

Factors driving Irelands Housing Need

David Duffy



Residential Property Research Programme



- 2 Year Research Programme
- Funded by NAMA and IBF
- ESRI undertake research and publish findings
- Year 1 focus on demand



Outline

- Forecasts for new household formation
 - Population forecasts
 - Headship
 - Alternative assumptions
- Where will the dwellings be needed?
- Costs and new household formation



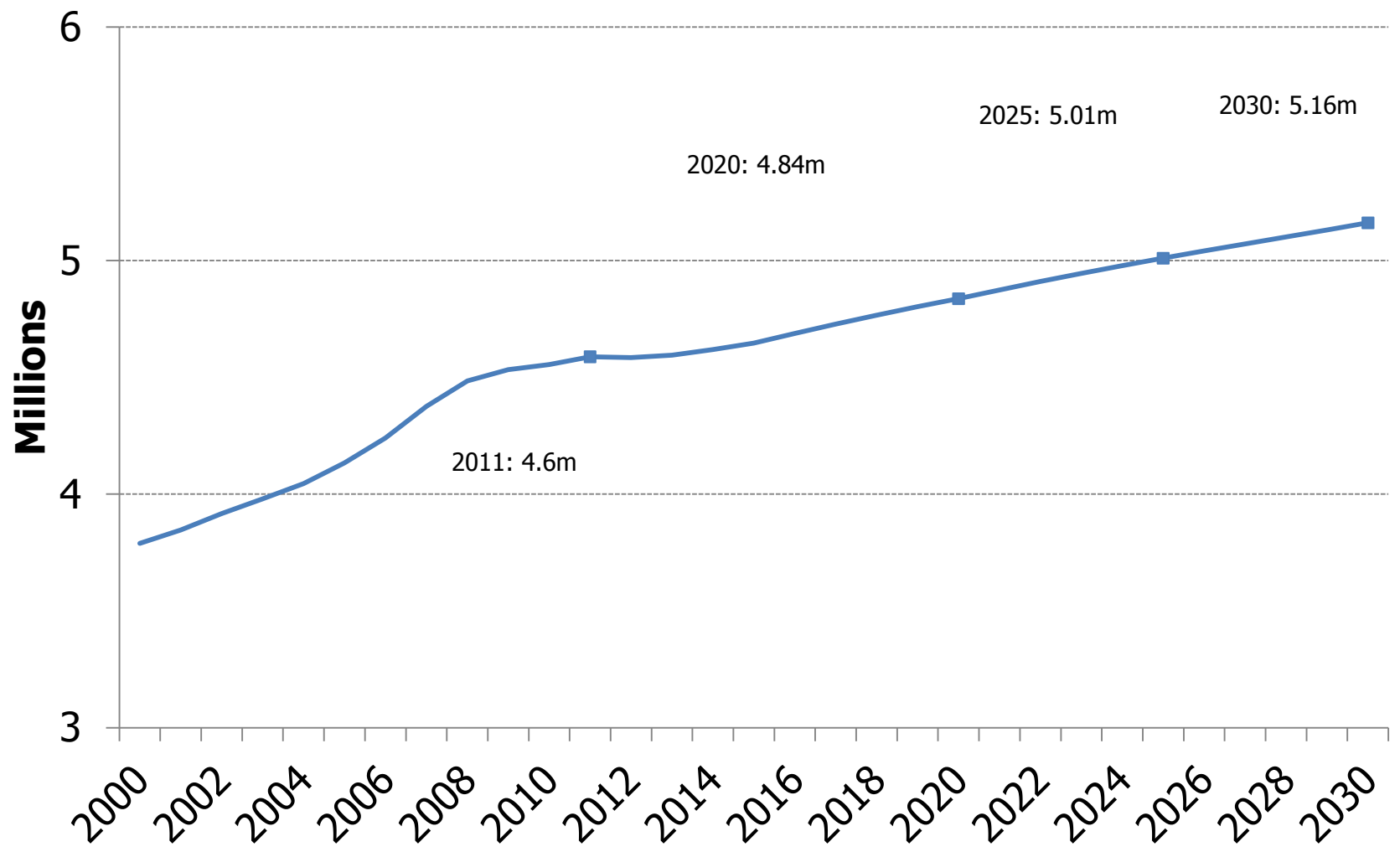
Population forecast

ESRI Demographic model

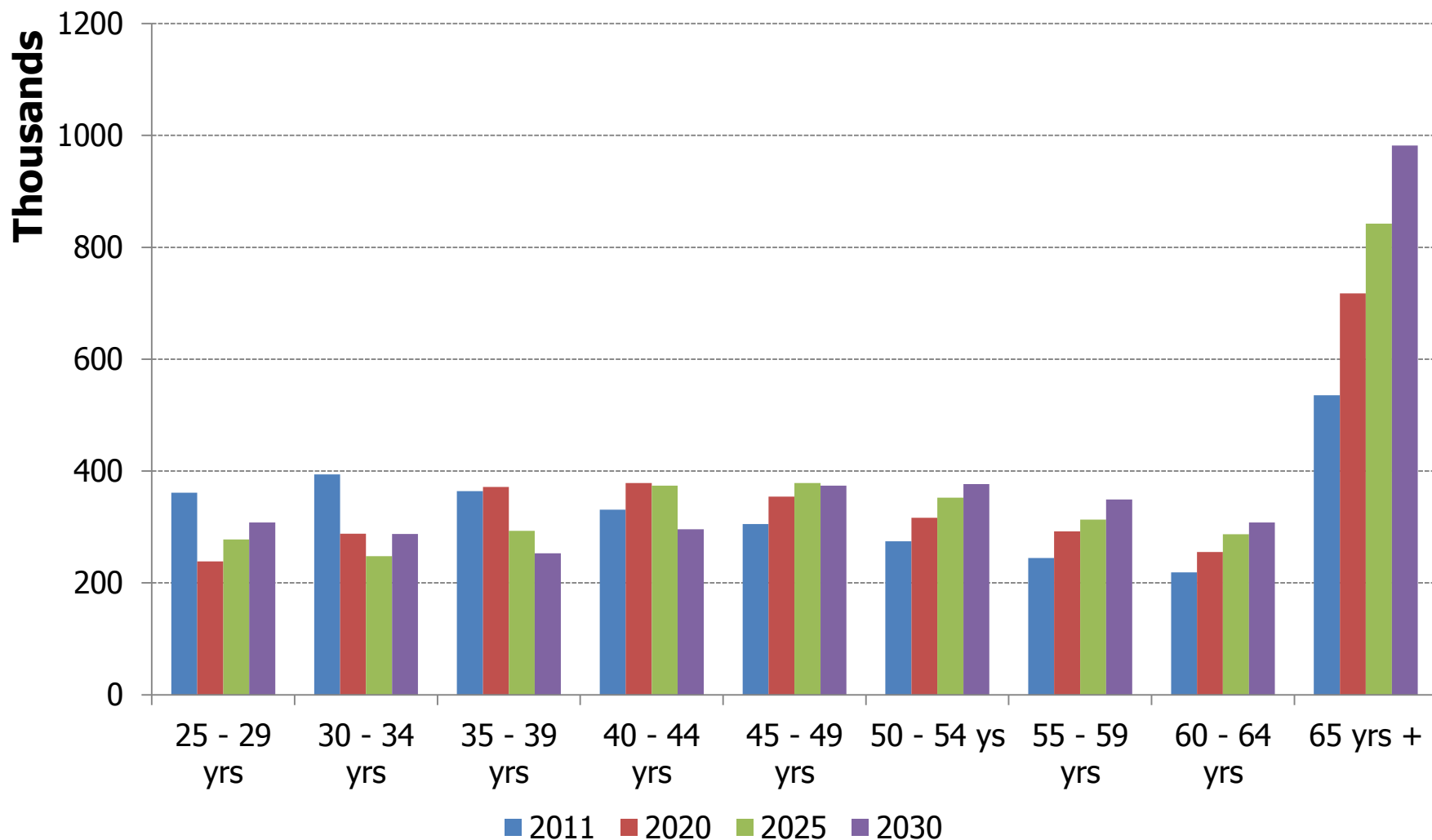
- Population forecasts based on
 - life expectancy, fertility, births, and deaths (CSO)
 - migration, education
- Population in each year by single year of age and gender

