

Introduction of an Affordable Purchase Scheme

Housing a key priority for Budget 2021

One of the stated priorities of Budget 2021 is housing and this was reflected in a significant increase in expenditure allocated to housing in the Budget.

The Help-to-Buy scheme was extended to the end of 2021, while the Stamp Duty Residential Development Refund Scheme was also extended to 31st of December 2022.

The main focus on housing measures were concentrated in the expenditure side of the Budget.

Current expenditure on housing will be €2.4 billion in 2021 with core current expenditure showing an increase of 10.5%.

A total capital allocation of €2.8 billion for housing was also announced in the Budget. Some of the new/additional measures included in the Budget were:

- Social Housing Delivery - additional capital funding is being made available to local authorities and approved housing bodies to build and acquire additional homes for social housing. This additional funding amounts to €369m in 2021.
- Affordable Measures - Capital funding to support a new Affordable Purchase Scheme and the delivery of Cost Rental Homes. The additional funding for both these measures amounts to €110m in 2021.
- Irish Water - This additional funding will ensure the continued delivery of key projects such as Ringsend WWTP Upgrade, Vartry Water Supply, Cork Lower Harbour WWTP and Lee Road WTP. This additional funding for Irish Water for 2021 amounts to €47m.

Affordable Purchase Scheme—bridging the affordability wedge

The announcement regarding the introduction of an Affordable Purchase Scheme is very welcome and will hopefully address the key affordability wedge we have highlighted previously. The macro prudential Loan to Income (LTI) requirements are a binding constraint on low-to-average income workers, especially those looking to buy a residential property in the Dublin market.

The combination of the cost of starter homes and the LTI restrictions on residential mortgage lending to the typical first-time -buyer has caused an affordability wedge that is making it very difficult for households on average incomes to acquire their first home. The Help-to-Buy scheme has helped first-time buyers to accumulate a deposit, but the problem of qualifying for a mortgage of sufficient size to buy a starter home still remains a challenge.

We believe that there is a very large cohort of households that are on low-to-average incomes that cannot afford to purchase a residential unit in the Dublin market due to the LTI rules. This is constraining demand well below underlying demographic demand and has resulted in significant pressures in the rental market.

Bridging the affordability gap

A shared ownership/equity loan scheme would be effective in Ireland, particularly in Dublin, the Greater Dublin Area (GDA) and a number of key urban locations, given the affordability wedge in these housing markets. The introduction of a shared ownership/equity loan scheme would bridge this affordability gap and greatly enhance the ability of prospective buyers with average household incomes to get a foothold on the housing ladder.

Normally, these schemes are designed to target marginal households that cannot afford to purchase a residential property but could do so over time based on the expectation of rising incomes. However, currently there is a large cohort of households on average incomes that could afford home ownership but are constrained from doing so. The introduction of a shared ownership scheme would directly help these households.



In fact an appropriately structured shared ownership scheme would result in significant cost savings for many households who currently rent. For example, we estimate that a two-income household on average incomes has a funding gap of c.€57,000 if trying to buy a new house in Dublin. This gap is made up as follows:

- Average price for new house: €380,000
- Average Household Income: €81,496
- Mortgage on 3.5x income: €285,237
- 10% Deposit: €38,000
- Total Household Resources: €323,237
- Resulting funding gap: €56,763

An equity loan scheme would fill this funding gap and provide an equity loan of €58,500 in this example and facilitate average households get on the housing ladder in a much more timely fashion.

Not a new idea

Shared ownership schemes are standard features in many housing markets globally and such schemes are not a new concept in an Irish context. In fact, a shared ownership scheme operated in Ireland from 1991 to 2011.

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