

IRELAND'S MEDIUM-TERM HOUSING REQUIREMENT

Ronan Lyons

“Ending Homelessness by 2030 – Are We Serious?”

Focus Ireland event, September 2024

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Ronan Lyons | Focus Ireland | September 2024

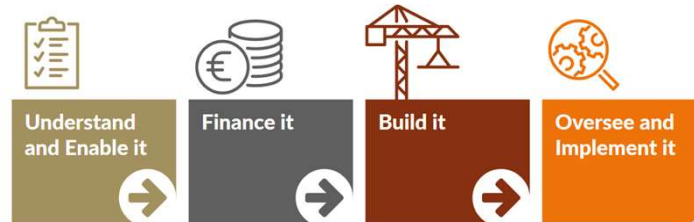
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The Housing Commission and a ‘radical reset’ of housing policy

- The Housing Commission report:

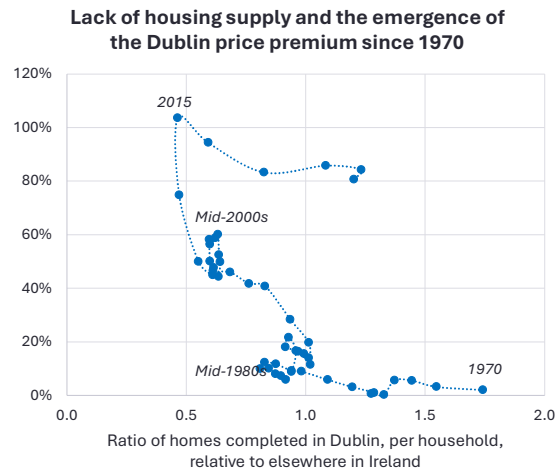
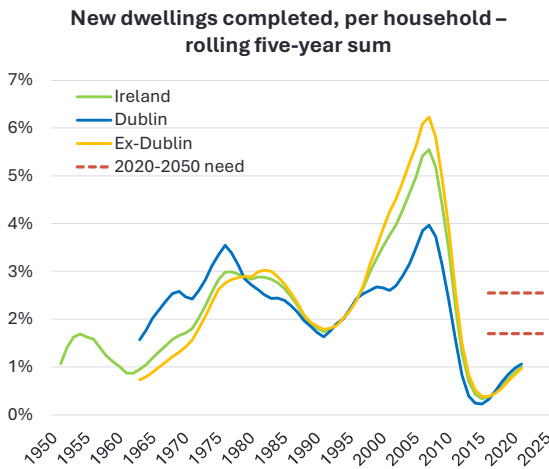
“Housing must be a unique national priority, supporting social cohesion and economic development...The Commission’s work has identified as core issues, ineffective decision-making and reactive policymaking where risk aversion dominates... Should these issues persist, there will continue to be insufficient progress on the issues our society faces...”

Only a radical strategic reset of housing policy will work.”



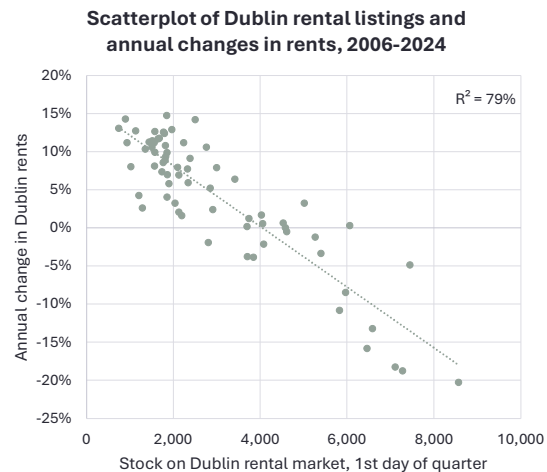
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Supply is always and everywhere the most important determinant of housing affordability – the long-term view (Dublin has lagged in housing completions for five decades)



