

Assessing the impacts of Covid-19 on the Irish property market: An overview of the issues

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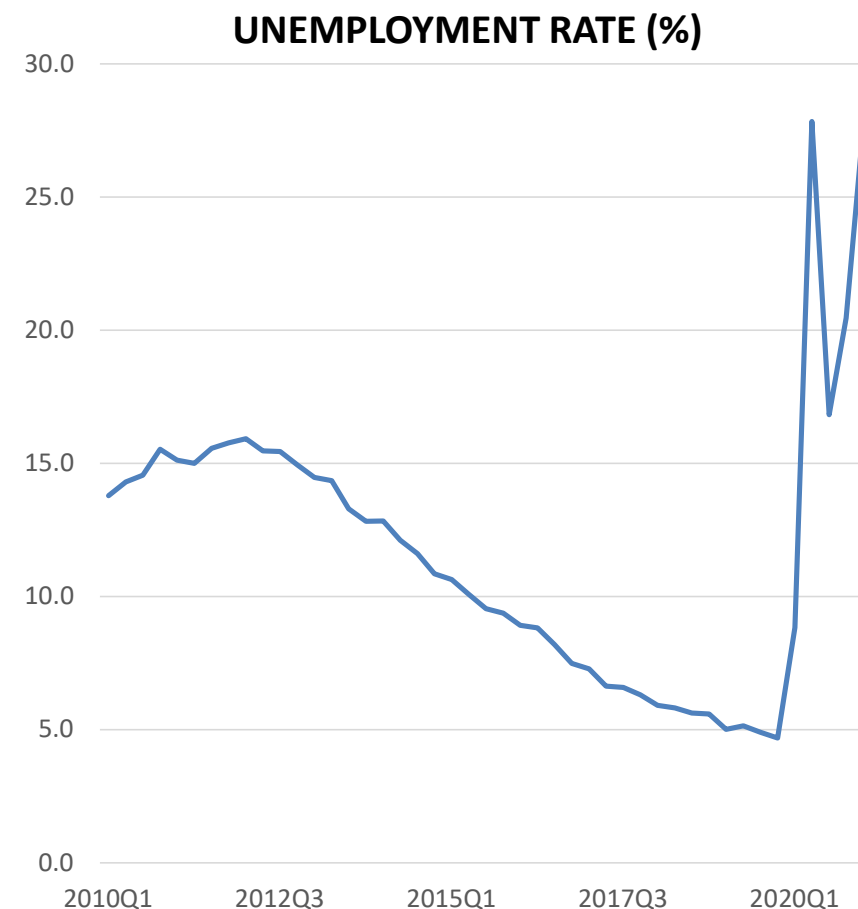


Overview

- The impact of Covid-19 on the Irish housing and rental market:
 1. Housing Demand
 - Labour market, uncertainty, credit
 - Impact on preferences, regional demand
 2. Housing Supply
 - Impact on construction and investment, credit, rental supply
 - Planning policy, rejuvenation of rural areas?
 3. Affordability & rental market
 - House price forecasts and price / rent affordability
 - Covid impact significant for sectors of the economy where people rent
 - Credit constraints impacts tenure choice

Housing Demand – Short term

- Unemployment in 2021Q1 ≈27 per cent
- Fall in incomes offset by government support schemes
- Unwinding of schemes may lead to falling income in future which in turn will reduce demand for housing
- Increased level of uncertainty likely to lead to fall in demand in the near term
- Possibility of credit constraints? Financial institutions become more cautious?
- Practical restrictions such as viewing real estate also likely to have contributed to short term fall in demand



Source: Central Statistics Office.