Population forecast

Recovery Scenario, MTR



Population Structure, aged over 25 yrs

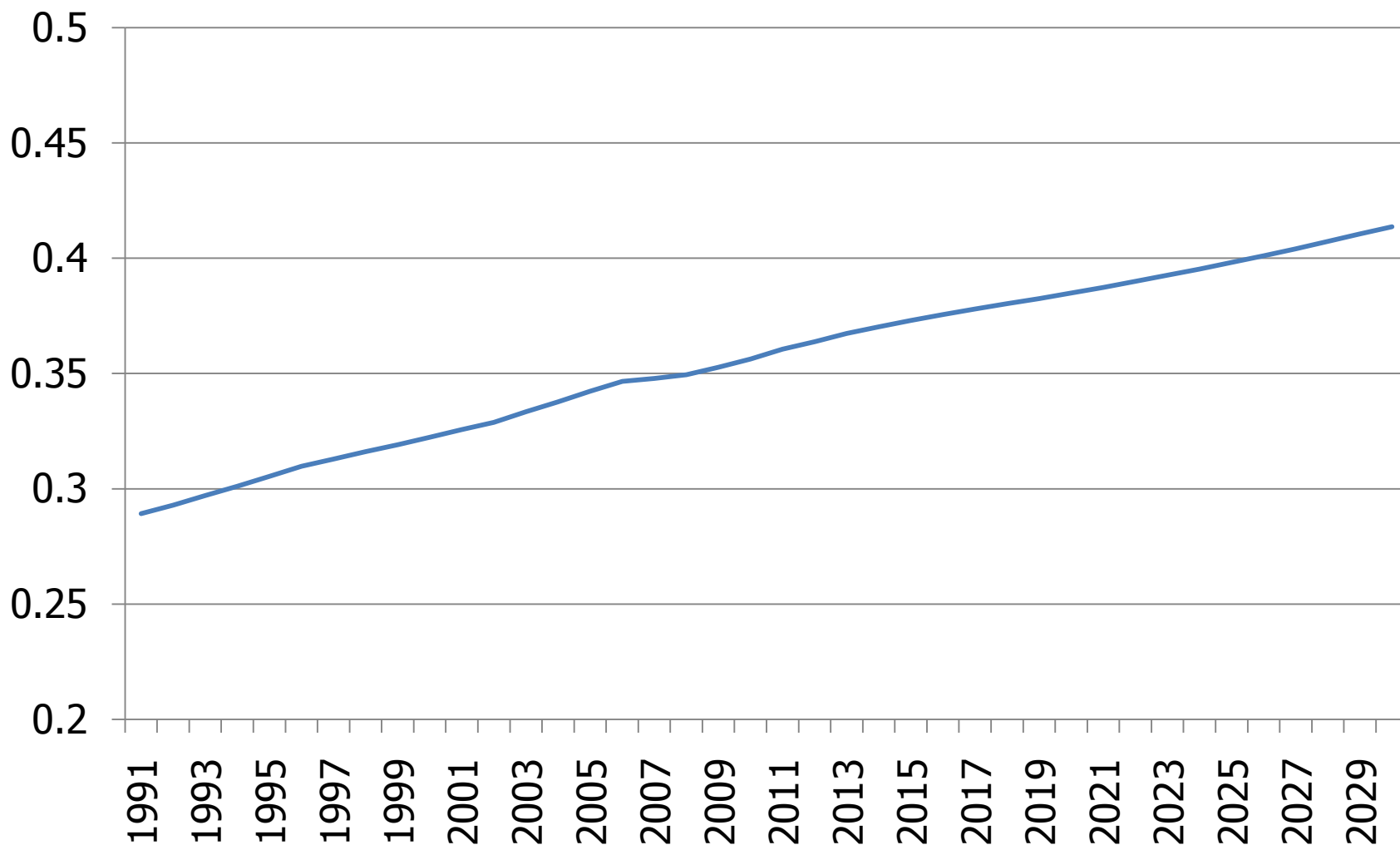


Headship and Household formation

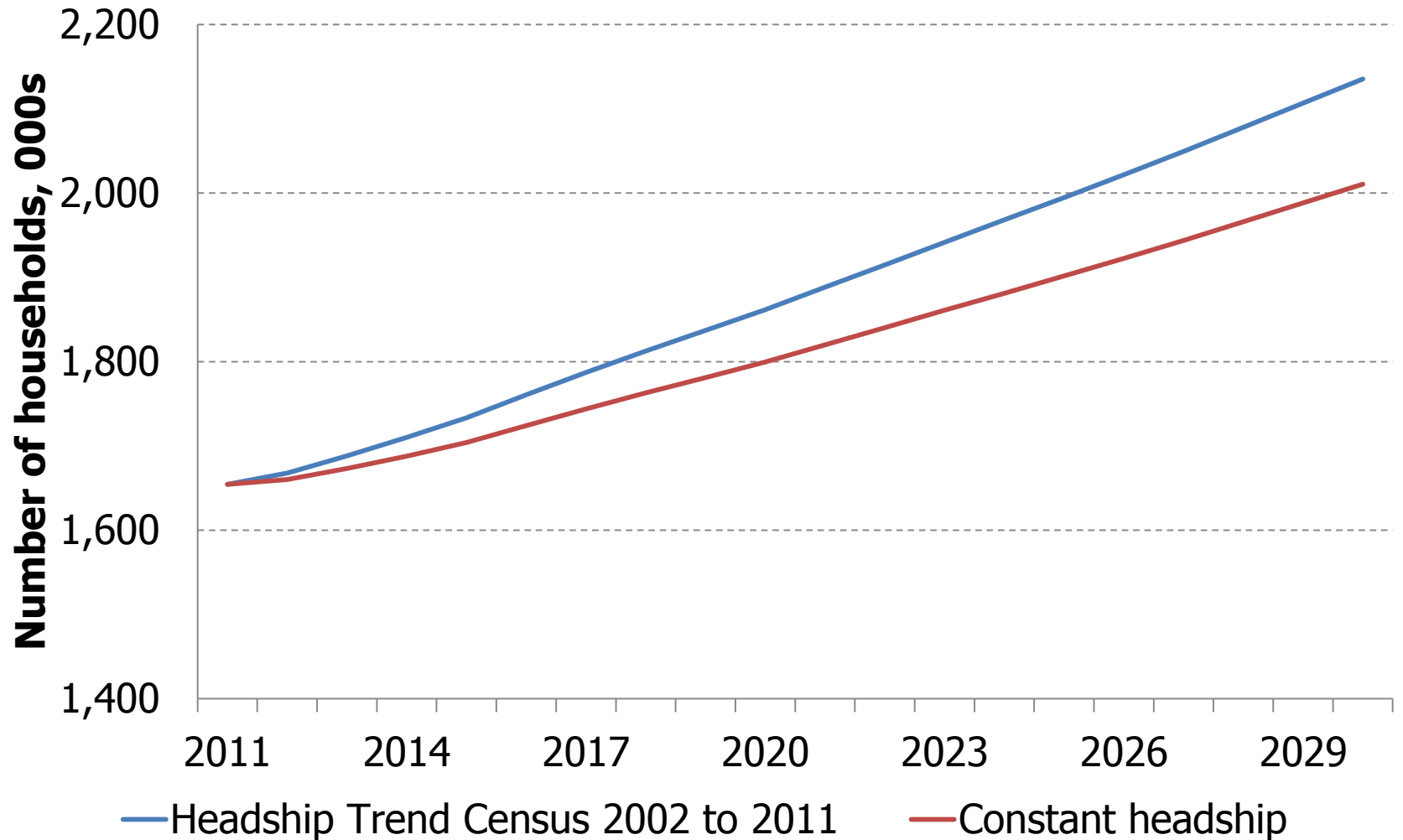


- Headship rates measured by the proportion within each age group identified as head of household or household reference person
- Projected forward based on trend between Census 2002 and 2011 (UN, ONS)