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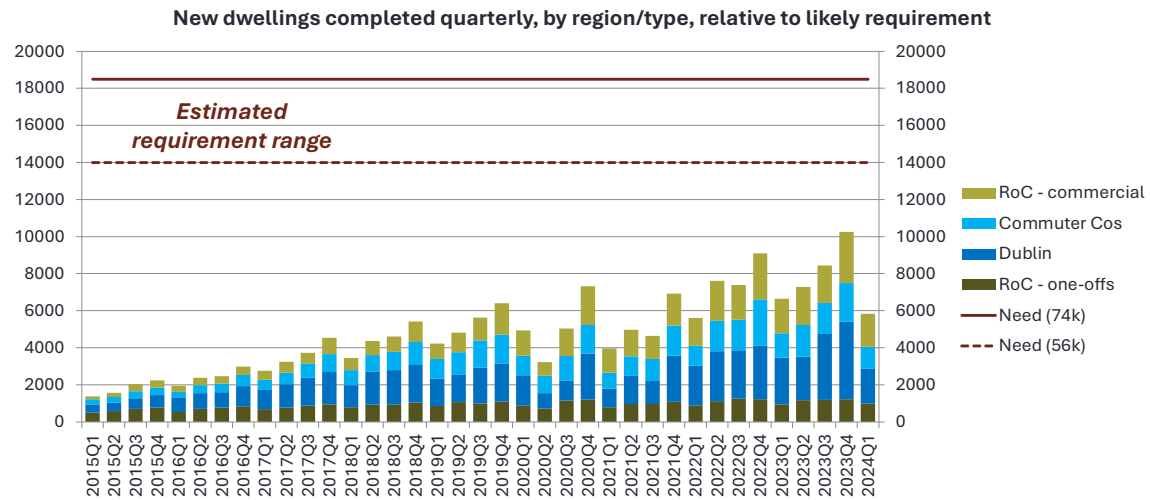
Supply is always and everywhere the most important determinant of housing affordability – the last two decades (availability determines affordability)



Source: Analysis of Daft.ie Report

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Supply (excluding one-offs) has increased six-fold since 2015 – but needs to roughly double again to align with likely long-term housing requirements to mid-century



Source: Analysis of Census, CSO and Department of Housing figures

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“Understand it”: four key parameters in understanding housing required

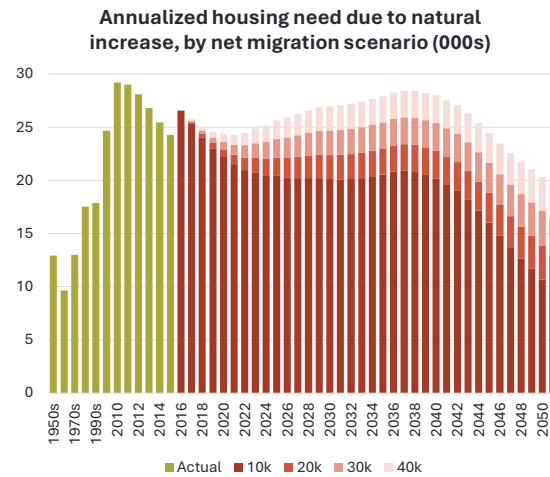
1. **Natural increase in the (household-forming) population**
2. Net migration
3. Obsolescence rate
4. Household size / headship

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Official population projections (plus migration) suggest largely steady need for new homes from natural increase until the 2040s – at least 20,000 needed per year

1. Natural increase

- In housing, the relevant natural increase is the change in **the household-forming population** – measured here as the gap between 25-34 year-olds and 80-89yos (females only, annualized)
- Three measures for are given for the post-2016 period, reflecting four different migration scenarios (from +10k p/yr to +40k p/yr)
- While more rapid than expected falls in fertility represent a downside risk to housing need after the 2050s, unanticipated gains in life expectancy represent an on-going upside risk
- Overall, **at least 20,000 new homes** are needed a year from natural increase in the population – and perhaps closer to 25,000



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“Understand it”: four key parameters in understanding housing required

