



Department of Finance

Help to Buy Scheme Review

Final Report

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mazars

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ES



Executive Summary

Executive Summary

Introduction

This report has been prepared by Mazars in response to a request from the Department of Finance to undertake a review of the Help to Buy (HtB) scheme. This scheme, which was originally announced in Budget 2017, aims to assist first time buyers (FTBs) to save for the deposit that is required under Central Bank Mortgage Prudential rules to qualify for a mortgage for the purchase of a newly-built residential property.

This study is required to be undertaken with due regard to the requirements of the Department of Finance Tax Expenditure Guidelines, drawing on available datasets in Ireland and relevant international experience.

The Terms of Reference required that the study examine:

- The extent to which the HtB scheme has delivered on its policy objectives;
- The extent to which it has assisted FTBs of new homes to fund their deposits;
- The extent to which it encouraged the building of additional new residential units;
- Its impact, if any, on the price of houses in Ireland;
- The cost effectiveness of the scheme; and
- The future role of the scheme given new initiatives contained in *Housing for All* (HfA).

The approach followed to conduct the study involved

- A review of published housing policy statements, previous studies in relation to the HtB scheme and comparable schemes in other areas, in addition to such other materials were available.
- A statistical analysis of a dataset on the HtB scheme that has been compiled by the Revenue Commissioners from applications made to the scheme.
- An econometric analysis of datasets of Irish housing planning applications and property prices.
- Administering and analysing a survey of contractors with follow-up consultations and consultations with other relevant personnel to inform the interpretation of data.
- An appraisal using multi-criteria analysis (MCA) of options for the future of the HtB scheme in the light of initiatives in HfA.

Scheme Implementation

The Scheme had two key objectives

- To increase supply
- To improve affordability

The rationale for introducing a scheme that would boost demand was that there was a large element of latent demand in the economy. Whilst Ireland's population size and structure would infer a level of underlying demand that greatly exceeded the level of supply, the actual level of market demand that was actively engaged in purchasing new homes was low due to many potential buyers being unable to save the required deposit. The extent of this latent demand is difficult to assess, but reports from the time do indicate that there was adequate demand for any new homes that were put on the market and prices were rising.

The scheme was designed to target the limits on market demand that arose as a result of the Central Bank's Mortgage Measures that had been introduced in 2015, specifically the commonly called Loan to Value (LTV) rule that requires purchasers to have a deposit of 10% of the house price, that is, the mortgage cannot exceed 90% of the value. One impact of this rule was that it led to an increase in the perception of risk, from

the point of view of new housing providers, in the housing market. This is the market failure that HtB sought to address.

By the end of May 2022, a total of 33,843 applications for relief under the scheme (claims) had been made, of which, 33,035 had been approved. The total value of claims approved in this period amounted to €630.9 million with a further €15.1 million in claims submitted that were awaiting approval. Self-builds accounted for just over 25% of houses against which claims were approved.

Findings

On the basis of the work conducted as part of this study as outlined in Sections 3 to 6 of this report, we can conclude the following in relation to the Help to Buy scheme:

- The scheme promotes demand for new housing in a market where the problems that exist are unequivocally supply constraints. Concerns in this regard were expressed within the Department of Finance before the introduction of HtB, but no alternative to the scheme, or to the use of a tax expenditure mechanism for this purpose, appears to have been considered.
- There were also concerns expressed when it was introduced that it can be difficult to remove schemes such as this once they have become part of the operation of the market. This has clearly been the case as its operational life have been extended a number of times and the original conditions that constrained expenditure have been relaxed. This was not foreseen in appraisals of the scheme previously undertaken.
- Expenditure on the scheme has far surpassed projected values and is rising rapidly. This trend appears likely to continue and may accelerate. This is the result of a number of factors including the growth of the output of new housing, the impact of the enhancement, and an in-built underestimate in the original projection.
- The scheme is poorly targeted with respect to incomes, location, house prices and other socioeconomic factors. As a result, it has socially regressive impacts, there is a considerable deadweight associated with the expenditure, and it is poorly aligned with spatial policy.
 - Relief was provided in general to people in the higher earning percentiles of the population with an estimated 81% of households having lower income than the median approved application.
 - The enhancement caused an acceleration in the cost of the scheme of over 25% per annum in 2020 and 2021. As a result, HtB will likely cost in excess of €200 million in 2022.
 - Most importantly, almost half of the funds that have been spent are deadweight, in other words, they play no part in achieving an objective of the scheme.
 - This is particularly the case in respect of self builds where over three-quarters of the expenditure is deadweight.
- The issues that were to be addressed, including the shortage of housing output and affordability in house purchase and rental markets, have intensified since it was introduced with increasing deficits and higher prices.
- There is little evidence from other comparable areas that schemes to extend home ownership have been implemented successfully.
- The research indicates that many of the risks that were perceived when HtB was introduced have not come to pass. There is not definitive evidence that HtB pushed up the price of new houses. Certainly new

builds have a large and growing premium over the price of existing houses. However, this existed before HtB. Importantly, when prices are adjusted to reflect quality improvements in new houses relative to existing houses, the apparent impact in the raw data disappears. This is particularly the case in areas where prices were already high and were up against the affordability limit. It is also not the case that the prices that were paid for new homes by people who received HtB relief were above new house prices in the economy in general. In fact, they were slightly lower, likely because of the price eligibility cap.

- There is some indicative evidence of differential trends in planning applications and the volume of land subject to planning, just above and below likely viability levels. The results provide additional evidence that while HtB did not directly address viability/affordability issues, it did distort output towards building in areas with lower site costs, outside but close to the main urban centres, and concentrated development towards traditional 3 and – to a lesser extent – 4 bedroom semi-detached houses. This is despite the fact that housing and spatial policy in Ireland has emphasised and targeted greater housing development in high density urban areas. The result is that HtB did increase output of some house types in some areas.
- The scheme is viewed favourably by people who are involved in the residential development sector. It is clear that there is a market failure that is created by the Central Bank's LTV rule and that this both feeds into, and is intensified by, the shortage of rental accommodation. The scheme is a key element in addressing this and suppliers point to the impact of HtB on confidence and a definite positive impact in this regard.
- The LTI rule continues to constrain demand and HtB has no more than a marginal impact in this respect and only for FTBs who have a deposit already saved. The appropriate comparison therefore is not whether the problems in the housing market have been solved but what they would be if HtB had not been implemented. A wide range of interests conclude that they would be worse. Even more important given the timing of this review, there are deep concerns regarding the impact on the supply of housing if HtB were to be ended or if the current lack of certainty about its future were to persist. The message in this respect is clear.
- A further important issue is that the housing measures that are to be introduced under the *Housing for All* programme have clearly been developed in the expectation that HtB will operate in the market. Initiatives such as the Shared Equity and Croí Cónaithe schemes are designed to address the difficulties that arise as a result of the Central Bank's LTI rule and will not assist in saving a deposit. There are reasons to support an argument that interventions are required in both respects. The consequence is that ending HtB would not only disrupt the market in the short term but would also weaken the impact of these measures which are expected to persist for a longer period.

Conclusion

There are weaknesses in the Help to Buy scheme and it cannot be concluded that it is sufficiently efficient to represent good value for money. Consequently, we conclude that it should be withdrawn. However, now is not the time to do so. Furthermore, the problems that it sought to address remain and the specific market failure at which it was targeted are not likely to be addressed by proposed new initiatives under the HfA program. As a result, HtB needs to be replaced by an instrument that will address this issue.

A rational approach would not design the scheme as it currently exists, but there are considerable risks with ending the scheme. Retaining and revising the scheme is one option, but the use of a tax expenditure as the appropriate mechanism is questionable. Furthermore, it is considered that the extent of revision that would

be required would effectively amount to the design of a new initiative. This is the challenge that the recommendations below seek to address.

Recommendations

HtB was introduced as a time limited scheme and ongoing annual extensions are inappropriate as they mean persistence with a scheme that is not efficient while creating ongoing policy uncertainty. However, simply allowing HtB to expire at the end of 2022 would be very disruptive at a time that rising prices and the prospect of an economic slowdown are already causing increased perceptions of risk. Consequently, the recommendations below amount to the replacement of the scheme with a more appropriate, more efficient mechanism, not its elimination in isolation.

1. Despite the problems that have been identified, now is not the time to withdraw HtB. Because of this, it is recommended that the HtB scheme should be extended in its current format for a period of two years to expire at the end of 2024.
2. The sort of policy uncertainty that has arisen with ongoing annual extensions without a clear picture of the longer-term policy environment is undesirable. To avoid this, it is recommended that the announcement of this extension should be accompanied by a clearly communicated acknowledgement that the issue that HtB sought to address remains a difficulty and that a more appropriate policy mechanism will be designed to replace HtB.
3. Deadweight is a major issue and efforts to better target HtB should be made for the 2 year interim. It is recommended that self-builds will no longer be eligible for HtB for applications to the scheme after the end of 2022.
4. It is further recommended that the minimum mortgage LTV should be increased to 80%, from its current 70%, for applications to the scheme after the end of 2022. Together, these revisions will help to reduce the level of deadweight.
5. An efficient, well targeted measure to assist FTBs to save the deposit, should include a disincentive for purchasers who do not need assistance, to reduce deadweight and the socially regressive element of the scheme. This cannot be done through a tax expenditure mechanism. This means that the Department of Finance is not the appropriate responsible Department for this aspect of housing policy. It is recommended that the Department of Finance only facilitate the withdrawal of HtB when a mechanism has been designed to effectively integrate an initiative to address the problems that arise due to the LTV rule into the new Shared Equity schemes being devised by the Department of Housing, Planning and Local Government. This will amount to prospective purchasers who are eligible for shared equity being able to use part of the funds allocated to fund their deposit.
6. This will involve some limited revision of conditions associated with the Shared Equity schemes. It will be required that the conditions associated with the shared equity schemes are revised so that the equity limit is increased to 30% of the house price, without reference to HtB. However, this should be accompanied by a stipulation that the funds that are provided to finance shared equity above 20% in respect of any property must be used for all or part of the deposit. In the case of purchasers who buy using a shared equity scheme where the shared element does not exceed 20% of the value, but is at least 10% of the value, they may allocate up to 10% of this finance to fund the deposit. However, to ensure that the targeting of the Shared Equity scheme is not diluted, a condition should also be imposed that the

percentage of the value of the house that is allocated to fund the deposit cannot exceed the value that is used to reduce the mortgage. So, for example, if a house is purchased with shared equity amounting to 15% of its value, it cannot be the case that the purchaser only pays a deposit of 2% or less of the house price from savings.

7. Some limited revisions to HtB should be introduced at the end of 2022 to address some anomalies and smooth its replacement with this new mechanism while minimising disruption in the housing market. It is recommended that 'fresh starts' should be included in the definition of FTBs for the HtB scheme from the end of 2022 to align it with the definition used in the Housing for All initiatives.
8. Where a house is being purchased under a Local Authority scheme such as the Local Authority Affordable Purchase Scheme, it is recommended that the price at which the house is purchased under the LAAPS should be used when calculating the minimum LTV, not the market price as currently. This calculation of the minimum LTV should be undertaken in line with the methodology described in Chapter 7 of this report and a simple 70% or 80% rule should not be used.



01

Introduction

1 Introduction

1.1 Context of the Study

This report has been prepared by Mazars in response to a request from the Department of Finance to undertake a review of the Help to Buy (HtB) scheme. This scheme, which was originally announced in Budget 2017, aims to assist first time buyers (FTBs) to save for the deposit that is required under Central Bank Mortgage Prudential rules to qualify for a mortgage for the purchase of a newly-built residential property.

The HtB scheme was originally due to expire in 2019 but was extended to end 2020 in the Finance Act 2020. Revised enhanced provisions were introduced in the July Stimulus Package in 2020 to bolster the economy's recovery from the COVID-19 disruption. The scheme was then further extended by subsequent Finance Acts to the end of 2022 in its revised form.

The HtB scheme involves the reimbursement of income taxes in a manner and in accordance with rules and conditions that have been set out in the relevant legislation¹. It is therefore classified as a tax expenditure and assessments, which are reviewed below, have previously been undertaken. Given the passage of time, the timebound extension under which the scheme operates and the need to monitor tax expenditures regularly, it is appropriate that this review be undertaken in advance of a decision on the future operation of the scheme².

The study is required to be undertaken with due regard to the requirements of the Department of Finance Tax Expenditure Guidelines, drawing on available datasets in Ireland and relevant international experience.

The Terms of Reference required that the study examine:

- The extent to which the HtB scheme has delivered on its policy objectives;
- The extent to which it has assisted FTBs of new homes to fund their deposits;
- The extent to which it encouraged the building of additional new residential units;
- Its impact, if any, on the price of houses in Ireland;
- The cost effectiveness of the scheme; and
- The future role of the scheme given new initiatives contained in *Housing for All* (HfA).

The primary aim of the study is to address these requirements leading to recommendations for extension, revision or withdrawal of the scheme, as appropriate.

1.2 Study Methodology and Report Structure

The study required the application of a number of distinct methodologies. These included:

- Review of published housing policy statements, previous studies in relation to the HtB scheme and comparable schemes in other areas, in addition to such other materials as may be available.
- A statistical analysis of data on the HtB scheme that has been compiled by the Revenue Commissioners from applications made to the scheme.
- An econometric analysis of datasets of Irish housing planning applications and property prices.
- Administering and analysing a survey of contractors with follow-up consultations and consultations with other relevant personnel to inform the interpretation of data.

¹ Section 477C of the Taxes Consolidation Act 1997, introduced by Section 9 of Finance Act 2016.

² The Minister's Budget Statement announcing the extension through 2022 included an announcement to undertake a full review during the year.

- An appraisal using multi-criteria analysis (MCA) of options for the future of the HtB scheme in the light of initiatives in HfA.

Implementing these methodologies involved accessing and analysing a number of distinct datasets including

- The HtB scheme dataset administered by the Revenue Commissioners;
- Property price data from Daft.ie and the property price register;
- The National Planning Applications dataset;
- Quantitative and qualitative data obtained from the survey and consultations;
- Qualitative data and quantification obtained in the MCA.

The structure of this report reflects the methodologies set out above. Chapter 2 provides a high level description of the operation of the scheme and a brief overview of trends and developments in the Irish housing market in recent years. This serves to provide the context for the scheme and for this review.

Chapter 3 examines relevant literature, in particular, previous appraisals and examinations of the scheme. While this report does not undertake a formal, quantified economic appraisal, this chapter examines a number of issues that would be included in such an appraisal, including the rationale, feasibility and efficiency of the scheme based on these previous studies. It also examines an idealised version of the housing market to clarify the mechanism that would be required, and that was assumed to operate, for the scheme to be successful. This does not provide answers to the questions that arise from the terms of reference, but serves to clarify the questions that need to be addressed in the subsequent analysis. This chapter also looks at relevant experience with schemes to assist FTBs to enter the housing market in other jurisdictions.

Chapter 4 contains an analysis of the HtB dataset that has been compiled by the Revenue Commissioners from the information provided by applicants. As well as providing a detailed description of the operation of the scheme, this analysis also identifies features that are important in assessing the performance of the scheme in terms of its efficiency and objectives, and in framing the recommendations of the report.

Chapter 5 details the econometric model and the analysis of the property price and planning applications datasets. The focus is on two questions that get to the core of the objectives of the scheme: did it increase the supply of housing and did it impact on house prices?

Chapter 6 examines the scheme from the point of view of the construction industry and provides an analysis of the survey of contractors. The same two questions in relation to the impact of the HtB scheme on housing supply and prices are at the centre of this analysis. However, the results also assist in identifying the areas where the efficiency of public expenditure can be improved to have the greatest potential impact on addressing undersupply. This is important for assessing the cost effectiveness of HtB.

Chapter 7 moves on to identifying the appropriate future role for HtB. The approach taken is to identify options based on the foregoing analysis and assess these, using an MCA methodology, according to criteria related to the objectives that have been set for interventions. A two-stage MCA process is used. The first stage is targeted at identifying the role of HtB relative to other interventions, particularly those that have been developed under the HfA program. The second stage examines options for the revision of HtB to ensure compliance with the optimal role.

Chapter 8 summarises the main findings of the analysis and sets out recommendations based on these findings.

This report also contains three Appendices that contain additional technical information on issues discussed in the main text. These include the way in which projected costs for the scheme were assessed and why

outcomes diverged from these projections, the model that is used in the econometric analysis and the detailed results, and the quantitative and qualitative results of the MCA.

1.3 Acknowledgements

The consultants wish to acknowledge the assistance of a range of people in undertaking this work. We wish to express our gratitude to personnel in the Department of Finance and the Department of Housing, Local Government and Heritage, and in the Revenue Commissioners who provided access and assistance in relation to relevant data. We are also grateful to all who responded to the survey and participated in the consultation process, those who participated in the roundtable for scoring the MCA, and all who provided information to inform this study.

Mazars assumes no responsibility in respect of or arising out of or in connection with this report to parties other than to the Department of Finance.

A photograph of a construction site featuring a large, multi-story concrete structure under development. Two construction workers, wearing orange safety gear and hard hats, are positioned on a wooden platform or scaffolding at the top right of the frame, working on the structure. The scene is set against a clear blue sky with a few wispy clouds. The overall image has a warm, slightly desaturated color palette. The number '02' is overlaid in the top right corner.

