Will the Future be One of Declining Home Ownership

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Will the future be one of declining home ownership?

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The crisis is changing attitudes to choices about housing

• For those who have choice
• Some changes will be temporary .... ?
• But we should not **assume** that the **sector will reset** to pre-crisis culture/structure
• Have we reached an inflection point marking a change from one paradigm to another?
• If so, the **institutional, tax & financial frameworks** underpinning housing and created over the 20th century **will have to change**
My contribution today

• Brief look at the past
• Comment on recent changes
• Consider what might happen in the future
• I will suggest that there is an urgent need for an overarching housing policy to allow the housing sector to be shaped to meet a changed paradigm
A brief look back

• Up to 1930s **private rented sector dominated**
  – Ownership unusual & renting common
  – Philanthropy
  – Many of the poor were in slums

• **Housing Acts**
  – Building standards
  – Rent Restrictions Acts
  – Direct provision by local authorities

• **Then there was a shift**
  • After depression/WW2 tenure patterns changed
    – Private Rented Sector -contracted
    – Social Rented -expanded
    – Home ownership -expanded

• **Home ownership became the dominant tenure**
  – in most developed countries & overwhelming majority in some
We entered an era of home ownership

• Home ownership solved problems
  – For the those who could afford to buy
    • Security of tenure
    • Security about the cost of accommodation
      – particularly after retirement
    • Control over home environment
    • Capital accumulation
  – Socially
    • More stable society – property = a stake in society
    • Better neighbourhoods
      – With a stake in the community you cared for the immediate environment
• Home-ownership was seen to = a better society
+ Particular influences in Ireland

- **L&T & Rent Restrictions Acts not reformed**
  - Rent control discouraged investors & reduced the supply of rental accommodation
  - PRS seen as a “Tenure of Transition”
  - The **Forgotten Sector**

- **Access to mortgage finance** was on favourable terms
  - Favourable treatment of Building Societies
  - Local Authority Mortgages

- **Tenant purchase**
  - Since 1930s council tenants enjoyed “right to buy”
  - At below market rates
  - & were facilitated to do so
Importantly ......

Tax policy incentivised ownership

- Tax on “Imputed Rent” removed
- Mortgage interest reliefs
- Grants/ direct subsidies
- No Capital Gains Taxes

• **Reduced the cost of purchase & owning**
• & **increased the relative attractiveness of ownership**
• & allowed more people to buy
• **Drove house prices higher than investment considerations would justify**
  - Hence yields were very low
  - Disincentive to investment
  - Investors bought to capture capital gains
Outcome for Ireland

• **Serious decline of the PRS**
  – PRS not attractive as an investment
  – Few commercial professional investors
  – A particularly high rate of home ownership
    • 1970
    – Ireland 61%
    – UK 50%
    – Sweden 35%
• By 1980 subsidies to home owners were **the most generous in western Europe**
• By 2007 home ownership peaked at 80%
• Home ownership became the **principal means of wealth accumulation** for middle and lower middle classes
Housing in Ireland before crisis

Stock

Traded

Private Rented 10%

Social (+) 9%

New

Owner Occupied 80%+
Home ownership culture has been deeply embedded

• Informed politics & public policy since 1930s
• Many laws, systems & structures in society reflect this
  – Residential Tenancies Act 2004
    • Framed for a market dominated by owner occupation
    • EG security of tenure & repossession provisions
      – Allow landlords to regain & sell their property with vacant possession
  – Because a dwelling occupied by a tenant with occupational tights is worth less than if it were vacant
But.....Was home ownership pushed too far?

People
- On lower & less certain incomes
- & with more insecure careers
- In risky employment

May not be able to afford to
- Make big mortgage repayments reliably
- Maintain their accommodation

• A lesson of the bust
Economic downsides

• Effect on macro-economy
  – Volatile housing markets now a concern

• Causes over investment in housing,
  – crowding out other investment?

• Adverse effect on entrepreneurship

• Lower labour **mobility**
  – Home owners (especially those in Negative Equity) are less mobile than renters

• In an illiquid market -**Can’t sell = Can’t move**
Financing home ownership

• Mortgage finance a problem...... again
  – As it was in the past.
  – Increased emphasis on affordability
  – With tighter lending criteria, will lower income households be able to access finance for house purchase?

