
3. Worse off than their parents? The rising generation of private renters

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1. Introduction

A boom in private rented housing and a corresponding decline in home ownership are remarkable developments currently underway in Ireland. Speaking at a press conference two years ago, Simon Coveney, T.D., the then government minister responsible for housing, noted that the private rented sector had doubled in size in the previous twenty years and that he expected it to double again in the next twenty years. The occasion for the press conference was the launch of the government's new *Strategy for the Rental Sector*,¹ a strategy I will talk about again later. In his remarks, the minister was referring to an increase in the share of households living in private rented accommodation from under 10% in the early 1990s to nearly 20% today and the likely though not yet inevitable prospect of a further increase in that share to perhaps 40% in twenty years from now.

In my talk today, I want to draw attention to this development for two reasons. One is that it is likely to be bad for many people, particularly the generation of younger adults among whom the growth in private renting is concentrated. If this growth continues in its current form, it is likely to cause many young adults to be worse off than their parents as far as housing is concerned. Most of the growing population of young private renters today grew up in homes that were owned by their parents and had two essential features of secure long-term housing: it was affordable and families could stay in it as long as they liked. If private renting continues to expand at it is now doing, many children from those homes (possibly a majority) are facing a future where, as they establish their own households, they will live for a long time, perhaps a life-time, in private rented housing that has neither of these features. It is expensive and rapidly becoming

¹ 13 December 2016. A video of the press conference is available at <https://youtu.be/P4p9BR-qmKE>.

more so. It already costs private renters much more of their incomes than their parents had to pay for housing or than householders in other tenures pay today. And it is insecure: under current legislation, private renters have a right to stay in their homes for six years but there are exemptions which weaken that right and leave them open to being forced to move even before six years pass. They thus face a constant threat of being asked to leave by the landlord over and above the risk they face of being pressured out by rent increases.

The second reason for drawing attention to the growth of private renting is that it raises questions about fundamental aspects of the state's evolving response to social inequality. In most western societies, the state sought to soften the impact of market forces by using its tax-and-spend powers to reduce income inequalities and help provide core social services (such as education and health care) to those who need them. Social policy in Ireland has historically shared these concerns but in addition it has relied to an exceptional degree on the distribution of *wealth* to relieve market pressures and enable households to shape their own destiny. The foundations of this tradition go back to the land reforms of the early twentieth century – the programme of tenant purchase of land holdings which removed the landlord class from the rural economy and achieved the largest downward distribution of wealth (in the form of farmland) found anywhere outside of eastern Europe in the early twentieth century. But the focus soon switched from farms to homes. The state instituted supports for owner occupation of housing that, as land reform had done, distributed wealth downwards by enabling lower income households to buy their homes. It also enhanced the economic independence of households vis-à-vis both the market and the state.

The growth of private renting today marks the demise of this long tradition. It removes wealth distribution from the state's equality toolbox and as far as housing is concerned, brings households back towards dependence on the market for their ongoing accommodation.² Mitigating policies have been introduced to help low-income private renters to cope with rent burdens accompanying this change but these have mixed effects and expose the taxpayer to potentially high future costs. Long-term pressures on pensions

² For an interpretation of how this development has come about, see M. Byrne & M. Norris (2018) 'Procyclical Social Housing and the Crisis of Irish Housing Policy: Marketization, Social Housing, and the Property Boom and Bust', *Housing Policy Debate*, 28:1.

are also likely to arise as households age into retirement and have to meet rent costs out of their pensions, a burden that is largely unknown for the current generation of pensioners.

Together, these changes amount to a more radical turn-about in the direction of policy than has occurred in any other area of the Irish welfare state in recent decades. There has been much comment of late on the neo-liberal turn in Irish social policy, much of which is unwarranted. However, housing is the one area where, as the rise in private renting shows, a sharp turn towards the market has occurred. Some efforts have been made to plot a future policy course which would redirect developments towards a more socially conscious future (I refer especially below to contributions from the National Economic and Social Council in this regard). But these have yet to take hold in government. In a conference such as today's where the theme is the future direction and sustainability of social policy, the possibility that current trends in Irish housing represent a turn for the worse that stores up problems for the future is worth highlighting.

