

THE RENT IS TOO DAMN HIGH: AFFORDABILITY IN THE DUBLIN HOUSING MARKET

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“The Dublin housing crisis is a problem that needs no introduction but there is less familiarity and understanding of the solutions to the problem. In this paper, Elana Kiley provides an overview of the state of the housing market in Dublin and reviews the policies that have been proposed to increase supply and improve affordability. By assessing the effects of policies introduced in other countries, Kiley concludes that a joint strategy involving developer- and state-led housing supply is the most efficient solution. Easing unnecessary regulation on private developments will provide short-term amelioration, which combined with counter-cyclical social housing development and government subsidies, should produce a lasting remedy to the housing crisis.”

Introduction: The State of the Dublin Housing Market

The Dublin housing market is becoming increasingly unaffordable. Many are spending significant portions of their take-home pay on housing-related costs and many more are unable to form households, are delaying moving out of parental homes, or simply are not able to live in Dublin. This is an issue in terms of equity as well as economic efficiency; Ireland as a nation is losing potential economic growth if a restricted housing market is not allowing individuals to live in cities and access productive, high-paying jobs.

Statistics on the affordability of Dublin show that increasing demand and lack of supply has driven Dublin housing to unaffordable levels. The Daft.ie housing report finds the average rent in Dublin city centre is €2,032 and the cost of renting a double bedroom in a shared house is €833 (Daft, 2021). Overall, Dublin rents are 105% higher than the rest of the country (ibid). The median Dublin resident spends 40% of their post-tax income on rent, and this is higher for those under 25 and over 65 (RTB, 2021), which

places an excessive burden on the Dublin residents with the lowest-income.

While 2/3 of new households since 1996 are 1-2 people, only 21% of new builds added in that time have been of a suitable size (Department of Housing, 2018). This lack of suitably sized housing stock means many young people are house sharing later in life or continuing to live with their parents. The number of 25–29-year-olds living with their parents increased from 36% in 2007 to 47.2% in 2019, compared to the EU average of 37%. This indicates that young adults are living at home for financial reasons rather than generational preference. Young adults who live with parents feel a lower sense of life satisfaction after controlling for all variables (-0.2%), especially among those who are aged 25-29 and employed (-0.3%) (Eurofound, 2019). This is despite the financial security benefits of living with parents compared with renting privately. Crucially, therefore, we must note that any statistics on vacancy rates and households will necessarily underestimate the true demand for housing, since many young people who would otherwise be living alone or with a partner are instead living with parents due to affordability.

Very little housing stock has been built recently in Dublin; the Central Statistics Office found that 45% of the national rental stock was built between 2001-2010, but only 4.9% between 2011-2021 (CSO, 2021), indicating a severe lack of housing being built in the country to meet increasing levels of demand, and inevitably driving up prices. An increase in supply would therefore lower housing costs. This could be done through simplification and streamlining of the application and development process, allowing greater density in the city centre, and direct government involvement in increasing supply by building more cost-rental housing.

The Economics of Housing Markets

The urban spatial equilibrium model predicts that density will be greater closer to a city centre, and that if housing prices exceed construction costs, developers will increase the supply of housing (with caveats due to market imperfections, the time taken in construction, etc). However, if supply does not increase, the market is not functioning correctly; data from the US shows that the most expensive (i.e., productive) cities also have the least housing being built. While ~20% of this is due to differences in construction costs across the US, most differences in housing prices are due to regulatory barriers (Glaeser, 2007; Glaeser, Gyorko, and Saks, 2005). Housing regulations are therefore an implicit tax on development that may outweigh any negative externalities, and lead to rising housing prices which make renters poorer in real terms (Glaeser and Gyorko, 2018). Reducing construction costs and unnecessary regulations, where possible, are therefore important for improving housing affordability, encouraging urban growth, and improving the national economy.

