Housing Affordability: Is the Real Problem in the Private Rented Sector?

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1. Introduction

This paper argues that policy initiatives intended to address affordability issues in the Irish housing market have been founded on a narrow concept of housing affordability – one that is focused on home purchase for owner-occupiers and overlooks the private rented sector. This narrow focus could be considered contrary to the longstanding officially stated objectives of Irish housing policy, where a broader, tenure-neutral concept of housing affordability is implied. The paper compiles data from a number of sources which show that throughout the recent housing boom, affordability problems have been more severe among tenants in the private rented sector than among mortgage holders. Even among first-time buyers, the majority of households have mortgage repayment costs that, as a share of household income, are lower than the typical rent levels found in the private rented sector. The absolute number of private sector tenants at risk of financial strain on account of rent costs is larger by a considerable multiple than the number of first-time buyers at risk of financial strain on account of mortgage repayment costs. The paper recommends that housing policy refocus its attention on a more balanced and comprehensive view of housing affordability and that it take steps to redress the neglect to date of affordability problems in the private rented sector.

2. The Concept of Affordability in Irish Housing Policy

The objectives of Irish housing policy, as stated by the Department of the Environment, Heritage and Local Government, are… *to enable every household to have available an affordable dwelling of good quality, suited to its needs, in a good environment and, as far as possible, at the tenure of its choice* (see www.environ.ie under 'Housing Policy'). This statement of objectives implies there are two priorities in Irish housing policy. The first is that everybody should have a decent, affordable place to live, and the second is that, as far as possible, people should be able to choose whether to own or rent their home. Since it is widely presumed that people prefer to own than to rent, the second priority has usually been taken to mean that housing policy should lean in the direction of supporting home ownership. For present purposes, however, the point to be emphasised about this second priority is that it is a *second* priority. Taking the official statement of the objectives of housing policy at face value, the main concern is that people should have adequate, affordable accommodation, and it is a secondary concern whether they should own or rent that accommodation.

The concept of affordability implied by this ordering of priorities is tenure-neutral: the costs people have to bear to access accommodation should be within their means, irrespective of whether those payments are in the form of rent or mortgage repayments.[1] Recent developments in Irish housing policy, however, have departed from this implication as they have instituted a concept of affordability which relates solely to the cost of home purchase for owner-occupiers. This version of the concept is enshrined in legislation in the Planning and Development Act 2000. Section 93 (1) of that Act defines affordable housing as housing or building land provided for those who need accommodation and who otherwise would have to pay over 35 per cent of their net annual income on mortgage payments for the purchase of a suitable dwelling. In keeping with this definition, the measures to secure a supply of affordable housing contained in Part V of that Act and the 'affordable housing initiative' adopted in the National Agreement *Sustaining Progress* (2003) are targeted on low-income households seeking to purchase their own homes.

It could be argued that a broader affordability concept which includes tenures other than owner occupation is contained in the criteria used to determine need for social housing as laid down in the Housing Act, 1988. Section 9 (2)(j) of that Act specifies that those who… *are, in the opinion of the housing authority, not reasonably able to meet the cost of the accommodation which they are occupying or to obtain suitable alternative accommodation* should be included among those to be taken account of in assessing social housing need. While the 'cost of accommodation' referred to here could include rent costs, no affordability thresholds are specified in the Housing Act and it is

[1] A case could be made that affordability conceptualised in this way entails a primary focus on rents, since the underlying concern is with access to accommodation rather than ownership of housing assets. Repayments of capital on a mortgage, which have to do with asset acquisition, could thus be considered as extraneous to a strict definition of housing affordability.

left to each housing authority to interpret this section in its own way. The concept of affordability implied by the Housing Act 1988 thus has no specific meaning and has not been incorporated into recent policy initiatives on affordable housing. 'Social housing' and 'affordable housing' have been treated as separate forms of housing provision and have used different eligibility criteria to identify target groups.[2]

The limiting of the concept of affordable housing to refer only to housing for owner-occupiers has been paralleled by a similar restriction in the indicators used to measure housing affordability (see the companion piece by David Duffy in this volume where these indicators are reviewed). There has been a particular lack of reference to data on the level or affordability of rents in the private rented sector. Thus, for example, the Bacon reports on the housing market commissioned by government in response to rising house prices contained no detailed analysis of the private rented residential market (Bacon and Associates 1998, 1999, 2000). The Commission on the Private Rented Residential Sector which reported in 2000 raised concerns about the high levels of private rents but presented no comparative data on affordability across tenures (Department of the Environment and Local Government 2000, pp. 102-105).