02

Overview of HTB and Housing

2 Overview of HtB and Housing

2.1 Design and Objectives

The Help to Buy scheme was announced in 2016 and introduced in the Finance Act 2017 as a measure to assist first time buyers (FTBs) to purchase new homes and, in the process, to stimulate a greater output of new housing. There was clear evidence at the time that the sharp fall in housing output that occurred in the years following 2008 had not recovered, as the economy in general recovered, and that output remained severely depressed and well below the level required, given the population of the country. Prices had begun to rise as supply remained subdued. The Central Bank had also introduced measures in the form of two prudential rules to prevent a reoccurrence of the factors that had been identified as major contributors to the 2008 crisis.

The HtB scheme allows a FTB purchaser of a newly constructed housing unit to claim a rebate of income tax and DIRT paid over the four years previous to the claim being submitted. The rebate has a maximum value of €30,000 in respect of any single unit purchased and it cannot exceed 10% of the purchase price of the unit. It is limited to homes priced up to €500,000 that will be used as the purchaser's principal private residence for at least 5 years following the purchase, and the purchaser must take out a mortgage equal to at least 70% of the purchase price.

The scheme was enacted in the Finance Act 2017 as Section 477C of the Taxes Consolidation Act of 1997 and was scheduled to remain in operation up to the end of 2019. It originally allowed for a maximum rebate of €20,000 per property and restricted the amount of the refund to 5% of the property's value. The scheme was extended in the Finance Act 2019 to run until the end of 2020 and the limits were raised from their original level to their current values in the July Stimulus Package in 2020. This is commonly described as the enhancement of the scheme. The expiry date of the scheme was further extended on two occasions by one year, in the Finance Acts of 2020 and 2021, giving a current expiry date of the end of 2022.

While it was acknowledged at the time that the problems in the housing market had arisen as a result of a lack of supply, the logic – although not expressed in these terms – for introducing a scheme that would boost demand was that there was a large element of latent demand in the economy. In other words, while Ireland's population size and structure would infer a level of underlying demand that greatly exceeded the level of supply, the actual level of market demand that was actively engaged in purchasing new homes was low due to many potential buyers being unable to save the required deposit. This is difficult to assess, but reports from the time do indicate that there was adequate demand for any new homes that were put on the market and prices were rising. However, potential providers of finance and housing lacked the necessary confidence in the market to engage in sufficient levels of investment and construction.

No clear written set of objectives or KPIs against which the success of the scheme could be assessed on an ongoing basis appear to have been set out at the time it was introduced. The 2017 Indecon report on the scheme stated that³

One of the key objectives was to address what was seen as a growing affordability gap for many households wishing to purchase their own homes. The plan also was designed to increase the output of private housing to meet demand at affordable prices. (page 87)

These two objectives – improve affordability and increase supply – have been commonly expressed in undertaking this study. However, they are quite broad and certainly fall far short of what might be considered

³ Indecon (2017) *Impact Assessment of the Help to Buy Tax Incentive*. Report to Department of Finance

to be objectives formulated and expressed in line with the SMART criteria. What is meant by affordability also requires closer examination.

The scheme targeted the limits on market demand that arose as a result of the Central Bank's Mortgage Measures that had been introduced in 2015, specifically the commonly called Loan to Value (LTV) rule that requires purchasers to have a deposit of 10% of the house price, that is, the mortgage cannot exceed 90% of the value⁴. A similar rule had been applied by the banks up to the late 1990s, but this system was relaxed in the years thereafter and meant that there was an enhanced risk associated with the level of mortgages that were provided in the competitive mortgage market that preceded the economic crisis and housing price crash.

It had never been easy for most people to save this deposit, but a damaging cycle was perceived to have emerged in the years prior to introducing HtB. Prospective purchasers, many of whom had gone through a period of suppressed incomes following the crash, found it increasingly difficult to save due to the rising cost of rents. This meant that they continued to rent for longer periods thereby increasing demand in that market and further placing upward pressure of rents. Efforts to contain this through rent increase (price) caps were not sufficient to contain these increases in a market experiencing ongoing and intensifying demand pressures and supply constraints. Thereby, an adverse cycle was being created with the perception that there existed a growing cohort of people who were effectively excluded from purchasing for the foreseeable future, even if their income levels meant that they could qualify for, and service, a mortgage.

HtB did not address the impact of the Central Bank's Loan to Income (LTI) rule, which is much more closely aligned with ensuring that mortgages are affordable⁵. In addition, concerns in relation to the inadequacy of the new housing output, affordability and inflation in house prices and rents are at least as great today as when HtB was introduced. It is also notable that, as the Indecon report points out, no other possible policy options to achieve these objectives appear to have been considered or evaluated when HtB was introduced. Neither was there any cap placed on the aggregate amount of funds that would be provided to eligible purchasers⁶. In summary, although some objectives for HtB were identified around the time it was introduced, these were not of a nature that would allow an assessment of progress towards achieving those objectives, while the concerns that the scheme was designed to address remained entrenched.

2.2 Aggregate Scheme Implementation Data

Chapter 4 below contains a detailed examination of the operation of the HtB scheme since its inception. By the end of May 2022, a total of 33,843 applications for relief under the scheme (claims) had been made, of which, 33,035 had been approved. The total value of claims approved in this period amounted to €630.9 million with a further €15.1 million in claims submitted that were awaiting approval⁷. Self-builds accounted for just over 25% of houses against which claims were approved.

⁴ Some exemptions are allowable such that 5% of mortgages can have a lower deposit. The second Central Bank Mortgage Measure requires that limits the maximum mortgage that can be borrowed to 3.5 times the gross household income of the purchaser, the Loan to Value (LTV) rule. Again, exemptions mean that up to 20% of mortgages can have a higher LTV ratio.

⁵ Nothing in any part of this report should be interpreted as a criticism of the Central Bank's mortgage rules. These were introduced for very clear reasons and are reviewed regularly by the Central Bank. This current study is not a review of these rules.

⁶ This is typically the case with tax expenditures and causes for concern were expressed about the scheme in the Department of Finance at the time. Internal planning notes indicate that arguments were made to ensure that conditions were attached to the scheme so that there were limits on the overall funds that could be claimed by any individual purchaser, the price of house to which the scheme would apply were capped, and the scheme was restricted to FTBs and new homes only. However, there is a lack of clarity regarding the background analysis that led to the identification of a tax expenditure as the appropriate mechanism to use. There is also a certain lack of ownership regarding the origins of the scheme, although it clearly originated in the Department of Finance and was not foreseen as one of the measures in the *Rebuilding Ireland Action Plan* – despite a reference to the future development of a Help to Buy scheme – for which the then Department of Housing, Planning, Community and Local Government took lead responsibility.

⁷ These aggregates are based on expenditure up to the end of May and are taken from a recent publication from the Parliamentary Budget Office. Subsequent detailed analysis in this report is based on a dataset that was provided by the Revenue Commissioners that covers the period up to 12th May 2022 when the total value of relief was just over €603 million.

The total actual relief approved was 71% of the maximum relief based on the total of tax paid due to the restriction that the rebate could not exceed 5% of the house value up to 2020, and 10% following the July 2020 enhancement of the scheme. While an application for the rebate can be made against DIRT paid in the previous four years, as well as the income tax that was paid, the value of DIRT included in the approved applications was very small with a value of just €237,408, less than 0.04% of the total actual relief approved. The average purchase price of houses for which relief was approved was just over €327,000 and the average associated mortgage was €274,323, 83.8% of the purchase price. This indicates that most people that availed of the scheme did not have the full 10% deposit saved, but many did have a substantial portion of it. Average PAYE income was €87,730 per application, but there was a wide spread. Self-assessment income (Form 11) for which income tax was paid was important for some applications but amounted to only 0.6% of aggregate in the year in which claims were made.

The annual cost of the scheme has been rising rapidly in successive years. This is shown in Table 2.1.

Table 2.1: Annual Approved Claims and Cost of HtB Scheme

	2017	2018	2019	2020	2021
Claims	4,672	4,999	6,392	5,941	7,468
Cost (€m)	69.8	70.8	98.1	117.3	186.7

Note: 2017 includes retrospective claims for July to December 2016.

Source: Revenue Commissioners

It was originally projected at the time of its introduction that the scheme would cost in the region of €40 million per annum, and €50 million in 2017 when some retrospective claims relating to eligible purchases in the latter part of 2016 were included. It was noted in the Indecon report that this represented only a small portion of the €5.5 billion that was earmarked for public investment in the housing sector under the Rebuilding Ireland programme. Indeed, the fact that this could be characterised as ‘a relatively limited measure’ was used to argue that while there were risk factors associated with the scheme, as discussed further below, any negative impacts would also be limited. While this was potentially true, it does not of course obviate the need to ensure that best value for money is obtained from all public expenditure.

The 2017 data in the table above include 8,593 approved applications that related to the latter half of 2016 and had a value of just over €18 million. This would leave an actual cost of €51 million for claims in 2017. As a result, the projected cost appears to be accurate for 2017. However, the actual annual cost is now a considerable multiple of the projected range⁸. This gives rise to a question regarding what changed in the housing market to give rise to this growing divergence.

The cost of the scheme can be modelled as the multiplication of a number of variables (number of houses by price by variables related to eligibility criteria, etc.). Many of these were unknown at the time the scheme was introduced and the projection was based on an estimate of the value of new houses that were sold in 2015 – derived from Stamp Duty data – multiplied by variables representing the proportion of these that were bought by FTBs and eligibility criteria for scheme. This calculation is detailed in Appendix 1 below. An important point is that it is a maximal calculation, in other words, it assumes that there is 100% take-up of the scheme as there is no variable in this respect. As a result, the divergences in annual costs that have been seen are not as a result of increasing percentage take-up with respect to the original estimate. This means, assuming the model that was used for the projection is correct, that the increase must be as a result of some fundamental change in the housing market. This would be important to examine as it could be as a result of an incentive that arose from the HtB scheme.

⁸ This is not, in itself, a basis for a critique of the projected cost. It is inevitable that outcomes will differ somewhat from projections, and the purpose of this discussion is to identify the main driving factors.

The analysis in Appendix 1 shows that the original projection included an assumption in respect of the propensity of FTBs to buy new builds that was inappropriate. That the resulting estimate for 2017 was close to the projected cost was likely a coincidence as two countervailing biases in the model cancelled each other out. These were the over-estimate in the cost that was caused by the assumption that take-up would be 100% and an underestimate as a result of the assumption above. In later years the importance of the former declined as the scheme came to be used to fund deposits for an increasingly larger portion of new builds. At the same time, as output began to pick up each year, the high proportion of new builds that are bought by FTBs became an increasingly important element that pushed up costs. The result is that the growth of the cost of the scheme does not provide any particular insight in relation to the impact of HtB on the behaviour of purchasers.

This analysis also has a further important corollary. The report of the Tax Strategy Group noted the extent to which the annual cost had come to exceed the projected cost and identified the increasing cost of the scheme as a reason for this Review. In fact, the increasing cost is simply a result of the recovery that has been seen in housing output and the 2020 enhancement, while the fact that the scheme exceeded its projected cost is a result of this growth and an invalid assumption that was used in the model.

2.3 The Housing Market

The economic analysis of housing is complex – housing is not one market but a series of markets, houses are not one product but a number of different products that change over time – but the long term demand for housing is actually fairly predictable. People require houses of a predictable size to be produced at a predictable point in their lives. Most of the underlying determinants of this demand usually change only slowly over time. The exception in Ireland is migration which can vary from year to year, but the net impact of this is fairly modest most of the time. Demand can vary considerably in the shorter term, primarily due to financial variables that include interest rates, confidence about the economy in general, and perceptions of risk related to house prices. But none of these greatly change the longer term profile of demand.

The National Planning Framework (NPF) estimated that an average annual output of 25,000 new homes is required per year between 2018 and 2040 – 550,000 new homes in total⁹. Given the deficits that had accumulated, it estimated that output in the years following its publication would need to be well above the average and that 30,000 to 35,000 new homes per annum would be required. However, other projections at the time, for example, by Downey (2017), Davy Research (2017) and Lyons (2017) provided considerably higher estimates and concluded that the actual requirement was for 45,000 to 50,000 housing units per annum to meet prospective demand, given developments in the population size and structure¹⁰.

More recent research by the Central Bank shows that the growth of Ireland's population has exceeded the growth of Ireland's housing stock in all 5 year periods since 2000 with the differences becoming more pronounced over time¹¹. The research identified that housing shortages over the past number of years have resulted in a reversal of the long term decline in the number of people per household and concluded that if the number of people per household were to remain at current levels, Ireland would require around 34,000 new housing units per annum up to 2040. However, if household size were to converge towards UK levels in the longer term, as might be expected in a market with adequate supply, around 47,000 units would be required per annum. Furthermore, the estimates are sensitive to assumptions regarding migration.

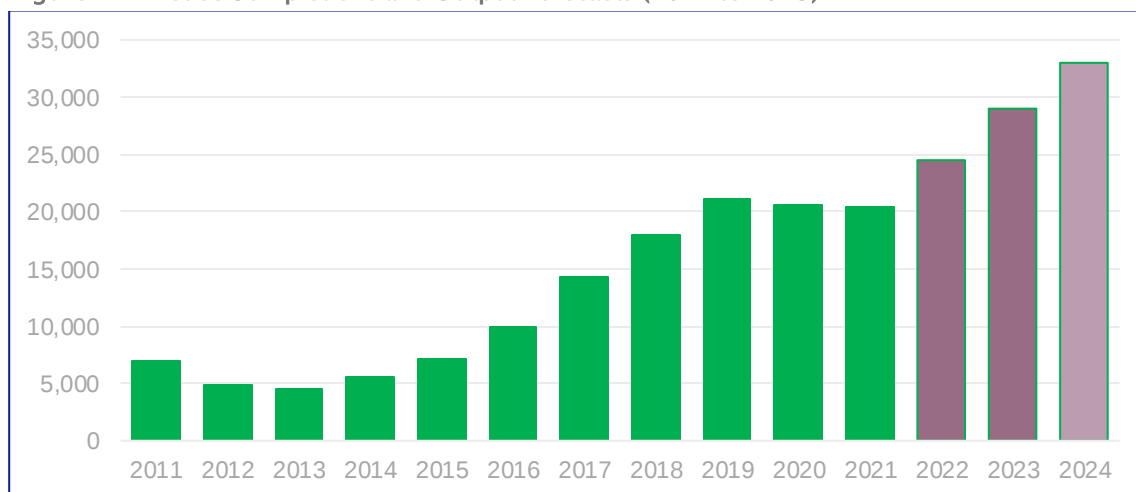
⁹ Government of Ireland (2018) Project Ireland 2040: National Planning Framework

¹⁰ Downey Planning (2017) *Housing Solutions to Assist Ireland in Realising its Potential: An Irish Housing Research Report*. Report to Hooke & MacDonald. Davy Research (2017) *Gauging Ireland's Housing Demand/Supply Imbalance*. Lyons, R. (2017) *Growing Great Teams in Ireland: The Role of the Residential Rental Sector*. Report to American Chamber of Commerce Ireland.

¹¹ *Population Change and Housing Demand in Ireland*. Central Bank Economic Letter, 2019, No. 14

This is potential demand: the level of demand that would exist if the Central Bank's rules and affordability assessments by lenders did not constrain the ability of FTBs to enter the market and purchase. The output of housing has been far below this level of potential demand. Supply typically has in the region of a 3 to 5 year response time, but the current crisis has been building and intensifying for much longer than that and supply has not responded to achieve anything close to this level of demand. The long term trend in housing output is shown in Figure 2.1 and shows that completions have fallen far short of requirements.

Figure 2.1: House Completions and Output Forecasts (2011 to 2023)



Source: CSO & Central Bank

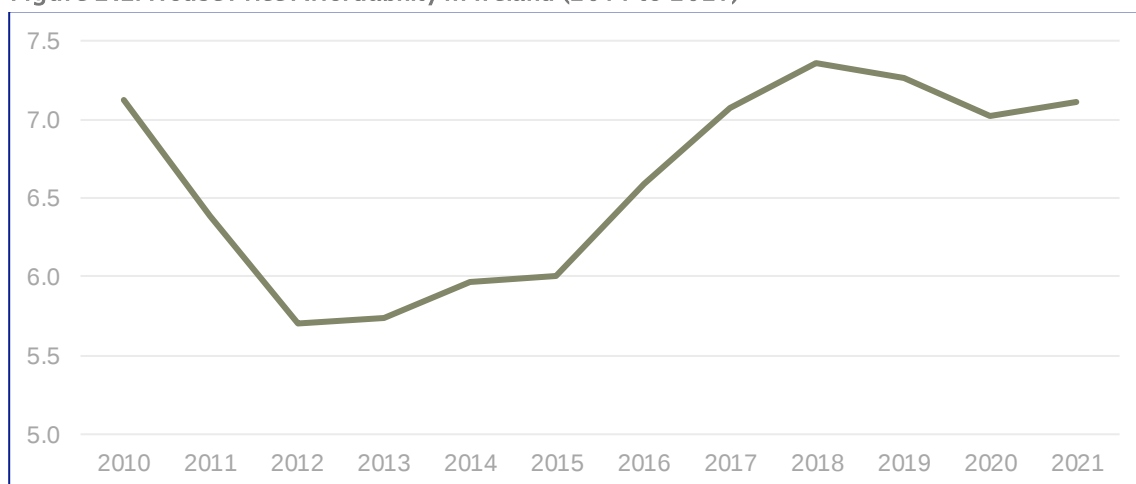
Annual housing output in this period peaked at just over 21,000 in 2019 before COVID-19 hit the sector. However, while the growth stalled in 2020 and 2021, the rate of commencements has accelerated in 2022. The most recent forecast from the Central Bank indicates output of 24,500 this year¹². Output is forecast to rise to 29,000 in 2023 and 33,000 in 2024, which is still below the underlying requirement. However, there is a clear upward trend, albeit at a slightly slower annual rate than in the 2016 to 2019 period.

