
OPINION

The Emergence of the Housing Affordability Gap

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Introduction

I would first like to deal with the assumptions contained in the title of this paper, viz, first, that affordability is in fact an issue; secondly, that there is an emergent gap. Some current popular concepts would hold that if enough people in the basic unit of society – namely the family – could contribute their money ‘to help’ an aspiring first-time house buyer in the family, this would constitute affordability and hence access to a house in the private market today. Added to that popular notion is the fact that, in the general election of 2002, issues of health, education and the economy were raised but the issue of where we spend 60 per cent of our leisure time – our home – and its affordability was not raised as a serious issue at all. The land question and affordability in housing have been clearly back on the political agenda more recently, however. Notably, an affordable housing scheme was proposed under the National Partnership agreement (the government has made some state land available for the purposes of affordable housing) and the issue of property rights is being examined by the All-Party Oireachtas Committee on the Constitution, including the possibility of capping the price of land.

I propose strongly that housing affordability is a real issue, though it has often been overlooked because it is obscure and by its nature difficult to analyse: it is not as easily explainable as, say, adequate food and clothing – yet it is every bit as important. After all shelter is a basic need. This paper will show that historically affordability of land has been an issue in Ireland for centuries and that recently it has become an acute issue with lasting implications for the future of housing affordability and other areas. Just as the state intervened in housing in the past for collective consumptive reasons, it may now be necessary for the state to intervene again to prevent continuation of the problem. The paper focuses specifically on capping land prices as a means of improving housing affordability, offering in particular a consideration of the possible implications of implementing the proposals put forward by Justice Kenny in 1973. Although there are of course a number of other possible policy approaches that might bring prices down, such as improving the balance between supply and demand, land taxation, or the capping of lending institutions, these are beyond the scope of this discussion.

Background (1975 – 2000)

A question to ask over this period is, has affordability been eroded among working-class and middle-class housing aspirants on a personal disposable income basis? Further, has the middle-class private house buying public experiencing increased difficulty in affording basic housing needs over the last decade or so? With these two points in mind, I shall examine house price and other trends in the private market over the last twenty five years (1975–2000), which coincides neatly with my own married life and home-ownership periods.

Using the year 1975 as a base, macro and micro statistics can be constructed for the period 1975–2000 in index form (see Tables 1-3). Table 1 shows that the average market price of houses has moved upwards 13 fold, to be compared to other categories of cost. Remarkably, land has moved upwards 60 fold. On average, wages, other consumer goods and housing, labour and materials have increased generally around 8 fold (see Table 2).

Table 1. Macro Statistics

Year:	1975	2000
Index:		
Average Industrial Wage	1	7.5
Consumer Price Index	1	5
Average Building Cost	1	7.5
Average House Price (Market)	1	13
Average Land Price*	1	60
	(£750/plot)	(£45,000/plot)
Discounted by inflation	1	37

*Note: 42 per cent of the market price increase of houses is attributable to land according to these figures. Land accounts for approximately 25-35 per cent of the total purchase price of housing.

Sources: See Appendix

Table 2. Land: the reducible element?

Breakdown of housing cost:

A = Site work	B = Sub/super-structure	C = Land
10K	100K	30K

Breakdown of increase over 25 years:

Building cost – increase 7.5 times

A + B

Market price of house – increase 13 times

A + B + C

Land – increase 60 times

C

Sources: See Appendix

Table 3 shows that an actual person – Liam (see appendix)– who is not a statistic but a colleague of mine, would be unable to buy his own home in the year 2000 because it would take up 57 per cent of his take-home pay (incidentally, neither could I afford to buy my own house today). The proportion of disposable income which would go on his present house has increased 2.5 fold over 25 years. Table 3 shows that the labour and materials going into an average house over 25 years increased at the same rate as the average industrial wage, Liam’s net and gross pay , the pint and other basic consumer goods, etc.