• Likely that more people will rent than heretofore

• We now see this happening
A changed market

• But strong social arguments in favour of HO remain

• And economic benefits continue for those who can afford it

• But the crisis has changed the balance of economic costs and benefits

• There are economic costs to individuals and the economy which are increasingly being understood

• There is a need to be alert to this
  – and more fully understand the dynamic between owner occupancy and other housing sectors
Housing in Ireland - Now ... Big change!
Let’s look at the PRS

- Traditionally supplied by non-professional landlords
- They comprise the vast majority of landlords
  - Less than 1.25% of Landlords own 10 or more properties (NPPR)
- Other landlords
  - e.g. Property Investment Companies
  - exist in the private sector...... but in **very small numbers**
  - Although an increasing presence
- Approved Housing Bodies & LAs
  - in the social sector facing funding difficulties
Concerns

• Lack of supply ......in Dublin now ...later?
• Rents have increased by 8% in past 12 months
  – Peak to trough decline in rents = down 25%
  – Compared to decline of 57% for capital values
• Withdrawal of BTL landlords
  – Now only 4% of total new mortgages
  – Compared to 25% at peak & 6% before that
• Many BTL loans in distress
BTL loans..... not in good shape

• A lot of landlords are in arrears
  – 30,326 accounts in arrears + 90 days
  – 19,218 accounts in arrears + 360 days
  – = €5.9bn

• Many of these landlords will be forced out of the market

• Who will replace them?
Landlordism is difficult

- If there is an increase in households wanting or having to rent
  - The offering from non professional landlords has inadequacies
- The recent SCSI/Red C survey shows that
  - 1 in 3 are nervous of being at the mercy of their landlords
  - 61% of renters would be happy to rent long term, suitable property and terms being available
Looking to the future

• Many existing Home Owners will end up in the PRS
  – PDH arrears -95,554 accounts > 90 days in arrears
  – 57,163 > 360 days in arrears €11.4 bn

• Will **tenants** now in the PRS leave it and **buy**?
  – The expectation of many (20% in SCS Red C poll)
  – But what if people can’t get finance to buy?
  – Other than the relatively well off

• Has there been a **structural shift** towards renting?

• What if the PRS settles at c.18.5% to 22% of households
  • ie c.30% of housing stock
  • Closer to normal for Anglo-Saxon economies
What’s the appropriate balance?

• We have seen a shift to renting but is it a fundamental shift?
• State cannot afford /is unwilling to supply social housing directly
  – Intends to secure it from private sector
  – Is this viable or just an expectation?
  – Where is the research to support this?
• Will they have to rent from private landlords?
• Will there be sufficient people interested in becoming landlords to accommodate all these tenants?
Fundamentals remain

• Arguments for home ownership still hold
  – For those that can afford to save equity, get a mortgage & repay
  – Even though balance of economic advantage has moved due to reduced government incentives
  – Likely to be a smaller proportion of households
• For others, the PRS currently does not offer
  – Security of tenure
  – Rent security
  – Control over home environment
  – Freedom from worries about paying rent out of a pension
  – Good management
• But many private sector landlords cannot meet tenant’s requirements
Tenants in future... two categories?

• **Those with good incomes**
  – Short term workers
  – Those deferring house purchase for career
  – And other reasons
  – Choosers who want services or location

• **Commercial companies/Some private landlords will provide**
• **Few problems**

• **Those on lower incomes?**
  – May not be able to access finance or repay mortgages
  – Forced to be tenants by life/financial circumstances
  – Riskier & more difficult to manage
  – Who will provide them with accommodation?

• **A future without rent and tenure insecurity?**
  – & no ability to modify/decorate their own homes
  – Vulnerable to unprofessional landlords

• **Not desirable for many households**
Is government policy realistic?

- Looks to private sector for social housing solutions
  - Is this a practicable policy?
- Where are the investment funds to come from?
  - A private sector with limited access to finance?
  - Probably not
  - Foreign investment?
  - probably not for social housing without state guarantees of rental streams
Stated government policy now “Tenure Neutral”

• But what is meant by Tenure Neutrality
  – & how far does the government intend to adjust policy to facilitate this?
  – We have seen reducing govt supports
    • E.g. removal of MIR
  – Will this go further?
  – What needs to be done to balance government policy to achieve Tenure Neutrality?
Conditions required for tenure neutrality?

• Measures to balance the market
  – Tax on imputed rent
  – A tax on capital gains from owner occupied homes
  – Inheritance taxes
  – Rental & tenure security for tenants
  – Tenants to pay property taxes

• These are fundamental changes but could they be introduced...... Are they desirable?...

• Will government go further to secure tenure neutrality?

• Should there not be a debate about this?
Finally ........
It’s worth noting that housing is complex

• More complex than many think
• Influenced by traditions, systems & market structures
  – Tax system
  – Social welfare system
  – Financial systems, (availability, terms & conditions)
  – Legal system
• Tradition & culture (more important than we think)
• These form a nexus of interrelated and reflective influences
  – This is not appreciated and frequently underestimated
  – Vulnerable to the laws of unintended consequences
• There is a need to think & develop policies holistically
• I.e. develop a comprehensive housing policy integrated across all the sectors
Summary

• The underlying paradigm favouring home ownership has changed
• We have a legacy of institutions, attitudes, laws & traditions from a century of favouring home ownership
• We need to think out what is desirable & feasible & develop a coherent housing policy to inform decision making
• Thinking about property is changing...
• *A home without equity.....
  ........is just a rental with debt*
  Joshua Rosner 2001
• *Home ownership isn’t for everyone*
  P. Krugman
Thank You