Along with improving supply, affordability was identified as an objective of policy. The affordability of housing is generally assessed by comparing house prices to some measure of income. This makes time series and international comparisons possible, but it should be remembered that such measures, by necessity, deal with broad averages and can hide important issues in any market. The trend in affordability in Ireland is shown in Figure 2.2 as the ratio of average house prices to average annual incomes¹³.

¹² Central Bank of Ireland *Quarterly Bulletin* Q2 2022. The Bank had previously forecast output of 26,000 this year but reduced this in its most recent Bulletin due to ongoing supply chain issues, a tighter labour market and input price increases.

¹³ Different income measures show a broadly similar trend.

Figure 2.2: House Price Affordability in Ireland (2011 to 2021)



Source: CSO Mean House Price and Average Earnings Data

There was a sustained deterioration in affordability since the low in 2012 during the recession. However, housing affordability has not deteriorated relative to the pre-financial crisis period and appears to have stabilised since 2018. Furthermore, comparisons with a wide range of international areas shows that affordability in Ireland is not particularly poor when compared to most parts of the UK and US where home ownership rates are comparable. There are a number of important caveats to this, the most important being that these averages hide the fact that prices and the affordability ratio are considerably higher in Dublin and, to a lesser extent, in other urban areas. Comparisons for late 2020 indicate that median house prices in Dublin were 5.4 times median household incomes, putting Dublin in line with the southern part of England, but far below London at 8.6 and many global cities¹⁴. However, with the Central Bank restrictions meaning that mortgages can only amount to 3.5 times gross income the difficulties for first time buyers in the Dublin region are obvious.

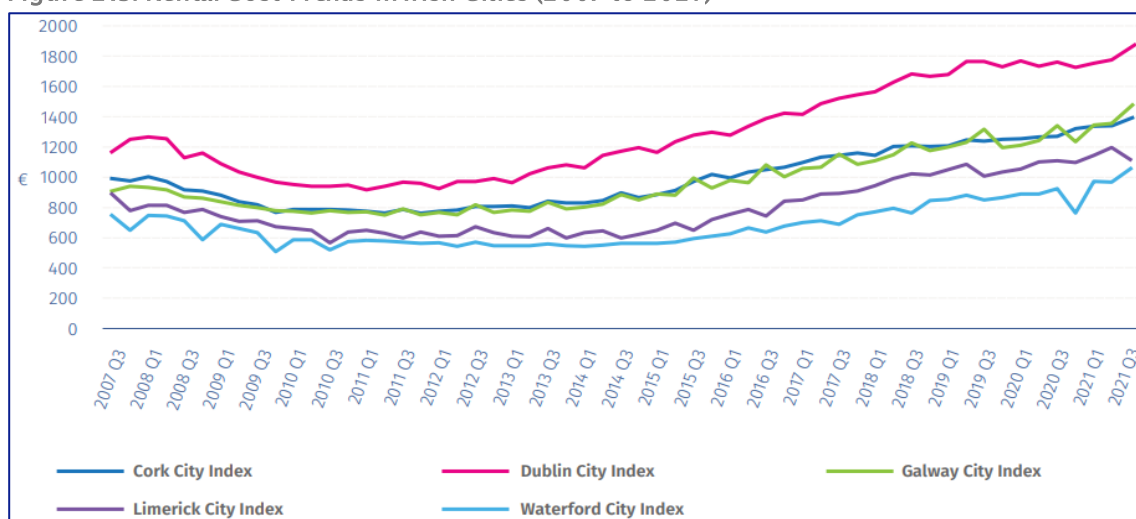
Supply has not adequately responded to rising prices and predictably high demand over the past decade for a simple reason: it is not sufficiently profitable for the industry to provide the required housing at the prevailing prices, which are a function of what people can afford. This is the affordability/viability gap that is the source of the problem: prices cannot rise to a level that would make it profitable to build as this would mean that mortgages for first time buyers would have to exceed Central Bank limits. Housing is therefore not affordable for first time buyers in many parts of the country. This then feeds through to other parts of the market.

The most notable is the rental market. Difficulties buying have increased demand for renting. Meanwhile, higher house prices, lack of new properties in the buy-to-let market, funding constraints, the overhang of debt from before the financial crisis, and measures that were introduced at the time of the crisis that made property less attractive for small scale landlords have combined to reduce the supply of properties.

Year on year rental inflation has exceeded 4% in all periods since 2014, apart from during the worst of the COVID-19 crisis, to maintain gross rental yields in the region of 5%. The sustained rise over the past decade means that the national standardised average rent – as measured by the RTB – peaked at just over €1,000 per month, before falling to €760 in late 2012. It then began a sustained rise, exceeding the previous peak in 2016, and reached €1,397 in late 2021. Rents in Dublin are notably higher and have maintained the differential with other cities over this period. These trends are shown in Figure 2.3.

¹⁴ *International Housing Affordability 2021*, Urban Reform Institute (Canada).

Figure 2.3: Rental Cost Trends in Irish Cities (2007 to 2021)



Source: Residential Tenancies Board

The evidence from this data source and for others such as the Daft.it reports indicate that this rise has continued into 2022 and is likely to continue unabated due to lack of supply. Furthermore, it is clear that the relatively higher rents that are seen in Dublin are not displacing potential residents to other cities. There is no demand displacement. Neither is there an adequate supply response. Taken together these indicate that there are fundamental reasons why the difficulties will not be addressed by policy interventions such as rent price controls.

The main policy interventions in the housing market have taken place under the *Rebuilding Ireland* plan introduced in 2016. This policy programme aimed to raise the supply of new homes to 25,000 per annum by 2020. It also targeted 50,000 social housing units by 2021 and for the Housing Assistance Payment (HAP) scheme and the Rental Accommodation Scheme to assist an additional 87,000 households. However, the outcome fell far short of these targets. The plan failed to achieve its targets in every year leading to a cumulative shortfall of 41,000 housing units by 2020 compared to targets. Unsurprisingly, the supply deficit continued to rise in this period.

A new range of policy initiatives have been developed under the *Housing for All* programme. These include measures that are designed to address the affordability gap and include the proposed Croí Cónaithe subsidy and Shared Equity schemes. These are a new departure for Irish housing policy and have been developed in the context of HtB operating in the market. An important question that arises is the role of HtB and its optimal design in the context of these new schemes. This is addressed in later chapters of this report.



03

Relevant Literature and Concepts

3 Relevant Literature and Concepts

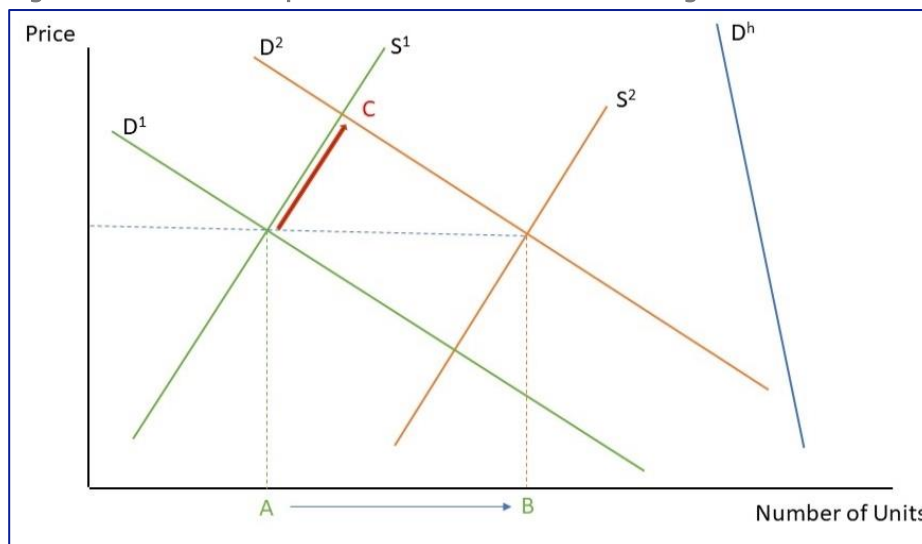
3.1 Market Forces, Prices and HtB

Before examining the conclusions of previous assessments of the HtB and related commentary on the scheme, it is useful to describe the market in which the scheme has operated in a stylised manner to illustrate the known and assumed features of that market and the linkages between the initial impact of HtB and the ultimate objectives. This approach reflects a standard Logic model approach where the funds that are reimbursed are the input, the deposits paid are the output, the reaction of suppliers in terms of increasing the supply of properties is the outcome, and the extent to which the objective of addressing the identified market failures is achieved is the impact.

Figure 3.1 shows a stylised illustration of the Irish housing market in a year¹⁵. Total long term demand is predictable being determined primarily by known and predictable, mostly demographic, factors such as the size of the population, its age structure, and household formation rates. Notice that this is not greatly affected by prices or funding. After all, most people will wish to live in a home, whether owned or rented, and most will wish to buy at some stage. This is indicated by D^h in the figure.

However, at any point in time, market demand will be a sub-set of this total since some people will decide to put off buying due to price changes, or will be unable to do so because of lack of funds. This level of market demand is shown by D^1 and changes in the level of demand are more closely related to changes in the level of prices¹⁶.

Figure 3.1: Potential Impact of HtB Scheme on the Housing Market



¹⁵ This simplified model applies only to homes traded at market prices and does not encompass social and affordable housing or other non-market types of housing provision.

¹⁶ Economists refer to this as there being a relatively higher price elasticity of demand in the short to medium term. While not incorporated in this stylised analysis, some care is required in respect of the relationship between housing demand and prices. A rise in house prices may actually increase demand in the short to medium term. This is not a contravention of the law of demand but reflects the fact that price is not a simple number when dealing with housing. Rather it is best interpreted as the ratio of the observed price today to the expected price in the future. This is because buying a house is a long term proposition and while many people will wish to do so at some stage, they can vary the timing of when they engage with the market. Expectations tend to be greatly determined by recent and current information. As a result, a recent upward trend in prices will lead to an expectation of higher prices in the future. This reduces the ratio of current to future prices, in other words, houses today will appear relatively less expensive. Assuming funds are not a constraint on entering the market, price rises can therefore increase demand. The same process also works in reverse with the result that housing markets can see volatile price moves, even when underlying factors, such as demographics or supply plans, have not changed.

Supply in this market in advance of HtB being introduced is shown by S^1 . Supply will be affected by price in the medium term, but it can be slow to respond in the short term. The slope of this curve indicates that this is a medium term analysis, in other words, contractors have sufficient time to respond to changes in the market.

This market will provide an annual quantity of housing equal to level A. However, this is well below what is required as suggested by the long term demand curve D^h . The difference between A and D^h reflects a market failure and the objective of HtB, and a number of other initiative under *Rebuilding Ireland* and *Housing for All* programmes, has been to reduce this difference.

We can identify the objective of the HtB scheme in terms of Figure 3.1. Starting at the intersection of D^1 and S^1 , the expectation was that demand would increase, that is, shift the demand curve to D^2 . For any price level there would be an increase in demand in the market as new potential buyers now found that they could avail of the scheme and afford to enter the market. However, there was a danger that prices would be forced up so that the move would not be from A to B, but from A to C. There would be some new purchasers and some increase in supply, but at the expense of higher house prices which risked forcing lower income prospective purchasers out of the market. The proportion of the desired move from A to B that would be seen would depend on the slope of S^1 : a steep slope would mean that the intervention would just result in a rise in prices without any meaningful impact in terms of addressing the deficit in the number of units supplied. This is what economists call an inelastic supply response.

Unfortunately, analysis of the housing market leads us to expect that this is a likely outcome, at least in the short term, say, less than 2 or 3 years. The inescapable fact is that it takes time for housing output to respond to an increase in demand. This also risks creating a price spiral, given that prices were already rising.

However, it is clear from statements at the time that there was an expectation that the initiative would cause supply to respond to this new demand thereby shifting supply from S^1 to S^2 before adverse outcomes arose. In this case, the total number of new housing units placed on the market would shift from A to B and, at least partially, address the deficit without forcing up prices¹⁷. Although the HtB scheme is associated with *Rebuilding Ireland* – the development of a future initiative of that name is mentioned in the document at page 12 – details of the scheme were not announced until Budget 2017. In his Budget statement, the Minister stated that the scheme was being introduced to address an acute shortage of new houses. The Minister then stated that

"In all markets, supply increases to meet demand and the Help to Buy Scheme will increase the demand for newly built houses by assisting first time buyers to put a deposit together."

Clearly, the Minister was acknowledging that the scheme was designed to increase demand: it was a demand side intervention that would boost demand. The problem for the argument in this extract, however, is that there is no basis for the statement that supply increases to meet demand in all markets. Indeed, the markets where this can be expected are rare and would require a high degree of competition and very low market power. It would also require the ability to respond in a short period of time.

That is not to say that the supply of housing will not respond to higher demand. There are two clear mechanisms through which this can occur. The first is as a result of higher prices, or the expectation of higher prices in those parts of the market where a relatively rapid supply response can be expected. This is the move from A to C in Figure 3.1. But this is not the desired outcome. The second is an improvement in one of the other determinants of supply that would result in an outward shift of the supply curve. In this case it is a reduction in costs, or more accurately, the risk adjusted cost of financing construction. This would occur if supply was constrained by the number of units that providers could be guaranteed they could immediately

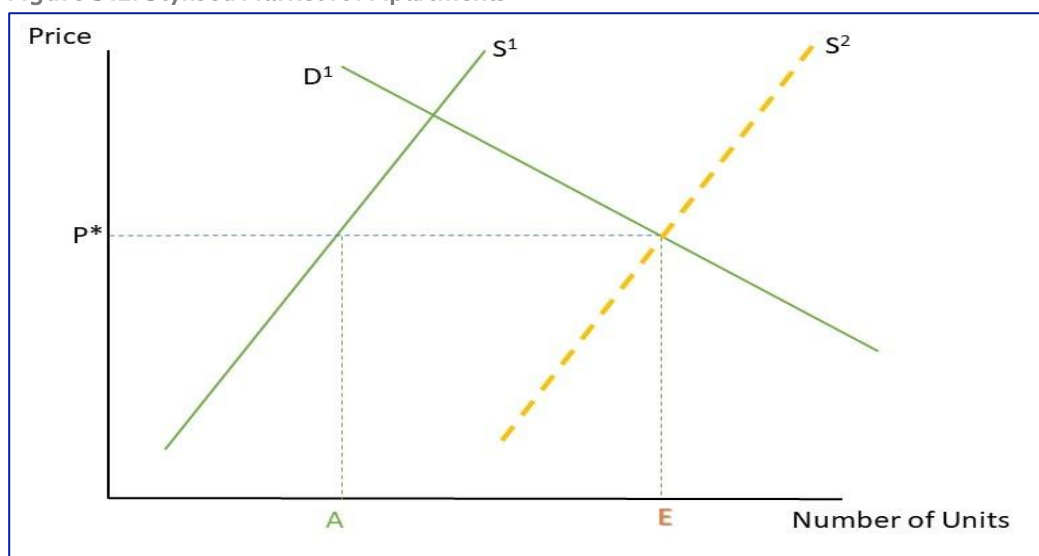
¹⁷ Figure 3.1 is drawn showing that supply would increase sufficiently to avoid any price increase. This is done simply for clarity and there is no reason to expect that this precise outcome would result.

sell on completion. In this case, an increase in committed demand – market demand for which there existed legally contracted sales in advance of construction or a strong expectation that such was the case – would reduce the risk adjusted cost of construction. This would result in an increase in supply and a move from A to B in Figure 3.1. In effect, therefore, the success of the scheme depended on accepting that there was risk in the market that was inhibiting supply and that the HtB scheme would reduce that risk.

There is a further relevant feature of the Irish housing market in recent years that needs to be considered. The move from A to C in Figure 3.1 depends on purchasers being able to afford higher priced properties, in other words, that there would not be a funding constraint. However, as a result of the Central Bank LTI prudential rule, the gross income of prospective purchasers is an important constraint for most potential mortgage borrowers¹⁸. The result would be that even the move from A to C could be curtailed since HtB was not designed to ease the impact of the LTI constraint.

The impact is of particular relevance for apartments. Market prices have been constrained at a level below what would equate demand and supply resulting in a shortage in the market. The effect of this is shown in Figure 3.2. As before, D^1 and S^1 represent demand and supply in the market. However, prices are constrained at P^* , a level that is well below what would equate demand and supply. Prices cannot move higher since purchasers cannot borrow more, even if they are willing to do so.

Figure 3.2: Stylised Market for Apartments



The important impact of the funding constraint for borrowers means that the demand curve would not shift out to any great extent as a result of HtB being introduced. Borrowers would find it easier to get the deposit together, but would still not qualify for a mortgage that would be sufficient to buy an apartment as a result of limits on the amount they could borrow, meaning that prices could not rise¹⁹.

A supply response (the dashed line S^2) is shown in Figure 3.2 suggesting a possible move from A to E. There are two issues. First, the move from A to E would be less than the move from A to B in Figure 3.1 given the absence of a demand impact. Second, the greater problem is that it is not clear why there might be any meaningful supply response. The number of apartments being built is below the number demanded because

¹⁸ Central Bank of Ireland (2021) *Mortgage Measures Framework Review*. Consultation Paper 146. The CBI analysis indicates that LTI is the predominant constraint likely to face most first-time buyers (page 14). The impact of the LTV rule is eased by family gifts. LTI is also the primary constraint for second and subsequent buyers. Even if the LTI limit were to be adjusted upwards, the CBI analysis indicates that this relative importance would not change.