Table 3. Micro Statistics: Liam’s Plight

	1975	2000
House Price	£7,000 (1)	£200,000 (28.5)
Gross Pay	£123 (1)	£1,024 (8.3)
Net Pay	£104 (1)	£781 (7.5)
Repayments as % of Net Pay	22.6% (1)	57% (2.5)
Pint (Guinness)	1	8.5
Milk	1	5.2
Bread	1	4.65

Sources: See Appendix

Interpretation of Statistics

These statistics show that an average rate of increase over 25 years that is acceptable is about 1:8 and that the Consumer Price Index (CPI) is low, at 1:5. However, what is important about these statistics is that it appears that the average price of private houses has gone up by a factor of 13, while the average wage has gone up by a factor of 8. Taking Liam’s affordability as a median, ability to repay loans at present interest rates and income tax, disposable income has disimproved by 2.5 per cent over twenty five years, while housing land has increased in price 60 fold. Incidentally, if the average plot of building land was valued twenty five years ago at agricultural value and compared to the year 2000 at residential value, it would be seen to have increased approximately 600 fold – which is a sixty thousand percent increase. I draw your attention to this statistic because, in my opinion, land is the only acceptable reducible element in house property values as all other prices / values go up in the ‘acceptable’ 1:8 category. I will deal with the notion of why land may be reducible in the section dealing with prescription for the housing problem. We are talking primarily about space on a sovereign island and who has rights to it. St. Thomas Aquinas affirmed that nobody has. That raises theological, epistemological and constitutional issues.

Present situation

At present, in the private housing market, a relatively small number of housing transactions (perhaps as few as 5 per cent compared to total stock) of new and second hand houses set the market value for the whole private housing stock. Typically, the component cost of land in these transactions would be of the order of 25-35 per cent of the total cost. For example, in a transaction of €200,000, some €60,000 would be the land component, depending on location. In other words, the rest of the housing cost, namely, labour, material, overheads and profit are increasing at an acceptable rate but land (as previously shown) is not. Furthermore, this sizeable segment of cost deserves to be looked at more closely.

Land Cost Viewed Historically

St. Thomas Aquinas asserted that the earth was everybody's and nobody's, that it is on loan to us (presumably from God!). It is different from goods and chattels. It is finite and cannot be added to or subtracted from. It has a special place in orthodox economics because of these characteristics and rightly so. More particularly in Ireland, land historically has been a thorny issue due to absentee landlordism (well documented in history books). The resultant unique statistic is that with historical drive and experience and government housing policy, Irish people are near or at the top as owner occupiers in the world at around 80 per cent. By implication, the Irish case is unique in that 'one house ownership' is at a record level. This unique statistic, coupled with the land factor, lies at the heart of my thesis for solving the problem of private housing affordability. References to land transactions over the last two centuries, for example, were made in the Report of the Housing of the Working Classes, 1942, for Dublin Corporation; Uthwatt, 1945; Kenny, 1973; McNulty, 1983, Part V of the Planning and Development Act, 2000, and the shared ownership scheme of Dublin City Council, 1999. Also the Cross Act (1875) provided for housing land to be made available to private philanthropists at prices below market value (McNulty, 1973). This is a very important legal precedent in the context of this paper. All these references concern the community through the local authorities' conferring a betterment value on land to existing land owners. This increased value is conferred in the main through a change of land use, for example from agricultural use to residential land use, and by public utilities such as water and electricity being provided to this land. In effect, the owner gets an unearned increased market value on his land, which was created by the community. It should be mentioned that, apart from the provision of public utilities, added value, also accrues to residential properties due to highly desirable locational attributes, which are very difficult to evaluate. However this locational value is arguably also community-generated.

Justice Kenny (1973) queried if this increased value was in the common good, subject to natural rights and social justice. His position was challenged because it was held by some to be unconstitutional to query the right of private property possession. However, this point was never contested in the Courts or by referendum and is worth re-visiting in the light of a worsening private (and public) house price situation¹. It should be mentioned that Justice Kenny based his argument on the Uthwatt Committee's Report (1941) which can be summarised as follows

¹ The Kenny principle was tested in the courts under Part V of the recent Planning Act (2000) and found to be constitutional. Although the writer thinks that Part V is an unworkable piece of legislation, it does, however, open the door to the measures proposed in this paper.

“The denser the population, the more intensive the use of land becomes in order that the limited area may be capable of furnishing the services required; the more complex the productive organisation of society, the more highly developed must be the control of land utilisation exercised by or on behalf of the community”.

Justice Kenny saw this statement in terms of our own constitution as relating to the common good, social justice and natural rights. I would add that we should admit profound ignorance as to the meaning of the common good – otherwise we profess profound arrogance – we cannot, like Eamonn DeValera, simply look into our hearts for the factual truths. Issues at stake in house prices include super profits (largely unearned) on land transactions and the conceptualisation of the private dwelling as either a social good or an economic investment. If a redistribution of these factors were attempted, would the common good be enhanced – assuming that we know what the common good actually is. When we consider the common good, a list of concepts emerge that is endless – economic, philosophical, legal, theological, social, etc. It emerges, I would argue, that the common good is an holistic concept encompassing all of the above, and more, transcending them and going beyond mere eclecticism in its scope.