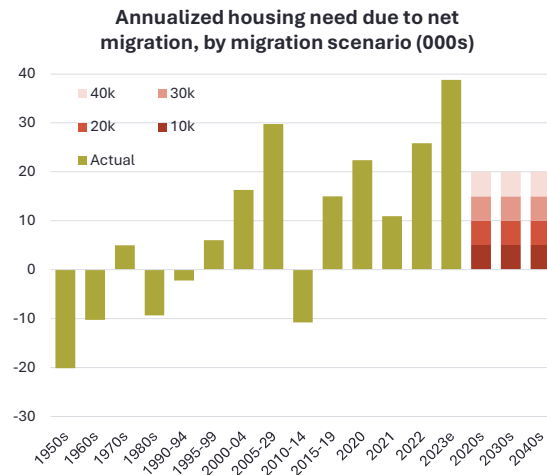
1. Natural increase in the (household-forming) population
2. **Net migration**
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Ireland's shift from a net exporter of people to a net importer in the 21st century means additional housing need – of perhaps 15,000-20,000 homes a year – from net migration

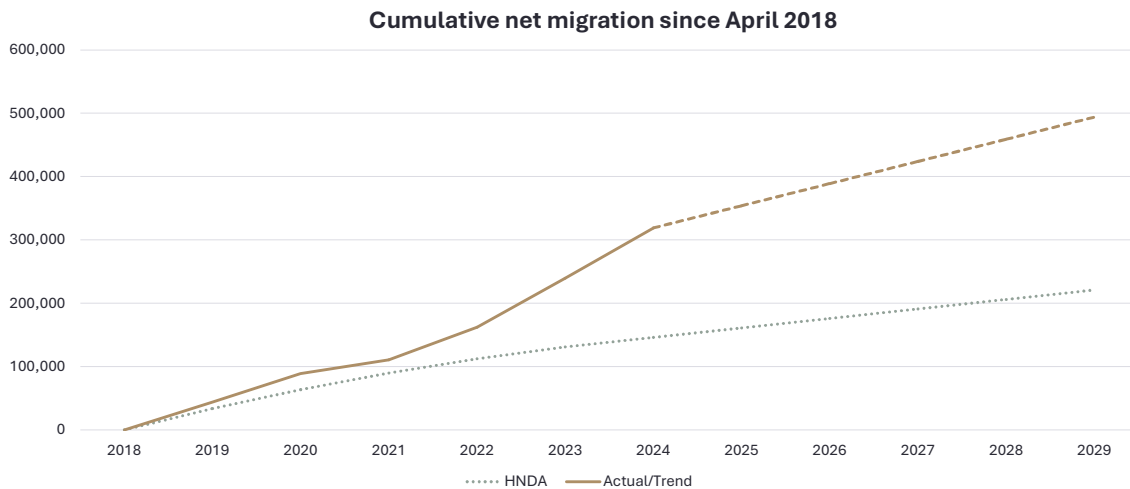
2. Net migration

- Four measures for the 2020s-2040s are given, reflecting the three different migration scenarios as of 2017, together with a +40k figure, based on recent trends in migration
- The graph converts net migration into housing need by dividing the migration component of annual population change by 2 – reflecting that the majority of migrants are single/couples
- Long-run trends in migration have shifted from net emigration to net immigration – without a strong case for this to stop, this implies a need of up to 20,000 homes a year



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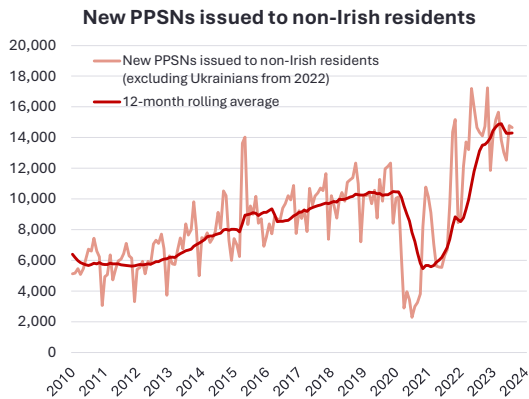
Since 2016, Ireland has tracked a '(very) high migration, (very) low fertility' scenario – but until 2024, its housing targets/development plans were based on a *low*-migration scenario



