‘ownership’, some of which are shown in Figure 4.2. For example, through its guarantee of secure tenure and succession rights, Ireland’s social housing conveys some dimensions of ownership or property rights but not others. Shared-ownership and co-operative housing<sup>62</sup> provide a significant degree of ownership, but a certain portion of equity remains with the local authority or other entity. Tenant purchase, and the option of tenant purchase, has historically been a major source of homeownership in Ireland, on conditions that are very distinct. In this spectrum, Ireland’s system of private rental lies towards the lower end; by international standards the level of tenant protection (on various dimensions, but especially secure occupancy) is low. At the

<sup>60</sup> A more complete account of this spectrum would put at the lower end of the ‘ownership’ spectrum residence in a homeless hostel, where residents do not have freedom to use, enter and leave the property as they wish.

<sup>61</sup> The right to private property is qualified in certain ways in the service of the common good, and a minimum of access to housing or shelter is guaranteed.

<sup>62</sup> Co-operative housing in Ireland covers multiple tenures. Home-ownership co-operatives develop co-operative group schemes for sale to members. Social-rental co-operatives provide rental housing to members who normally come from local-authority waiting lists. In addition, some housing co-operatives provide housing on a shared ownership basis in which ownership is shared between the householder and the co-operative. Finally, there are co-ownership-co-operatives where ownership of common areas in apartments or in townhouses is managed by the co-operative.

higher end of the spectrum lies homeownership, as commonly understood, with fairly unfettered rights to use, adapt, transfer and sell, and no capital gains tax. (It is worth considering whether, among those in ‘homeownership’, a distinction should be made between the degree of ownership held by those with and without negative equity and between those with and without equity in the property they live in.)

**Figure 4.2: Spectrum of Possible ‘Ownership’ Models**



This way of thinking has a number of implications. One is that it prompts us to think about which dimensions of ‘homeownership’ people aspire to and might wish to make a goal of public policy. Is it secure occupancy? The right to adapt the accommodation to one’s needs and tastes? The avoidance of housing costs during retirement? The power to transfer assets to the next generation? The right to divest of ownership by selling at a given price? The power to sell at a market price and to make and keep a capital gain? Is it, as well as some of these, the fact that homes that can be owned might be different (in location, size, design, quality or even social mix in the neighbourhood) from homes that are available for rent? Each of these dimensions of ownership might be achieved at different positions on the ownership spectrum and can be supported by a range of policy approaches. An honest discussion of these aspirations and possibilities, and reference to attitudinal research of the kind recently published by the PRTB cited above, seems a necessary pre-condition to development of public policy on homeownership in the new conditions that prevail.

Of course, public policy has a stance on various aspects of the homeownership spectrum. The most obvious and important example is undoubtedly the right to private property itself. This is provided for in Article 43 of the Constitution. While that article enunciates the right to private property, it stipulates that the exercise of that right ought to be regulated by the principles of social justice and can be ‘delimited by law with a view to reconciling their exercise with the exigencies of the common good’. A second example is provision of social housing and the principles that underpin it. Housing supports to low-income tenants in the private rental sector are another, but more qualified, provision of some limited element of property right. A related public-policy stance is landlord–tenant law, which gives tenants some degree of ‘ownership’ or property rights—however limited in the Irish case. The legal incorporation, and increasing regulation, of the housing associations



is another significant stance since it protects non-profit entities in their holding and provision of rental accommodation.

In the first instance, the public-policy stance on various possibilities for ownership/shared value should be derived from principles of public policy, rights and understandings of the common good. But it is also appropriate that policy on ownership options should be informed by a practical assessment of the availability and effectiveness of policy instruments that can promote particular ownership models. If the policy instruments and resources existed to easily achieve homeownership for all households that desired it, there would be much to recommend it. Since these instruments and resources are not readily available, it is necessary to have effective policies with respect to some of the other possibilities on the ownership spectrum.

Thus the exploration of Ireland's housing aspirations, possibilities and goals needs to consider three interrelated sets of issues:

- The desirability and feasibility of the various options on the 'ownership' spectrum, including cost rental, co-operative housing and shared ownership;
- The feasibility of supply-side measures that can reduce the cost of housing and enhance its supply;
- The feasibility of demand-side measures that can make housing (whether for purchase or rental) more affordable to particular households.