A number of data sources are available which provide the basis for a broad picture of affordability, based on comparisons of the burdensomeness of rent or mortgage repayment costs for households in different tenures. One might object that comparisons of this kind are misleading, since the payments in question are not all directed towards the same ends. Rent is a payment for housing services. Mortgage repayments embody both an interest component, which could be considered as analogous to rent, and a capital repayment component, which is directed towards the acquisition of an asset. Thus mortgage repayments provide for both access to accommodation and acquisition of an asset, where rent payments provide only for access to accommodation. In the normal course of events, it should cost more to purchase a dwelling than to rent the same dwelling, though the degree to which the higher cost of purchasing compared to renting would show up in mortgage

2 The restriction of the concept of 'affordable housing' to refer solely to housing for owner-occupation seems to be unique to Irish housing policy. In most western European countries, the concept of affordable housing, in so far as it is used at all, is more or less synonymous with social housing, that is, housing allocated on a need basis at rents below the prevailing economic rent. In the United States, affordable housing is defined in the National Affordable Housing Act 1990 as rental housing that falls below certain rent limits. In England, Section 106 of the Town and Country Planning Act 1990 makes provision for affordable housing in manner which is similar in some respects to Part V of the Planning and Development Act 2000 in Ireland. However, in the English legislation affordable housing encompasses both rental and purchase housing, and in practice most of the provision under the legislation takes the form of rented housing (Crook *et al.,* 2002). In Australia, the Affordable Housing Act 2003 also encompasses both purchase and rental housing. Thus, the unique feature of the Irish concept is not that it includes housing for purchase but that it excludes housing for rent.

payments compared to rent depends on the initial loan-to-value ratio of the mortgage.

Nevertheless, despite the differences between mortgage repayments and rents as economic transactions, it seems reasonable in the present context to compare them from an affordability point of view. This reflects the focus of recent concerns with the immediate problem of providing new households with affordable accommodation, irrespective of the nature of the economic transaction they use to access that accommodation.

3. QNHS Data on Housing Affordability, June-August 2003

The most recent source of data which is relevant here is the *Housing and Households* module of the *Quarterly National Household Survey* (*QNHS*), *Third Quarter 2003*, which was carried out by the Central Statistics Office (CSO, 2004). This module was fielded on a sample of over 25,000 households during the period June-August 2003 and achieved a response rate of 93 per cent. A number of affordability indicators have been published from this source, including monthly mortgage payments for owner occupied households and for recent first-time buyers (with 'recent' defined as those who have bought for the first time since 1996), and weekly rent payments for tenants in the private and local authority rented sectors (CSO, 2004). For comparison purposes, weekly rent payments are here converted into an approximate monthly equivalent by multiplying them by four. The QNHS does not collect data on household incomes so it is not possible from this source to express monthly mortgage or rent payments as a percentage of household incomes.

Table 1 presents data on mortgage and rent payments from this source. Since it is often suggested that affordability problems are particularly acute in Dublin, data are presented for both the state and Dublin (city plus county). As we shall see later, affordability problems are not necessarily concentrated among those with the highest mortgage or rent payments, since they also often have high incomes. Nevertheless, it is worth concentrating for the moment on the incidence of high payments across the tenure categories, taking €800 per month as a threshold above which payments can be considered high. A key concern here is to establish the relative incidence of high payments between private tenants and first-time buyers, since much of recent commentary has assumed that on-going housing costs are particularly onerous for the latter category.

Viewed from this perspective, some key points to emerge from Table 1 are as follows:

- Private tenants generally have higher housing costs than first-time buyers. About 34,000 private tenants in the state, and 25,000 in Dublin, have rent payments in excess of €800 per month. The number of first-time buyers with mortgage repayments of over €800 per month is about 13,000 in the state and 7,500 in Dublin – roughly one-third the number of private tenants in that payment category.
- The proportion of private tenants with payments above €800 is 33 per cent nationally and 57 per cent in Dublin, compared to

corresponding proportions of 11 per cent of first-time buyers in the state and 24 per cent in Dublin.

- Taking all owner occupiers with a mortgage, the absolute number with payments above €800 per month is similar to that among private tenants, both nationally and in Dublin, but the percentage of all owner occupiers in this payment category is much lower (10 per cent of all mortgage holders in the state and 18 per cent in Dublin).
- Local authority rents are low compared to rent or mortgage costs in the other tenures covered in Table 1. Eighty per cent of local authority tenants in the state and 73 per cent in Dublin have rents below €200 a month.