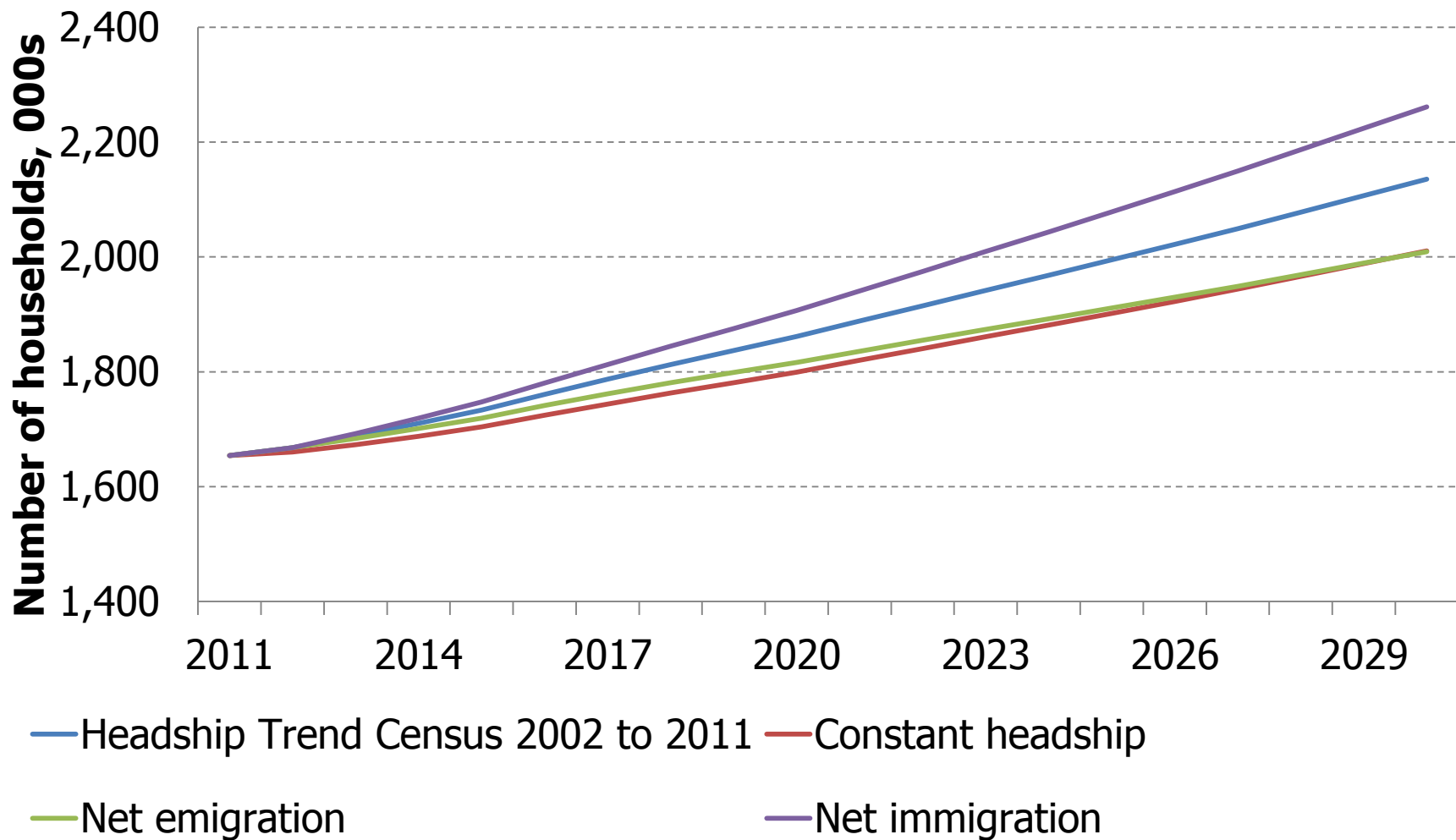
Headship shows steady rise



Scenarios for New Household Formation in Ireland



Alternative Scenarios for New Household Formation in Ireland



Alternative Scenarios for New Household Formation in Ireland

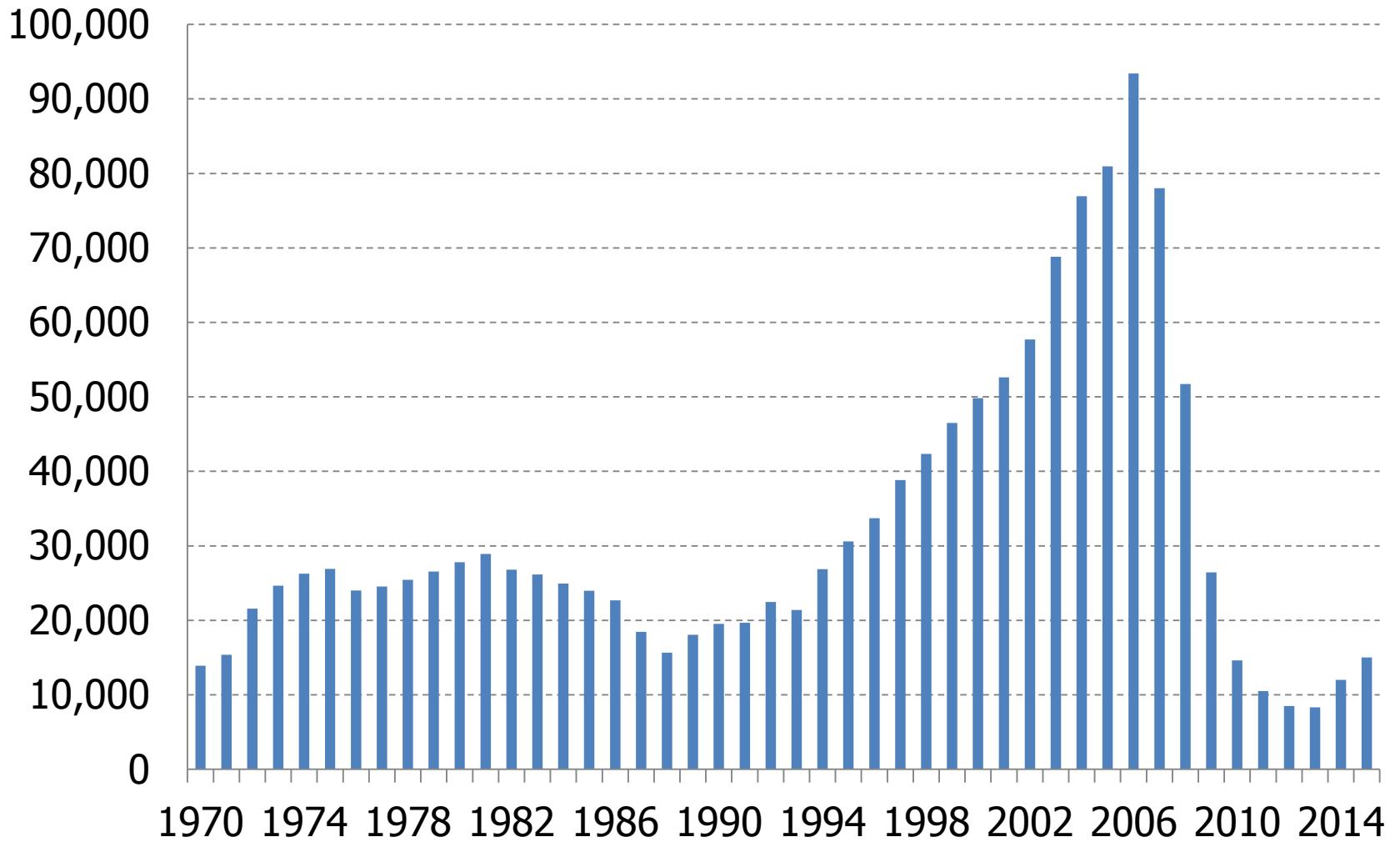


	Number of Households, 2030	Increase, 2011-2030	Annual average Increase, 2011-2030
Base: Headship constant at 2011 rates	2.01 million	356,000	19,400
Trend in headship: Census 2002-2011	2.14 million	481,000	25,600
Trend in headship: Census 2006-2011	2.29 million	635,000	33,300
Converge to 2011 headship rates in England and Wales by 2030	2.15 million	499,000	26,500
Higher Immigration, +15,000 per annum	2.26 million	607,000	31,900
Higher Emigration, +15,000 per annum	2.01 million	355,000	19,000