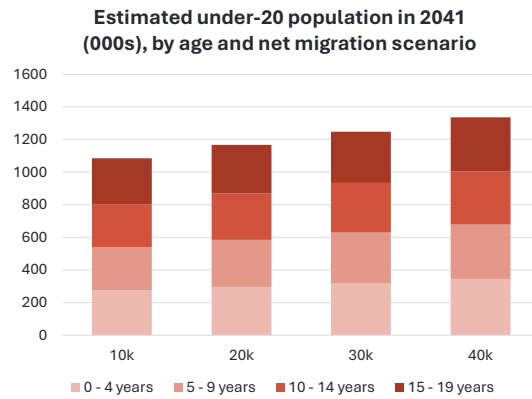
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Rather than slowing rapidly, as the policy targets assumed, trend migration is increasing – which will have second-round effects on natural increase in the population

High-frequency data confirms an uptick, not sharp slowdown, in migration (excluding Ukrainians)



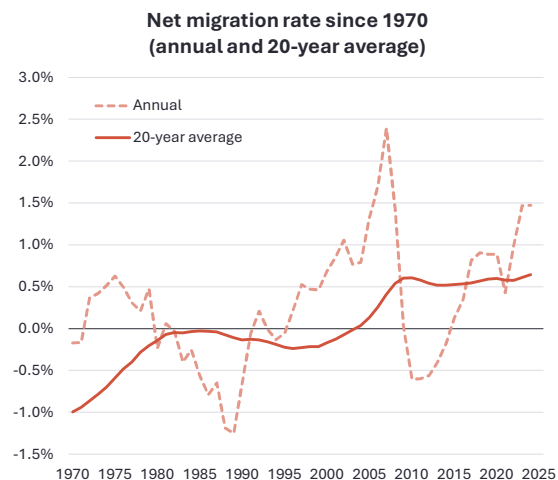
Migration has a lagged second-round effect on housing requirement, as it boosts the number of births



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Yes, migration is volatile – but it is more helpful to think in terms of long-term rates, rather than annual numbers, when projecting net migration – 20-year average is ~0.6% per year

- New ESRI housing targets are based off 20,000 p/yr baseline (albeit higher pre-2030)
- Unusual assumption for two reasons
 - Firstly, it is lower than average net migration over the past generation (+31,000, over period 2000-2024)
 - Secondly, it is a number, not a rate – no reason to assume a country of 6 million people will have the same migration patterns as one of 3 million
- Migration has been volatile year-to-year, but the 20-year average rate gives clearer trends over the past half-century
 - From -1% in 1970 through to ~0% (late 1980s/1990s) to ~0.6% by the early 2020s
 - Net migration rate of 0.6% would mean 11,400 homes needed in 2000 but 18,300 in 2040 (in ESRI baseline)



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“Understand it”: four key parameters in understanding housing required

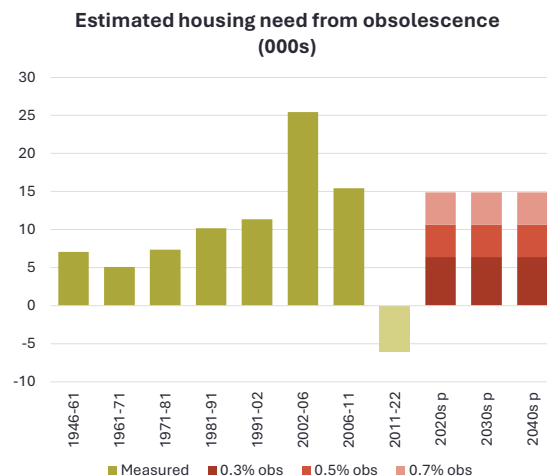
1. Natural increase in the (household-forming) population
2. Net migration
3. **Obsolescence rate**
4. Household size / headship

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‘Residual’ method of calculating obsolescence is unreliable – more plausible rates suggest 6,400-14,900 homes are needed each year to replace homes that fall out of use

