

## RISING RESIDENTIAL PROPERTY COSTS AND POOR AFFORDABILITY THREATENS COMPETITIVENESS OF IRISH ECONOMY

### National Competitiveness Council publishes reports on Housing Purchase and Rent Affordability

The National Competitiveness Council (NCC) today published a study assessing the affordability of residential property in Ireland and comparing affordability internationally.

The report entitled *A Study to Examine the Affordability of Irish Housing* finds that affordability issues are more acute in cities than in less densely populated regions. Of the 12 national and international cities compared, only 2 cities (Amsterdam and London) had a higher "mortgage affordability index" than Dublin: the higher the index, the less affordable property is to purchase.

In terms of rent as a percentage of income, 3 international cities were found to be less affordable than Dublin, while 8 were more affordable.

For several Irish cities, rent affordability is more challenging than the affordability of purchasing a property. Increasingly, however, the combined cost of paying rent while also saving for a deposit is the primary barrier to homeownership.

As well as the full background study, the Council is also issuing a Competitiveness Bulletin summarising the Council's main findings on affordability and setting out a range of policy issues for consideration.

The affordability of housing matters for the individual household, for society as a whole, and for national competitiveness. From a competitiveness perspective, housing affordability is a component of Ireland's ability to compete internationally. It impacts upon the attractiveness of Ireland as a location for investment and directly impacts on enterprise costs through wage effects, and indirectly determines the price of Irish goods and services. The cost of housing influences labour mobility and contributes to an economy's ability to adjust to adverse shocks. In short, a well-functioning housing and construction sector is critical to the overall health of society and the economy.

Speaking at the launch of the report, Prof Peter Clinch, Chairman of the NCC commented: "Housing is an essential part of any society, but also one that has been the source of economic vulnerabilities and crises. The primary challenge, at present, is to deliver housing supply sufficient to meet demand at a price level that is affordable, accessible and sustainable. It is also important that we deliver quality homes. While there is an immediate pressure for intervention in the residential property market, there are no obvious quick fixes. Therefore, it is essential a long-term, cross-government approach be taken to ensuring a sustainable housing market. In this regard, this report is particularly timely given the ongoing development of an Action Plan for Housing, and we hope it provides a useful input to the work of the new Department of Housing, Planning and Local Government".

## Key Findings

- The affordability of housing is a key component of competitiveness and has a direct impact upon the cost of living and wage demands
- For the purposes of this Bulletin, housing affordability is measured by examining the proportion of household income that is spent to meet housing need, whether purchasing a home or renting
- Affordability issues are more acute in cities
- Of the 12 national and international cities compared, 5 had a higher price-to-income ratio than Dublin
- Taking account of the higher cost of mortgage finance in Ireland, only 2 cities (Amsterdam and London) had a higher “mortgage affordability index” than Dublin (i.e. this index combines a price-to-income ratio and the cost of a mortgage; the higher the index, the less affordable property is to purchase)
- In terms of rent as a percentage of income, 3 international cities were found to be less affordable than Dublin, while 8 were more affordable
- Rent affordability is more challenging than mortgage affordability in several Irish cities such as Galway and Cork (i.e. residents are required to spend relatively more of their incomes on rent than they would on a mortgage)
- Affordability is increasingly challenging for renters who aspire to purchase and must save a significant deposit whilst simultaneously paying relatively high rents
- Ensuring a competitive mortgage finance market is important to improve affordability
- A number of international cities have higher price-to-income ratios than Irish cities. This suggests that current Irish price levels could persist in the medium to long run
- It is essential that a long-term approach be taken to ensuring a sustainable housing market - increased supply is required to address growing demand and to dampen house price and rent increases
- To incentivise increased supply, prices need to exceed costs. However as a result of the Central Bank mortgage rules, prices are, in effect, capped relative to incomes (for domestic borrowers). Therefore, there is a need to address the other side of the equation and reduce development and construction costs relative to income and prices
- The Action Plan for Housing offers an important opportunity to bring a coherent and consistent whole-of-Government approach to housing policy, and to ensure the delivery of housing supply sufficient to meet demand at a price level that is affordable, accessible and sustainable. There is, however, no quick fix to the current challenges

## ENDS

The full report and Bulletin is available at [www.competitiveness.ie/Publications/](http://www.competitiveness.ie/Publications/)

For further information contact Press Office, Department of Jobs, Enterprise and Innovation: Phone: 01-6312200; e-mail: [press.office@djei.ie](mailto:press.office@djei.ie)