IHBA Member Analysis August 2020

Central Bank: Mortgage Measures Framework Review

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Irish Home Builders Association – Key Messages

The affordability gap for consumers remains one of the greatest challenges for Irelands would be home buyers. The gap between the consumer's ability to borrow, save for a deposit and the actual cost of delivering housing is widening with rising construction costs.

Over the last decade Irelands regulatory environment, planning system, building control, building regulations and financial / banking system have changed significantly. The combined changes have had a significant impact on the cost of delivering new homes. The industry continues to meet these challenges and evolve.

The requirements for a functioning market cannot be ignored. A functioning market needs:

- willing purchasers with capacity to purchase;
- builders with capacity to build;
- pricing structure whereby builders can recover all in costs and meet the viability criteria as set by funders; and
- access to funding for builders at levels that are commercially competitive.

There is a disproportionate increase between our ever-growing population and the level of homes delivered in any given year. On average we need to see 36,000 homes built annually across all tenure types for the next two decades to keep up with demand.

Under the current macro prudential rules there is a cohort of young families and average income couples who cannot secure a mortgage. It is ''John & Mary'' the local Gardai, teacher, nurse who find themselves 'locked out' through a perfect storm of events outside their control.

This cohort find themselves unable to access the market and forced into rented accommodation where they are paying average monthly repayments in excess of what their equivalent mortgage repayments would be. The recent events of Covid-19 have further exacerbated these issues.

The facts – Supply is well behind people's needs. Average earnerscannot afford homes & long-term problems have been made worse by Covid-19.

- Supply need: minimum **average of 36,000 new homes every year to 2030** to keep pace with population growth.
- There has been an under provision of almost **80,000 homes** in the last five years alone due to supply and affordability challenges
- With an estimated **population of 5.2million** (CSO estimate as of April 2020), a decrease in average household size from **2.7 to 2.5** would require an additional **175,000 extra homes**.
- If Irelands average household size **were to move to European average**, there would be a requirement for an **additional 300,000 units**.
- Supply delivery: Just over 20,000 homes were completed in 2021. Estimates for 2022, assuming a continued positive trajectory, will only provide something in the region of **26,000 homes**.
- Analysis shows that there is a significant affordability gap for many first-time buyers **(FTB)** and new home purchasers **(NHP).**
- An unintended consequence of the current Macro Prudential rules is **'locking out'** average income earners and young families out of homeownership and into expensive long-term rental **which is costing more per month than a mortgage**.

Irish Home Builders Association top priority is to deliver accommodation for struggling buyers and renters

As we pass six months since the launch of the Government's 'Housing for All' plan the latest progress report signals a confidence from Government that the plan is already working as they state.

''Recent data gives confidence that the targets for delivery of homes for 2022 will be met and very likely exceeded. During 2021, 30,724 new homes were commenced – the highest since 2008. In addition, over 39,000 planning permissions were granted in the 12 months to end-September 2021.''

And whilst yes these figures are positive, they should be interpreted with caution. They will not simply mean a direct transfer to the percentage of completions that would have been seen in the past. Those of us working within the industry are seeing elongated delivery times beyond what is normal for traditional residential and apartment delivery.

This, coupled with a lack of economic viability assessment in our current planning process, means a grant of planning does not guarantee viability with many already granted permissions delayed or never commenced. It's well known that Ireland urgently needs to accelerate the building of new homes across all tenures. Since 2008, housing supply has lagged significantly behind demand with current supply of private housing at levels similar to those last witnessed in the 1970s. The recent Deloitte Crane Survey report confirms that while almost all housing commences only 25% of apartments granted planning are commenced.

It is widely recognised that the modern home today in Ireland is built to the highest standards in Europe and provide efficiencies in conservation of fuel and energy among a wide array of building regulations. The support of new home owners assists in reducing our carbon footprint and supports achieving our climate goals.

For the Irish Home Builders Association our priority is to deliver these much-needed homes for those struggling to access the market or those seeking suitable accommodation. Day in, day out home builders across the country see the challenges faced by aspiring home buyers and those seeking more suitable accommodation for their families as they struggle with a lack of supply and affordability. Construction costs continue to be a lead determining factor in housing delivery. Socially it is far from optimal that there would be an unsustainable inflation of house prices, particularly with the current barriers to purchaser's finance. The alternative is to seek to reduce delivery costs, and this is something outside the direct control of home builders and lies with policymakers.

Private home builders are regularly questioned on whether the sector has the ability to deliver the number of homes required. Time and time again we have shown how resilient we are as a sector and how we can, and will, step up to meet the challenges foisted upon us. Never was this more evident than over the past eighteen months through-out the Covid-19 pandemic when our members rose to the challenge and continued to deliver homes in the most challenging of conditions.