Given the positive externalities of human capital, identical workers will be more productive and have higher wages in cities with more human capital; increased demand and wages will then increase land and housing costs (Rauch, 1993). Spatial misallocation occurs when highly productive urban areas have a restricted housing supply which limits worker access to dynamic, productive regions and higher wages, and so restrictions on housing supply have a negative externality on the national economy due to lost productivity. Spatial misallocation in the US due to low housing supply in New York, San Francisco, and San Jose alone reduced US aggregate welfare growth by 50% from 1964-2009, leading to national GDP 8.9% lower than if these regions had median levels of restrictions – or \$8,775 per worker. Strict zoning laws and high levels of planning objections were particularly limiting to development, meaning that labour productivity gains in these regions did not increase employment but instead increased both nominal wages and housing prices (Hsieh and Moretti, 2019). Rising housing prices in productive areas discourages migration and slows urban-rural income convergence (Ganong and Shoag, 2017), and so spatial misallocation of workers is also damaging to people in rural areas.

Implications for Dublin Housing Policy

Since the Dublin housing supply is also restricted, Ireland as a nation would benefit economically if that supply were increased, allowing more productive workers to live there. Therefore, this paper recommends several policies aimed at achieving sufficient housing supply in Dublin to meet growing demand. Simplification of the planning process and incentives for developers would be quick to implement and slow the growth of rent prices. A longer-term plan of Government building would bring new cost-price housing onto the market and increase affordability.

Rent Controls and Vacancy Taxes

While rent control and vacancy taxes are both politically popular, the economic literature on their efficacy is underwhelming. Rent control in San Francisco reduced displacement of current residents into cheaper areas by 20%, however it also reduced housing supply by 15% and increased rents in the long run (Diamond et al. 2019). Likewise, in Massachusetts, rent control reduced rents but also decreased supply (Sims, 2007). It is likely that rent controls in Dublin have their place in providing stability and benefitting current residents but may be restricting future supply. Many urban areas with expensive housing markets have recently implemented vacancy taxes (Paris, Vancouver, Melbourne, etc), however the data is limited as to their effectiveness. Housing markets have a natural vacancy rate due to frictions – moving, repairs, temporary owner absence, etc (Hagen and Hansen, 2010). Variations in the actual vacancy rate are significant in determining the percentage change in real prices (Rosen and Smith, 1983); if the actual vacancy rate

is above the natural rate, it is a renter's market and renters can make additional demands for lower rent or increased maintenance (Miceli and Sirmans, 2013). A healthy rental vacancy rate is generally given as 3% (Brewsters, 2021 and Hawes, 2020) up to 4-4.5% (Gabriel and Nothaft, 2001). The Dublin vacancy rate is 1.6%, vs 4.6% nationally (Ernst and Young, 2021), with vacancy rates of 0.86% in North Inner Dublin and 0.24% in Clontarf (O'Donnell, 2021), indicating that a lack of stock is a greater issue than habitable properties standing vacant. Any vacancy tax would have to be very high to have a noticeable effect in a tight market, as seen recently when Paris increased the vacancy surcharge from 20% to 60%, because a 20% tax was unable to shift supply (Indecon, 2018). With so few habitable vacancies, the administrative costs may outweigh any benefits. The effectiveness of any legislation depends on data-gathering and enforcement. In 2020, Irish councils collected just €375,000 out of €12.5 million owed in Derelict Site Duty (O'Donnell, 2021), indicating this may be a difficult undertaking. For these reasons, affordability is more likely to come from building more supply, rather than vacancy taxes or any increases in rent controls.

Regulations

Simplification and streamlining of the development process in Dublin would allow more housing supply to come onto the market. Restrictions impose additional burdens on developers, through explicit costs, time delays, and project uncertainty. US metropolitan areas with more extensive housing regulation in 1985-1996 had 45% less development and the price elasticity of housing was 20% lower; a large part of this decrease in supply was due to time delays exacerbating the effects of demand shocks (Mayer and Somerville, 2000). While safety-related restrictions such as fire certs are clearly necessary, reducing other barriers to development in Dublin could allow housing to be built more rapidly.