Table 1: Indicators on Mortgage Repayment and Rent Costs, QNHS, June-August 2003

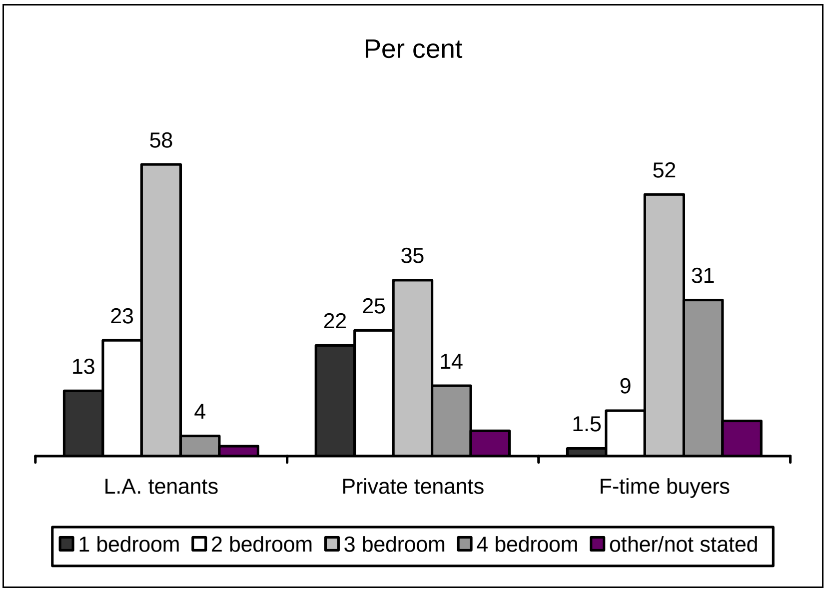
	Size of Monthly Rent[1] or Mortgage Payment						
	€0 to €200	€200+ to €400	€400+ to €800	€800+	Not Stated	No Rent/ Mortgage	Total
				Numbers (000s)			
State							
Local authority tenants	79.0	17.1	1.5	0.9			98.5
Private tenants	6.0	17.6	46.0	33.7			103.2
Recent[2] first-time buyers	5.3	25.0	51.7	12.9	8.1	15.7	118.8
All owner occupiers with a mortgage	60.8	113.7	129.5	36.9	35.0		375.8
Dublin							
Local authority tenants	30.9	9.9	0.8	0.7			42.3
Private tenants	1.9	3.6	13.3	24.9			43.6
Recent[2] first-time buyers	1.9	4.0	12.6	7.5	1.7	2.7	30.7
All owner occupiers with a mortgage	18.9	28.1	41.7	22.6	12.1		123.5
				Per Cent			
State							
Local authority tenants	80.2	17.4	1.5	0.9			100
Private tenants	5.8	17.1	44.6	32.7			100
Recent[2] first-time buyers	4.5	21.0	43.5	10.9	6.8	13.2	100
All owner occupiers with a mortgage	16.2	30.3	34.5	9.8	9.3		100
Dublin							
Local authority tenants	73.0	23.4	1.9	1.7			100
Private tenants	4.4	8.3	30.5	57.1			100
Recent[2] first-time buyers	6.2	13.0	41.0	24.4	5.5	8.8	100
All owner occupiers with a mortgage	15.3	22.8	33.8	18.3	9.8		100

[1] Monthly rent payment=weekly rent payment x 4.
[2] Bought since 1996.
Source: Central Statistics Office (2004), Tables 9a, 9b, 12.

The key issue here is that tenants in the private sector are more likely than recent first-time buyers to pay large amounts for their housing. They also make up a disproportionately large share of those with high housing costs.

Drawing further on the QNHS data, Figure 1 shows that although tenants in the private rented sector have high rents, their dwellings on average are smaller than those occupied by first-time buyers. Almost half of private sector tenants are in one or two bedroom dwellings, compared to just over 10 per cent of recent first-time buyers.

Figure 1: Number of Bedrooms in Dwellings among Local Authority Tenants, Private Sector Tenants and Recent[1] First-Time Buyers, QNHS, June-August 2003

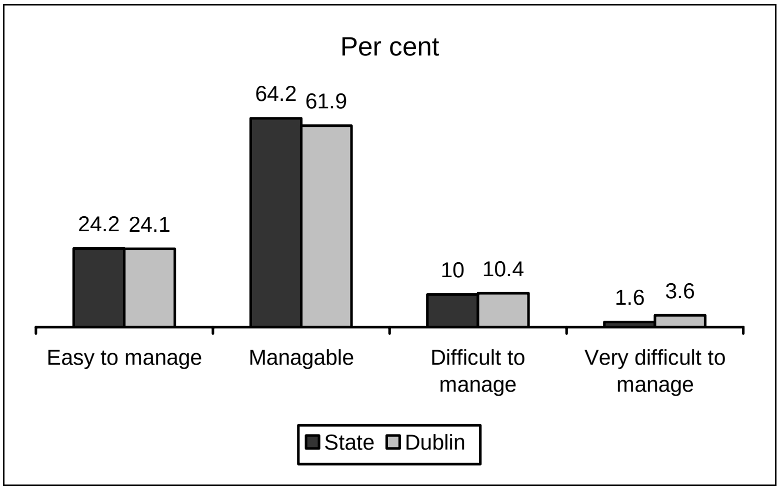


[1] Bought since 1996.
Source: CSO (2004), Tables 9a, 9b, 11.

The QNHS module asked first-time buyers about their perception of the affordability of their mortgage repayments (no questions on perceived affordability were put to those in rented accommodation). Figure 2 shows that first-time buyers generally do not see themselves as having problems with the affordability of their housing: 88 per cent in the state and 86 per cent in Dublin perceived their mortgage repayments as either 'manageable' or 'easy to manage'. Only small minorities – less than 2 per cent in the state and less than 4 per cent in Dublin – perceived their mortgage repayments as 'very difficult to manage'.