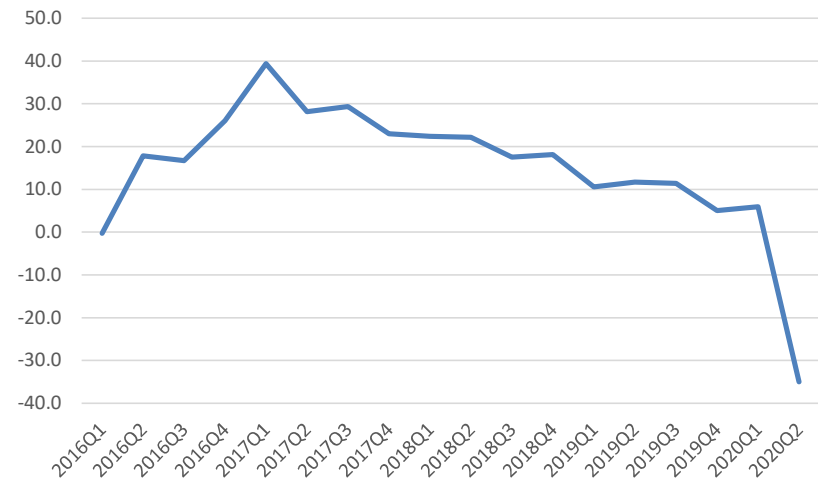
Housing Demand – Long Term

- Large increase in demand when the pandemic is brought under control?
- PUP and TWSS have offset a significant decrease in income
 - Savings rate 19.7 per cent in 2020 (Fitzgerald (2020))
 - 10.5 per cent in 2019
- Economy stabilises
 - Savings directed towards the housing market?
 - Similar in aftermath of financial crisis
- Impact on structural demand for housing
 - Due to changing migration patterns
- Impact on housing type preferences and location choice
 - Due to more working from home and internal migration

Housing Demand - Credit

- Likely to see greater credit restrictions
 - Deferment of loan repayments
 - Increased uncertainty
- Fitzpatrick and McQuinn (2007) – significant reinforcing link between house prices and mortgage credit in the Irish market
- Banks may tighten underwriting standards given the difficulties in assessing risk in the current climate
- Policy intervention may be required
 - Rebuilding Ireland Home Loan
 - Help-to-Buy Scheme

GROWTH RATE VALUE OF RESIDENTIAL MORTGAGE LOANS (%)



Source: Banking and Payments Federation Ireland.

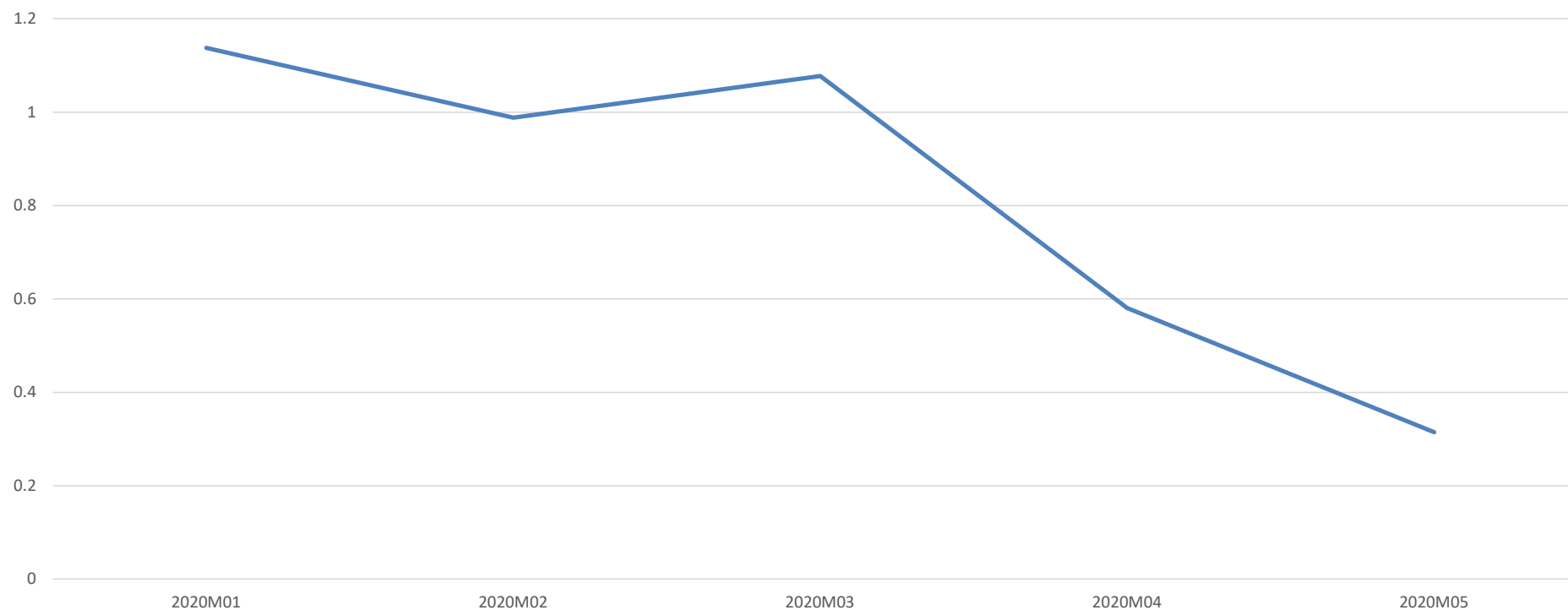
Key issues – Housing Demand

- Impact of labour market shocks & uncertainty on housing demand?
- How will the lending market evolve in the context of the pandemic?
- If households face increased income or wealth constraints
 - What is the appropriate policy mix to deal with these issues?
- Impact on structural demand for housing, in particular around migration?
- Change in housing type preferences and location choice
 - Due to more working from home possibilities?
- Opportunity for development in regional and rural locations?