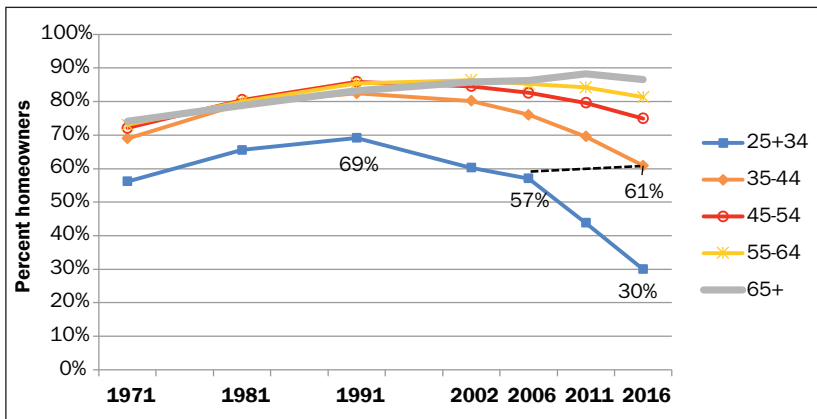
I now turn to four aspects of this broad topic that illustrate what is involved. They are (1) the decline in home ownership and rise of private renting; (2) the rising cost of housing, especially for private renters; (3) tenancy conditions for private renters; and (4) policy responses that mitigate immediate cost pressures for private renters (here I refer especially to the Housing Assistance Payment).

2. Home ownership, private renting & wealth distribution

Owner occupation of housing rose steadily over most of the 20th century in Ireland and reached a peak in the early 1990s. Figure 1 shows the decline in home ownership from that peak which began slowly in the 1990s and picked up pace as time went on. The striking feature of this decline is how sharply it differs sharply by age: it has scarcely occurred at all among older ages and has been steep among the youngest households. In fact, for the oldest age-group (those aged 65 and over), home ownership is slightly higher today (at 87%) than it was in 1991 (at 85%). At the other end of the age-range, householders aged 25-34 had a high level of home ownership for their age in 1991 (69%), but today that proportion has fallen to 30%. In the next older age age-group, those aged 35-44, home ownership has fallen

from 82% in 1991 to 62% today. We do not have exact breakdowns by age of households in the two other main tenures, social rented and private rented housing, but the indications are that the share in social housing has hovered around 10% of all householders in the age-group over most of this period.³ This would mean that of the 70% of 25-34 year-old householders who were not home owners in 2016, some 60% were private renters, up from 20% in 1991. The corresponding share in private renting among 35-44 year-old householders today is 30%, up from about 8-9% in 1991.

Figure 1. Falling home ownership rates among younger households



Note: The data here relate only to 'reference persons' (what used to be called 'household heads'). The graph shows the percentage of that population in each age-group who are home owners rather than renters. Source: Censuses of Population 1971-2016

The long-term significance of the surge in private renting among younger households is unclear. Only time will tell whether those households will continue to be private renters as they age or will transition across to either social housing or home ownership. The prospects for social housing are limited in that regard, given that the scale of the government's plans for the sector⁴ is pitched more at stopping its further contraction than expanding it to the point where it could absorb a bigger share of private renters. As to the prospects of private renters for eventually transitioning into owner

³ See NES (2014) *Home Ownership and Rental: What Road is Ireland On?* (Dublin: National Social and Economic Council), pp. 11-14 for detailed breakdowns of trends in housing tenure under a number of headings (age, social class, household type, region and nationality).

⁴ As set out in the *Rebuilding Ireland Action Plan for Housing and Homelessness* (July 2016)

occupation, recent experience has not been encouraging. Over the past ten years, the rate of such transition has been slight, as the dotted line in Figure 1 suggests. This shows that householders aged 25-34 in 2006, who had a home ownership rate of 57%, made only marginal gains in home ownership over the following decade: by 2016, when they were aged 35-44, their home ownership rate had increased only to 61%, a gain of four percentage points.