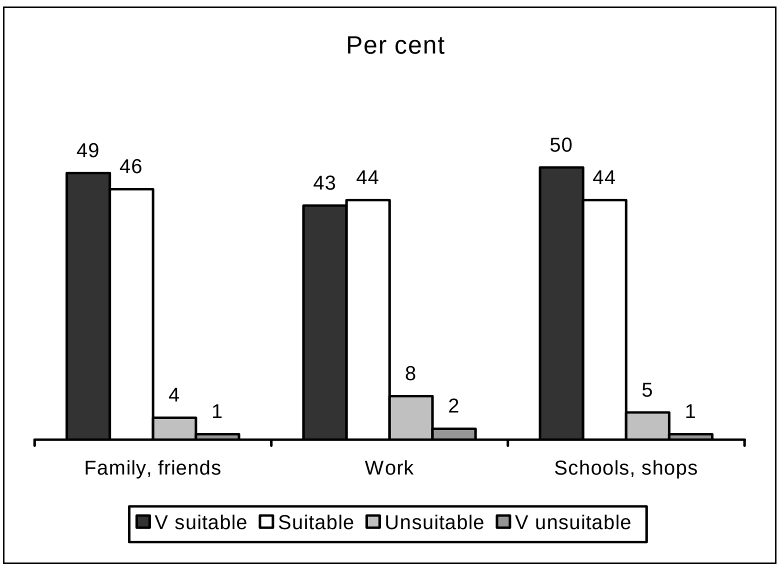
The QNHS also asked first-time buyers about their perception of the suitability of their dwellings in terms of three issues – closeness to family and friends, closeness to work, and closeness to schools, shops and childcare. This question provides a test of the view that high house prices have forced many first-time buyers to buy their homes far away from their preferred locations. The responses indicate that such locational difficulties are relatively uncommon: on all three issues, the vast majority of first-time buyers perceived their dwellings as either 'very suitable' or 'suitable' (Figure 3). The highest incidence of perceived unsuitability arose in connection with closeness to work, but even in that case only 10 per cent of first-time buyers considered their dwellings as 'unsuitable' or 'very unsuitable'.

Figure 2: Recent[1] First-time Buyers Classified by Perceived Affordability of their Mortgage Payments, QNHS, June-August 2003



[1] Bought since 1996
Source: CSO (2004), Table 14.

Figure 3: Perceived Suitability of Dwellings among Recent[1] First-time Buyers in Terms of Closeness to Family and Friends, Work, and Schools/Shops/Child-care, QNHS, June-August 2003



[1] [1] Bought since 1996.
Source: CSO (2004), Table 13.

4. Irish National Survey of Housing Quality, 2001-2002

Further measures of housing affordability can be obtained from the Irish National Survey of Housing Quality, a survey of a national sample of 40,000 households carried out by The Economic and Social Research Institute (ESRI) on behalf of the Department of the Environment, Heritage and Local Government in 2001-2002 (Watson and Williams, 2003). In these data, 'first-time buyers' are defined by reference to a more cent time frame than in the QNHS data just looked at. They are indirectly identified by assuming that those who have bought their homes within the previous five years and are aged under 35 are first-time buyers (Watson and Williams, 2003, p. 41).

Table 2 presents a number of indicators relevant to housing affordability from this source. The data corroborate the QNHS finding that private renters on average pay more in rent than do purchasers with a mortgage. The median monthly private rent is €609 per month, while the median monthly private mortgage repayment is €140 among those with local authority mortgages and €457 among those with private sector mortgages. Among first-time buyers, the median monthly mortgage repayment is €635, slightly about the median private rent. However, the more pressurised circumstances of private renters re-emerge when we look at the risk of financial strain arising from housing costs, defined here as the proportion of households in each tenure category whose rent or mortgage costs exceed one-third of their net household income (a measure reminiscent of the definition of housing affordability set out in the Planning and Development Act, 2000 which was referred to earlier). Twenty-eight per cent of private tenants have rent payments above this threshold, compared to 6 per cent of all mortgage holders and 11 per cent of first-time buyers. By this measure, private tenants are four and a half times more likely than all mortgage holders and two and a half times more likely than first-time buyers to be at risk of financial strain from housing costs.

Table 2: Housing Affordability Indicators, Irish National Survey of Housing Quality, 2001-2002

	Local Authority Tenant	Private Tenant	Owners with a Mortgage	Recent First-Time Buyers[1]
Median monthly rent/ mortgage payment €	107	609	140[2] 457[3]	635
% spending more than one-third of net income on housing costs	1	28	6	11
% who perceive housing costs a heavy burden	33	20	13	11
Mean number of deprivation items (scale 0-8)[4]	3.5	1.7	0.8	0.6

[1] Have purchased on a mortgage in previous five years and are aged under 35.

[2] Local authority mortgage

[3] Private sector mortgage

[4] Cannot afford following items: replace worn furniture, adequate heating, week's holiday per year, new clothes, presents once a year, socialising once a month, car or van.

Source: Watson and Williams (2003), Tables 3.1, 3.2, 3.3, 3.4, 3.11, 3.12, 3.13.

The subjective measure of affordability presented in Table 2 – the percentage who perceive their housing costs to be a heavy burden – also suggests a heavier affordability burden among private tenants than among mortgage holders: 20 per cent of private tenants consider their housing costs to be a heavy burden compared to 11 per cent of first-time buyers and 13 per cent of all mortgage holders. A striking feature here is the high incidence of perceived affordability problems among local authority tenants. As we saw earlier, rents paid by local authority tenants are low and rarely exceed one-third of their household income, yet one in three local authority tenants perceive those rents to be a heavy burden. This reflects the high levels of income poverty among local authority tenants and the degree to which even modest rent payments can impose strain on household finances – see, e.g., the study of Dublin City Council tenants by Murray and Norris (2002) which showed that the poverty rate among those tenants was three times higher than the national average and that two-thirds of their rent accounts were in arrears.