¹⁹ A possible exception is if deadweight was an important factor for the HtB. If so, while deadweight is rightly interpreted as a sign of inefficiency, it could have an unintended effect of allowing borrowers to pay a deposit equal to a higher than otherwise intended level of deposit and thereby reduce the amount that would need to be borrowed. This would move the demand curve marginally to the right and allow apartment prices to increase somewhat towards the market clearing level. However, given that the scheme was not designed or intended to work in this manner, it is unlikely that this would overcome the inherent inefficiency.

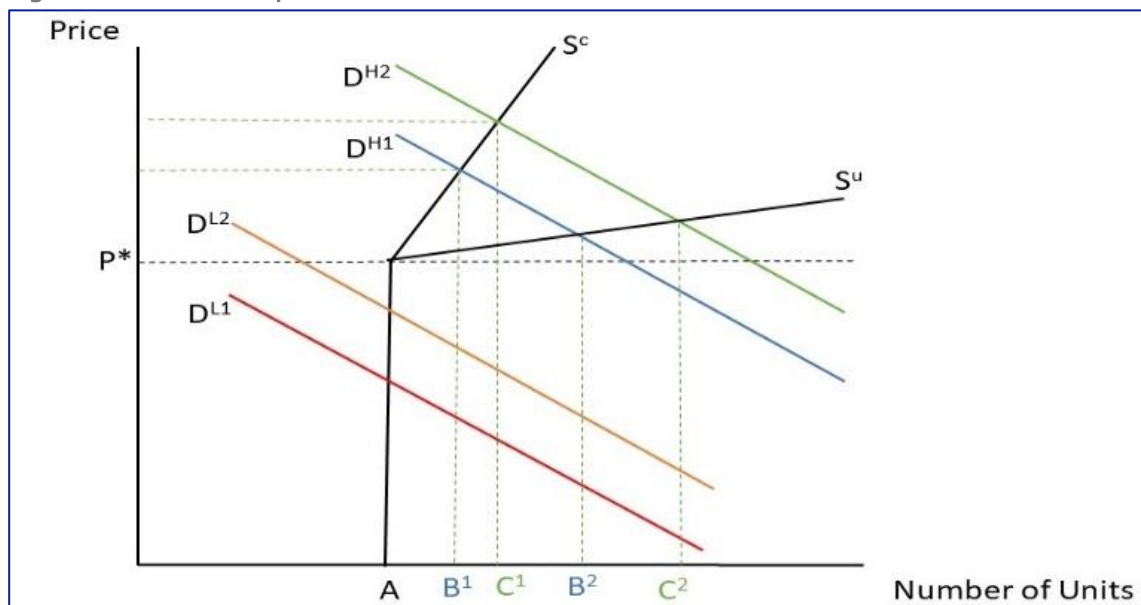
it does not pay suppliers to build more when prices remain constrained at P^* by the inability of potential purchasers to borrow a sufficiently large mortgage. The HtB does not address this since, by reimbursing income taxes paid in the reference years, it impacts on the net income of beneficiaries. The design of the scheme means that this increase in net income is automatically allocated to the deposit. However, the amount of mortgage loan that can be borrowed by a borrower is determined by their gross (pre-tax) incomes. These are unaffected by HtB. As a result, it is unlikely that there would be a meaningful increase in the building of apartments, other than what might arise as a result of a price increase²⁰.

It is possible to bring these ideas together to describe a probable outcome for the impact of the HtB. However, we need to include allowance for two conditions that may be different in different parts of the market, or parts of the country: in some places and for some types of units, it is not possible to build what is being sought at the prices that can be obtained, and in some markets there are constraints on the ability of supply to increase due to lack of sites or some other factor. This analysis is illustrated in Figure 3.3. In this figure, P^* represents a price level under which it is not viable for builders to supply more units.

Consequently, for any price level under P^* the maximum quantity that will be supplied is set at A. At prices above P^* , supply can increase as price rises. While the cost of constructing new units does not vary greatly across the country – leaving aside site costs – the prices that can be obtained do vary considerably.

Consequently, it is necessary to undertake the analysis for a relatively low price market – demand is indicated by DL in this market – and a relatively high price market – demand is indicated by DH in this market²¹. We also do not know to what extent supply might respond as there may be other important constraints that limit the response. If there are important constraints then the supply response is better illustrated by S^c . If supply is relatively unconstrained then the response is better illustrated by S^u .

Figure 3.3: Market Response with Constraints



If we start with a low price market where the available price is below P^* , the introduction of HtB would boost demand from D^{L1} to D^{L2} . However, the only impact would be to increase the price that units could be sold at

²⁰ In terms of these figures, this means that a change in output would arise mostly, or only, as a result of move along the supply curve, rather than as a result of a shift of the supply curve.

²¹ Note that the difference is relative to the cost of providing units as well as relative to prices in each market. As result, the use of the term 'low price' does not mean that housing units are cheaper than in some other location but that the price that can be obtained is low relative to the cost of providing the units. This is the case for apartments in Dublin where prices are high.

to closer to P^* . There would be no impact on the quantity supplied, irrespective of whether there were other supply side constraints. Output would remain at A.

In relatively high price markets where prices are above P^* , the impact would depend on the ability of supply to respond, the price elasticity of supply. If we have a market where the response is constrained, the starting point is indicated by B¹. The boost to demand as a result of HtB being introduced would mean a noticeable increase in price but only a small increase in supply from B¹ to C¹. Alternatively, if other constraints were not important then supply could increase from B² to C² and the impact on prices would be relatively modest. This would be a desirable outcome, but it depends on the issue that HtB would address – the ability of prospective buyers to save a deposit – being the primary constraint operating in the market. It is unclear that this has been the case.

It is of course possible that the market might start at A with price below P^* . The boost to demand might mean that the price than can be charged would now rise above P^* . The result would be a rise in price and some increase in output. Indeed, given the number of years of unmet demand that have been observed it is quite likely that this might be a common outcome.

3.2 Market Failure, Feasibility and Efficiency

Undertaking an assessment of any existing or proposed programme of public expenditure requires that positive, definitive answers are provided to three questions before a recommendation to proceed can be made. These are:

- What market failure is to be addressed by the intervention? If the market failure that is being targeted is not identified then it cannot be concluded that the intervention will lead to a welfare gain relative to the option of not acting. In addition, if the market failure is not identified it is difficult to be clear about the objectives and targets of the proposed expenditure and if these are being met.
- Is it feasible to expect that the intervention will achieve the desired outcome? Directly addressing the market failure is the best approach but if this is not possible, as is usually the case with economic or financial instruments, the policy design should be as simple and straightforward as possible to minimise assumptions in relation to how economic actors will react. The analysis above indicates that there are important questions regarding the feasibility of HtB.
- Is the initiative likely to result in a net benefit, in other words, have a positive impact on welfare? In an ideal situation where full quantification of costs and benefits is possible, cost benefit analysis will provide the answer. However, if there are difficulties in placing reliable values on important costs or benefits, as is typically the case when dealing with a sector such as housing, alternative approaches or a combination of appraisal methodologies should be used to identify if the proposed initiative is the most efficient way to address the issue.

Previous analysis and commentary on the scheme have provided insights in relation to these questions and are discussed below. However, the Department of Finance's own Guidelines on the appraisal of tax expenditure are highly relevant and are well aligned with this approach²². These highlight the importance of clearly identifying the market failure that the intervention will address. The *Guidelines* state that there are 5 key questions that should be addressed in an *ex ante* evaluation and the first two of these require that the Objective of the initiative and the market failure being addressed must be identified. The third and fourth examine if a tax expenditure is the best approach and what impact can be expected – this is akin to the feasibility question – while the final question looks at cost. The report also identifies questions to be addressed in an *ex post* evaluation. These concentrate on assessing the costs and benefits of the scheme.

²² Department of Finance (2014) *Report on Tax Expenditures*

These issues were, at best, only partially addressed in the appraisals that were done at an early stage, and do not appear to have been considered in any depth, if at all, in advance of its introduction. The *Guidelines* are highly information in terms of the benefits of tax expenditures compared to providing a subsidy (Table 3, page 9). This shows that tax expenditures are simple and attractive to tax payers, and have low administrative costs, relatively low potential for abuse. HtB certainly displays all these characteristics. However, the level of potential expenditure is uncertain and not easily controlled, they can result in a high level of deadweight expenditure due to difficulties in targeting, and they will likely be socially regressive.

Given these strengths and weaknesses, a pertinent question should have been if the strengths of using a tax expenditure to achieve the objectives of increasing housing output were sufficient to overcome these known weaknesses, thereby making this the most appropriate form of intervention. This would have best been achieved by undertaking a multi-criteria analysis of HtB as proposed against relevant alternatives. However, this does not appear to have been undertaken²³. As a result, the cost of the scheme has increased far beyond what was originally foreseen and cannot be effectively controlled, there is a high level of deadweight that indicates inefficiency and casts doubt on the value for money that is achieved, and there are concerns that HtB provides assistance to higher income earners only. These issues are discussed in detail in later chapters of this report.

3.3 Previous Commentary on the HtB Scheme

Work on the development of a HtB scheme was noted in *Rebuilding Ireland*. It stated that

“As a complement to the structural actions set out in this Plan, the Government is working with the Central Bank, as part of its review of its mortgage lending limits, to develop a new “Help to Buy” scheme to ensure availability of adequate, affordable mortgage finance or mortgage insurance for first-time buyers as new housing output comes onstream.” (Rebuilding Ireland, page 12)

It further indicated that the measure would be introduced in Budget 2017, as was subsequently the case. The Minister also referred in the Budget Statement to consultations with the Central Bank which led to the agreement that any funds that were received as a tax rebate would count fully as part of the required deposit.

Without using the terms, the extract above indicates that the market failure that would be addressed by the scheme would be related to the impact of the Central Bank rules on the maximum mortgage allowable for any income level as this constrains the amount of finance that is available. This is the LTI rule, not the LTV rule. In addition, it is clear that the role of the scheme would be to enable prospective purchasers to buy as new supply came into the market as a result of other measures in *Rebuilding Ireland*. There is no indication that its role would be to promote supply in response to demand²⁴. Consequently, the market failure that was to be addressed by the actual HtB scheme appears to differ from what was originally proposed.

The issue of market failure in addressed in the Indecon (2017) impact assessment²⁵. Having correctly noted that intervention should only be undertaken to address a market failure, the report states that

²³ The Department of Finance's Report on Tax Expenditures 2021 contains a brief review of June 2021 meeting of the Committee on Budgetary Insight and summarises a presentation to the Committee. Included in this was a call for improvements in the evaluation of tax expenditures and the possible creation of a dedicated evaluation unit. While the internal structure of the Department is not considered in this report, the research has identified a number of weaknesses in the evaluation of HtB that would lead to support for this call for improvements in this respect.

²⁴ There is reference to a scheme to improve 'mortgage insurance' but the HTB scheme that was introduced does not address this issue.

²⁵ *Impact Assessment of the Help to Buy Tax Incentive*. Report prepared for the Department of Finance by Indecon Consultants, September 2017

"Because of issues arising from the capital constraints in the banking sector and legacy issues for the property crash there are understandable limits on the availability of builders to secure finance for commercially viable investments" (page 95).

The argument is that one legacy of the crash is a perception of risks in relation to housing and a shortage of finance for mortgages. The report goes on to say that other regulations, such as planning and zoning restrictions, have pushed up prices which '*has impacted on the viability of new homes*'. This is the argument above in relation to the cost of construction, for apartments in particular, being above what prospective purchasers can afford. It is then stated that

"This results in negative economic externalities as people who are forced to rely on a restricted rental market or to seek government provision of housing" (page 95).

While related, there are two quite distinct market failures being discussed here. The first is related to perceptions of risk in the economy: the risk of excessive mortgage debt as perceived by the Central Bank that introduced the Rules in response, and risk related to the ability of borrowers to repay loans as perceived by the banking sector²⁶. The second issue is more complex as it relates to the secondary impacts – the existence of an externality – within the rental market. The argument here is much weaker as it cannot be concluded that HtB would address the problems in the rental market which are related to the cost of providing rental accommodation relative to the returns available²⁷. This situation would not be improved if HtB led to a reduction in rents.

This indicates some lack of clarity regarding the precise market failure that HtB targeted. However, there certainly are risks associated with financing the building of housing that can be traced back to the crash. These primarily impact on the supply side, not on consumers. A better outline of this market failure – although the term is not used – is contained in the submission by the Construction Industry Federation in advance of Budget 2022. In arguing for a continuation of the scheme, the submission states that

"Without the certainty of a continuation of HtBI scheme to 2025, there is a serious risk that the rate of commencement of new homes will fall as hopeful buyers will fail to have the required deposit to secure their residential mortgage."

The key word here is 'certainty'. The Central Bank rules were introduced to reduce the risk to the economy and within the banking sector of unrestricted mortgage lending, which had had such serious consequences in the previous decade. However, this created a secondary issue, an increase in uncertainty, not for the banking sector, but for the construction sector. As previously stated, supplying housing is a long term proposition for market participants. In a smoothly functioning market, this is not as serious a problem as might at first be expected since long term demand is predictable. The problem is that the Central Bank rules introduced the risk of a divergence, which could persist into the long term, between total potential demand and actual market demand. This is a major risk factor on the supply side and is an important market failure.

Indecon (2017) is correct to conclude that '*there was a valid market failure for the HtB introduction*' (page 95). However, the report then moves on the question of whether the initiative would actually address the market failure – the feasibility question – and states, without additional analysis that:

²⁶ Risk is a source of market failure and there are occasions where a public policy invention can reduce risk. No evidence is presented that the perception of risk or lack of funds within the banking sector for mortgages is a major issue and it is arguable that it is not a major constraint. In contrast, successive macroprudential assessments by the Central Bank indicate that this is not an issue of concern in Ireland. Indeed, if it were, there would not be a strong case for the Central Bank rules as it would be a market solution to the issue of risk. After all, the Rules were introduced in response to a period when the banking sector seriously under-estimated the level of risk associated with housing.

²⁷ HtB would also do little to address the need for social housing as it is restricted to people who are actively seeking to buy at market prices and would not qualify for 'government provision of housing'.

"We also believe that the HtB, as a tax refund incentive, was likely to be as efficient as a direct expenditure intervention."

The assessment qualified this conclusion somewhat by asserting that the design of the incentive is likely to limit its take-up thereby reducing its overall cost and limiting the risk of adverse effects as a result of an inadequate supply response. As a result, if the measure was not successful that at least the cost of introducing it would be limited by low uptake. However, this observation would seem to point to an expectation that HtB would not be effective in addressing the market failure.

The subsequent experience in relation to the operation of HtB, as discussed below, was that take-up far exceeded expectations. For example, pointing to data from the Banking and Payments Federation that 78% of first-time buyers in the 12 months to March 2021 availed of the scheme, the CIF Budget Submission concludes that the HtB scheme 'plays a pivotal role in builders delivering new homes. Consequently, it asserts that

"The HtB scheme for first time buyers has had a profound impact on the rate of commencement of new residential scheme units" (page 37).

No analysis is provided to support this conclusion or the attendant claim that the impact of the scheme has been 'a substantial increase in rate of new housing completions'. As discussed in Chapter 5 below, there has been an increase in the rate of supply since the scheme was introduced, but there are many factors that may have contributed to this, of which the HtB is but one. A number of housing incentive measures were introduced at about the same time as the HtB and the data show that there were similar increases in the rate of completion in this period of properties priced above €500,000 that would not qualify for the scheme and would therefore be unaffected by its introduction²⁸.

The issue of the feasibility of the intervention also arises in research undertaken by the ESRI in a 2021 review of options to increase tax revenues in Ireland²⁹. The research noted that the HtB was costing around €100 million per annum – this has since increased markedly – implying that discontinuing the scheme would increase revenues by this amount, in terms of its first round impact. It noted that doing so 'might reduce the affordability of new-build homes for some first-time buyers' (page 39). However, because many of the units for which purchasers availed of the scheme were priced above median new-build prices and because 40% had a LTV of less than 85% – meaning that many purchasers who availed of the scheme were buying relatively expensive properties and already had the required 10% deposit – the scheme was poorly targeted in terms of providing support to first time buyers who were struggling to save adequate funds to finance the deposit. Furthermore, the regional distribution of approved claims indicated that the funds were not targeted at the areas of the country where lack of affordability and undersupply were most acute. The review concluded that

"Restricting the scheme may therefore have limited effects on the first-time buyers and self-builders it is supposed to help" (page 40).

The implication therefore is that the scheme was not being successful in addressing the targeted market failure and that most of the initial tax revenue as a result of restricting or abolishing the scheme would accrue as net additional tax revenues to fund expenditure elsewhere in the economy.

Some doubt on the feasibility of the scheme to achieve its main objective of increasing supply is also supported by the results of a survey of FTBs by one of the main mortgage providers³⁰. The survey found that 55% of FTBs would need financial help from family or friends to buy a property. As such assistance tends to

²⁸ Parliamentary Budget Office (2019) *An Overview and Analysis of the Help to Buy Scheme*. PBO Publication 51 of 2019.

²⁹ Kakoulidou, T. and B. Roantree (2021) *Options for Raising Tax Revenue in Ireland*. ESRI Budget Perspectives 2022, Paper 1. This is the consultants interpretation of the ESRI's approach as it did not provide any assessment of the net impact on tax revenues as a result of fewer housing units being built.

