

Joint Oireachtas Committee on Housing Planning and Local Government

10 October 2019

Opening Statement by Professor Kieran McQuinn, and Dr. Conor O'Toole

Let me begin by thanking the Committee on behalf of both Dr. O'Toole and myself for the opportunity to appear before you today. We welcome the creation of the Land Development Agency and are happy to provide any information or advice, which may help the agency in its mission.

First of all let me provide some background to the work that we in the Institute have been conducting in the housing area. Research into housing issues has long been associated with the ESRI, however, the signing of a programme of research between the Department of Housing, Planning and Local Government and the ESRI in the summer of 2017 has led to a substantial increase in the volume of work now being done in the Institute in this area.

To date, most of this work has focussed on the demand-side of the housing market by examining the sustainability or otherwise of house price developments at both a national and regional level. Work has recently also focussed on the affordability of housing costs in the Irish market generally. In particular housing costs as a percentage of income has been examined across the distribution of Irish households for different tenure types and over time. Further work on affordability for first time buyers is underway at present.

What can we conclude on the basis of this work as far as the Land Development Agency is concerned? Overall, since the mid-1990s Irish house price movements have been amongst the most volatile across OECD countries. The period can be divided into 3 sub-samples; between 1995 and 2007, in nominal terms house prices grew by 340 per cent, from 2007 to 2013 they fell by 55 per cent, before recovering by 83 per cent between 2013 and today.

Developments on the supply-side of the market have been equally volatile. In 1995, we estimate about 20,000 new housing units were constructed in the Irish market, this figure escalated to over 62,000 units in 2006 before declining to just over 4 and a half thousand units in 2013. The figure for 2019 is likely to be approximately 21,000 units.

Needless to say, such variations both in price and supply levels have had substantial repercussions for the economy, the financial sector and for society as a whole. In short, these significant oscillations in key housing variables are far from optimal and policy should clearly aim, as with most economic variables, to achieve stable house price inflation and rates of housing supply. Such stability enables households on the demand-side and firms on the supply-side of the market to plan more effectively over the medium-term. It also ensures that housing related developments will not have a disproportionately large and potentially destabilising impact on the wider economy.

In terms of recent developments in house prices, our analysis broadly suggests that price level movements whether nationally or regionally are, currently, determined by fundamental factors in the economy. By this, we mean that present house price levels can be explained in terms of factors such

as disposable income levels in the economy, demographics, the number of jobs being created and the cost of finance in the market.

However, this analysis does take certain supply-side issues in the housing market as given or fixed. So, for example, when we say that we feel that house price levels are explained or determined by fundamental factors in the economy that is for a given set of supply-side issues such as, for example, land costs. Clearly, any change in land costs can influence the long-run equilibrium house price in the market.

At present, it is clear that the level of housing supply is persistently below the demand for housing or the “structural demand” in the Irish economy. Estimates of this demand vary; however, our belief in the Institute is that between 30 to 35,000 units are required per annum over the medium term to meet this demand. Clearly, the level of actual supply is significantly below this and has been for quite some time. As long as this imbalance between supply and demand exists, the cost of housing in the Irish economy looks set to continue to increase; while house price inflation has eased in the market over the past 12 months, rents in the Irish market continue to increase at a significant rate.

In a recent comparison of cross-country price levels, Bricogne, Turrini and Pontuch (2019)¹ confirm that Irish house price levels, when allowing for scale, are amongst the highest of the 39 countries considered. Therefore, it is clear that if a significant increase in housing supply is required in the Irish market at this time, it can only really be achieved through a reduction in the cost of supplying a property to the market.

While official, actual data on development land costs are not available, certain information would suggest that, in an Irish context, land costs are a substantial portion of the overall cost of building a property.² Recently in the Quarterly Economic Commentary (QEC) we have called for a more aggressive stance to be taken by policy-makers in relation to this issue. Let me briefly explain the rationale for this; if the cost of development land is significantly greater than the agricultural value of land, it suggests that the difference may be due to a speculative component. The speculative component mainly arises because owners of the land, have not, until recently faced any cost in not developing this land for property development. Developers can merely sit back and watch the value of the land increase significantly year on year as the demand for this land increases. Therefore, by accurately pricing a site tax, this speculative component can be tackled; developers will now face a cost if they do not develop their land. This will ultimately lead to a reduction in the price of land, thereby reducing the cost of supplying a house. All things being equal, this would result in an increase in supply at a given price.

Unfortunately, this diagnosis of issues in the Irish housing market is not new; the Kenny report in 1973 identified the issue of building land as a major issue with the report recommending that such land should be acquired by local authorities for 25 per cent more than its agricultural value.

More generally, from an international perspective, it is well established that markets that have greater control over the provision of land tend to experience much more significant house price inflation than

¹ Bricogne J.C., Turrini, A. and P. Pontuch (2019). Assessing house prices: Insights from “Houselev”, a dataset of price level estimates, European Commission Discussion Paper 101, July.

² Recent work by the Society of Chartered Surveyors Ireland (SCSI) suggests that for a typical three-bedroom semi-detached property, land and acquisition costs average around 20 per cent of the total house cost.

markets such as Germany and Switzerland were policy ensures that adequate housing is supplied (Cheshire (2014))³. Indeed as Cheshire (2014) points out the greater restriction on the provision of land for housing in the United Kingdom post the Second World War has turned housing and housing land increasingly into investment assets.

Policies to increase housing supply can often operate at a considerable lag between the announcement of the policy and its actual impact. By addressing the provision of land, the Land Development Agency can directly help to deal with the supply issue. Other policies such as the LIHAF fund can also be important in escalating the provision of housing. From an affordability perspective, the specific price for which new units comes onto the market is critical and ultimately these units must be affordable to the typical buyer. Therefore, we in the Institute would welcome any policy or development such as the establishment of the Land Development Agency, which increases the provision of land for housing purposes.

Thank you for your attention and we now look forward to taking your questions.

³ Cheshire P. (2014). Turning houses into gold: the failure of British planning, CentrePiece, Spring, available online at: <http://cep.lse.ac.uk/pubs/download/cp421.pdf>