Residential construction

- Under a range of scenarios over 20,000 new households, on average, will be formed each year over the long term
- Even with forecast growth, the level of new house completions will be lower than demand in the short-run

House completions



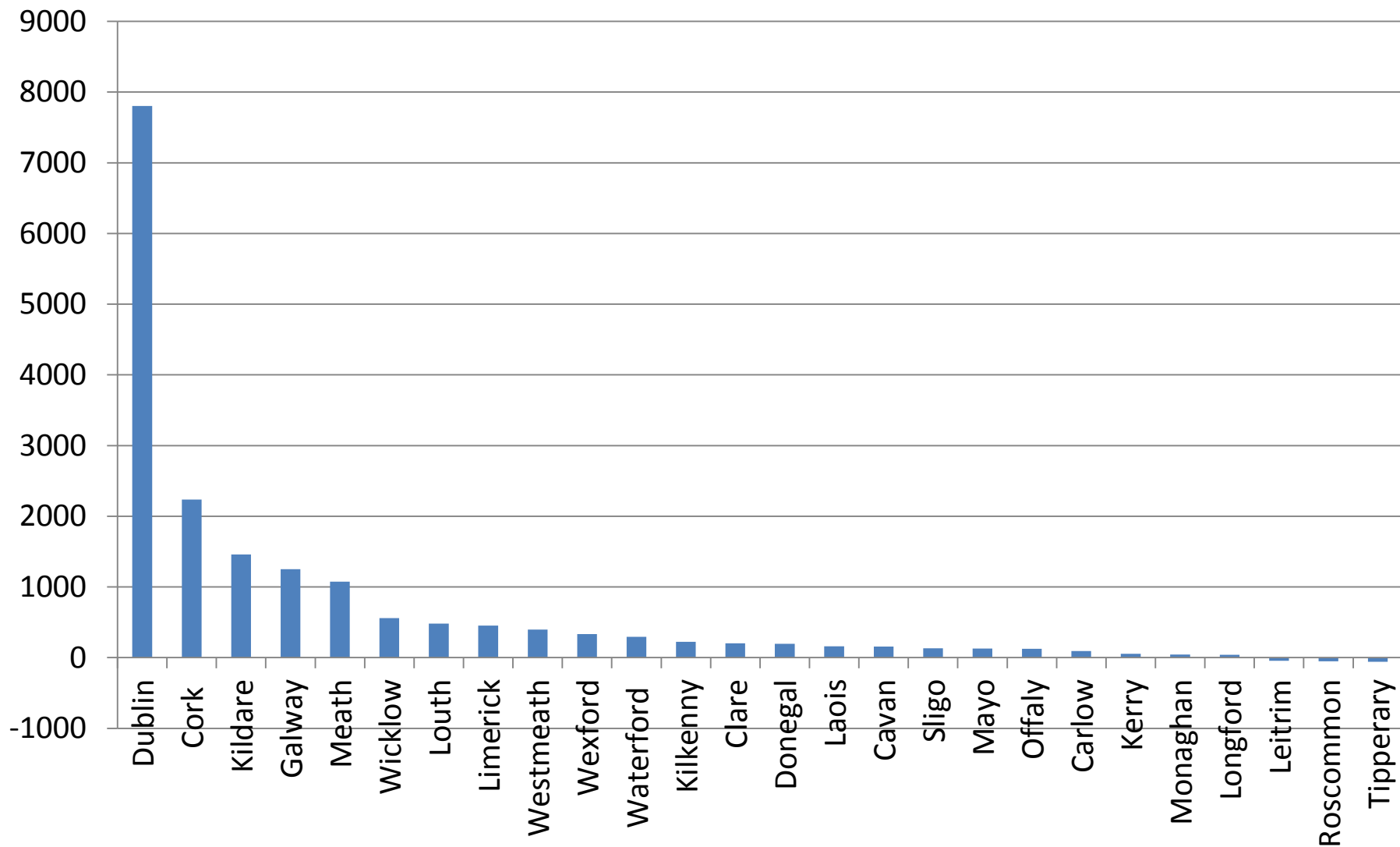
County Level Analysis

- There is significant difference across the country with respect to housing market and economic performance
 - This implies that there is no such thing as a national housing market.
- Analysis at the county level considered the requirement for additional housing due to population growth and modelled key housing variables (see Morgenroth, 2014).

Population Projections

- Constructed using ESRI's county population model (IC-POP).
- The future population is equal to the current population (base 2011) plus the natural increase (births-deaths) plus net migration.
- Population projections are calculated applying assumptions about mortality (same as CSO), fertility (unchanged from 2011), and internal migration (towards the large cities) and international migration (ESRI MTR Recovery Scenario).
- Applying the average county household size (assumed to be declining at the same rate based on ESRI MTR), the number of households is calculated.

Where will the households be?