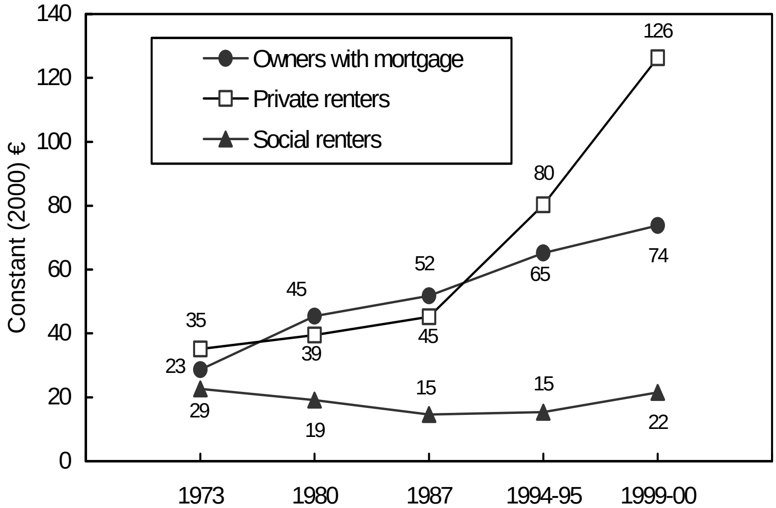
Table 2 also presents a non-monetary indicator of deprivation, based on a scale which measures the number of basic consumption items which households cannot afford. According to this scale, the level of deprivation is almost three times higher among private tenants (who cannot afford 1.7 items on average) than among first-time buyers (who cannot afford 0.6 items on average). Again, however, local authority tenants are the worst off: their deprivation level (3.5 on the scale) is double that of private sector tenants and six times that of first-time buyers.

5. Household Budget Surveys, 1973-2000

In order to set recent housing costs in historical context, we can draw on data from the Household Budget Surveys, the series of national household expenditure surveys conducted by the CSO periodically since 1973. Figures 4 and 5 show the trends in rent/mortgage repayment costs for the main tenures over the period 1973-2000, both in absolute amounts (in constant 2000 euros) and as a share of household expenditure. The final period covered in these graphs – that between the Household Budget Surveys of 1993-94 and 1999-2000 – includes the peak year of house price increases of recent times, which occurred in 1998 (for a more complete presentation and discussion of these data, see Fahey, Nolan and Maître, 2004, pp. 29-47).

Figure 3 shows that the high rent levels now being paid by private tenants have been emerging since the late 1980s. Private rents changed relatively little in real terms between 1973 and 1987 but thereafter rose sharply. By 1999-2000, private rents (at an average of €126 per week) were 2.8 times greater in constant money terms than they had been in 1987 (when they had averaged €45 per week). It is notable that this rapid increase was well underway in advance of the housing shortage and house price boom which occurred from 1994 onwards. It did, however, coincide with the fall-off in provision of new local authority housing which occurred from 1987 onwards and the consequent expansion of rent allowances provided under the Supplementary Welfare Allowance (SWA) scheme to support welfare dependent households in the private rented sector. Expenditure on SWA rent allowances increased from €7.8 million in 1989 to €127.5 million in 1999 and doubled again to €252 million in 2002. In 2002, 54,213 recipients received rent supplement at some time during the year (Department of Social Community and Family Affairs, 2003: Table H8). The number in receipt in any given week was likely to have been considerably lower than that, though was still likely to have accounted for anything up to 40 per cent of households in the private rented sector. These developments meant that a significant portion of the demand for housing among the less well-off was transferred from the social housing sector to the private rented sector from 1989 onwards, thus greatly increasing demand for lower-cost private rented accommodation.

Figure 4: Weekly Rent/Mortgage Payments by Housing Tenure, 1973-2000

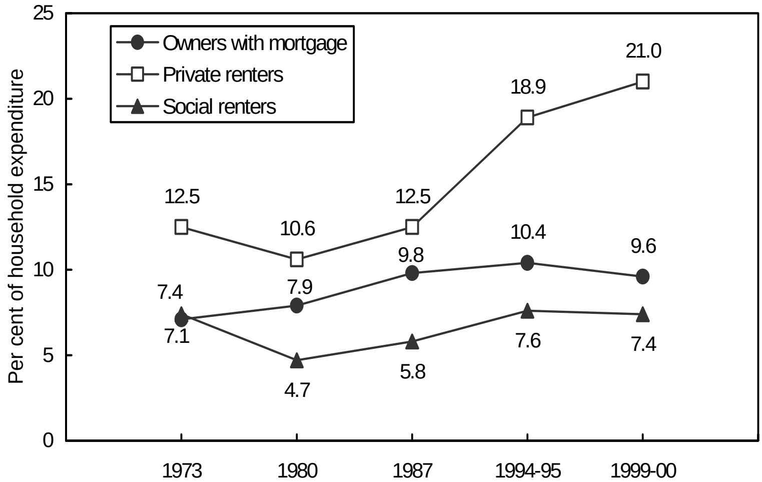


Source: Household Budget Surveys 1973, 1980, 1987, 1994-95, 1999-2000.

Owners with a mortgage also registered an increase in expenditure over the period covered in Figure 4, but the increase was smaller and more evenly spread over time than was the case for private renters. It is notable that the upward trend was not intensified by the boom in house prices after 1994-95. In fact the increase between 1994-95 and 1999-2000 (at €9 per week, or 13.8 per cent) was *less* than it was in the period between 1987 and 1994-95 (when it was €13 per week, or 25 per cent). Among social renters, no real increase in average spending on rent occurred – average social housing rents were about the same in real terms in 1999-2000 as they had been in 1973, and in fact had fallen considerably below those levels in the intervening decades.

