

Building a Sustainable Private Housing Model – Policy Position

Macroprudential Rules

Help to Buy Scheme

The Society of Chartered Surveyors Ireland (SCSI) wishes to highlight what it considers to be two key policy considerations towards achieving a more equitable housing solution for Ireland.

Our recommendations are as follows:

1. Adjust the macroprudential rules so that they allow for more flexibility for certain buyer profiles; and
2. Establish measurable targets for the Help to Buy scheme while, crucially, continuing to focus efforts on reducing the delivery costs of housing.

These recommendations which contribute towards achieving a more equitable and sustainable private housing market are framed by 5 key pillars:

1. **Market balance** – *avoid property market fluctuations to all parts of the residential housing sector*
2. **Information** - *clear and accurate information to assess policy change consequences*
3. **Policy harmonisation** - *a greater awareness and acknowledgement of wider policy instruments and their impacts on housing*
4. **Goals** - *easily achievable goals to be set and targeted for quick results*
5. **Tenure type recalibration** – *housing strategy to outline long term goals with tailored policy supports to ensure tenure balance is achieved.*

Central Bank of Ireland Macroprudential lending rules

Introduction

Ireland's recent property boom- bust cycle is well documented, and many lessons have been learned from past mistakes. Whilst the reasons for the Celtic Tiger collapse in 2008 were multifaceted, in order to mitigate the risk of a similar scenario occurring again, one of the outcomes was the introduction of the Central Bank's (CBI) Macroprudential lending rules in 2015.

The objective of the CBI lending rules is as follows;

'The objective of macro-prudential policy is to mitigate the risk of a disruption to the provision of financial services, caused by an impairment of all or parts of the financial system, with serious negative consequences for the real economy. This risk is known as systemic risk. Reflecting recent banking-related European macro-prudential regulation, and the prominent role of the banking sector in the intermediation process, the initial focus is on the banking sector.'

Loan-to-Value (LTV) limits

The LTV limit requires one to have a minimum deposit before obtaining a mortgage. The size of this deposit depends on the category of buyer.

Category of Buyer	Deposit Required
First Time Buyer (FTB)	10%
Second and subsequent	20%
Buy to Let	30%

Banks and other lenders have the option to lend a certain amount above these limits. In any one calendar year they can give an allowance to:

- Up to 5% of the value of mortgages to first time buyers
- Up to 20% of the value of mortgages to second and subsequent buyers
- Up to 10% of the value of mortgages to buy-to-let buyers

Loan-to-Income (LTI) limits

The LTI limit restricts the amount of money one can borrow to a maximum of 3.5 times gross income. Banks and other lenders can lend a certain amount above these limits. In any one calendar year they can give an allowance to:

- Up to 20% of the value of mortgages to first-time buyers
- Up to 10% of the value of mortgages to second and subsequent buyers

Key Statistics

- Value of mortgage lending – FTB (4.8Bn), Mover (2.7Bn), Buy to Let (172m), Re-mortgage (1.3 Bn), top-up (256m). **Total €9.2Bn**¹
- 20,000 FTB mortgage approvals and drawdowns in August 2020 year-to-date ²
- One-third of FTB purchases for new homes and two-thirds for second-hand homes
- Average age of FTB is 34 years³
- Ireland is currently the fifth highest country in the EU in terms of Debt-to-Income ratio
- Active deleveraging by households over the past 10 years to reduce their debt burden by €43 billion
- On average, Dublin FTBs spend a quarter of their net monthly income on mortgage repayments while FTBs outside Dublin spend a fifth⁴.

The CBI lending rules have indirectly influenced national property price inflation⁵ by creating a purchase ceiling on those requiring mortgages for purchasing homes. Mortgaged buyers can often be disadvantaged when competing against non-mortgaged buyers for property for reasons such as additional bidding/purchase restraints placed on mortgage buyers.

It is also important to remember that the property market is no longer a single market, but rather a series of micro-markets and a 'one size fits all' approach may be overly crude. A more tiered or phased approach to the loan to income and deposit requirements should be considered depending on location.

The CBI lending rules are focussed on de-risking over-lending by banks to individuals. The 3.5 LTI ratio is working well and achieving this, however, the rigidity of this ratio does not currently account for external factors which are influencing the volume and costs of housing, such as the viability and delivery costs of construction. The SCSi understands that there is a concern from the CBI, that if the LTI ratio is increased, then this may result in property price inflation.

One way to mitigate this risk and concern is to permit an increase in this ratio for certain property types/locations/ values. This policy approach would also align with other important Government policy such as promoting the purchase of higher density property types in urban locations. It would further support the Project Ireland 2040 Plan and Ireland's National Planning Framework. Current LTI's may

¹ BPFi, Year-to-date July 2020

² BPFi

³ Central Bank of Ireland

⁴ Central Bank of Ireland Household Market Credit Report

⁵ SCSi Annual and Quarterly Residential Market Reports

be disincentivising some purchasers from purchasing homes in urban centres (cities) in favour of more affordable locations such as commuter towns and suburbs.