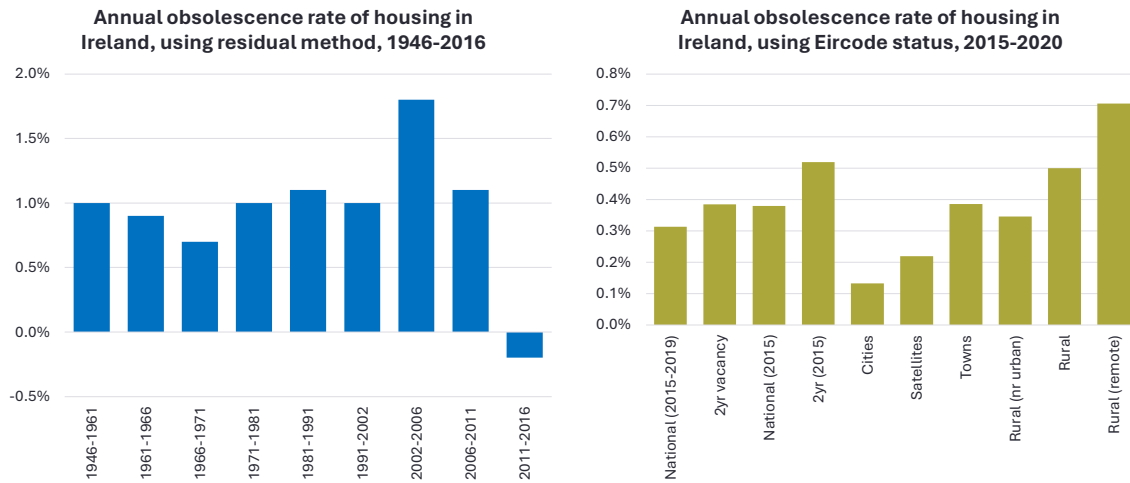
3. Obsolescence

- Dwelling-level data indicate falling rates of obsolescence (defined as >3 years vacant) during the late 2010s – consistent with the hypothesis that housing scarcity lowers the obsolescence rate
- The graph opposite estimates the number of new homes per year needed to compensate for obsolescence: 1946-2022 shows the annualized difference between dwellings recorded as built and the change in households between Censuses
 - As above, 2011-2022 figures are implausible by this measure – and reflect, *inter alia*, enumerator effort and other factors relating to the scarcity of housing
- Projections to 2040s assume no housing built after 2022 goes obsolete before the 2050s and apply rates of 0.3%-0.7% to the 2022 stock – between 7,000 and 15,000 homes per year



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Recent data confirm that the ‘residual method’ is inadequate for understanding the true obsolescence rate – dwelling-level data should be used from now on



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“Understand it”: four key parameters in understanding housing required

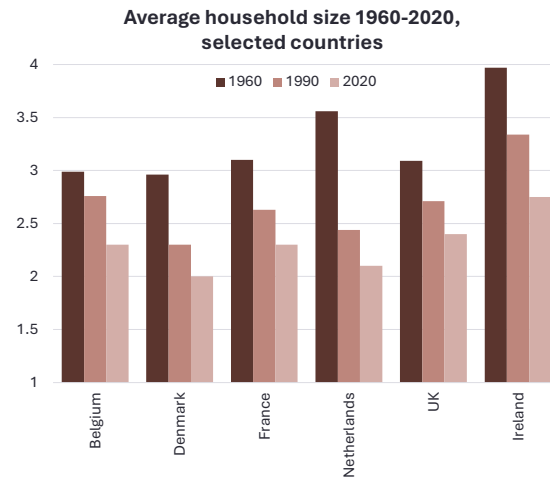
1. Natural increase in the (household-forming) population
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As in almost all countries, household size in Ireland is declining steadily, from above 4 persons in the 1950s with a value below 2 likely before the end of the century

4. Household size

- The combination of ongoing falls in HHS in most of Ireland's peers together with static HHS in Ireland since 2011 means that the gap has widened between Ireland and its peers on this measure
- Explanation for this widening gap relate to preferences or constraints
 - It could be demand-led: HHS stabilised because there was no more need for it to fall
 - However, a growing body of evidence – reviewed here – suggests that underlying household size continued to fall after 2011