Housing Supply

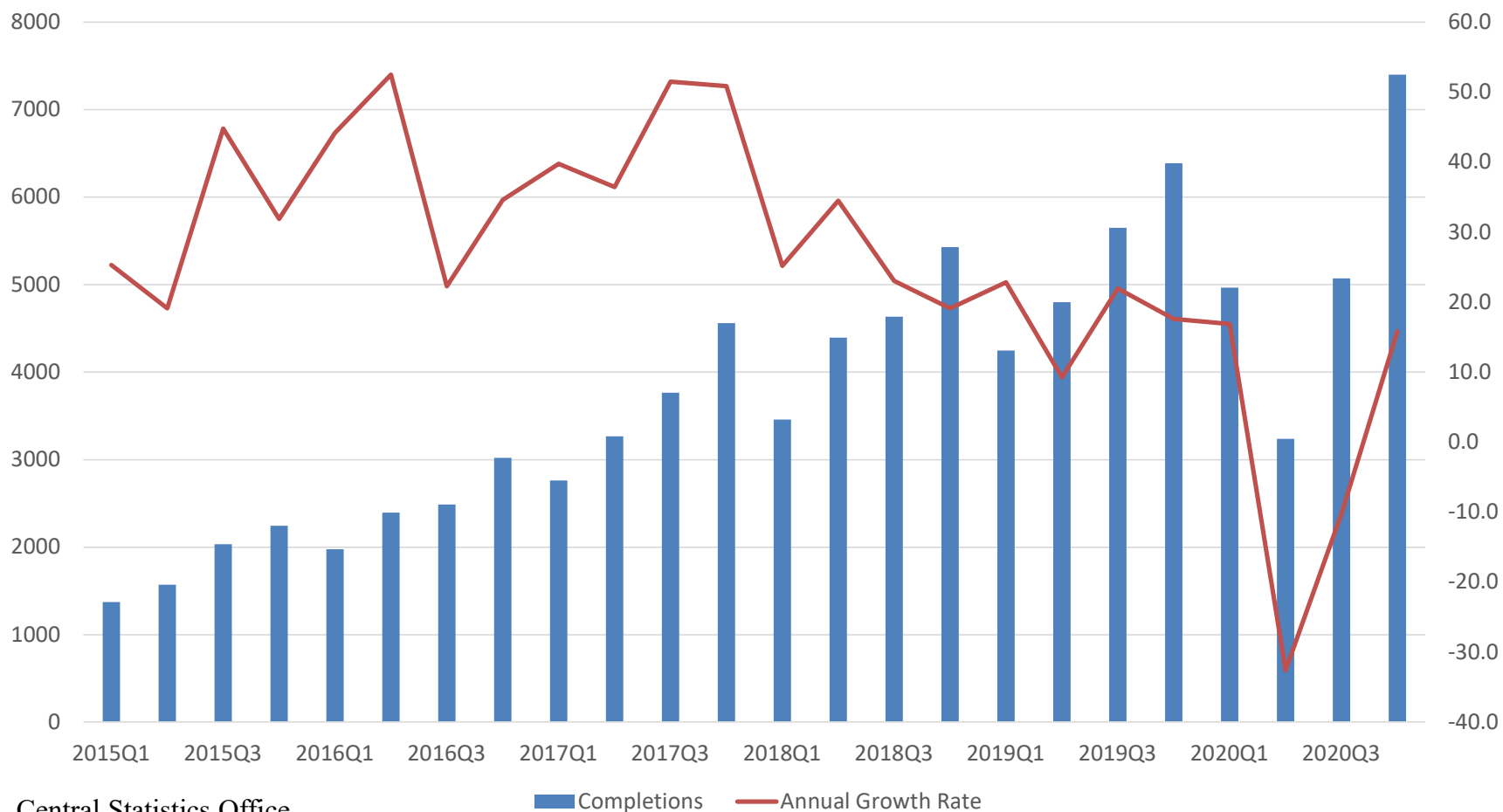
- Undersupply of housing already a major issue before the pandemic
 - 20,650 completions in 2020
 - 30,000 – 35,000 required to keep up with structural demand
- Immediate impact through administrative closure of construction sites
- Construction sites have reopened but efficiency reduced
 - Reduced number of workers on site
 - Social distancing
- Uncertainty will decrease investment today reducing supply in the future
- Credit Issues for builders and developers
- Impact of the restrictions around price setting and evictions in rental sector
 - May lead to lower rental supply going forward
 - Increased state provision of rental accommodation may be required

Housing Supply: Ratio of Sales Transactions in 2020 vs 2019



Source: Central Statistics Office, Property Price Register

Housing Completions



Source: Central Statistics Office.