Figure 5 shows the trend in rent/mortgage payments as a percentage of total household expenditure for the different tenure categories. Here again, the most striking changes are seen to have occurred among private renters. The share of their total household expenditure devoted to rent fell between 1973 and 1980 and rose back to the levels of 1973 by 1987. It then increased rapidly, rising from 12.5 per cent of household expenditure in 1987 to 18.9 per cent in 1994-95 and then to 21 per cent by 1999-2000. Among owners with a mortgage, the share of household expenditure absorbed by mortgage payments rose during the 1970s and 1980s. However, echoing the disjunction with house price trends noted above, this share peaked at 10.4 per cent in 1994-95 and thenceforth fell slightly, to 9.6 per cent by 1999-2000.

Figure 5: Weekly/Rent Mortgage Payments as Percentage of Total Housing Expenditure, 1973-2000



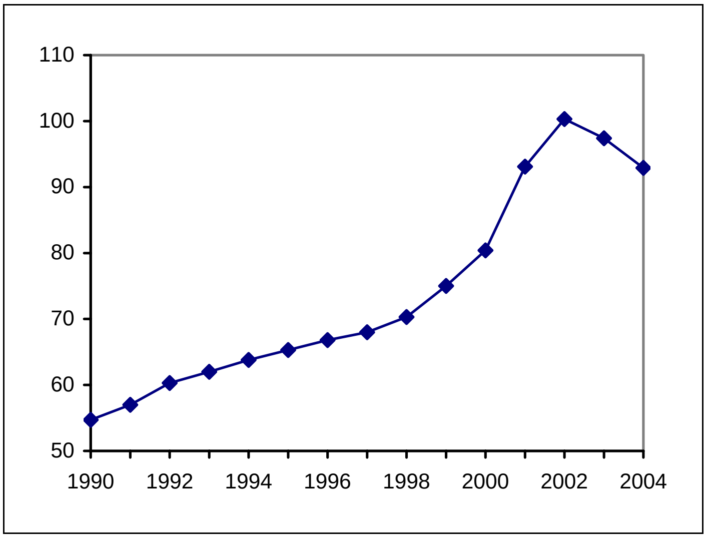
Source: Household Budget Surveys 1973, 1980, 1987, 1994-95, 1999-2000.

6. Key Findings

All of the indicators reviewed here suggest that high housing costs and pressures on household finances arising from such costs are heavily concentrated in the private rented sector, and that these problems represent a serious worsening of the affordability of private rented accommodation over the past fifteen years. A private rents index extracted by the CSO from the Consumer Price Index for the period since 1990 suggest that rents almost doubled between then and 2002. The trend then turned downward and by March 2004 was 7 per cent off the peak (Figure 6). However, in the context of the previous long-term rise, recent declines are modest and do little to restore affordability to accommodation in the sector.

Affordability problems for those buying their homes on a mortgage, even for first-time buyers, are less extensive and less severe than they are for private tenants and have changed little over the period of house price rises which began in 1994. In 2003, first-time buyers were only one-third as likely as private tenants to have monthly outgoings on their housing of over €800 per month. Subjective perceptions of financial strain arising from housing costs were also much lower both among mortgage holders as a whole and among first-time buyers with a mortgage than among private tenants. These points should not be taken to imply that there are no affordability problems for those purchasing their own homes. Some mortgage holders are heavily burdened by mortgage repayments, and entry barriers to home purchase arising from low incomes, down- payment requirements and transaction costs inhibit many people from buying their own homes. Nevertheless, whatever affordability problems may be present for those who have made the transition to home ownership, the key point here is that they are less severe than

Figure 6. Rent Index for the Private Rented Residential Sector, March 1990-March 2004



Source: CSO (special tabulation from the Consumer Price Index).

those facing private tenants. In so far as there is an affordability risk for those who have recently bought their homes, it is more a *future* risk associated with possible rises in interest rates or falls in income (due, for example, to unemployment, illness or family break-up) than a *current* problem of high on-going mortgage repayments. The extent of that future risk can also be overstated, since for the vast majority of mortgage holders, mortgage repayment burdens are low enough to give a margin of comfort in the event of future interest rate rises.

Local authority tenants experienced financial pressures arising from their rent costs which, if anything, exceeded those experienced by private tenants. However, these problems arose in a context where local authority rents were low, both in absolute terms and as a share of household income. The financial strain of paying those rents reflect the low incomes of local authority tenants and the difficulty of setting aside even a small share of a low income for rent purposes. Thus the financial pressure on local authority tenants arose because their incomes were low rather than because their rents were high – the problem in their case is not a housing costs problem as much as an income problem. It would be preferable from a policy point of view that low incomes among local authority tenants be dealt with as an aspect of social security or employment policy rather than of housing policy. For the sake of the financial viability of the housing function of the local authorities, it is important that a solution not be sought in the further reductions of the already low rent levels in the social housing sector.