Projecting Housing Needs

- Using the projections it is possible to estimate the required housing stock.
 - Census 2011 identified a significant excess in vacant dwellings (vacancies are never zero).
 - There has been some construction.
 - There is a normal rate of obsolescence (properties become structurally unsound or are destroyed/damaged by fire etc.).
- Assuming no completions from 2013, accounting for initial number of vacant units, depreciation and a normal vacancy rate, calculate the number of properties required.
- Bulk of requirement (60%) in Dublin and Dublin commuter belt (26%)

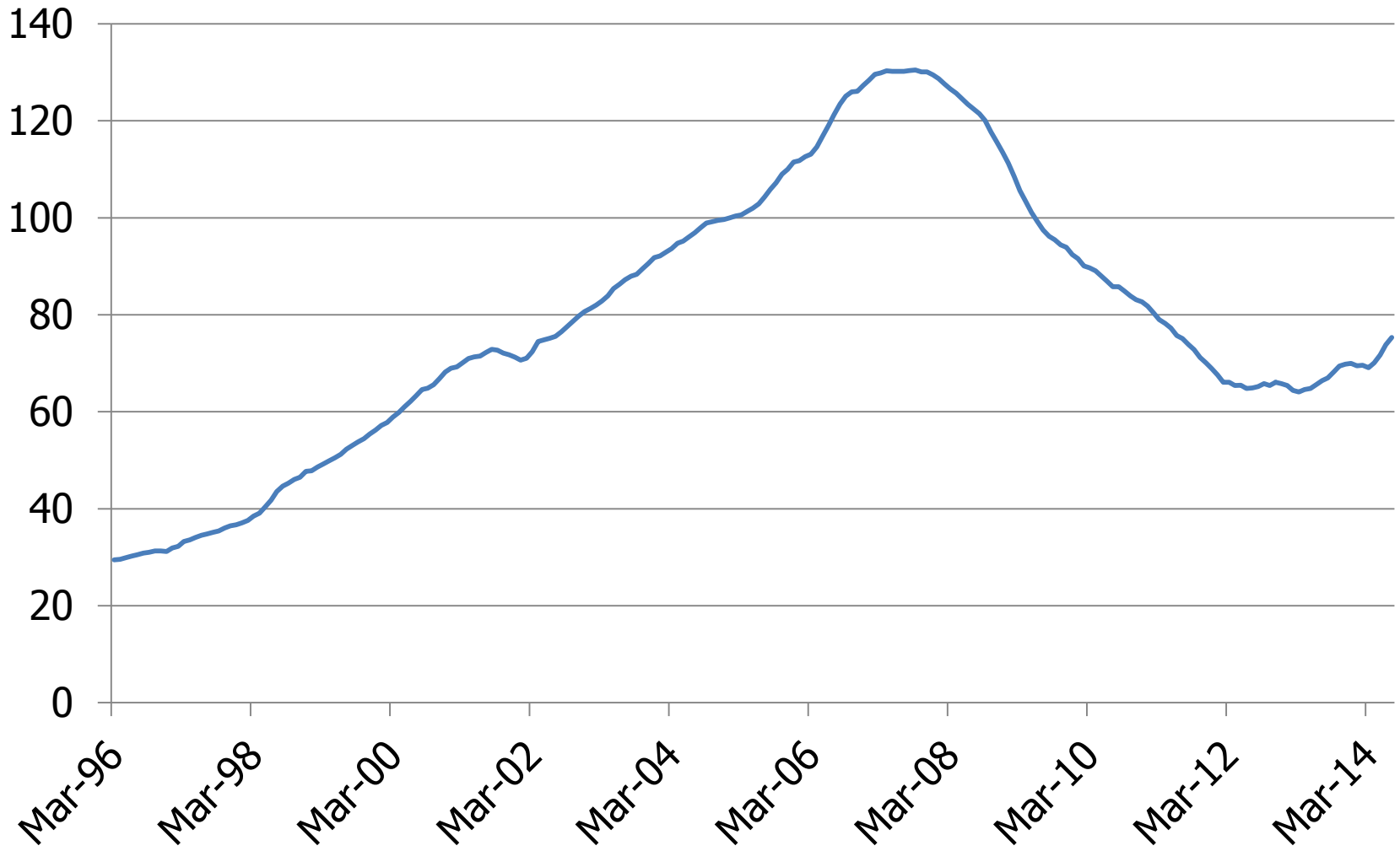
Household formation and tenure choice



- Our context is Ireland's property crash
 - Falling rents and falling prices
- We model housing market behaviour of young Irish people
 - Whether to form a household
 - What type of tenure to choose