For the future, some factors may aid a faster recovery of home ownership among these age-groups. Inheritance is one such factor, though it is uncertain how this important mechanism of wealth transfer within families affects the acquisition of housing in the next generation. It may help younger people to acquire their own homes, but it may also help small investors in the buy-to-let market and thus fuel competition with purchase for owner occupation. Recent improvements in housing supply will tend to bring down the purchase price of housing.⁵ Here too the effect on owner occupation is unclear given that the level of future competition from buy-to-let investors for new housing is unknown but so far seems to be strong.⁶ These indications mean that Minister Simon Coveney's prediction of a further doubling of the private rented sector over the next twenty years is not certain but is well within the bounds of possibility. Unless recovery of home ownership among younger households occurs an improbably rapid pace, those households are likely to be the carriers of this expansion and to become the first generation since the mid-twentieth century to enter middle age with a majority in private rented accommodation.

As the country embarks on this turn to private renting, it is worth pointing to an aspect of Irish life that is likely to be lost in consequence – the relatively equal distribution of housing wealth that emerged from the long build-up of owner occupation that occurred in the decades prior to 1991. The background factor here was the role that public policy played

⁵ See the *Daft.ie House Price Report Q3 2018*.

⁶ New features here are the recent growing interest in the Irish rental housing market among large investment institutions and supports for this trend made by government. The latter supports include the legalisation of REITs (real estate investment trusts) in the Finance Act 2013 and the efforts to protect returns to investment in residential rental property included in the *Strategy for the Rental Sector 2016*. A REIT for residential property set up in Ireland in 2015 (IRES – the Irish Residential REIT) had acquired ownership of 2,600 homes in Dublin by mid-2018 and shown rapid growth in profits (*Irish Times* 'Ires Reit shareholders in line for increased dividends', 21 August 2018). In May 2018, Irish Life Investment Managers block-purchased a new development of 262 apartments in Dublin, homes in which about 1,000 people had already registered an interest when the development was announced (*Irish Times*, 12 May 2018).

in providing access to home ownership among lower income households. The two key policy instruments in that regard were tenant purchase of local authority housing and the provision of local authority mortgages to low-income households.⁷ Table 1 shows the outcome of these policies by the end of the 20th century: even low-income households owned substantial housing wealth and were less disadvantaged by inequalities in housing wealth than they were by inequalities in income. In 2000, households in the bottom quintile (fifth) of the income distribution had only 7.3% of total household income but had 15.2% of housing wealth (net of mortgage debt). The top income quintile had 5.6 times more income than the bottom income quintile but had only 1.6 times more housing wealth. We do not have up-to-date analyses of the effects of the growth of private renting on the distribution of housing wealth across income categories today, but the likely outcome is a tendency towards concentration of housing ownership among higher income households. Thus, an important aspect of relative equality in wealth that had developed in the past is now on course to being lost in Ireland.

Table 1. Even low-income households have a substantial share of housing wealth, Ireland 2000.

Income quintile	% of total equivalised income	% of total net housing wealth
Bottom	7.3	15.2
2	11.3	16.1
3	17.0	19.2
4	23.8	24.3
Top	40.7	25.3

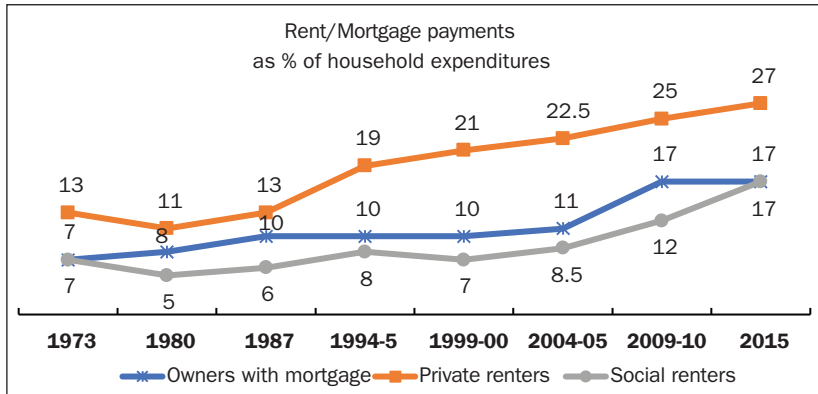
Source: Living in Ireland Survey 2000 (from T. Fahey, B. Nolan & B. Maitre *Housing, Poverty and Wealth in Ireland*, Dublin: Combat Poverty Agency, 2004, Table 6.1)