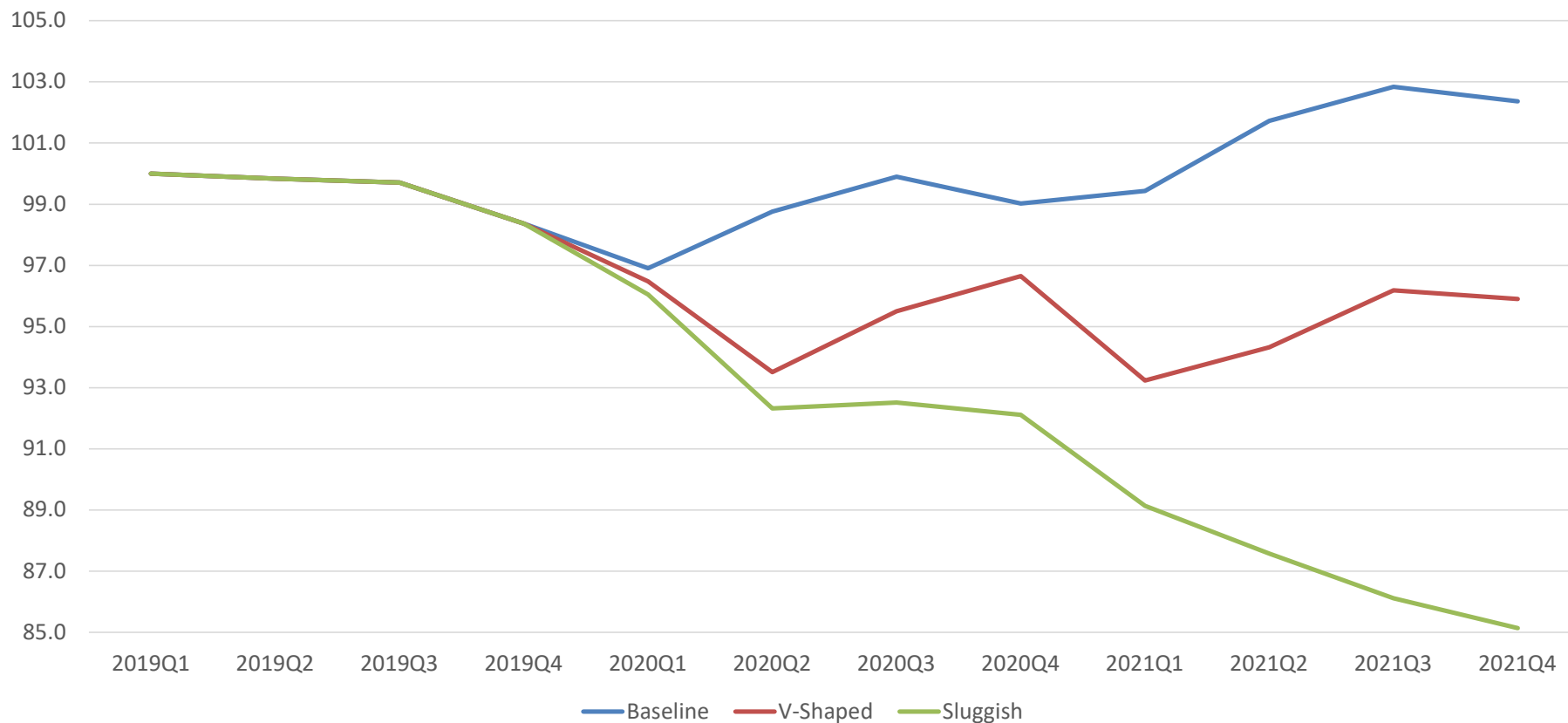
Key issues – Housing Supply

- Impact of public health restrictions affect productivity in the building industry?
- Impact of uncertainty around the economic and epidemiological situation
 - Affect the supply of new housing?
- With a more agile “working from home” culture:
 - Impacts for city-led development going forward?
 - Opportunity for a rejuvenation of rural areas and provincial towns?
- Can office accommodation in cities be converted to residential accommodation?
- Lower density housing with fewer apartments more preferential for households
 - Given concerns around outdoor space and green spaces?
- How do changes in pandemic-related tenancy legislation impact rental supply?
- To what extent should the state step in to provide rental housing supply directly?