To simplify planning and reduce development costs, the first proposal is to begin gathering data on construction costs in Dublin, to compare with other countries and target areas for reducing costs. While this data is not currently collected in a detailed and comprehensive manner, we do know that per-square-metre construction costs are higher in Ireland than most of the EU, and this could in part be due to inefficient regulations. For example, currently architects must self-certify a development as meeting regulations which costs €25,000, while in Northern Ireland developments have a standardised official certification process which costs only €250 (Lyons, 2015). Minimum standards on car parking availability could also be relaxed for areas well-served by accessible public transport. Current Dublin planning regulations mandate one car parking space per apartment. However, lower-income individuals are more likely to live in city centres rather than suburbs, as public transit is cheaper than owning a car (Glaeser et al., 2008), and

so parking minimums could be eased in areas near public transit, as is the case in South Korea (McKinsey, 2014). Currently, minimum requirements are not linked with how much cost they add to development and are effectively pricing out the lowest-income households from Dublin – addressing construction costs will allow supply to respond to increasing demand (Lyons, 2015). Additionally, Dublin has a relatively low density, and giving planning permission for more mid-rise apartment blocks could see a decrease in costs per unit.

Easing regulations would be rapid to implement. Gathering of high-quality data on construction costs may take longer, but once completed, further areas of savings may well be identified. These would reduce the costs of any developments and so increase housing supply and reduce rents for the average Dublin resident. Additionally, by reducing costs, developers can use their cost savings to increase the number of units built. Therefore, reductions in construction costs and inefficient regulations would benefit residents and housing developers alike.

State-led Development

Private development follows a cyclical pattern which can reduce the elasticity of housing supply. State-led housing developments could smooth this cycle through a Keynesian counter-cyclical building pattern. Since private landowners choose the type and timing of any development, they do so with consideration of expected future construction costs as well as future profits. They then attempt to time the market, viewing current high prices as predictors of higher future prices, resulting in delayed development. This reduces housing supply elasticity, particularly during booms (Murphy, 2018). Since Ireland is in a housing boom with rapidly increasing rents and housing prices, landowners are incentivised to delay building and wait for future price rises, which reduces housing supply from the private market.

A state-led housing programme could therefore run on a counter-cyclical pattern. Marquardt and Glaser (2020) argue that state-led involvement in Vienna has been more successful than market-led housing in Berlin, due to a long-term outlook of ongoing housing provision and economies of scale. 60% of Vienna residents live in subsidised housing (Ball, 2019), paying an average rent of €575.90 (Statistics Austria, 2021). Berlin has means-tested rent subsidies for low-income households, much like Ireland's HAP scheme. However, Austria has a blend of public and private housing development to keep housing affordable and decommodified with municipally built housing, limited-profit housing, and privately built housing all present in Vienna. Limited-profit and privately built housing both receive subsidies towards construction, reducing financing costs, in exchange for 1/3 of the development set aside for social housing and rent limits on the first several years after completion (Marquardt and Glaser, 2020). Government develop-

ment can reduce costs through economies of scale, as can private development with an industrial building approach. Standardization of development, manufacturing components off-site, and improved purchasing processes may reduce construction costs by up to 30% (McKinsey, 2014). Uncertainty also incurs costs on developers, so financing costs can also be reduced through State guarantees of development occupancy (ibid). Overall, this planned approach to housing provides stable and reliable conditions for market activity and is also more efficient – Vienna delivers more social housing at affordable rents and at a lower cost per unit (Marquadt and Glaser, 2020).