Our members are committed to supplying homes and creating communities. We want to play our part in solving the current housing crisis but we need to ensure that the challenges which have been impeding delivery for so long are addressed. To bring efficiencies to traditional residential and apartment delivery and to achieve the full potential and aspirations of 'Housing for All' the industry needs to see positive targeted changes to zoning, infrastructure, planning, construction, affordability & viability.

Assessment of current macroprudential rules

The rules require the home buyer to have a minimum deposit before getting a mortgage. A First Time Buyer (FTB) needs to have a minimum deposit of 10%. Second and subsequent buyers need to have a minimum deposit of 20% while Buy to Let (BTL) buyers are required to have a minimum deposit of 30%.

There are permissible exceptions to these rules where, in any given year, a lender may lend up to

- 5% of new lending to FTBs allowed above 90%
- 20% of non-FTB new lending allowed above 80%
- 10% of new lending allowed above the BTL limit

There are also Loan to Income (LTI) rules which limits the amount of money a home buyer can borrow to a maximum of 3.5 times their gross income. There are exceptions that lenders can make in any one calendar year. These include

- 20% of new lending to FTBs allowed above 3.5x limit
- 10% of non-FTB new lending allowed above 3.5x limit

The Irish Home Builders Association recognises the introduction of the mortgage market measures in 2015 has reduced risk and leverage in the housing market, anchoring house prices to movements in fundamentals such as supply and household incomes. However, it should be equally recognised that the Loan-to-Income (LTI) limit of 3.5times income locks out many families and lower income households.

At a time when national policy is seeking to promote urban growth many first time buyers and new home purchasers are necessitated to look outside our cites.

How We Improve Affordability:

A) Roll out the promised Shared Equity Scheme and Extend the Help-to-Buy.

- Based on the cost of an average new home of, €350,000, a couple on anything below €90,000 are currently locked out of the market. Those seeking to reside in urban centres are further locked out with increasing pressures on house prices.
- Recent reports indicate that those paying rent in Dublin are paying more than 30% of their net income. With the resultant constraint on accumulating savings.
- A **shared equity scheme** would enable consumers on lowers incomes to access themarket.
- The HTB scheme continues to support nearly 8 out of 10 first time buyers. A commitment to **continue & expand HTB** to 2025 will help hopeful buyers secure the required deposit to obtain their residential mortgage and assist the rate of commencement of new homes by bringing certainty into the sector. Without the HTB scheme, 'would be' buyers who do not qualify for social housing due to income levels are leftbehind.

B) Review the current 'Macro Prudential Rules' to improve capacity of First Time Buyers & New Home Purchasers while maintaining financial prudence.

While understanding the Rules and the need to maintain tighter fiscal control of the banks, they are having the undesired effect of impacting on the market while restricting the ability of FTB's & NHP's to buy their homes.

Review the Central Bank rules to improve capacity of FTB's & NHP's while maintaining financial prudence.

- The current measure of perceived affordability through Loan to Income (''LTI'') is inflexible and should move to a **Debt Servicing Ratio** (''DSR'') measure of affordability
- The lending rules should be reviewed to allow the banking sector to deal with the percentage of exceptions currently at **20% and possible move out to 40%** ringfencing the additional allocation for FTB's.
- The **FTBs & NHP's rental history** should be factored into the assessment of their loan application, the reality is that the mortgage repayment would be lower than the rent for the same property. The surplus means additional exchequer
- The banking sector should publish data of the number of exceptions granted in any given quarter together with transparency on the number of mortgage applications – approvals – drawdowns in any given period.
- Review legislation to attract greater competition into the banking sector and allow more economic mortgage rates to improve affordability for Irish consumers.
- The interest rates on Irish mortgages are the highest in Europe. The Irish home buyer should be able to source mortgages at rates similar to other EU states.

Debt Servicing Ratio

The existing measure of affordability, capped at 3.5x single or combined incomes, is inflexible.

A more appropriate measure is a traditional "DSR" which Irish banks can now effectively underwrite since the establishment of the Central Credit Register.

This approach to affordability takes account of falling mortgage interest rates, marginal tax rates and is a truer reflection of consumer affordability.

- Ireland has the lowest LTI in Europe at 3.2x.
- Current MPRs are inflexible. The consumers purchasing power since 2015 has increased by almost €60k yet remains unaccounted for.
- Our European counterparts offer interest rates ranging from 1.5-2% cheaper than Ireland.

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The Irish Home Builders Association is a constituent
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