As noted in the Council's June 2014 report, an important issue is policy coherence, to ensure that supply-side measures, demand-side measures, regulation and direct state action support rather than undermine each other.

In doing this, attention must be given to existing and potential relationships between these three sets of issues. Some cost-reducing supply-side measures could be used to support any kind or degree of ownership/value-sharing. For example, largescale active land management policy, as undertaken in the Netherlands, could, in principle, provide serviced land below market cost for construction of social housing, cost-rental housing, private rental or homes for sale. But if the availability of such land was limited, there would need to be a choice about what kind of housing to use it for. Other cost-reducing supply-side measures are naturally associated with a particular 'ownership' model. For example, provision of a piece of land at below market price to a community land trust<sup>63</sup> would create the basis for a form of shared equity. Supporting a housing association through cheap state-supported capital (such as Capital Advance Leasing Facility, CALF) or provision of local-authority land would, in the view of many, suggest that the ownership model

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<sup>63</sup> With a community land trust, the land is collectively owned by the trust while individuals can own building located on this land. This can be used as a way of providing affordable housing.

would mean the association, as a not-for-profit entity with a social-housing mission, retaining permanent ownership and permanent social-housing provision.

Once the basic normative stance on housing-ownership rights has been made as clear as possible, it is appropriate to think about the links between state measures to provide relatively cheap land, capital and (possibly) buildings, and the ownership model or models adopted in the housing that results from these. These links can flow in both directions. National and international experience suggests that it would be very difficult to realise some of the goals of housing policy—such as security of tenure in an affordable home—without the state providing or engineering the provision of capital and land at below-market price for a significant part of the housing system. Equally, where the state does act to reduce the cost of these critical factors of production, there is a need to consider the appropriate conditions on the ownership models used.

The appropriate answer to the questions posed above are probably context-dependent, in a number of ways. If there were largescale public active land management, then a case could be made for using it as cost-reducing and supply-enhancing support for housing provision across all ownership models, on somewhat different terms for each. If, as is the case in Ireland, state provision of land and capital is fairly scarce, partly because the state itself has to pay the market price, then some will probably argue that such resources be used only to underpin social housing, cost-rental housing, and perhaps some version of shared ownership, but not profit-renting or profit-oriented house building and sale. Others will possibly advance the view that if state-supported resources are to be used to underpin private rental and private sale, this should be made conditional on specified conditions on the terms of rental and sale.

### 4.3 Summary of Discussion on Policy Options for the Future

To conclude this report, we summarise the key outcomes of the analysis and discussion in this report.

In summary, the Council believes it is now necessary to explore Ireland's aspirations, goals and possibilities for homeownership and rental accommodation. This is necessary as the conditions for achievement of homeownership have changed from past decades, particularly for those on low incomes, lone parents, and single-person households. We also need to ask—does policy wish to promote ownership, given its advantages, or to improve the availability and attractiveness of long-term rental? Are these conflicting or complementary goals? And what policy options are available to promote either of these goals? It is important for Ireland as a society and economy that policy delivers the following:

- Stable and sustainable housing supply management;

- Greater balance between the shares of homeownership and rental, to address affordability problems and dampen housing-market and macroeconomic instability;
- Social support to address housing needs, which are conducive to good economic performance, social cohesion and equality of opportunity; and
- Affordable and sustainable housing options for intermediate households.

These broad policy requirements and goals invite exploration of what specific policy instruments could deliver them. Such exploration needs to look at the desirability and feasibility of three main policy options. These are:

- Demand-side measures to help individual households or groups to buy or rent;
- Supply-side instruments, which reduce the cost of providing housing and encourage its supply; and
- The possibility of a continuum of ownership and rental options, ranging from private rental to cost rental, shared ownership, tenant purchase, and finally outright ownership. A continuum of such options might provide more alternatives to the current choice between financially inferior and less secure private rental, and outright ownership.

It is important that housing policy, whichever direction it takes in further exploration of these policy options, moves forward in a coherent way. There is a need to ensure that the various policy options adopted (such as demand and supply-side subsidies, regulation, and direct state action) combine to work effectively together, rather than pulling in different and sometimes contradictory directions, as has occurred in the past.



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