⁷ For a detailed account of the operation of these mechanisms and their evolution over time, see Michelle Norris (2016) *Property, Family and the Irish Welfare State*. Palgrave Macmillan

3. Rising housing costs, especially for private renters

A more immediate worsening of social inequality arising from the growth of private renting becomes evident when we look at the rise in the cost of private rents, both in absolute terms and relative to trends in parallel costs for other housing tenures, namely, mortgage payments for home owners and rents for social housing tenants. Figure 2 shows that for private sector tenants, the share of weekly household spending that is consumed by rent has been rising steadily for thirty years. This rise commenced somewhat before the expansion in private renting began in the 1990s. By 2015, the cost of private renting as measured in this way had more than doubled since 1987, rising from 13% of household expenditure then to 27% in 2015. Some excess of private rents over mortgage payments for home owners or social rents had been present since the 1970s but this excess widened sharply after 1987 and created a new axis of disadvantage in the housing system, one based on age as well as the usual axes of social difference represented by income and social class. By the early 2000s, private rents on average accounted for twice as large a share of household expenditure as mortgage payments and gave rise to housing affordability problems among private sector tenants that were more widespread and severe than for households in any other tenure.⁸

Figure 2. Rising cost of housing, especially for private renters



Source: Household Budget Surveys 1973-2015

⁸ T. Fahey (2004) 'Housing Affordability: Is the Real Problem in the Private Rented Sector' *Quarterly Economic Commentary*, Summer 2004.

Some catch-up in the cost of mortgage payments for home-owners and rents for social tenants occurred in the decade after 2004-05 – and indeed the rising cost of social housing rents in this period is especially notable. Yet the relative disadvantage of private sector tenants on this measure of housing costs remains. In fact, the picture set out in Figure 2 understates that relative disadvantage as far as comparisons with home purchasers are concerned, especially in the present context where private renting is becoming a long-term prospect for many households rather than, as in the past, a transitional tenure. Mortgage costs for home purchase as a share of household incomes tend to taper down over time and come to an end when the mortgage is paid off. For private sector tenants, by contrast, rents are a permanent feature, they are as likely to inflate as deflate over time and they do not adjust to drops in income occasioned by retirement, unemployment or illness. Thus, they build in an element of long-term financial insecurity among private tenants that adds to the relative disadvantage in current costs shown in Figure 2.

There have been some efforts from government to restrain the rising cost of private rents. However, the most significant direct measure taken so far, as set out in the *Strategy for the Rental Sector* (2016), has sought merely to slow the rate of rent increases in certain urban ‘rent pressure zones’ to a maximum of 4% per year. That upper limit if effectively implemented would still allow a doubling of rent over 21 years. Even that upper limit provides exemptions which together have permitted rent increases in the targeted urban areas to exceed 4% per year.⁹ This is in a context where the national rate of increase in private rents remain in the range 7-10% per year.¹⁰

In the longer term, the *Strategy for the Rental Sector* looks to market forces to produce an increase in supply of private rented housing and provide the key to stabilising rents. It sets out no ambitions for bringing private rents closer into line with the lower housing costs faced by other tenures. The National Economic and Social Council (NESC) has called for a more ambitious approach which would not stop at stabilising private rents but would seek to improve long-term affordability and promote secure occupancy for households in the sector. It couches these objectives within

⁹ Ronan Lyons *The Daft.ie Rental Price Report Q1 2018*, available at www.daft.ie.