7. Re-interpreting the Affordability Problem

The data reviewed so far suggest that a broader, tenure-neutral concept of affordability leads to better understanding of where the main affordability problems in the Irish housing market can be found, referring especially to the hitherto neglected private rented sector. That broadening of the concept in turn points to the need for a more comprehensive view of how the Irish housing system has developed before and during the housing boom. Much of the commentary on housing affordability has taken the rise in house prices since 1994 as the key feature of the housing system to be taken into account. However, one could argue that a more fundamental development is the narrowing of housing options open to households which has occurred since the late 1980s, particularly as far as low income households are concerned. This narrowing of housing options has arisen from three developments. This first is the reduction in new social housing construction from levels in the range of 20-35 per cent of total new housing construction which it attained in the 1970s and 1980s to less than 10 per cent today. The local authority rental sector now accommodates less than 7 per cent of households. New forms of social housing provided by the voluntary housing associations have added about 1 per cent to this amount, but this still only brings the combined social housing sector to around 8 per cent of total households, compared to over 15 per cent in 1971. The contraction of the social sector to this small size means that a large category of low income households who formerly would have turned to social rental housing as their first option (usually with an option to buy through tenant purchase at a later stage in the family cycle) must now look elsewhere.

A second development is that private rented accommodation has become much more expensive in absolute terms and relative to the cost of accommodation in other tenures. This development has occurred despite the increase in the size of the private rented sector since the early 1990s and the slight down-turn in rents which has occurred since last year. The high level of rents has priced many low income households out of the private rental market, while other potential private renters have been channelled towards home purchase even when that option might be less than optimal for them in their circumstances. Welfare-dependent households who seek accommodation in the private rented sector can obtain welfare support towards their rental costs in the form of rent allowances under the Supplementary Welfare Allowance scheme, but such supports are not available to low income households who are outside the welfare net.

Apart from rising rents, a further indication of the degree to which the supply of private rented accommodation has failed to meet demand can be obtained by looking at patterns of household formation among the young adult population, which here we define as those aged 20-34 years (Table 3). The young adult population grew by 24 per cent between 1991 and 2002, compared to a total population growth of 11.1 per cent. While the growth of total numbers in the young adult age-group is widely recognised as a major driver of housing demand over the period, less attention has been paid to its changing marital status composition and the consequences this is likely to have had on the type of housing being sought, especially in regard to dwelling size and tenure. The key issue here is that marriage rates declined sharply in this age-group, so that the number in this age-group who were single grew by 64 per cent between 1991 and 2002. This growth in the single young adult population was echoed in patterns of household formation. While the number of households where the reference person was aged under 35 years grew by 33.7 per cent between 1991 and 2000, those where the reference person was aged under 35 years and single grew by 158.5 per cent. Some of these single reference persons may have been cohabiting, so that non-couple households were likely to have been somewhat fewer than the total of households headed by single people would suggest. However, cohabiting couples in all age groups amounted to 77,600 in 2002, of whom less than three-quarters were composed of single people and some of whom were aged 35 years or over. Thus it is likely that the bulk of the increase in households headed by a single person aged under 35 years were non-couple households.

Table 3: Indicators of Housing Demand in Total and Young-Adult (Ages 20-34) Population, 1991-2002

	1991	1996	2002	% Change	
				91-02	96-02
Population					
A. Total population	3,525,719	3,626,087	3,917,203	11.1	8.0
B. Population aged 20-34	761,964	813,328	945,703	24.1	16.3
C. Population aged 20-34 and single	426,308	532,937	698,725	63.9	31.1
Households					
D. All households	1,029,084	1,123,238	1,287,958	25.2	14.7
E. Households with reference person aged <35	217,208	230,369	290,335	33.7	26.0
F. Households with ref person aged <35 and single	69,644	105,645	180,018	158.5	70.4
G. % single: F as % of E	32.1	45.9	62.0		
Mean number of persons per private household				-11.8	-6.3
H. All households	3.34	3.14	2.94	-0.4	-0.2
I. Households with reference person aged <35	3.15	2.86	2.76	-12.2	-3.6
J. Households with reference person aged <35 and single	2.11	2.18	2.44	15.7	12.1

Source: Census 1991, Vol. 3, Table 11; Census 1996, vol. 3, Table 13; Census 2002, Vol. 3, Table 13.

The importance of this growth from the present point of view is that, since it was concentrated among those at the pre-family stages of the life cycle, it is likely to have given rise to an underlying demand for non-family housing and for rental rather than ownership tenure – in other words, for the type of housing which in an efficient housing market the private rented sector would be expected to provide. The data so far available from the Census do not distinguish the dwelling types or tenure arrangements among these households so we cannot tell directly how far this demand was fulfilled. However, the data do reveal that, in addition to the growth in the numbers of households headed by single people aged under 35 years, there was also an increase in the average size of their households, which rose from 2.11 persons in 1991 to 2.44 in 2002 (final row, Table 3). In the context of a general decline in household size and the normal association between rising prosperity and smaller households, the movement towards larger households among young single adults is notable. The most likely explanation for it is an increasing recourse to house-sharing among young single adults as a way of coping with high rents in the private rented sector.[3] Thus the increase in household size among young adult households headed by single people can be taken as a measure of pent-up demand for easy-access, non-family housing and as a further indication that inadequate expansion in the supply of private rented accommodation had been an important feature of the Irish housing market in recent years.