I submit that no one person or group of people can say exhaustively what it is – the closest we will get will be a referendum on such an issue. Then what one would get is the common will of the people at a particular time – which could be still mistaken – the common will is not the common good – but it is, I submit, as close as it gets. Further, the common good should not be confused with the so-called ‘national interest’ as espoused by incumbent governments. However, that is not to say that the common good has not got a political dimension or element to it. In ways, it is easier to say what the common good is not. People do have a real sense of injustice and can identify ‘the absence or lack of the common good’, even if they cannot say comprehensively or clearly what it should be. A supreme court judgement on the common good is ultimately still only a legal opinion, albeit a pretty well informed one. As to whether a house is a social good or an economic investment, suffice it to say that the majority of people in Ireland spend perhaps about 60 per cent of their time in their sole dwelling – not using it as a business premises and unable to realise its value without making themselves homeless. On the other hand, the revenue commissioners see fit to make the disposal of this habitat subject to the following taxes: capital gains tax (subject to exemptions), probate, capital acquisition, property, and gift tax. There is a serious difference of opinion of use here. The individual sees his home in use-value terms and the tax authorities view it in exchange-value terms (which often cannot be realised). Perhaps more importantly, people are encouraged to think in exchange-value terms by the property interests and media, and to think, erroneously, that it benefits them as house prices escalate. These are false ideologies and of false psychological comfort.

Conclusions/Prescription

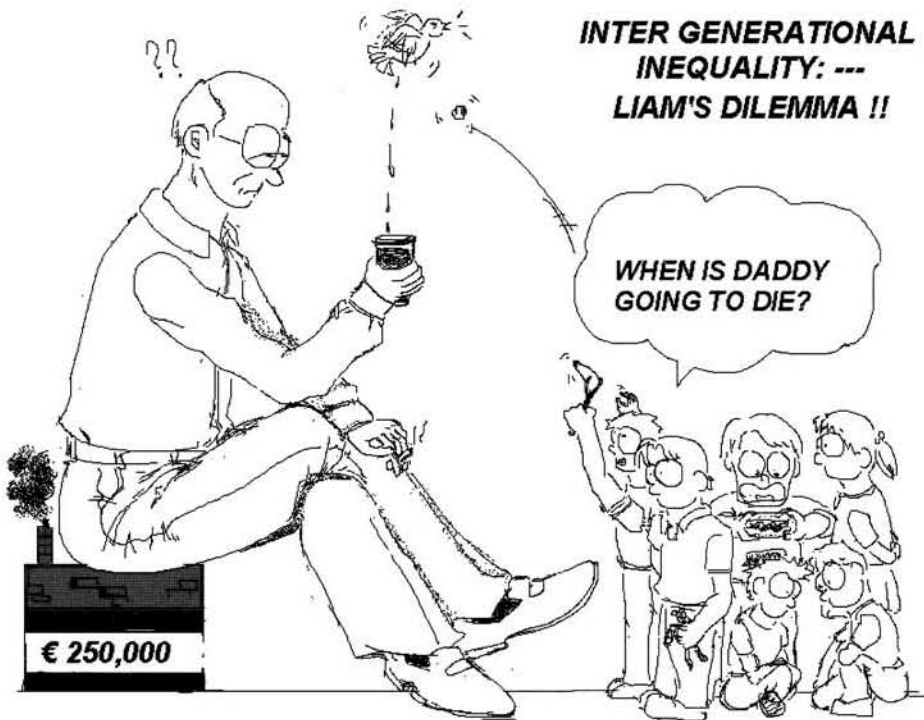
I conclude that, in the main in Ireland, private housing is uniquely a social good, not an investment. However, land associated with the procurement of a home is transacted in a way that militates against the common good, but this can be improved upon for the community and society as a whole. If this is not done soon, yet another opportunity to right a ‘social wrong’ will have been missed (Justice Kenny, 1973). The model I will now propose is unique to Ireland (i.e. an Irish solution to an Irish problem) because of the