Price/Affordability

- Short term impact likely to be dominated by demand side factors
 - Falling incomes and credit restrictions
 - Allen-Coghlan and McQuinn (2020) generate house price forecasts
- Supply side factors likely to take hold over a longer time period
- May lead to increased house price inflation when pandemic is controlled
- Affordability issues in the housing market:
 - Disproportionally impact lower income/ younger households
 - Corrigan et al. (2019) and Allen-Coghlan et al. (2019)
- These groups most likely to be impacted by pandemic particularly when supports are rolled back
 - Roantree (2020)

Forecasts of Real House Prices Under Three Scenarios

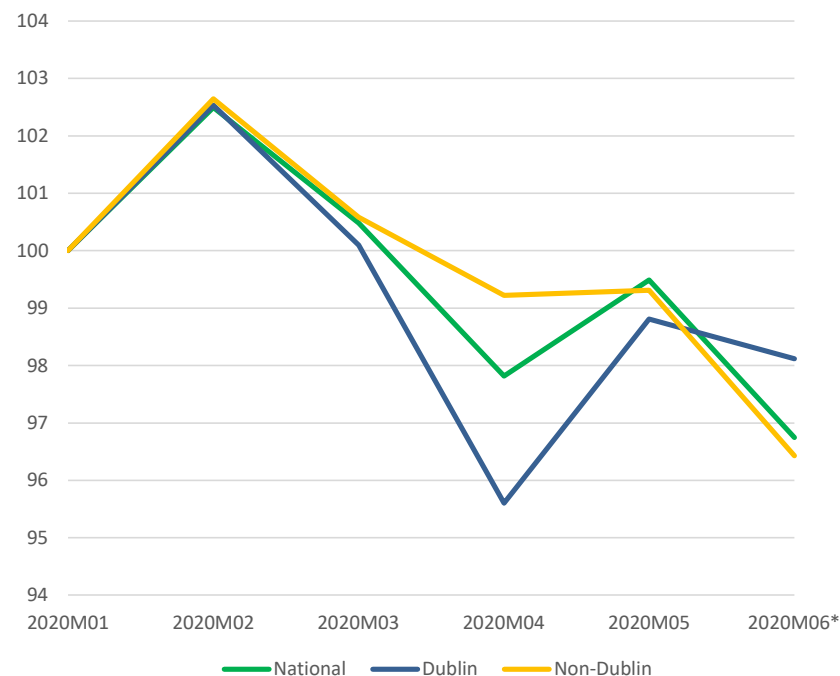


Source: Allen-Coghlan M. and K. McQuinn (2020)

Rental Market I

- Rental prices had been increasing rapidly prior to the pandemic
- To examine the early impact of the pandemic on the rental market the ESRI and RTB undertook a short-term analysis of monthly rent prices and transactions
- Prices were shown to have fallen over the lockdown period
- Transactions also fell significantly, particularly in April

Short Term Index of Rent Prices



Source: ESRI/RTB Rent Index

Rental Market II

- How Covid-19 would impact on affordability in the rental sector in the short term
 - Coffey et al. (2020)
- Affordability challenges softened due to PUP and TWSS
- Renting households more likely to work in sectors affected by the pandemic
 - Income shock experienced by renters was greater than that for homeowners
- Over a longer time period the pandemic is likely to worsen affordability issues in the rental market.
 - Incomes are likely to rebound slower than rising costs in areas such as transport and childcare costs.
 - A slow recovery in incomes will exacerbate pre-existing affordability challenges in the rental sector
- Restrictions in credit can lead to an increase in demand for rented accommodation
 - Cronin and McQuinn (2016)

Other Considerations

- Pandemic may impact the generalised goal of improving energy efficiency in the housing stock
- The retrofitting of private housing may be more difficult to achieve if households become credit constrained or face a reduction in living standards due to the deterioration in labour market conditions
- Incentivising investment through the private sector may need additional policy intervention if private households are unable or unwilling to finance such investment going forward

Key Policy Issues

- What is the appropriate policy mix required to deal with households facing income or wealth constraints as a result of the pandemic?
- Will work place changes brought about by the pandemic lead to changes in housing type preferences and location choice?
- How does planning policy react to changes brought on by the pandemic?
- Is city-led development going to be as required going forward with a more agile “working from home” culture and can this be an opportunity for a rejuvenation of rural areas and provincial towns?
- How do changes in pandemic-related tenancy legislation impact the rental market?
- To what extent should the state step in to provide rental housing supply directly?

Thank you