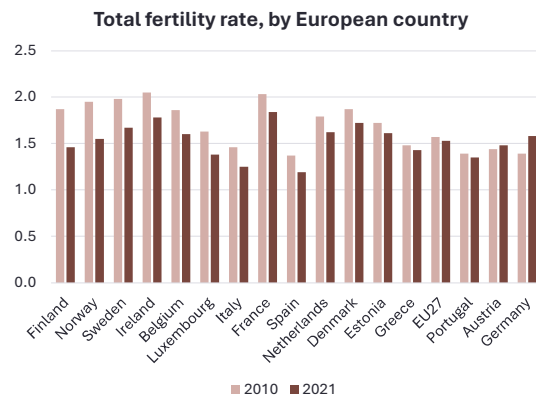


Source: UN-DESA.

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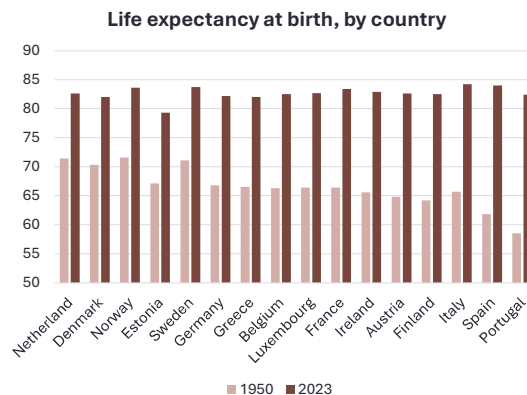
In two key determinants of household size – size of families (falling) and length of life (rising) – Ireland is very much in line with its European peers

Together with some Nordic countries, Ireland has seen its fertility rate decline sharply since 2010



Source: Eurostat. Countries are sorted from left to right by change in fertility rate

Life expectancy in Ireland has increased in line with its European peers in recent decades

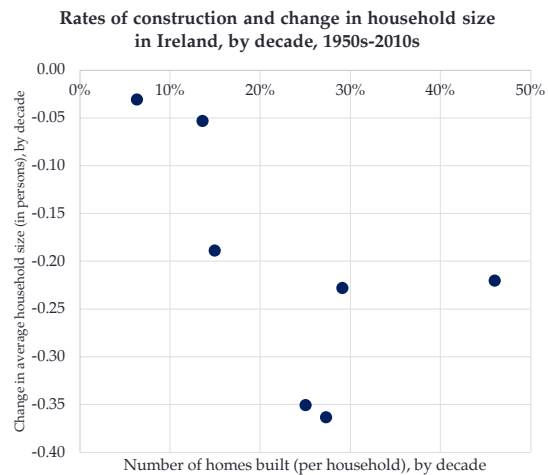


Source: [UN](#). Countries are sorted from left to right by change in life expectancy

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Changes in household size, and thus Ireland's convergence to its European peers, is shaped by the rate of construction, which was at an all-time low in the 2010s

- There is a clear relationship over time between number of homes built per household and change in household size
 - Periods with little construction, including the 1950s and 2010s, saw almost no change in household size
 - Periods with much greater construction – such as the 1990s and 2000s – saw a far greater fall in household size
- This is strong evidence in support of the hypothesis that the fall in household size in Ireland is limited by construction
 - This is particularly relevant since 2011 in Ireland, due to unusually low construction rates

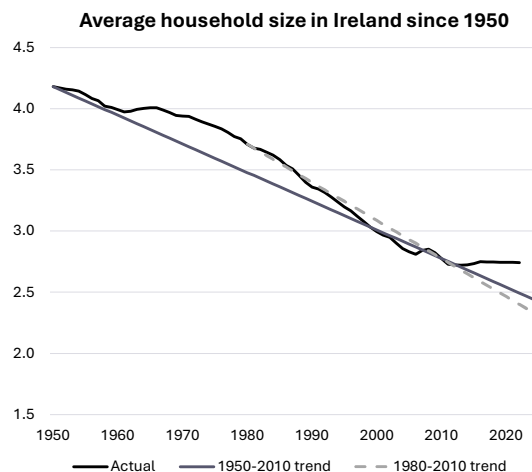


Source: Analysis of Census publications and Department of Environment/CSO figures.