¹⁰ The PRTB Rent Index (the state’s official measure of trends in private sector residential rents) gives a somewhat lower measure of current national rent inflation than the Daft.ie Rental Price Report.

a proposed framework for a comprehensive state-led urban-infrastructure development. This would encompass, among other things, an expansion of social housing, the promotion of affordable home purchase and the provision of capital or tax-based subsidies for private renting conditional on the setting of affordable rents.¹¹ The work of NESC in this area shows that there has been no shortage of thinking on how Ireland's current housing problems might be fixed, including the worsening affordability problems faced by private sector tenants. What has been lacking, rather, is an appropriate scale and ambition in the state response and a return to socially-directed rather than market led solutions.

4. Tenancy conditions for private renters

An important part of the NESC's concept of 'secure occupancy' for private sector tenants is the notion of leases of indefinite duration. Such leases would give private sector tenants a degree of security of tenure in their homes which would approximate that enjoyed by owner occupiers, save that it would be conditional on keeping up rent payments. Such leases are currently unavailable in Ireland. It is likely to take a long and complex development of statute law, case law, administrative practice and social convention for such leases to emerge and become a widely understood and readily utilised aspect of the housing system in Ireland.

In the meantime, tenancy conditions in the private rented sector have been improved in some ways but available types of leases are still geared towards transitional tenancies rather than long-term (much less life-time) occupancy. The Residential Tenancies Act 2004 and the consequent setting of a new regulator for the sector, the Residential Tenancies Board (RTB), were first steps in the area. The 2004 Act provided for four-year leases, in place of what in effect were tenancies-at-will that had previously been the norm. Even these relatively short leases were designed to accommodate the small scale and often short time-horizons of most landlords in the sector by allowing them a range of grounds for early termination. These grounds included reclaiming the property for family use, sale of the property (which typically requires vacant possession) and refurbishment. The *Strategy for*

¹¹ From a battery of closely argued NESC reports in this field, see especially *Homeownership or Rental: What Road is Ireland On?* (2014); *Ireland's Rental Sector: Pathways to Secure Occupancy and Affordable Supply* (2015); and *Urban Development Land, Housing and Infrastructure: Fixing Ireland's Broken System* (2018).

the Rental Sector (2016) expressed a general intention to develop leases of indefinite duration in the future. But the concrete immediate steps it set in train consisted in marginal strengthening of the leases provided for in the 2004 legislation. In 2016, the term of these leases was extended from four to six years and there was some tightening of the grounds for early termination of leases by landlords.

A more adequate pace of development of tenure conditions for private residential tenancies is likely to become possible only on the basis of overall structural reforms of the sector, possibly along the lines talked about by NESC. Imposing more restrictive tenancy conditions on the existing large complement of informal, small scale landlords would run the risk of driving them out of the sector. Attracting larger scale professional landlords into the sector would require prospects for long-term profitability which may currently be in place at the upper end of the private rental market but would put strains on the affordability of rents for the majority of tenants. The kinds of reforms which would reconcile these opposing tensions would require some degree of tax support, state-backed credit privileges or direct grants for private landlords, conditional on the setting of rents within specified affordability limits. There has been little movement towards reforms of this kind in Ireland as yet.

5. Policies to mitigate rent pressures for private sector tenants

As the private rented sector first expanded in the 1990s, state-provided rent supports (or what are often called ‘social supports’) for low-income private tenants who could not afford their rents became a growing feature of Irish welfare provision. The growth of these supports reflected the relative contraction in social housing, the main traditional housing option for low-income households, and the consequent rising flow of those households into the private rented sector.¹² Private sector rent supports have evolved as a means of mitigating rent pressures for such households. The first intervention of this kind was the Rent Supplement, a housing-related income support for welfare dependent households that was introduced in

¹² M. Norris ‘Policy Drivers of the Retreat and Revival of Private Renting: regulation, finance, taxes and subsidies’, in Lorcan Sirt (ed.) *Renting in Ireland: the social, voluntary and private sectors*. Dublin: Institute of Public Administration, pp.19-37

1978 but only became a major spending programme in the 1990s. Since then, two new support schemes for private renters have been added: the Residential Accommodation Scheme (introduced in 2004) and the Housing Assistance Payment (introduced on a phased basis from 2014 to 2017). Where the Rent Supplement was designed as a short-term income support for welfare dependent households who were not at work, the RAS and HAP schemes were intended as longer-term housing supports for both welfare dependent and working households.¹³

In 2016, about 82,000 households in the private rented sector received one or other of these supports. These households accounted for almost 26% of private sector tenancies. If we add these to the housing provided by local authorities and approved housing bodies, the total complement of socially supported households came to 254,000, which is 15% of all housing units. Of these, nearly one-third was accounted for by private sector tenancies receiving rent supports.