³⁰ *First-Time Buyer's Barometer Report*. Report by Bank of Ireland. The report contains the results of a survey of FTBs undertaken in November 2020.

be a once-off contribution to meeting the deposit requirements, this indicates that the LTV rule is a constraint. However, even if this constraint was to be eased by intervention it cannot be concluded that this would increase demand, let alone supply. The problem is that only 18% of FTB respondents identified saving for the deposit as the biggest challenge to buying a property. Saving for a deposit had been identified as the greatest challenge by 33% of FTBs in the 2017 iteration of the survey, indicating that the HtB scheme had greatly eased this challenge. Of far greater importance is the cost of housing, indicating the LTI rules impose a far greater constraint. The survey also indicated that actually finding a property remained a major challenge.

Many commentaries on the HtB have focussed on fact that it is a demand side intervention to address a supply side deficit. The Indecon impact report noted that HtB is 'largely but not exclusively a demand incentive' (page 2) but other commentaries have been less equivocal. For example, IMF (2017) welcomed measures that had been introduced under the Housing Action Plan but stated that:

"On the contrary, the "Help-to-Buy" (HtB) scheme, set to run through 2019, raises some concerns. While temporary and relatively limited, the program provides only indirect support for supply and carries a relatively high threshold for mortgage value, suggesting scope for better targeting. As the same time, it risks exacerbating demand and pricing pressures (page 14)³¹"

The EU concurred stating that a number of policy initiatives that could 'further stimulate housing demand or were inconsistent with efforts to increase supply' had been introduced³². It described the HtB scheme as the most prominent of these measures and concluded that

"The measure is likely to increase demand for new properties in the face of inelastic supply, thereby supporting further price increases while only indirectly contributing to increasing supply" (page 26).

In both these reports, the scheme stood out as one of the few measures that attracted such direct criticism in otherwise favourable assessments of Ireland's post-programme recovery.

Similar criticisms were included in the 2020 report on housing policy from NESC³³. As part of a discussion on the need for greater policy co-ordination at central level, it pointed to the danger that was posed by the enhancement of the HtB provisions, and its extension up to the end of 2021, to the effectiveness of the Central Bank prudential rules. It stated the importance of avoiding short term measures that might boost prices and debt levels 'even though home ownership is out of reach for many on good incomes' (page 20). It pointed out that the LVI rule remained effective but painted the enhanced HBT as

"likely to reinforce upward pressure on prices and act as an incentive for housing development to take place away from major urban centres" (page 21).

Consequently, the danger is not just that the scheme might be ineffective at boosting supply but that it could weaken other important policy initiatives and distort the location of new properties away from where they are most needed. This issue is discussed in later chapters of this report.

The most comprehensive assessment, albeit undertaken at a relatively early stage of the scheme's implementation, was the 2018 CBA undertaken by Indecon³⁴. As with the earlier impact assessment, there was no clear evidence that HtB had pushed up prices and, while the report noted that its introduction was accompanied by an increase in supply, it concluded that other factors were significant in this regard.

³¹ IMF (2017) Ireland: 2016 Sixth Post-Program Monitoring Discussions.

³² European Commission (2017) Post-Programme Surveillance Report, Ireland, Autumn 2016

³³ National Economic and Social Council (2020) Housing Policy: Actions to Deliver Change. Report No. 150

³⁴ Ex-Post Cost-Benefit Analysis of the Help to Buy Incentive. Report prepared for the Department of Finance by Indecon Consultants. The report was incorporated into the Budget 2019 Report on Tax Expenditures.

However, it found that HtB likely had a positive impact on supply for certain categories of housing. The report undertook an extensive evaluation of the costs and benefits of the scheme and concluded that it resulted in net benefits with a benefit cost ratio of 1.28.

This is a favourable outcome but it is clear from the analysis that was undertaken that the calculation relied on a number of factors for which assumed values were used. Some of the most important assumptions were associated with the level of deadweight that is associated with expenditure under the scheme. Deadweight is notoriously difficult to project and no critique of the assumed values is made here. However, given the importance of deadweight, and the fact that the outcome of the CBA was quite marginal, it is surprising that extensive sensitivity analysis was not undertaken to improve the reliability of the results. There is also an issue of displacement that is not dealt with in the report. Displacement is usually interpreted to mean that the intervention results in one type of activity rather than another. However, in the case of the HtB scheme, displacement of private savings from after-tax incomes by tax rebates that are equivalent to enforced savings from pre-tax incomes, is central to its operation. However, a different form of displacement arises, namely, that people who can avail of the scheme can enter the market faster than otherwise. Unless there is an adequately strong supply response, these people will simply move ahead of others who might otherwise be on a savings trajectory to have the deposit available more quickly. This means that unless it can be shown that the time savings – the time taken to save a deposit – from availing of the scheme that are included as benefits in the CBA, led to increased supply of houses to meet this demand rather than simply allowing them to ‘jump the queue’ there would be no benefit accruing. This is an issue distinct from deadweight as it assumes that the scheme assisted these people in getting the deposit together.

Given that these and other difficulties in monetising the benefits of the HtB were encountered in undertaking the CBA, it would have been prudent to consider that an alternative form of appraisal would have been more appropriate. Such an approach would have endeavoured to identify if HtB was the optimal approach against a range of alternatives using an MCA framework. That this was not done means that the viability of the HtB scheme remains open to question.

There have also been three major changes since this appraisal was completed: the 2020 enhancements and extensions of HtB, the growth in uptake of the scheme which has far exceeded expectations, and the development of new initiatives under *Housing for All*. It is likely that these development would all increase the deadweight element of HtB. Against this background the TSG report outlined a number of options for revision of the scheme and concluded that a formal review was required.

3.4 Incentives in Other Jurisdictions to Assist FTBs

3.4.1 UK Help to Buy

The UK's Help to Buy scheme has a number of similarities with HtB although there are considerable differences in its operation and conditions. As with HtB, the scheme, aims to assist prospective homeowners to obtain mortgages to buy newly built houses with the objective being to increase the rate of house building as a result of the increased demand for new-builds. Like the Irish scheme, it was originally introduced as a time bounded initiative for 3 years from 2013 but was extended and is due to expire in 2023.

Total funding under the scheme has greatly exceeded the £3.5 billion that was originally expected and had reached £22.1 billion by 2021. As with the Irish scheme, the focus is on assisting people who are in a position to buy a property rather than on social or affordable housing and there have been concerns regarding issues such as deadweight.

However, the provisions of the scheme are quite different. Eligible buyers receive an equity loan of up to 20% (40% in London) of the market value of an eligible new-build property. The loan is interest free for five years

and must be paid back in full on sale of the property or within 25 years. The scheme enables buyers to purchase a new-build property valued up to £600,000 with a mortgage of 75% (55% in London) of the value of the property. Purchasers' eligibility is not related to income and was open to both first-time buyers and those who have owned a property previously, although the current extension to 2025 restricts eligibility to FTBs only and reduces the property value limit outside London.

A number of assessments have been undertaken. An official evaluation undertaken in 2017 found that supply onto the market had begun to increase before the scheme was introduced with over 80% of purchasers being FTBs³⁵. The study found a weak positive association with the number of completions and no significant impact on prices. Demand rose and purchasers indicated that the scheme allowed them to buy more expensive properties than they would have in its absence. However, the impact on supply was lower and varied according to regional markets, although developers reported that the scheme enabled more rapid completion of projects and had an important positive impact on consumer and developer confidence. The overall conclusion was positive but clarity about the future and the avoidance of a cliff-edge withdrawal were identified as important.

A 2019 House of Commons review provided a less positive assessment³⁶. It found that the scheme had increased supply by around 14% in its early years following its introduction in 2013, but that it was poorly targeted resulting in a large element of deadweight, possibly exceeding 60%. The positive impact on supply had declined as the scheme was extended. Prices rose during the first 5 years of the scheme, but then levelled off or declined, and there was clear evidence of a new build premium amounting to up to 20% of the value. Ultimately, it was concluded that the scheme was not making homes more affordable and was not useful in addressing other problems in the market.

Research undertaken by Carozzi *et al* in 2020 took a different approach and concentrated on differences in the regional impact of the scheme³⁷. The research concentrated on two regions: London and the England–Wales border region. The results were quite striking, with the ability of the supply side to react to increased demand in the short to medium term being central to the realisation of benefits from the scheme. The research found that the scheme had no discernible impact on supply in London and that prices increased by more than would be expected when it was introduced. In contrast, supply increased in the Wales border region and there was no noticeable impact on prices. The driver was the different supply elasticities in the two regions: there were few constraints affecting the ability of builders to increase supply in the border region but there were numerous constraints, many related to planning, in London.

The importance of these findings is that the scheme was designed to address affordability and increase supply but that it failed to do this in the region where affordability was most problematic. As a result, the scheme distorted the location of new builds – a point of concern noted in the NESC report – and the types of properties being built which tended to be smaller and bunched at levels just below the scheme eligibility levels. This is problematic as there is no reason to conclude that the location distortion is optimal as it appears likely to result in an increase in long distance commuting. The financial performance of developers was also positively impacted so that '*developers or land owners, not new buyers, benefited from the policy-induced price increases*' (page 29–30). The conclusion was that the scheme was ineffective in markets that are already experiencing tight supply and that are pushing affordability limits, but may be effective in lagging regions.

³⁵ Ministry of Housing, Communities & Local Government (2018) *Evaluation of the Help to Buy Equity Loan Scheme 2017*.

³⁶ House of Commons Committee of Public Accounts (2019) *Help to Buy: Equity Loan Scheme*

³⁷ Carozzi, F., C. Hilber and X. Yu (2020) *On the Economic Impacts of Mortgage Credit Expansion Policies: Evidence from Help to Buy*. CEP Discussion Paper No. 1681

3.4.2 Canada GST/HST New Housing Rebate

The GST/HST new housing rebate allows an individual to recover some of the GST or the federal part of the HST paid for a new or substantially renovated house that is for use as the individual's, or their relations', primary place of residence, when all of the other conditions are met³⁸. In addition, other provincial new housing rebates may be available for the provincial part of the HST whether or not the GST/HST new housing rebate for the federal part of the HST is available.

Individuals can claim a new housing rebate for some of the GST/HST paid if they:

- purchased new or substantially renovated housing from a builder for use as a primary residence;
- purchased shares in a co-operative housing corporation for use as a primary residence;
- constructed or substantially renovated an existing home for use as a primary residence, provided the market value of the house when construction is completed is less than \$450,000.

An individual who purchased a new or substantially renovated mobile home or a floating home as a primary residence is also eligible for a GST/HST new housing rebate.

3.4.3 Tax Incentives in Australia

The Family Home Guarantee (FHG) allows single parents with a maximum annual income of \$125,000 to purchase a new or existing home with a minimum deposit of 2%. It is available for property purchases of up to \$700,000 in Sydney and \$600,000 in Melbourne and will provide 10,000 places over four years. This limit may be increased if uptake is strong.

The New Home Guarantee is a renamed scheme where first-home buyers with a maximum income for couples of \$200,000 can purchase a home with a deposit of just 5 per cent. The price ceilings are \$950,000 in Sydney and \$850,000 in Melbourne, with 10,000 places available for new home builders or purchasers.

An estimated \$30 billion has been spent or committed to residential construction since the Federal Government introduced the HomeBuilder scheme, which provides grants of up to \$25,000 for new builds or renovations, since soon after COVID-19 hit. Grant applications have been four times more than what was originally expected.

3.4.4 United States

First-time homebuyers – defined as someone who has not owned a home in the past two years – are eligible to take up to \$10,000 out of a personal pension fund without paying the usual 10% early withdrawal penalty, provided the money is used for the home purchase within 120 days. The penalty-free \$10,000 once in a lifetime withdrawal is per individual, so a couple could withdraw a maximum of \$20,000 to pay towards their first home.

Many states—for example, Illinois, Ohio, and Washington—offer down payment assistance for first-time homebuyers who qualify. Typically, eligibility in these programs is based on income and there are also limits on the price of the property purchased. Those who are eligible may be able to receive financial assistance with down payments and closing fees.

³⁸ GST is Goods and Services tax. HST is harmonised sales tax (combined GST and provincial tax in some provinces) [GST/HST New Housing Rebate - Canada.ca](https://www.canada.ca/en/gov/department-of-finance/html/gst-hst-new-housing-rebate.html)

Other federal or government-sponsored enterprises offer programs and assistance that, although not exclusively for FTBs, favour those with less money available for down payments, or limited credit history. The best known among these are Federal Housing Administration loans and Department of Veterans Affairs loans.

A new First-Time Homebuyer Act has been proposed and would reduce an individual's tax bill by \$15,000 for singles and \$7,500 for married individuals filing separately. The bill is still waiting to be passed into law.

3.4.5 Italy

A set of new measures, known as *Bonus prima casa* (first home bonus) have been introduced in Italy to provide exemptions from the large number of taxes and charges that can be applied when buying a new home and applying for a mortgage for FTBs aged under 36 with household income of up to €40,000. High upfront cost are often cited as one of the factors behind the high number of people in Italy still living with their parents well into their 30s and can amount to as much as 10% of the property price. The package is directly targeted at this obstacle.

The exemptions relate to registration, land registry tax and some mortgage taxes, leaving only stamp duty, mortgage taxes and special cadastral taxes to be paid, amounting to a total of €320. The scheme aims to eliminate VAT on fees relating to the transfer of deeds and mortgage arrangement and includes public expenditure under the 'First Home Loan Guarantee Fund' to fund the deposit. Notary fees, which are generally fixed for each part of the sale, will be halved.

The scheme is time limited and is set to expire in 2022. The First Home Loan Guarantee Fund already covers up to 50% of the total value of the property, but is set to be extended to 80% of the total value, of up to €250,000, without a deposit. Banks also get a state guarantee. The home must also be located in the municipality in which the purchaser works, studies or currently lives. Once the benefits have been used, the property can't be sold for five years.

3.4.6 Summary of Issues Arising

While it is clear that there would be difficulties in achieving the HtB scheme's objective of increasing supply without pushing up prices, there is an inherent rationale for the measure. Central Bank prudential mortgage rules have reduced the risks that are posed by volatile housing markets to the economy and the financial sector, as well as to home builders and purchasers, but have increased uncertainty in the home building sector at a time when there are ongoing difficulties in financing construction. This is a clear market failure. HtB offers the prospect of greater certainty at an early stage of the construction process that there would be buyers with finance in place and there is therefore a rationale in place. There were many different market failures in the sector, that also contributed to additional failures in the rental market, but HtB was not targeted directly at these issues.

The issue of the feasibility of the scheme is less certain. Concerns were expressed from the start that there were risks associated with the introduction of HtB. It was targeted at increasing demand in a market that was already experiencing price pressures and where it was known that there were constraints on supply that would not be addressed fully by the measure. Experience also indicates that there was potential to distort the market in ways that would impose additional costs and that once a measure such as this is introduced, even if timebound, it can be difficult to end the intervention. In addition, the fact that it was targeted at purchasers rather than providers introduced concerns, around issues such as deadweight and displacement, that would negatively impact on the efficient use of funds. These concerns appear valid and any argument that the scheme was limited and would not impose substantial costs do not address these difficulties. The central

question remains: did HtB lead to an increase in supply that was adequate to meet demand so as to remove upward pressure on price? The discussion does not provide comfort in this regard.

The third requirement is that the HtB is viable, or at least that it is efficient. The viability of the scheme was assessed at an early stage of its operation to see if the costs exceeded the benefits. This exercise encountered considerable difficulties in the evaluation with the result that, while there is no criticism made here of the values that were assumed in the calculation, the conclusion that was reached is not adequate to justify the ongoing implementation of the scheme. A better approach would be to accept that there are market failures, of which the issue targeted by HtB is one, and assess if HtB is the most efficient policy to address these failures in terms of maximising the impact of the resources used. The concerns above in relation to the feasibility of expecting that increased demand would lead to increased supply without adversely affecting affordability means that there are questions in this respect.

Analysis of HTB Scheme Data

4 Analysis of HtB Scheme Data

4.1 The Dataset

The analysis in this section of the report is based on a dataset provided by the Revenue Commissioners. The dataset was devised wholly and directly from the applications to the HtB scheme by FTBs seeking tax relief, following the removal of locational and other data that could compromise the confidentiality of the data. At the request of the consultants, the Revenue Commissioners undertook a data matching exercise across different datasets to identify the income that was earned by applicants in the year in which the application was made. Subsequently, these income data were integrated into the dataset.

The data were provided at the level of each individual applicant, but the analysis was undertaken following aggregation to the level of each application as the majority of applications involved more than one applicant³⁹. In total, the analysis covered 31,683 applications that had been approved from the date of the introduction of the scheme up to mid-May 2022, a period of just under 6 years⁴⁰. While the data indicated that approvals had all been made in 2017 and later, the dataset identified that 1,330 of these were in respect of eligible house purchases that were made in 2016⁴¹. It did not include applications that had not been approved, or that were awaiting approval in May 2022.

In addition to values on the price of the property in question, the deposit payable, the value of the associated mortgage, and the value of the relief provided, the dataset also identified the date on which the application was made and was approved, the county of the property in question, and whether it was purchased or self-built. The dataset also allowed for the tax basis – PAYE, Self Assessed or Combined – of applicants to be identified.

4.2 Operation of the HtB Scheme

The 31,683 applications were in respect of houses with a combined value of just under €10.4 billion giving an average house price of €327,213. Claims against tax paid through PAYE made up the majority of the tax basis for the assessment of applications. Of all applications, 26,493 (83.6%) were made by people where PAYE was the only tax being repaid, apart from a small element of DIRT⁴². A further 3,807 (12%) of applications involved joint or combined applications of tax paid through PAYE and Self-assessment, while just 1,384 (4.4%) applications were from people who paid income tax fully through self assessment. Just under three-quarters of applications, totalling 23,675 (74.7%), related to the purchase of houses, with 8,009 being self-builds.

The total relief provided amounted to just over €603 million. As shown in Figure 4.1, the annual number of applications and value of relief rose each year, apart from 2020 when there was a small decline in the number of applications.