The third – and less important – reduction in housing options that can be mentioned here is the virtual disappearance of the public sector mortgages (provided by local authorities and the Housing Finance Agency) as a means of access to house purchase for low income households. In the 1970s and 1980s, public sector mortgages generally accounted for about a quarter of the total mortgage market and were targeted on those who would be unable to meet the financial requirements needed to obtain private sector mortgages. Today, this source of mortgage credit accounts for only a fraction of 1 per cent of the total mortgage market, so that those who formerly would have constituted the clientele for this kind of house purchase credit must now look to private sector lending agencies. Private sector mortgages are now available in greater abundance, on easier terms and at lower nominal interest rates than was the case in the past so the decline of public sector mortgages is less significant than it otherwise might have been. Yet, it represents a housing option which was widespread in the past but which has all but disappeared today.

These developments mean that a reasonably diverse set of housing options available to low income households prior to the 1990s has narrowed a more limited range of possibilities at present. New households must either buy their homes or struggle to obtain alternatives that have become either very scarce (social housing) or both scarce and expensive (private renting). Households not requiring the long-term accommodation associated with owner occupation (such as young adults, migrants, or those departing the family home) might formerly have preferred to rent their accommodation but are now directed into attempting to buy as a way of avoiding high rents, thus adding to pressure on the house purchase market while failing to achieve tenure choice. It is often assumed that, in the Irish housing market, people rent because they cannot afford to buy. Given present relative costs, however, it would be plausible to assume that, among young adults in particular, there are many who buy because they cannot afford to rent and that in consequence young households are funnelled into home ownership before their family cycle stage would require it.

[3] Data from the Household Budget Surveys corroborate this explanation, as they show that the private rented sector was the only sector to experience an increase in average household size during the 1990s (Fahey, Nolan and Maître, 2004, pp. 31-33). It has sometimes been suggested that first-time buyers might also engage in a form of house-sharing by sub-letting a room or portion of the house to non-family members as a way of coping with mortgage costs. However, the CSO Housing and Households module referred to earlier included a measure of the incidence of such sub-letting and estimated that out of 118,000 first-time buyers only 300 were sub-letting (CSO, 2004, Table 14).

These patterns would suggest, then, that what is distinctive about the housing market in Ireland in recent times is not that so few newly formed households are able to afford house purchase but that so many are expected to make this large housing acquisition with such immediacy in the early stages of household formation or as a pre-condition for other major life cycle transitions.

8. Policy Implications

The key policy implication arising from these arguments is that the concept of 'affordable housing' currently in use in Irish housing policy needs to be broadened to include rented accommodation and that questions of the cost and supply of rented accommodation need to give greater attention in future policy development. The combined social and private rented sector needs to be expanded, both in absolute terms and as a proportion of the housing stock, and the affordability of private rented accommodation needs to be improved. It is open to question what the balance between social and private rented accommodation in an expanded rental sector should be. It is likely, in fact, that instead of the traditional sharp divide between the two, the rental sector should move towards a continuum ranging from the present heavily subsidised social housing provision at one extreme, through various kinds of semi-social and semi-subsidised rental accommodation in the centre (of which private rental tenure subsidised through SWA rent supplements is an existing variant), to largely unsubsidised free market rental accommodation at the other extreme. The point to be emphasised here is not that the rental sector should have a particular shape or composition but that it should be considerably larger and more diverse in the rent levels and tenure arrangements it offers to households than it is at present. The Commission on the Private Residential Rented Sector made recommendations along similar lines and considered a number of measures which might strengthen the sector (Department of the Environment and Local Government, 2000). Greater attention needs to be given to the Commission's recommendations and a coherent strategy for promoting a diverse affordable supply of rental accommodation needs to be developed. Furthermore, the system of rent allowances provided under the Supplementary Welfare Allowance scheme needs to be taken account of in such a strategy and somehow accorded with other aspects of housing assistance. The Residential Tenancies Bill published in June 2003 addresses some of these issues, mainly having to do with regulation of the sector, tenancy conditions for tenants, the prohibition of rent increases more frequently than once a year, and complaints procedures for tenants who feel that rents for their dwellings exceed market rents. Whether these provisions will have a substantial effect, either for good or for bad, on supply or affordability of accommodation in the sector remains to be seen.

To point to the need for expansion and greater diversity in rental accommodation is not to suggest that the goal of restraining price increases and promoting the affordability of housing destined for owner occupation is unimportant or should be abandoned. But it is to imply that these latter goals, while worthy in themselves, should not be pursued at the expense of either the private or social rented sectors. Thus, for example, the fiscal measures which were in place in the period 1998-2001 in order to deter 'investors' from purchasing housing should not be repeated. While those measures may have had a short-term justification as a means to dampen house price rises, they contributed to the long-term constraints on the size of the private rented sector and thus to increases in the already high levels of private rents.

The proposal for 10,000 additional units of 'affordable housing' contained in the National Agreement *Sustaining Progress* (2003) also needs to be reviewed in this light (*Sustaining Progress: Social Partnership Agreement 2003-2005,* p. 70). As set out at present, this initiative is specifically directed at low income house purchasers and therefore does not aim to affect the supply of rented accommodation. A valid rationale for restricting the initiative in this way is hard to detect. Taking a comprehensive view of the rental as well as the owner occupation markets, a strong case could be made that this initiative should be redirected so that it is targeted at least in equal measure at the rental sector and that it should be delivered in such as a way as to increase the supply of rental housing and reduce the rent burdens experienced by private sector tenants. It is beyond the scope of this paper to suggest how the initiative might be designed to achieve these ends (and many practical difficulties would arise in this regard). The point rather is to emphasise the seriousness of the need which arises in this area and the requirement that housing policy treat this need as a priority.

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