The push towards higher density living by the Government is part of an effort which seeks to reverse urban sprawl to promote more compact living. Therefore, it is likely that Government policy will need to evolve further to manage the impact that the mortgage lending rules are having on some buyer profiles and their tendency to purchase in less urban locations in favour of more affordable areas..

Unfortunately, apartment construction is not currently viable in most locations for a build-to-sell model with the build-to-rent model a more viable solution at present. Government policy' changes in recent years has improved the outlook for new apartment delivery but this is not enough to ensure there is a balance of apartments for sale and for rent.

As previously outlined, the SCSi supports the principle of better regulations and more prudent lending to protect households against indebtedness. However, it should also be considered from the perspective of ensuring that people who wish to buy a home and have the rent payment track record, repayment capacity and finance should not be negatively impacted by limits that do not take into account the real dynamics of the property market. For example, it will be far more challenging for a prospective purchaser to fund a purchase in Dublin where average property prices are higher than other areas. Similarly, the fact that rents have increased in Dublin at a faster rate than other areas, further limits the potential to purchase. Any interventions in the market must be considered in terms of the current supply shortages and it is the SCSi's view that in order to achieve a more sustainable property market, and to protect against its inherent cyclical nature as far as is possible, a coordinated approach to mortgage limits must be balanced out by meeting the supply shortage challenges and considering the financing requirements of developers. The impact of these proposed limits on the private rented sector cannot be underestimated. Approximately one in four households are currently in private rented accommodation. A supply shortage in the housing market has already led to a shortage in the availability of private rented accommodation and increases in rents.

In relation to LTV for second and subsequent buyers, while SCSi acknowledge that there is a degree of flexibility around 15% of loans, we recommend that a more reasonable LTV limit would be in the 85-90% range. The SCSi continues to support the use of the macroprudential rules as tools to mitigate the risk of disruptions to the market, however, the SCSi believes that more consideration is required on the implementation of the rules and their effects on buyer behaviour and policy outcomes. This consideration is a key factor which should be considered as part of an overall housing strategy. The proposed 'Commission on Housing' may be a viable alternative for complete stakeholder discussion to agree and achieve a long- term housing strategy for Ireland.

Help to Buy Scheme

SCSI calls for continued efforts to reduce new housing delivery costs whilst retaining the States' Help to Buy Scheme

Some key information about the Scheme

- The Help to Buy (HTB) announced in Budget 2017 (October 2016)
- Designed to assist first-time buyers with the deposit required to purchase or self-build a new house or apartment to live in as their home
- Its limited to a maximum of 5% of the purchase value up to a value of €400,000. The HTB refund is capped at €20,000.
- A temporary enhancement to the existing HTB scheme for the remainder of 2020 was announced in the July Stimulus plan.
- The enhanced HTB relief provides that where applicants satisfy certain conditions, increased relief is available up to a maximum of €30,000, or 10% of the purchase value. This incentive is available for the period from 19 July 2016 to 31 December 2021.

The HTB scheme was utilised by approximately 20,000 home purchasers in the previous 12 months. 65% of the applications were for properties of between €225k to €375k, with the vast majority of all applications for purchasing property in Dublin and Meath in particular.

SCSI recognises the importance of the Help to Buy Scheme as a mechanism for assisting First-Time Buyers (FTB) purchasing homes. Since the introduction of the HTB scheme, there has been an increase in the number of new home completions to the market. The home building market has now become accustomed to the existence of the scheme and its availability to a cohort of buyers (i.e FTBs) has made more new home building sites viable. The SCSI study on the '*Real Cost of New Housing Delivery 2020*' identified that, on average, new housing delivery costs exceed borrow limits by €25k. This shortfall highlights the importance of the HTB scheme (as a successful application could make up the difference through the HTB scheme) and the reliance the house building sector has on Government incentives.

Continued support of the HTB scheme to assist FTBs is important and should remain in place. However, the SCSI calls for a longer-term strategy to be published with actual HTB targets so that

more comfort and commitment regarding the lifetime of the scheme is clear to consumers and for developers when planning for new housing schemes.

Moreover, it must be reiterated that there is still a vital need to address supply side issues such as the high cost of constructing homes and reductions on many cost component areas such as utility connection charges, VAT, land, finance. The overall costs of delivering a 3-bedroom semi-detached home in the Greater Dublin Area is currently €371k. This has increased by 12% in just 4 years and therefore, every effort is needed to ensure that this does not increase at rates previously identified and targets should also be considered for the reduction in home delivery costs.

SCSI calls for the establishment of the 'Commission for Housing' as committed to in the Programme for Government so that these important considerations and proposed targets can be realised and developed into a short, medium, and long term plan.

The Society of Chartered Surveyors Ireland is the independent professional body for Chartered Surveyors working and practising in Ireland. Working in partnership with RICS, the pre-eminent Chartered professional body for the construction, land and property sectors around the world, the Society and RICS act in the public interest: setting and maintaining the highest standards of competence and integrity among the profession; and providing impartial, authoritative advice on key issues for business, society and governments worldwide