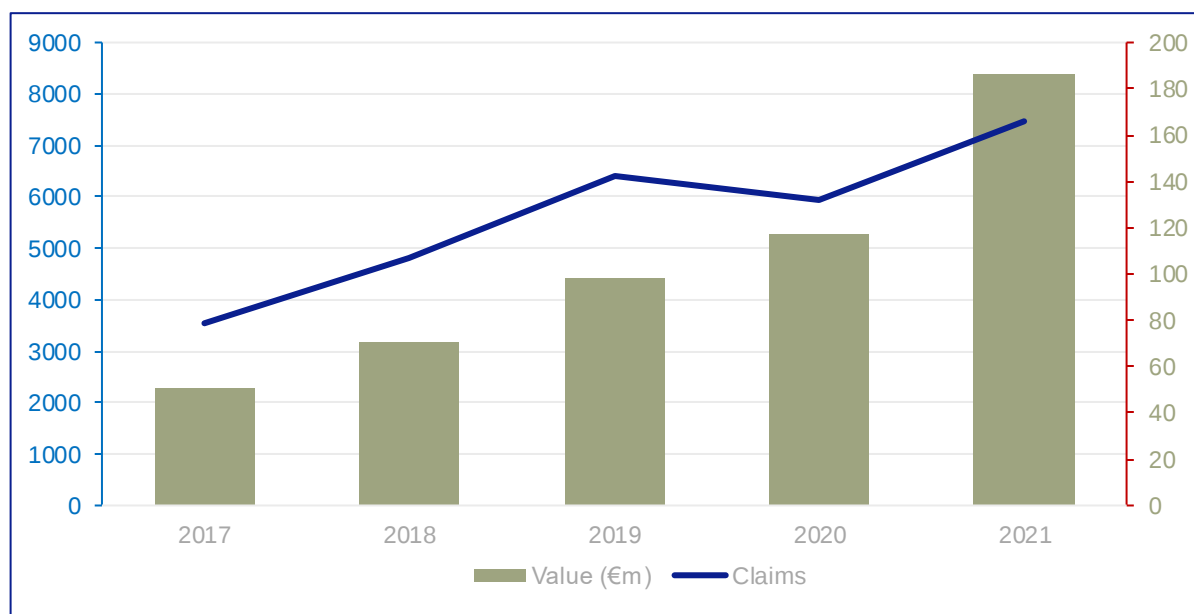
³⁹ A total of 58,307 applicants were involved. Of the 31,683 applications, 26,626 (84%) were made by two people. Single person applications accounted for the remainder, apart from four where three people were involved. It can be concluded that the scheme was mostly availed of by people setting up traditional two-person households, with 16% of applications made by individuals.

⁴⁰ A small number of applications, representing less than 0.3% of the total, were excluded from the analysis where the data clearly contained errors, for example, where the mortgage value amount was greater than 100% of the house price.

⁴¹ The analysis in this chapter combines these 2016 applications into the 2017 data, except where otherwise indicated.

⁴² While DIRT paid in the reference years could be taken into account when assessing claims, the total claimed amounted to less than €240,000 (0.03%) of the overall total. None of this involved applications by self-assessment tax payers.

Figure 4.1: Annual Claims and Value of HtB Relief



Note: Excludes 2016 and 2022 data

In 2017 – the first full year of operation – there were 3,542 claims approved with a total cost of €51 million. By 2021, this had risen to 7,468 claims with a total cost of just under €187 million. By far the most rapid increase was in 2021. The impact of COVID-19 is obvious and the trajectory shows that the increase in the number of claims in earlier years has resumed. However, the value has clearly accelerated and, as shown in Table 4.1, the average value of claims rose rapidly following the enhancement of the scheme as part of the July 2020 stimulus package.

Table 4.1: Average Value of Claims per Year.

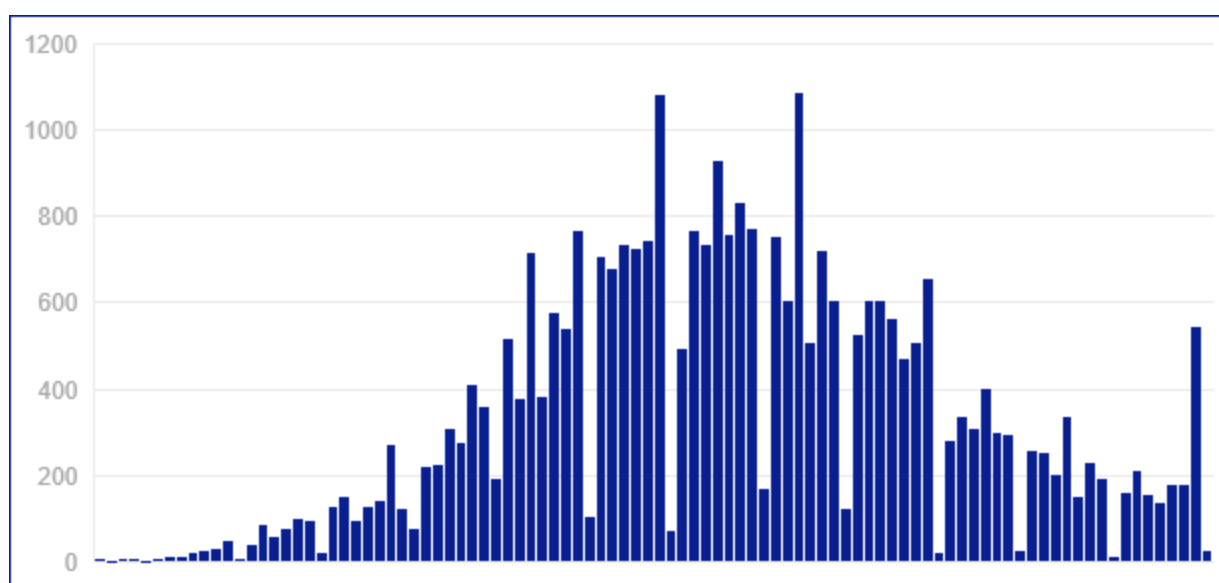
	Number of Claims	Value (€ million)	Average Claim Value (€)	Rate of 'Inflation'
2016	1,330	18.2	13,684	
2017	3,542	51	14,399	5.2%
2018	4,799	70.8	14,753	2.5%
2019	6,392	98.1	15,347	4.0%
2020	5,941	117.3	19,744	28.6%
2021	7,468	186.7	25,000	26.6%
2022	2,411	63.5	26,338	5.4%

Note: 2016 and 2022 data cover parts of each year only. As noted earlier, it appears likely that the cost of HtB will exceed €200 million in 2022.

The rate of change of the average value of claims might be considered to represent the cost inflation associated with the scheme, that is the rate of growth of the monetary value in excess of the growth of the number of units (the number of claims). This was averaging 4% compounded in the first 3 years but accelerated to almost 7 times this rate of increase in 2020–21 following the enhancement. This is analysed further below and indicates that the loosening of the constraints had a big impact on the operation and cost of the scheme.

Figure 4.2 shows a histogram of house prices over the full period using an interval of €5,000. The lowest priced house for which relief was obtained was €57,000. The highest priced house was capped at €500,000 from 2017 (€600,000 for applications during July to December 2016). The precise shape of the histogram will vary according to the interval chosen, but there are some clear features. The mean average house price was just over €327,000 while the median was €325,000. The data are clustered around the mean, suggesting that a normal distribution, despite some right-hand skew, would be a reasonable approximation. However, there are some notable distortions. There are peaks close to round numbers, at €300,000 and €350,000 in particular, as would be expected with house price data, but again at just under €500,000. This final peak suggests that the HtB cap had an impact on pricing at the upper end of the new home market with a far larger number of houses priced at a level that would just qualify for assistance than the general distribution of house prices might imply.

Figure 4.2: Histogram of House Prices (2016–2022)



The total income of applicants in the year of the application was recorded at just under €2.8 billion. This means that the relief amounts to 21.6% of total income in that year. However, there are some errors in respect of the income data provided as a small number of applications (54) had no income recorded while others showed income levels that would infer mortgage to income ratios that were far in excess of the Central Bank rules. It was decided to remove any entry with a LTI in excess of 10 from consideration. This amounted to 617 entries being excluded in total⁴³. When this is done, the average of approved applications was 88,270 with a median of 84,574. The data also showed that 110 approved applicants had incomes above €250,000 in the year of application, with a small number above €500,000.

4.3 LTV and Deadweight

Most applications to HtB that were approved had a loan to value ratio within 5 percentage points of 90%. However, many purchases had a ratio well below this level with 50% below 86.4%. The funding that was provided to these applications in excess of what was required for the deposit would have had no impact in terms of allowing these applicants to proceed with the purchase⁴⁴. This is the definition of deadweight and is an important consideration in assessing the efficiency or value for money of the scheme.

⁴³ The use of 10 as a LTI cut off is somewhat arbitrary and any value above 3.5 could have been used. However, the Central bank rules do allow for 20% of mortgages to exceed the 3.5 times gross household income level. If the cut off is placed at and LTI of 5 or above then 3,225 applications, just over 10% of the total, would be excluded.

⁴⁴ Provided they could meet other requirements to obtain a mortgage.

Over the full period, the average loan to value ratio was 84% but the median was higher at 86.4%. This difference is explained by a high number of LTVs at 90%. The actual percentage LTV was distributed across the full range from the minimum of 70% to the logical maximum of 100%. The number of applications in each 5% range is shown in Table 4.2. This shows that over 55% of applications had a LTV of 85% or above and that the most common LTV was 90%.

Table 4.2: Number of Applications in Loan to Value Ranges

LTV	Number of Applications	% of Applications
70–74.99%	5,049	15.9%
75–79.99%	3,869	12.2%
80–84.99%	5,123	16.2%
85–89.99%	7,350	23.2%
90%	9,229	29.1%
>90%	1,064	3.4%

Applicants with 90% mortgages are the target market for the HtB scheme. However, it remains the case that most purchasers who availed of the scheme – 67.5% of the total – had own funds to finance all or part of the deposit. Over 28% had the full deposit already. An indication of the extent to which the relief provided diverged from the intended purpose is provided by the fact that the correlation of the deposit that was payable to the relief provided, while positive, was weak at just 0.16. In other words, the deposit that a purchaser was required to pay was not closely related to the level of relief that was provided.

It is possible to place a value on the deadweight that is associated with the HtB scheme, that is, the excess relief provided to purchasers over what they required to have the deposit in place. This is estimated at €290.5 million for the full period of the scheme. This is equivalent to 48.2% of all the relief that was provided.

The average level of deadweight associated with the relief for each year of the HtB is shown in Table 4.3. The level of deadweight has been high in every year and has risen in recent years since the enhancement.

Table 4.3: Estimated Deadweight in HtB Relief by Year

Year	Deadweight
2016	55.2%
2017	43.6%
2018	46.9%
2019	44.0%
2020	43.5%
2021	53.0%
2022	53.3%
All years	48.2%

Self-builds have a noticeably lower median LTV at just 79.1%. In other words, over half of applicants who were self-builders that received HtB did not actually need the assistance to proceed⁴⁵. If the analysis includes

⁴⁵ It is also somewhat difficult to argue the case for the provision of HtB to self-builds as there is no deposit payable or paid to anyone. The only reason for including these applicants is based on equity: they are FTBs in the same sense as those purchasing a house. However, this distracts from the appropriate reason for this public expenditure, which is to achieve the aim of assisting with the deposit. It is unclear what aim is being achieved by the inclusion of self-builds in HtB as the equity argument does not hold up when the income distribution of households who received relief through HtB is compared with incomes across all sectors of Ireland, as is done below.

only approved applications where a new house was purchased the median LTV rises to 88.3%. This is a strong indication that the high deadweight is being driven by the 25% of applications that relate to self builds.

If the analysis is restricted to self-builds, the median house price is 305,000, somewhat below the price recorded for all applications. However, the lower LTV means that the amount of deadweight in the total relief is higher and is estimated at €113 million, equivalent to 77.4% of the total relief provided. This indicates a very poorly targeted and inefficient intervention.

If the analysis is restricted to purchased houses the deadweight is estimated at €177.5 million, equal to 38.8% of the relief provided. While this is a higher value of deadweight compared to self-builds, it is a considerably lower percentage of the total than in the case of self-builds and indicates somewhat better targeting. However, close to 40% deadweight is still a cause for concern.

Deadweight for all relief across the full period is estimated at 48.2% of the funds provided amounting to €290.8 million. Before the July 2020 enhancement, deadweight across all purchasers was 45% of the relief. This increased to 51% following the enhancement. Before July 2020, the deadweight associated with purchased houses was 35%, but was 76% for self-builds. Afterwards, deadweight on relief provided to applicants who purchased houses rose to 42%, while the deadweight for self-builds increased to 77.5%. This means that the enhancement increased the deadweight associated with the relief provided to both sets of recipients, but that the impact is relatively small compared to the impact on the amount of deadweight that arises as a result of providing HtB relief to self-builds.

HtB was targeted at addressing the constraints on prospective purchasers due to the Central Banks LTV rule. It was not targeted at addressing the constraints that arise from the LTI rule. However, it is arguable that the excess relief provided over what was required for the deposit may have helped some purchasers to enter the market as it provided them with the ability to reduce the mortgage they required. Consequently, HtB would have assisted in this manner, even though it was not designed to do so and would not be an efficient mechanism to address this issue. This also raises an important concern in the context of the future of HtB given the new initiatives that have been developed under the *Housing for All* program. This issue is discussed in greater detail below but these initiatives, such as the Shared Equity and Croí Cónaithe schemes, are targeted at easing the impact of the LTI rule by making home purchase more affordable. This possible 'benefit' of the deadweight element of HtB would be eliminated if HtB were to operate in the same market as the *Housing for All* initiatives. This means that allowing HtB to continue to operate in its current form alongside the HfA initiatives would further concentrate the concerns associated with these high levels of deadweight.

4.4 House Prices and Incomes

The average relief per application and average house prices rose annually as shown in Table 4.4. The percentage change data in this table show that while the average prices of houses purchased by FTBs availing of the scheme rose annually. However, the increases were relatively modest most years and averaged just 3.4% per annum overall. The average value of relief rose approximately in line up to the time of the enhancement, before accelerating thereafter. This indicates that it was the enhancement, rather than the rise in house prices, that drove the rapid increase in the cost of the scheme in recent years.

Table 4.4: Average House Price and Average Relief per Application

	House Price	% Change	Relief Provided	% Change
2016	291,034		13,666	
2017	308,424	6.0%	14,414	5.5%
2018	315,744	2.4%	14,753	2.4%
2019	328,607	4.1%	15,353	4.1%
2020	329,544	0.3%	19,750	28.6%
2021	335,673	1.9%	25,004	26.6%
2022	355,951	6.0%	26,329	5.3%

The median price of houses purchased over the full period was €325,000. It has been pointed out in previous commentary that most of the houses that were purchased under the scheme exceeded the national average of house prices in this period⁴⁶. This is clearly the case, but it is known that the price of new houses exceeds the price of existing houses. This issue is examined in further detail in the econometric analysis below. As a result, the appropriate comparator is the average price of new houses⁴⁷.

Table 4.5 shows the median price per year for all new houses that availed of the scheme, based on the Revenue's dataset, the median price per year for houses purchased using HtB – that is, excluding self builds – and the median price of all new houses sold in this period according to CSO data⁴⁸.

Table 4.5: Comparison of New House Prices (2016–2021)

	All HtB	HtB ex. Self-Builds	All New Houses
2016	285,000	292,000	270,000
2017	305,000	307,500	299,950
2018	315,000	320,000	325,000
2019	328,000	336,520	340,000
2020	325,000	335,000	340,000
2021	330,000	335,000	345,000

Note: The median price paid by purchasers who availed of HtB relief in the 1st five months of 2022 was €355,000.

This table shows that purchasers who availed of HtB did not buy more expensive new houses when compared to the prices paid in general for new houses. In fact, the median price was somewhat lower. The explanation for this may be that most purchases using HtB were traditional semi-detached houses with few apartments, while the full CSO dataset includes apartments, included those sold in blocks to large investors⁴⁹. New apartment prices, particularly in the cities, tend to be higher than new house prices.

Given this fact, and the cross-over between the two datasets, it is not possible to be definitive. However, it cannot be concluded that purchasers who obtained relief under HtB bought properties, which were by definition new builds, that were more expensive than new builds in general.

Table 4.6 shows the price ranges for percentiles of houses purchased using HtB. Overall, 40% of houses for which assistance was obtained were priced in the €285,000 to €365,000 range.

⁴⁶ Parliamentary Budget Office (2022) *An overview of the help to Buy Scheme from 2016-2021* provided an estimate that 63% of houses bought in the scheme exceeded the average house price.

⁴⁷ Houses bought using HtB relief make up the majority of new houses that were sold to FTB owner-occupiers in this period and so the two datasets being used in the comparison have a large cross-over.

⁴⁸ The median price of self-builds in the HtB data across the whole period was €305,000, compared to a median of €330,000 for purchased new houses. The average price of self-builds at €312,114 was 6% less than purchased houses at €332,320.

⁴⁹ The Revenue's dataset does not distinguish between houses and apartments. However, consultations that were undertaken in preparing this report, and the survey data results below, indicate that sales to HtB purchasers were overwhelmingly composed of semi-detached houses, with few apartments.