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Until 2010, household size in Ireland fell at a rate of 0.2-0.3 persons every decade – if this trend continued, household size would have been 2.4 (not 2.75) by the early 2020s

- Ireland's household size fell consistently between the 1946 and 2011 Censuses, with the only period without a fall – the early 1960s – corresponding to very low rates of construction
 - Between 1950 and 2010, Ireland's household size fell by an average of 0.23 persons per decade
 - In the period 1980-2010, that speed of decline increased, to -0.31 persons per decade
- These rates applied to the period since 2010 would imply Ireland's household size would reach 2.4 between 2022 and 2025
 - If the trend rates continued, household size by mid-century would be between 1.6 and 1.9 – for comparison, HHS is already 1.9 in a number of European countries, including Denmark and Finland

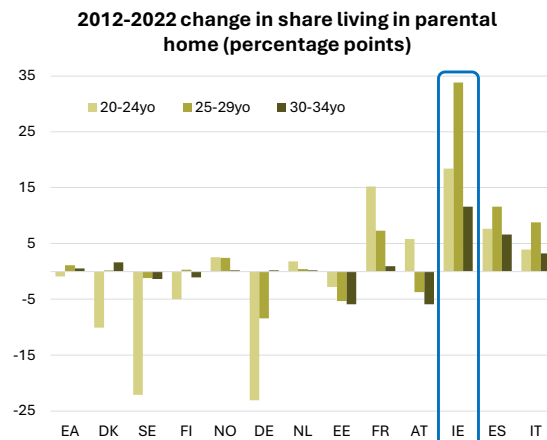


Source: Analysis of Census figures.

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SILC data indicate that living arrangements for younger adult cohorts changed dramatically in Ireland, 2012-2022, indicative of stress in the housing system

- Between 2003 and 2012, the share of 20-34 year-olds in Ireland living with their parents fell slightly – from 39% to 38%
 - This was in line with the 18-country euro-area average, which fell 1pp from 44% to 43%
- However, between 2012 and 2022, the share living with parents rose by 21pps, to 59%
 - The euro-area average was static in this period – France and Spain saw a smaller increase (8-9pp), while rates in Germany and Sweden fell
- The increase in living with parents in Ireland was the largest of 12 countries included in the analysis
 - It was particularly pronounced for 25-29 year-olds, where the share living with parents roughly doubled, from one third to two thirds



Source: EU SILC. Notes for this and previous slide: Data for 2003 where available (2004 or 2005 otherwise), 2012 and 2022 where available (2020 others). EA refers to 'Euro area 18'; other series are member states, sorted left to right by overall share living with parents (20-34). Figures for 30-34 cohort are estimated from 25-29 and 25-34 cohort figures.

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Survey evidence indicates that household size in 2023 is artificially elevated by ~12%, driven by younger adult cohorts

- A 2023 survey for the Housing Commission aimed to understand current and in particular preferred housing arrangements
- Overall, the current HH size was 12% above preferred HH size – an indicator of the proportion of missing households
 - A clear pattern emerges by age: the younger the cohort, the more household size is currently artificially elevated
 - For 18-24-year-old respondents, the survey indicates current household size is 44% higher than preferred size – while for over-65s, the two are very similar
- A 12% artificial elevation in HH size would mean a value in 2023 of approximately 2.43

Age cohort	Current HH size	Preferred HH size	Missing HHs (as %)
18-24	4.32	3.00	44.2%
25-34	3.52	2.85	23.4%
35-44	3.54	3.24	9.0%
45-54	2.93	2.85	3.1%
55-64	2.59	2.49	4.2%
65+	2.13	2.15	-0.6%
All	3.11	2.77	12.1%

Source and notes: Commission analysis of RedC Survey results (all respondents), excluding responses from membership organisations (n=1,012)

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Within younger adult cohorts, the least satisfactory current arrangements were living with parents and living with friends/others

- For respondents aged 18-39, there were clear patterns in the nature of 'missing' households
 - Some arrangements are over-represented currently (esp. living with parents; 26% vs 4%), while others (esp. living with partner; 20% vs 39%) are under-represented
- 60% of 18-39 year-olds would like to live alone or with a partner – compared to just 26% of respondents that currently do
- Conversely, while 48% live with parents or with friends/others, just 15% would choose to do so
- This type of evidence should be at the core of addressing the housing crisis – what kind of homes are needed and for whom?