aforementioned high owner occupancy rates and small rental sector. Justice Kenny (1973) in his majority report advanced the idea that agricultural land to be used as residential land should change hands at its existing use value plus a small disturbance element of 25 per cent for the vendor. This general principle, I propose, should be revisited through the local authorities nation-wide in the procurement of all land for private and public residential purposes. This essentially puts a cap on the sale of land at the point of access for the buyer and in tandem with this a cap on the final product – the property itself in the form of the abandoned C.R.V. (certificate of reasonable value) or a similar mechanism. Housing transactions, new and existing ones, run at about 5 per cent of the total stock per annum and the above mechanism/ procedure would reduce the current transaction values of the houses by substantially the land value element (25-35% on average or €60,000 or more on a €180,000 dwelling, depending on location), making the dwelling more accessible and affordable. A deliberate consequential devaluation will occur in the existing stock, with the resultant stability of affordable price for first-time buyers. However, this so called devaluation is merely notional because the artificial amortised capital in the home is unrealisable for the majority and is a false concept of value – not ‘real estate’ as it were. The 80 per cent of existing owner occupiers will experience a reduction in equity (notional) to facilitate a real reasonable value for the first-time house buyer. This change, I would argue, is an increase in individual and collective welfare and well-being through a redistribution of the common good. The equation is simple – a decrease in notional equity for the majority (at some cost to the minority, see appendix) results in or pays for an increase in affordability for all first time buyers. A new set of winners and losers within the common good emerge in a more equitable redistribution. This solution could be said to be simple. However, the structural arrangements currently facilitating the imbalance in the common good are not easily shifted. It may be a simple matter of goodwill but not an easy one. The consequence of this new arrangement is holistic and will have far reaching consequences for all areas of life: economic, land, attitude to values of houses, etc. However, no apology is tendered for this as I further contend that the men of 1916 hardly envisioned that, when ousting foisted foreign landowners, some 80 years later a few home-grown landowners would be holding to ransom affordability of housing of our own children in their ‘holistic vision’ of freedom. I quote from my own thesis (McNulty, 1983) a reference made by E. Dwyer Gray (Home Rule MP) around the turn of the century, while suggesting that the city’s housing for the working classes only reflected the prevailing conditions, he said that “to provide them with decent habitations while they are still in want of food and have no means of earning regular and sufficient wages would in a sense be something like mockery” (Report on the Housing of the Working Classes, 1884-5, Minority Report, pXVI). I would add today that to provide food and clothing and jobs in a modern Tiger economy whilst allowing land prices to make housing unaffordable to the working- and middle-classes is also, in a sense, a mockery.

Finally, the above analysis of the situation is actually quite simple and the solution /prescription of giving back to the community what it rightfully owns and has conferred unwittingly on landowners is not easily done. This paper has shown that land costs are central and pivotal to housing prices and I propose therefore that land itself and interests in it should be held by the community in trust for the community rather than by and for the individual (however, individual first-time buyers will benefit in access terms). This approach requires ‘moral courage’ to effect change, rather than intellectual enlightenment. We need to be courageous and fair, not clever. It (the solution) only becomes complex when

the legal, societal, economic and commercial in-situ procedures and associated professional interests in this particular polity are confronted and used as obstacles to frustrate the reversion back to better community equity. In other words, if the spirit of the above solution is acceptable, the letter of the solution will follow; if not, the detail of it can be fought over forever, either at political lobbying level and/or with spurious academic rhetoric and casuistry².

Liam's Dilemma: Liam has six children who will experience affordability problems for housing. The cartoon tries to show how Liam's so called investment is of no use to them during his lifetime.



² Some argue erroneously against the kind of proposals set out here on the grounds that any intervention in the land 'market' is unjustifiable (an 'imperfection'), forgetting that the rezoning of land in itself is a direct public intervention that confers a heightened value on some parcels of land.

Appendix

Statistical sources:

Macro statistics -

Central Statistics Office, Ireland.

Department of the Environment, Custom House, Dublin .

Dublin City Council, Wood Quay , Dublin Ireland.

Various estate agents dealing with land values in County Dublin, Ireland.

Micro-statistics -

Guinness consumer information, Guinness Brewery, James' St. Dublin.

Central Statistics Office, Ireland

Central Bank, Ireland.

Repayment loan calculations from branch of Bank of Ireland records Dublin.

Liam's payslips, 1975-2000.

Some consequential changes in the common good:

Losers

1. Land owners and some land developers.
2. Multiple house owners
3. Reverse mortgage aspirants
4. Traders down in housing
5. Cash value of probate beneficiaries
6. Professionals associated with housing transactions
- 7.

Winners

1. Everybody else (mainly our children) including knock-on effects for other land use areas
e.g. infrastructural developments