Table 2. Socially supported housing in Ireland, 2016

		No of units	% of all housing units*	% of private rented housing units**
Social housing	Local authorities	142,000	8.3	
	Approved Housing Bodies	30,000	1.8	
Socially supported private rented housing	Rent supplement	37,000	2.2	11.6
	RAS/HAP	45,000	2.6	14.1
Totals		254,000	15.0	25.7

* 1,702,289 households (Census 2016). **320,000 private rented households (estimated)

Source: E. Corrigan and D. Watson (2018) *Social Housing in the Irish Housing Market*, ESRI Working Paper no. 594, p. 11.

A key ongoing difficulty faced by state supports for private sector tenants is the balance they must strike between two opposing imperatives – limiting any inflationary effect rent supports might have on rent levels, which requires that supports be kept low, and responding effectively to need,

¹³ See D. O’Callaghan (2017) ‘Analysis of Current Expenditure on Housing Supports’ Spending Review 2017, Irish Government Economic Evaluation Service (IGES), Department of Public Expenditure and Reform; E. Corrigan and D. Watson (2018) *Social Housing in the Irish Housing Market*, ESRI Working Paper no. 594.

which requires that the supports be reasonably generous. The effects of the conflict between these two imperatives are felt most by those at the at or close to the thresholds of need by which entitlement to rent support is defined. The more those thresholds are kept low, the greater the pressure imposed on borderline households. The more the thresholds are raised to encompass borderline cases, the greater the risk that the supports raise the floor for market rents and put pressure on the next higher tier of households, turning them into new borderline cases.

6. Conclusion

The sense of crisis in the Irish housing system at present is understandably driven by the seemingly intractable problem of homelessness. As economic recovery has taken off, the housing market has responded sluggishly to an upsurge in population and new household formation. An acute housing shortage has ensued and a rise in households in temporary and emergency accommodation has been a highly visible result, many of them consisting of families with children. The population of homeless now numbers close to 10,000, having more than tripled over the past four years.

However, public preoccupation with the acute problem of homelessness has distracted attention from the less severe but chronic problems of housing unaffordability and insecurity arising in the much larger and steadily growing population housed in the private rented sector. That population now numbers approximately 750,000. In contrast to the recent upsurge in homelessness, the stresses found in the private rented sector have their origins not in the recent economic recovery nor even in the economic crash which preceded it. Rather they reflect developments which have been underway for over twenty years. At the heart of these developments is a marketisation of welfare which has taken hold in housing to a degree which is unparalleled in any other area of Irish social provision. It amounts not just to a downgrading of the role of social housing in the traditional sense (that is, housing provided directly by the state or by non-profit landlords acting as proxies for the state).

It also represents a downgrading of owner occupation of housing as a policy option. The latter is a form of housing tenure which makes households into the providers of their own accommodation and amounts to a form of insulation from the fluctuations of the market. It can be labelled a

privatised form of housing tenure, but it differs from private renting tenure in that, if made widely available, it avoids concentration of housing wealth and the resulting intensification of social inequality in housing. This form of market protection in the past was widely available even to low income households. Now it is on the way to becoming the preserve of the better-off.

A return to past forms of support for either social housing or owner occupation is not the only way of reversing the current excessive turn to the market in housing. Other options have been spelled out in great detail, as referred to earlier. These allow for a range of types of housing provision which include relatively socialised and relatively marketized delivery mechanisms within a variegated overall housing system. For younger households, the current rate of growth in private renting is not producing the right mix of tenures in the Irish housing system and needs to be tackled as a medium to long-term policy priority.