		Preferred household arrangement					Current: Total
		Alone	Partner	Children	Friends/ others	Parents	
Current household arrangement	Alone	62%	30%	6%	2%	0%	6%
	Partner	2%	95%	3%	0%	1%	20%
	Children	1%	2%	95%	1%	1%	25%
	Friends/ others	32%	38%	1%	26%	3%	22%
	Parents	34%	34%	2%	19%	11%	26%
Preferred: Total		21%	39%	25%	11%	4%	

Source and notes: Commission analysis of RedC Survey results (18-39yo respondents), including responses from membership organisations (n=990)

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Altogether, the evidence points to a housing deficit as of 2024 of ca. 300,000 homes – showing up in elevated household size (and suppressed population size)

- The clear evidence – from trend rates, headship and living arrangements of younger adults – is that the widening gap between Ireland and its peer in relation to HHS is a result of housing shortages, not underlying preferences
- While the 2022 Census had a measured HHS of 2.74, three separate exercises suggest a true HHS in Ireland in the early 2020s of between 2.4 and 2.45 – implying a housing deficit of approximately 300,000 homes
 - This figure is likely a lower bound as it does not capture any additional housing required if emigration had been lower (or immigration higher) in the event of adequate housing
- All policy options should be explored to tackle this housing deficit as rapidly and sustainably as possible
 - Given that the housing deficit consists of homes for smaller households – principally in urban areas – viability and affordability will be challenging and a significant role for the State will be necessary

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The key driver for housing requirement is not, as often stated, the net migration, although it is important – underlying household size is at least as important

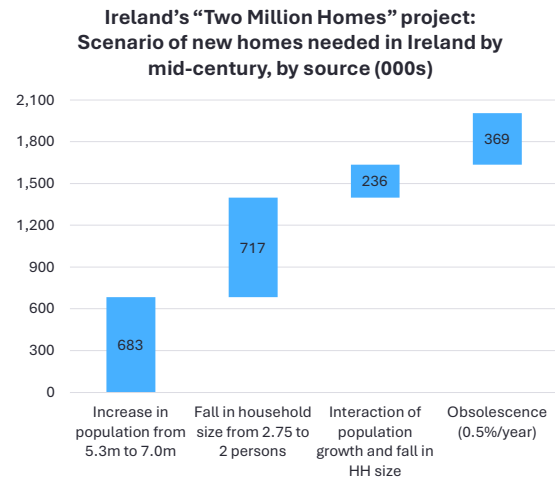
A plausible scenario for mid-century is opposite: a population of 7 million, arranged into households of 2 persons

Key questions for consideration...

- What is underlying household size now?
- What is underlying household size likely to be in 2050?

The object...

- What is the likely social requirement for additional dwellings?
- Distinct from capacity/viability or affordability



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The key trait we need in our housing system is flexibility: scenarios for the various parameters suggest Ireland requires something like 52k-69k homes per year

Table 2.2: Average annual housing requirements 2024–2050 under alternative scenarios, assuming 0.5% obsolescence, including any housing deficit

Household size 2050	Population in 2050				
	6.25 million	6.50 million	6.75 million	7.00 million	7.25 million
2.4 persons	33,400	37,600	41,700	45,800	49,900
2.3 persons	37,900	42,200	46,500	50,800	55,100
2.2 persons	42,800	47,300	51,800	56,300	60,800
2.1 persons	48,200	52,900	57,600	62,300	67,000
2.0 persons	54,100	59,000	64,000	68,900	73,800
1.9 persons	60,600	65,800	71,000	76,200	81,400

Thanks for your time and attention –
looking forward to the discussion

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