Implementation Challenges

Any significant interventions in the housing market of a major city will have significant challenges in implementation, both in cost and logistics. Financing the necessary investment in public housing will have large up-front costs and reaching a level of public or subsidized housing comparable with the supply and prices in Vienna will take many years to achieve - there is an element of path-dependence, in that Vienna has been building housing for years. However, interest rates are at historic lows, with the European Central Bank lending at 0.25% interest (Europa, 2021). Any spending, therefore, that delivers economic growth above 0.25% is a net benefit, and in a housing market as tight as Dublin's this is highly likely. As shown earlier, increasing housing supply in the 3 most productive US cities would have grown their economy by 8.9% per year (Hsieh and Moretti, 2019). The economies of scale available to industrial housing development will reduce costs (McKinsey, 2014). However, to ensure that housing meets the needs of residents any developments must be carefully designed with a mix of housing, amenities, and public transportation links. Vienna has little anti-social behaviour in public housing, due to the wide uptake, including amongst middle-class residents. Private developments are often a mixture of social housing for low-income residents and market-rate rents for higher-income residents in the same block, ensuring a mixture of social classes (Marquadt and Glaser, 2020). Any Dublin state-led housing developments should also ensure that a mixture of rents is available in developments to prevent ghettoization and anti-social behaviour.

In the short-term, housing supply could be increased through measures to increase private development, and this would be significantly easier and cheaper to implement. One challenge in bringing regulatory costs down is the lack of good data on construction costs (Lyons, 2015), and so high-quality data should be gathered from current developments. Standardized inspections could save €25,000 per development and would be easy to implement. Once full data is available, further areas to reduce costs could be easily identified, and this would increase supply from private developers with few additional challenges for the government.

A final challenge lies in evaluating the outcomes of affordability policies. Demand increases due to average households declining in size over time, requiring more dwellings for the same amount of population, as well as labour migration to a city from suburban or rural areas. Many young people in Ireland live with parents rather than alone due to lack of affordable housing. Any increases in supply of affordable housing will therefore also increase demand, and this may confound any evaluation of affordability. A policy may be successful if housing costs remain the same after an increase in both supply and demand, as this would still constitute an increase in migration to productive regions and will benefit the national economy through increased GDP per capita.

Conclusion

In summary, this review of the literature has outlined several policy proposals that may be effective at increasing affordability in the Dublin housing market. Rent controls and vacancy taxes have limited data showing positive long-term effects at increasing supply and so are not recommended, although rent controls may have a place in stabilising rents for current residents while other policies aimed at increasing housing development are undertaken. On the other hand, both liberalization and state-led housing policy are effective at reducing costs.

Regulations can work as an implicit tax and increase the costs of development. While some regulations are necessary, others may be liberalized with few costs. High standards on safety are clearly necessary, and high-quality soundproofing is likely necessary to convince renters to live in apartment blocks. Minimum quality standards can be beneficial in reducing adverse selection in a market, where one party is disadvantaged by having less information about the product being sold. Preventing adverse selection both reduces frictions and ensures bank's willingness to lend mortgages, as the housing will meet a defined standard. However, there are other regulations which could potentially be liberalized. As shown earlier, the largest increase in Dublin households has been singles and couples needing one- and two-bedroom apartments, and so minimum floor space requirements could potentially be decreased to increase the supply of housing targeted towards those demographics. Additionally, minimum parking requirements could be reduced, especially in apartment block developments close to public transit. Streamlining of the planning and development process, standardisation of construction inspections, and reduction in the consideration given to planning objections, would all decrease explicit costs, delays, and uncertainty that make housing development more costly. This would increase supply with little additional expenditure or logistical planning on the part of the government.

The Vienna case study demonstrated the benefits of long-term investment in subsidised housing. A blend of municipal building and incentives to private developers has

been highly effective at increasing housing supply and keeping rents affordable for residents. Subsidies to construction costs and occupancy guarantees reduced financing costs and decreased uncertainty for private developers. Additionally, economies of scale from state-led development as well as industrial building policy can reduce construction costs further. Finally, since private development runs on a business cycle and reduces housing elasticity during booms, a state-led housing development policy could run counter-cyclically to smooth this cycle and take advantage of cheaper inputs and labour. While this would be a significant investment and take many years to implement, the data shows these policies have been highly effective in other countries. A significant expansion in housing supply would not only benefit private developers and the construction sector but would also benefit the Irish economy as a whole as it enables workers to move to more productive employment.

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