Table 4.6: Percentile Price Ranges for Houses

Percent of Houses	Price Range
0–10%	Up to €230,000
10–20%	€230,000 to €260,000
20–30%	€260,000 to €285,000
30–40%	€285,000 to €305,000
40–50%	€305,000 to €325,000
50–60%	€325,000 to €345,000
60–70%	€345,000 to €365,000
70–80%	€365,000 to €395,000
80–90%	€395,000 to €435,000
90–100%	Above €435,000

The average income per application was €91,312 in the year of the application, while the median was €86,580. Under the Central Bank's LTI rule that mortgages should not exceed 3.5 times gross household income, purchasers would, on average, have been able to afford a house priced at just under €319,600. That the average house price was just over €327,200 means that purchasers did not on average take out 90% mortgages. In fact, the average mortgage amount was €274,323, under 84% of the average house purchase price.

Analysis indicates that there are positive relationships between incomes, house prices and the relief paid⁵⁰. Incomes and prices had a correlation of 0.58 while the level of relief and prices had a correlation of 0.56. Incomes were positively correlated with the level of relief with a value of 0.42. Restricting the analysis to PAYE income payers only does not greatly change these values.

The most recent household income data from the CSO are for years up to 2019 and show median household gross incomes of €45,631, €49,260 and €51,217 for the years 2017, 2018 and 2019 respectively. The annual median income for applications for the 5 years for which full data are available are shown in Table 4.7. This means that the median income of households (applications) that obtained HtB relief were 1.81, 1.72 and 1.69 times respectively median incomes in all households in these years. Clearly, the relief is availed of, on average, by households in the higher earning categories.

Table 4.7: Median Incomes of Applications

Year	Median Income
2017	€82,737
2018	€84,811
2019	€86,502
2020	€86,579
2021	€89,929

In 2019, average income per application was €91,445, with a median level of median €86,509. The CSO has published detailed data on gross personal incomes for 2019⁵¹. The average number of people per application to the HtB was 1.84 and this is taken to define the size of a household to allow comparison between the HtB dataset and the CSO data. Using this, it would give State median gross household for 2019

⁵⁰ Self-assessed income returns (Form 11) have not been completed for 2021 while PAYE income values for 2022 are year-to-date only. For this reason, the analysis of income excluded applications made in 2022. However, Form 11 self-assessed income for the years 2017 to 2020 amounted to just 0.8% of PAYE income and the incompleteness of the Form 11 income is not considered to introduce a serious bias. As a result, 2021 income data were retained in the analysis.

⁵¹ CSO Survey on Incomes and Living Conditions 2019. This is the most recent last year for which full data have been published.

equal to €48,460⁵². Using this, it is possible to derive household percentile income ranges for all households in the country to compare with the percentile ranges for income for approved applications to the HtB scheme. The results are shown in Table 4.8.

The data in this table show that the HtB scheme provided relief to people in higher income levels. The median level of income per approved application in 2019, at €86,502, was in the 9th percentile of income levels in the country. Based on the range shown in the table, about 81% of households in the State would have had a lower income in 2019.

It is not unexpected that recipients of a relief such as HtB would have incomes well above the average for the country. The overall data median includes households living on pensions and other benefits which would depress the averages. While we do not know the ages of people who availed of HtB, it is likely that they were concentrated in the 25 to 40 age group where earnings are relatively high. It is also the case that the average income of house buyers of any age will tend to be higher than the average income for non-house buyers, irrespective of other characteristics. Lower income groups will tend more towards renting or may qualify for social housing. Furthermore, the people who availed of HtB were concentrated in urban areas, particularly Dublin, and the commuter belts around these areas. Average incomes are higher in these areas than across the country.

Table 4.8: Percentile Household Income Ranges, State and Applicants

Percent of Households	Gross Annual Income Range		
	Ireland	All years	Applicants
		All years	2019
0–10%	Less than €21,650	Less than €52,673	Less than €53,178
10–20%	€21,650 to €22,023	€52,674 to €64,000	€53,179 to €65,052
20–30%	€22,024 to €35,105	€64,001 to €72,230	€65,053 to €72,182
30–40%	€35,106 to €41,810	€72,231 to €79,625	€72,183 to €79,619
40–50%	€41,816 to €48,459	€79,626 to €86,527	€79,620 to €86,502
50–60%	€48,460 to €59,338	€86,528 to €94,005	€86,503 to €94,055
60–70%	€59,339 to €69,692	€94,006 to €102,991	€94,056 to €103,007
70–80%	€69,693 to €83,082	€102,992 to €114,967	€103,008 to €115,177
80–90%	€83,083 to €108,543	€114,968 to €134,597	€115,178 to €134,924
90–100%	€108,544 and above	€134,598 and above	€134,925 and above

Note: the data for income ranges in the state in this table are the data per person provided by the CSO that have been multiplied by 1.84 to give household levels. The value of 1.84 is the average number of applicants per application in the HtB data meaning that it is assumed that an application includes all income earners in the household. Excluding the small number of very high income applications would have no meaningful impact on this table.

While these factors all mean that it is to be expected that the average incomes of people who availed of the HtB relief will exceed the national averages, it does not change the fact that HtB is a tax relief that is targeted at higher income levels and can generally only be accessed by people in these higher categories. The HtB data indicate that there may be exceptions to this, but the fact remains that the average incomes of people who obtained relief were substantially higher than incomes in the country in general. This indicates that HtB is a particularly regressive tax measure.

⁵² The CSO reported that median gross household income in 2019 was €51,217. This would indicate that the definition of a household, 1.84 persons per household, that is used in this analysis, provides median income levels that are broadly comparable to the CSO data.

4.5 Location of Properties

The dataset was divided into 5 sub-sets based on the county in which the property was located. These areas were Dublin, the Commuter belt comprising counties Louth, Meath, Kildare and Wicklow, the rest of Leinster, Munster, and Connacht–Ulster⁵³. The distribution of approved HtB applications across these areas is shown in Table 4.9.

Table 4.9: Location of Properties for which HtB Relief was Approved

Location	Applications	Percent of Total
Dublin	7,634	24.1%
Commuter counties	9,876	31.2%
Rest of Leinster	3,222	10.2%
Munster	7,131	22.5%
Connacht–Ulster	3,820	12.1%

This shows that, of the 31,683 applications in the dataset, 17,510 (55.3%) were in Dublin and the surrounding commuter belt. While not shown here, Cork accounted for 3,922 applications, 55% of the Munster total. This means that the Greater Dublin region plus Cork accounted for 67.6%, or just over two-thirds, of all applications. Clearly, HtB uptake was concentrated towards, but not necessarily in, the more urbanised areas.

Table 4.10 shows the percentage of Ireland's population that was resident at the 2016 Census, and the number of residents per application approved for HtB relief, in each of these areas. The ratios are broadly similar in Dublin, Munster and Leinster, outside the commuter below. The number of applications is low in Connacht Ulster indicating low purchasing of new homes by FTBs in this area. However, the most striking aspect of this table is that the rate of application in the commuter belt countries around Dublin was twice the national average.

Table 4.10: Regional Distribution of Population and Applications

	Population (% of Total)	Population per Approved Application
Dublin	28.3	176.5
Commuter belt	15.7	75.5
Rest of Leinster	11.4	168.0
Munster	26.9	179.5
Connacht–Ulster	17.8	221.8
State		150.3

This has some important implications for spatial planning in Ireland. The National Planning Framework (NPF) projects that the population of Dublin City and Suburbs will grow by 235,000 – 290,000 people to 1.41 million in 2040 in a period when total growth in population is projected to be 1 million. It also projects population growth for the 5 main cities (using the mid-points of the published projection ranges) of 505,000 people. This means that half of the projected growth in population up to 2040 will be outside the 5 main cities, that is, in rural areas and in towns. The NPF therefore foresees and requires a considerable change in what has been seen in recent decades as Dublin alone accounted for almost 43% of net population growth in 2011 to 2016. Of the 50% of homes to be built in the cities, the NPF targets that 50% of these will be built

⁵³ Of course, the 2016 Census results showed, the commuter belt can be extended to every county in Leinster.

within the existing urban footprint. Given space constraints, this requires the building of apartments in large numbers in urban settings.

The concentration of HtB in the commuter belt around Dublin, as well as its almost total allocation to houses rather than apartments, is well out of line with the achievement of these targets. In consultations, industry operators did not provide any indication that their decisions regarding the location of the houses they built was affected in any way by HtB. However, it is clear that HtB has been facilitating, if not causing, the building of new houses in the Dublin commuter belt, rather than contributing to the building of apartments within the urban footprint. The same is likely true in the other urban centres but the data did not allow an intra-county analysis as would be required in respect of cities other than Dublin to identify if HtB focussed development was within existing footprints. The result is that HtB was not only poorly targeted towards the achievement of its stated objective, but was also poorly aligned with other aspects of spatial policy.

05



Econometric Analysis

5 Econometric Analysis

5.1 Data and Model

The key issues to be addressed in this section are the impact of HtB, if any, on the residential housing market in Ireland in respect of its impact on house prices, and its impact on the output of housing. A quantitative spatial analysis was undertaken using regression analysis, using both prices and quantities at the outcomes of interest to better understand the impact of the HtB scheme.

5.1.1 Housing Prices

Four complementary forms of analysis were undertaken. The first three sets of analysis use published housing price indices, to examine differences in levels and trends of newly-built homes compared to existing dwellings, while the fourth set of analysis performs hedonic housing price regressions on a bespoke dataset of listings⁵⁴.

- The first analysis uses CSO Table [HPM08](#), which gives median prices for new/existing homes by buyer type. This gives a comparison in levels of the typical price for newly-built homes, relative to existing homes, nationally over time. These median prices, however, do not control for changes in quality.
- The second uses CSO Table [HPQ01](#), which gives national housing prices indices for new and existing dwellings transacted. This gives an index of housing prices, nationally, for new and existing homes that controls for changes in quality.
- The third analysis uses the results from the hedonic price regressions that are used to calculate the quarterly [Daft.ie Reports](#). This allows an examination of the premium associated with newly-built dwellings, compared to existing dwellings, for each of four regions: Dublin; Leinster (excluding Dublin); Munster; and Connacht-Ulster. The results control for a property's type, size (in bedrooms and bathrooms) and location at a granular level, but do not control for quality (in particular a building's energy efficiency) or exact size (in square metres).
- The final analysis is a bespoke hedonic regression of nearly 470,000 sale listings online between 2010 and 2021, of which over 9,300 referred to newly-built homes and provide the identifying variation. Hedonic regression methods attempt to break down the price of each individual dwelling into its observable component parts. In this empirical specification, these attributes include, in addition to whether a property is newly built: its type; its location (388 'micro-markets'); its size (bedrooms, bathrooms and square metres, if known); and its BER rating. The relevant output is the coefficient from the regression, which gives the estimated premium or discount, associated with a newly-built home, compared to existing property – controlling for all other factor mentioned above. The 'all-in-one' regression has a fit of 74% and a mean square error of 32%.

All forms of analysis above have their limitations and should be viewed as complementary: HMP08 reports only unadjusted averages and should thus only be considered in the context of improvements of housing quality. Two aspects of the improvement in housing quality are given below: the modal energy rating associated with dwellings by vintage; and the average amount of resource used in building each dwelling, by year, in constant prices. The former are sourced from the Sustainable Energy Authority of Ireland's database of Building Energy Ratings (BERs). To estimate the latter, the total amount of gross domestic physical capital formation in dwellings (excluding improvements), taken from the national accounts and set to 2019 euro, was divided by the total number of dwellings completed (connected to the electricity grid, before 2011).

Of the results based on hedonic price regressions, the principal limitation of HPQ01 is that it does not break results down by location, while the results from the regressions underpinning the Daft.ie Report do split by

⁵⁴ This introduces a considerable degree of complexity into the model and into the results. The text in this section of the report provides a summary and interpretation of the model and the results obtained. Appendix 2 below contains additional technical details on the model.

location but do not control for energy rating (or exact size of the dwelling square metres). The bespoke analysis of online listings since 2010 was undertaken, by region and controlling for energy efficiency and size in sqm, to overcome these limitations. As it is based on online listings, prices are listed prices rather than transaction prices. However, as per Lyons (2019)⁵⁵, the use of hedonic regression methods means that there is likely to be little systematic difference. A more relevant limitation of this final method of analysis relates instead to statistical power: even aggregating to regions, the number of listings of newly-built homes in certain regions is small, meaning analysis is undertaken at the half-year frequency. Table 5.1 below gives sample size by half-year and region.

Table 5.1: Frequency of Online Listings of Newly-built Homes Used in the Analysis (by region and half-year)

Year	Half	Dublin	Other Cities	Leinster	Munster	Conn/Ulster	Total
2011	H1	12	28	135	122	96	393
	H2	5	12	78	80	127	302
2012	H1	23	21	93	28	42	207
	H2	17	25	44	26	63	175
2013	H1	43	20	58	43	50	214
	H2	55	16	49	19	41	180
2014	H1	68	9	60	27	12	176
	H2	120	3	77	27	8	235
2015	H1	116	33	120	27	32	328
	H2	76	17	141	21	5	260
2016	H1	135	40	145	38	21	379
	H2	85	51	108	45	13	302
2017	H1	116	77	219	53	42	507
	H2	170	63	261	54	17	565
2018	H1	165	51	220	48	17	501
	H2	175	91	216	67	28	577
2019	H1	159	194	195	68	34	650
	H2	142	70	214	84	28	538
2020	H1	61	18	168	52	26	325
	H2	55	54	205	54	33	401
2021	H1	36	25	230	49	16	356
	H2	45	34	107	67	21	274
2022	H1	25	27	201	64	64	381

5.1.2 Housing Quantities

A complementary analysis was undertaken examining the impact of HtB on the quantity of housing built. To do so, the National Planning Applications Database was used, a rich spatial dataset containing planning applications for all local authorities extending back different periods by local authority. For almost all local authorities, spatial information is available on planning applications back to 2011, allowing for an investigation of pre/post-HtB differences.

For all planning applications mapped, the text of the application was searched to examine whether it related to residential development or not; in particular, an application was classified as residential if the residential units field was greater than zero, or the word 'dwelling' or 'house' was in the description. Of a total of

⁵⁵ Ronan C. Lyons (2019), 'Can list prices accurately capture housing price trends? Insights from extreme markets conditions', Finance Research Letters (Volume 30, pages 228-232). <https://doi.org/10.1016/j.frl.2018.10.004>.

410,000 planning applications for which spatial data were available, nearly 160,000 related to residential development and could be assigned to a micro-market. Unfortunately, the number of residential units is not captured systematically across all local authorities for the period under investigation. Without access to administrative datasets at the level of individual applications, calculation of the number of homes for which planning was sought would require significant textual analysis, based on the quality of planning permissions submitted. Instead, two measures, by micro-market, were calculated for planning applications before HtB (2013–2015) and after its introduction (2017–2019): the total amount of land subject to a residential planning permission; and the total number of residential planning permissions.⁵⁶

Micro-markets refer to local real estate markets around the country; they are used as location controls in the hedonic regressions of online listings described above. Here they are used to segment markets by propensity to respond to an incentive such as HtB, as described below. There are a total of 389 micro-markets around the country, of which reliable data on planning applications were available, before and after the introduction of HtB, for 329. The two examples below give a sense of the detail of these micro-markets:

- In Dublin 14, there are five micro-markets: Clonskeagh, Churchtown, Dundrum, Goatstown and Rathfarnham. In 2016, the average market value of a three-bedroom semi-detached house varied across these micro-markets from just under €385,000 (in Rathfarnham) to €517,000 (in Goatstown).
- In Cavan, there are eight micro-markets: Bailieboro, Ballyconnell (and west Cavan), Ballyjamesduff, Belturbet (and the surrounding area), Cavan town, Cootehill (and north-east Cavan), Kingscourt, Virginia, and a final micro-market capturing the rest of the county. In 2016, the average market value of a three-bedroom semi-detached house ranged from roughly €70,000 in a number of micro-markets to almost €115,000 in Virginia.

The value of housing in 2016 is relevant as economic theory suggests that the impact of HtB on the quantity of housing build (or proposed to be built) should be most pronounced on the cusp of viability. To simplify, suppose there exist prior to the introduction of Help-to-Buy three price levels in the market for family homes: high (€500,000), medium (€300,000) and low (€150,000). Suppose also that the cost of building a new family home is, to a first approximation, constant across the country at €310,000 excluding site costs. Both prior to and after the introduction of HtB, homes will be built in high-price locations, and not in the low-price locations, as costs will not be recovered there. In the medium-value locations however, costs are close to market values and thus the potential impact of HtB would be to facilitate construction of new homes by shifting out demand above the kink in the supply curve reflecting viability. In other words, a scheme such as HtB would be expected to have its greatest impact on supply in places where viability is marginal.

5.2 Outputs and Results for Housing Prices

Figure 5.1 presents results for the first set of analysis, based on average prices published by the CSO. Specifically, it shows the median price of housing bought by first-time-buyer owner-occupiers, for newly built and existing dwellings computed as the 12-month average. Whereas newly-built and existing homes had similar median prices for this buyer group in 2010, by 2021 newly-built homes were 30% more expensive – €345,000 compared to €265,000. The timing, however, of the emergence of a premium for newly-built homes does not match the timing of the introduction of Help-to-Buy. Whereas HtB was introduced in mid-2016, a substantial differential of 24% had already emerged by 2015. This suggests that quality differences are important in driving the price premium associated with new builds.

⁵⁶ While not every unit for which planning application is sought, or indeed granted, results in one additional completed unit, the focus here is the elasticity, or responsiveness, of supply to changes in the parameters affecting construction, housing demand and viability. Again, with access to administrative data at the dwelling level, it would be possible to investigate not only the responsiveness of supply at this stage of the process but also ultimate additions to the housing stock.