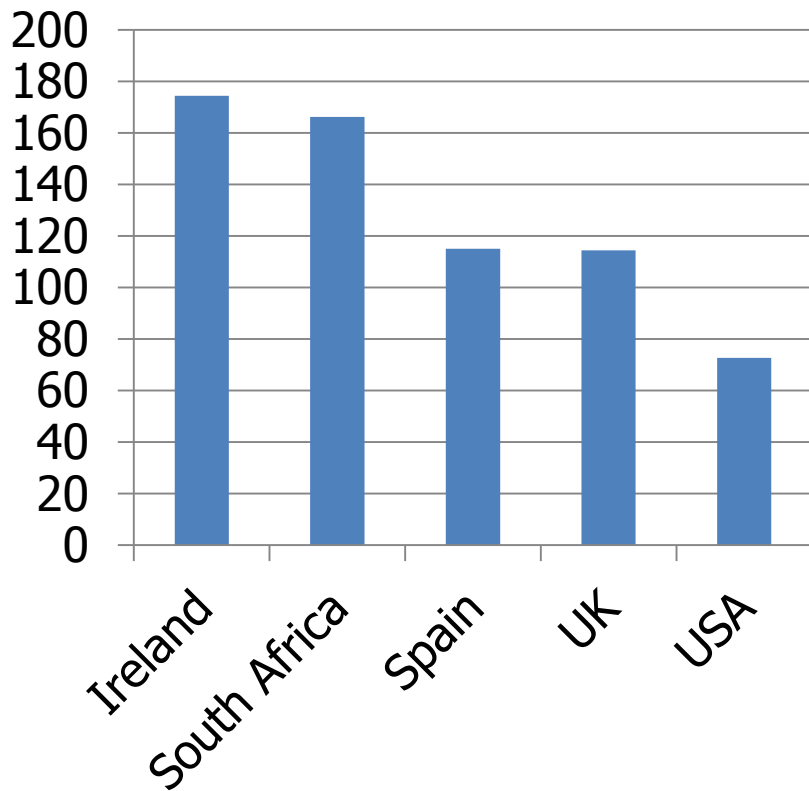
National House prices

January 2005 = 100

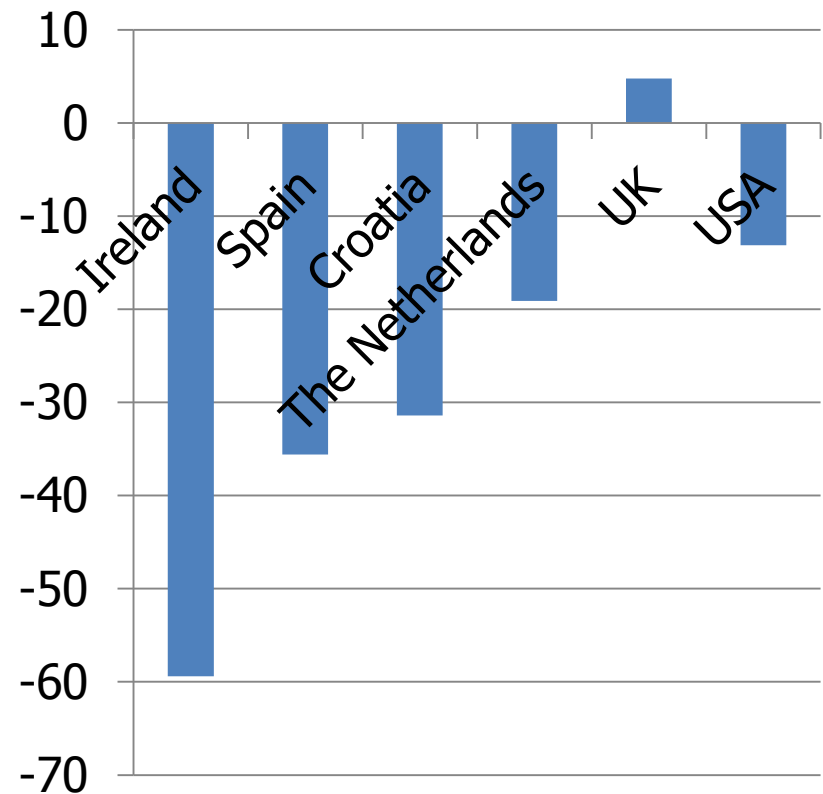


% change in nominal house prices

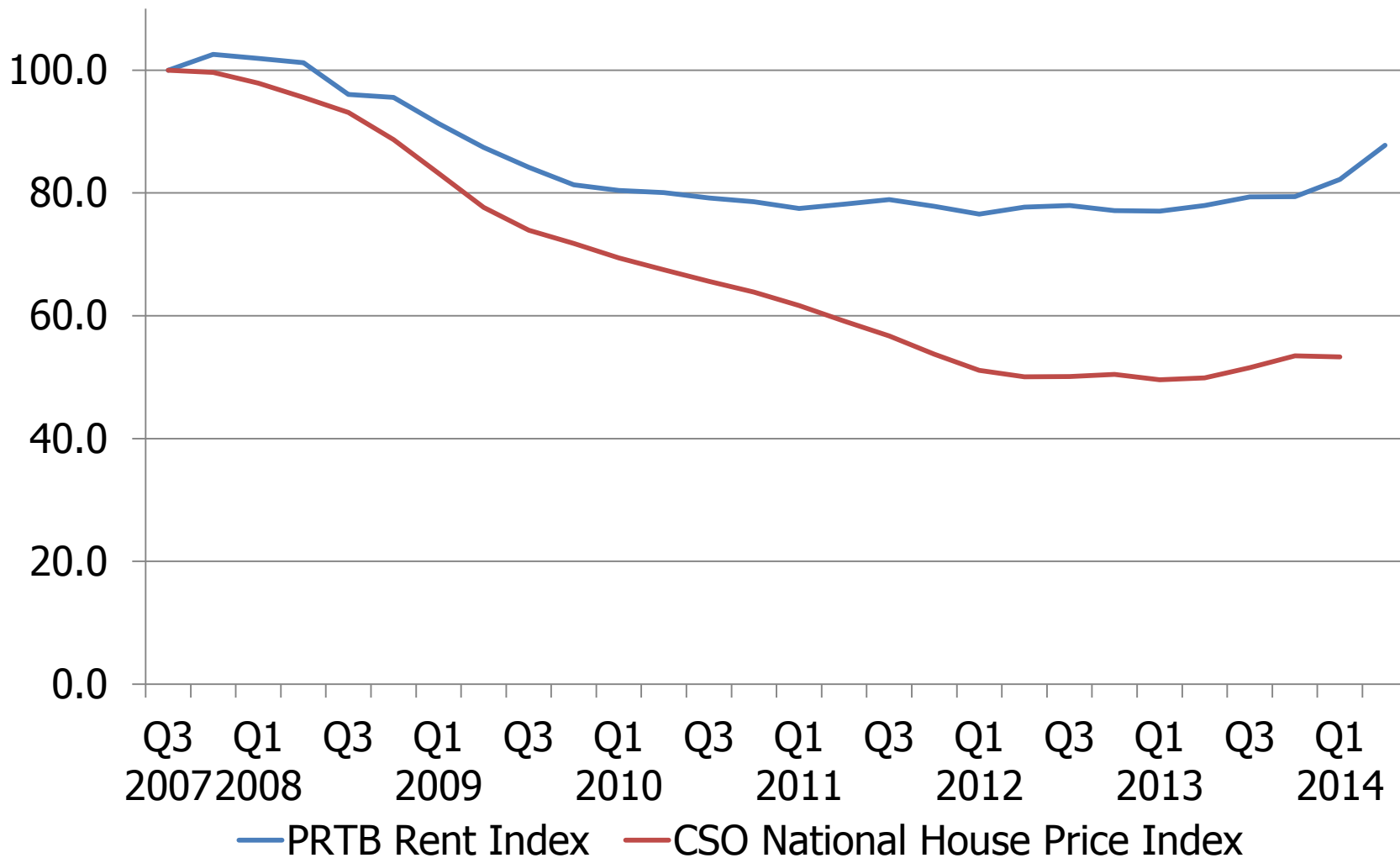
1995 Q1 – 2007 Q1



2007 Q2 – 2013 Q4



Affordability: Prices and Rents



Household growth continued in spite of housing market boom and bust

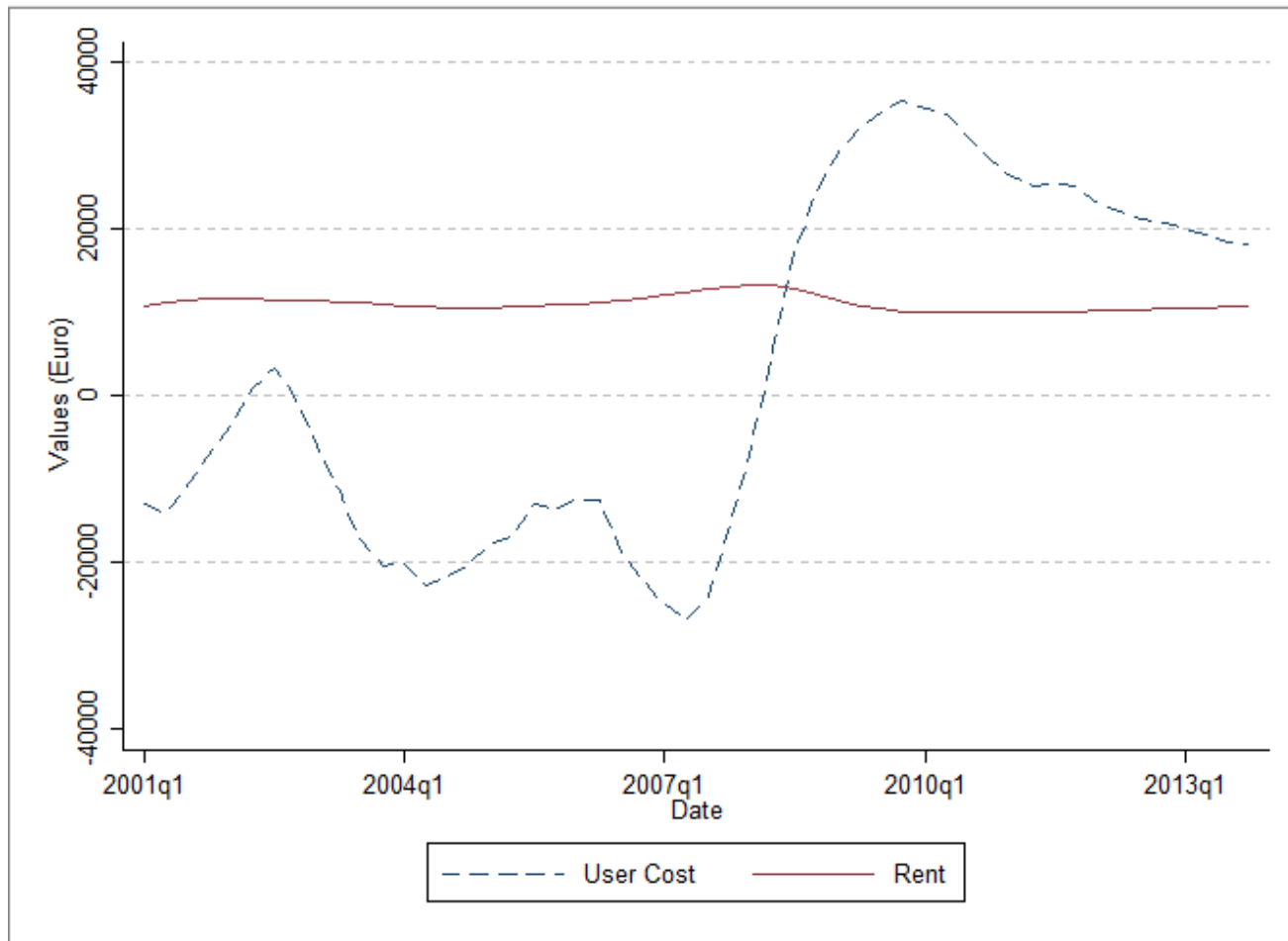


- Census 2011: Number of households increase by 187,112 from Census 2006
- Number of households renting increase by 152,000
- Homeownership rate falls from 74.7% to 69.7%

Strategy

- Focus on those aged from 20 to 39 (5 yr age groups)
 - This allows us to identify distinct behaviours from each age-group
- QNHS Data pooled over years 2001-11
 - provides large samples
- Tenure choice as a function of the relative costs of renting and owning
 - Difference of user cost of housing and average rents
 - User cost: function of price expectations, mortgage costs, taxation and depreciation

User cost of housing vs. rents, 2001-2013



Results - Formation

- Find expected negative relationship between affordability and formation rates
 - If rent rises or incomes fall, forming a household becomes less affordable
- Highest formation rates among women, migrants, employed, those in relationships
- Decomposition of change in formation rates:
 - Pre-crash: change in distribution of characteristics
 - Post-crash: change in behaviour

Results - Tenure

- Identify the tenure equation using the relative cost of renting and owning
- Find expected positive relationship between cost difference and renting
 - Renting more likely when the user cost rises or rents fall
 - Equivalently, negative relationship with owning
- New entrants to housing market tend to be renters

Conclusions

- Household growth continued in spite of housing market boom and bust
- Demographics alone cause 20,000 households to form per year
- Incentives favoured renting rather than owning post-crash
 - Cost and perceptions
 - Irish young people respond to incentives, switch to renting
- Fall in homeownership rate partly attributable to household formation
 - Entrants to the housing market tend to be renters
- Rents have begun to rise since 2012
 - Household formation rate has fallen slightly in 2013
- Price expectations have reversed
 - Underpin demand for owner-occupied housing

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