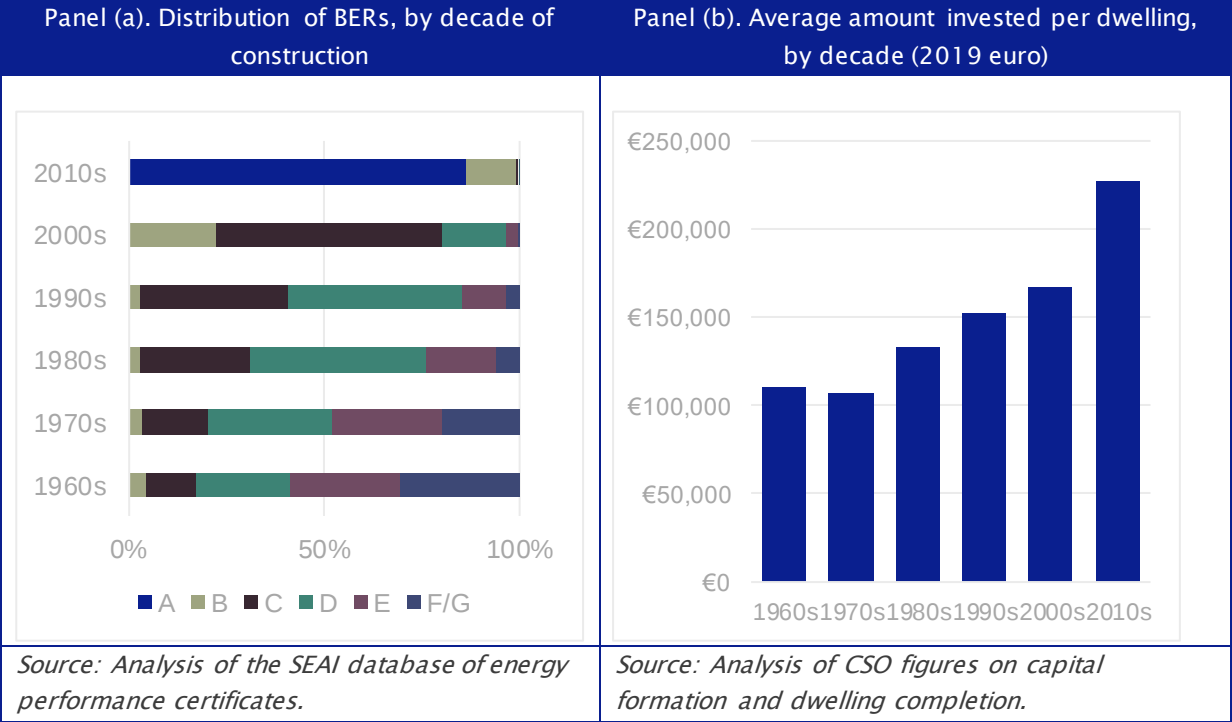
Figure 5.1. Median Price of Housing (By Year)



Source: CSO Table HPM08.

There is indeed evidence that the quality of newly-built housing improved substantially between the mid-2000s and the mid-2010s, either side of a lull in construction. The two panels of Figure 5.2 show this development. In the left-hand panel, the distribution of energy ratings for newly-built homes, by decade of construction, is given, while in the right-hand panel, the total amount of labour and materials used per dwelling (in constant 2019 euro to control for inflation) is shown.

Figure 5.2. Measures of the Quality of Newly-built Housing

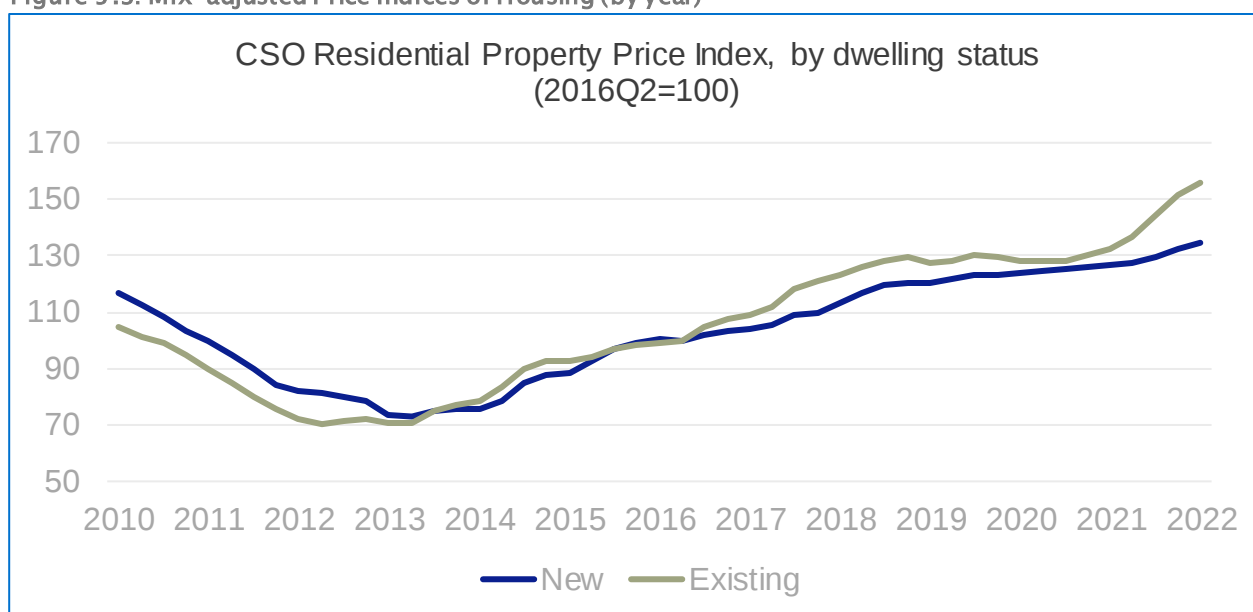


The share of homes built before 2010 that are A-rated (even after improvements) is effectively zero. The modal home built in the 2000s is C-rated, meaning energy consumption of approximately 160kWh/m²/yr, while the modal home built in the 2010s has an A rating meaning consumption of approximately 60kWh/m²/yr, an improvement of almost two thirds in energy efficiency. The right-hand panel shows a

similar improvement in quality, more broadly defined, as measured by the average amount of investment (in labour and materials) per dwelling, by decade. The amount invested per dwelling rose by 36% between the 2000s and the 2010s – the largest decadal increase in the series which extends back to 1960. This may well reflect differences in the availability of labour and the wider economy in these years, but these decision variables are not relevant to this analysis. The fact remains that the variables that indicate new-build quality improvements show an upward trajectory in this period. It is also known that policy and planning revisions in this period would have promoted, indeed required, these developments.

For that reason, it is important to control for the quality of housing. Figure 5.3 presents the Residential Property Price Index (RPPI), rebased to 2016Q2=100. The method underpinning this index is a hedonic housing price regression, as explained above, which explicitly controls for dwelling characteristics including a property's location, size, type and energy rating (where matched). This means that quality improvements are, at least in substantial part, already built into the data, as much as the data will allow. Consequently, the results are adjusted for the quality of new housing. Taking the second quarter of 2016 as the base, there has been substantially less inflation for newly built homes than for existing dwellings since that time. By the first quarter of 2022, the price of new homes had risen by 35% in total, compared to 56% for existing dwellings. While inflation in the price of existing homes was faster after the start of 2021 than before, even in the first 18 months of HtB, existing homes saw more inflation than new homes: 21% by end-2017, compared to 9.6% for new homes.

Figure 5.3: Mix-adjusted Price Indices of Housing (by year)



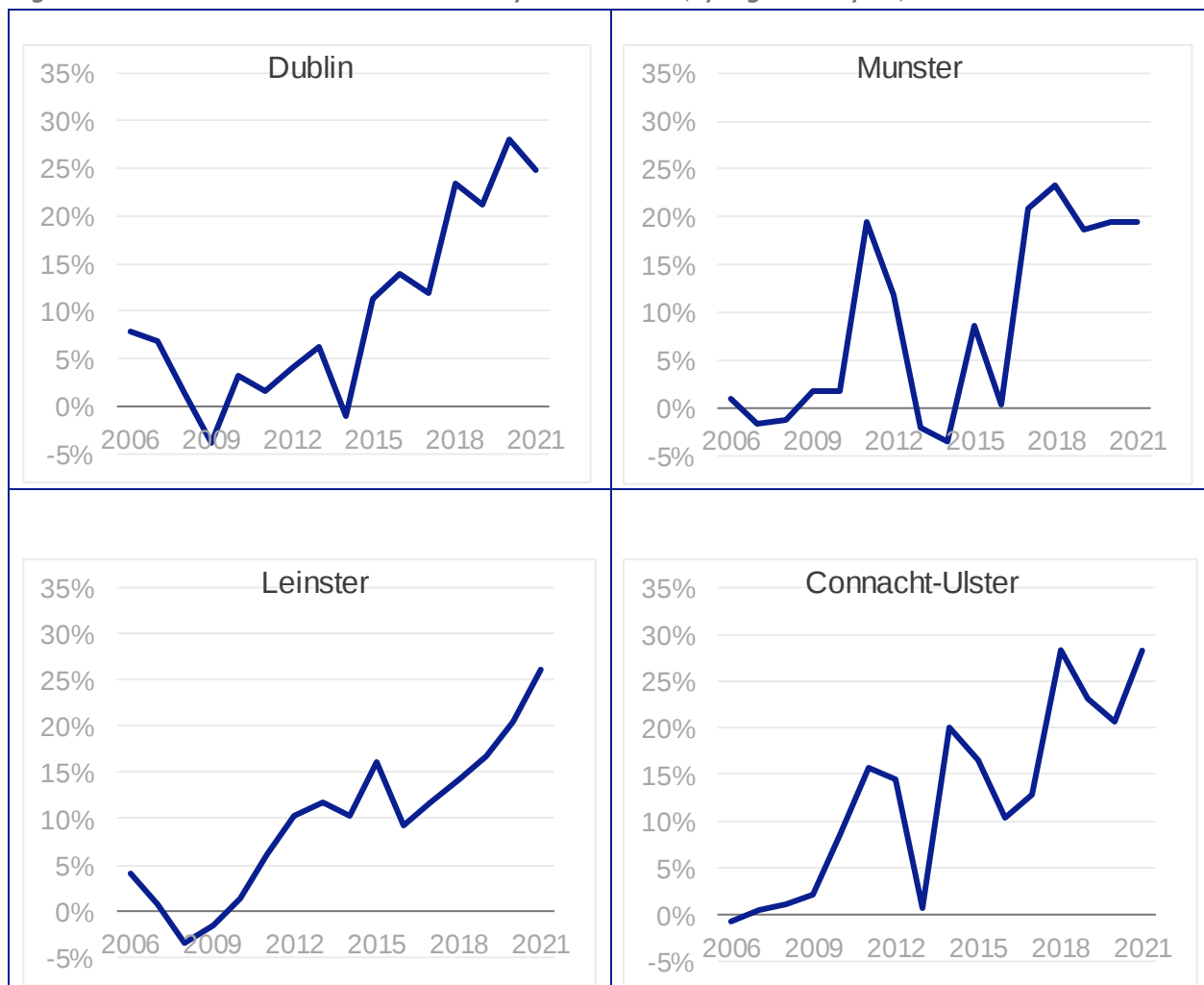
Source: CSO Table HPM08.

This is the picture at national level but, as described above, economic theory suggests there may be different effects of a scheme such as Help to Buy at different price points. The regional dimension is explored in Figure 5.4 below, whose four panels present the estimated differentials in the listed price of newly-built homes, compared to existing homes, by year 2006–2021, for each of four regions. In each case, the regression uses a 12-month rolling window, in line with standard practice for RPPIs. As explained above, these regressions control for a property's location, size (in bedrooms and bathrooms) and type, but not the internal quality (in particular energy rating) nor the exact size in square metres.

In all four regions shown, the typical premium for newly-built accommodation was small – indeed close to zero – for much of the late 2000s. While the patterns are different across regions, by the mid-2010s – prior to the introduction of HtB – the premium had risen to approximately 15%. And in all four regions, this

premium has grown since the mid-2010s, reaching approximately one quarter on average. With the possible exception of Munster, the emergence of a new-build premium was gradual, rather than sudden, as might be expected if Help-to-Buy were capitalized into market prices. This is suggestive of unmeasured attributes of newly-built housing evolving over time, in line with the measures of higher quality described above.

Figure 5.4. Differential Associated with Newly-built Homes (by region and year)



Source: Analysis of regression output for Daft.ie Reports.

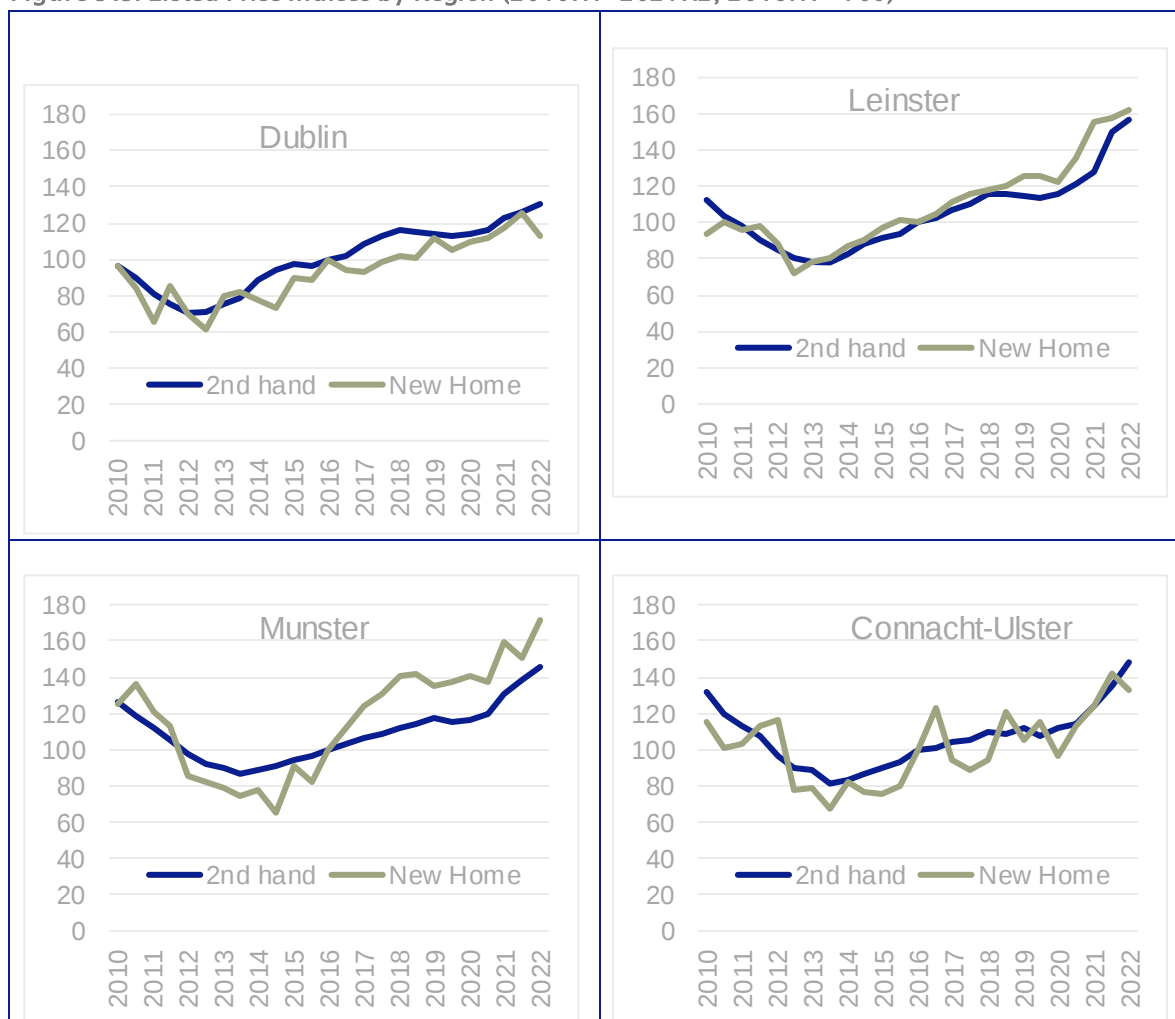
For that reason, additional analysis using hedonic regression techniques was undertaken on nearly 400,000 sale listings online between the start of 2010 and the end of 2019. While the differentials by region presented above control for location, size and type, they do not control for energy rating, as a proxy for internal quality. BER rating (and size in square metres) are included in this analysis, to control for quality changes. In this case, the results of interest are the coefficients (estimated premium or discount) associated with a newly-built home, compared to existing property – controlling for all other factor mentioned above. As noted above, the ‘all-in-one’ regression has a fit of 74% and a mean square error of 32%.

The identifying variation comes from almost 9,400 listings of newly built homes around the country since 2010. There were 3,338 listings of new homes 2017–2019, roughly twice the total (1,680) for the compared to 2014–2016 period. Two thirds of new-home listings 2017–2019 were in Dublin (28%) and the rest of Leinster (40%) – just 5% were in Connacht-Ulster and 11% in Munster (outside the cities).

Indices of mix-adjusted listed prices, from 2010, by half-year and region, are shown in Figure 5.5, with 2016H1 as the base of 100. For existing dwellings, there were similar increases across the five regions

covered up to end-2019 – close to 15% in Dublin, the rest of Leinster and Munster, slightly more in the four other major cities (not shown) but less in Connacht-Ulster.

Figure 5.5: Listed Price Indices by Region (2010H1–2021H2, 2016H1=100)



Source: Authors' calculations

With COVID-19, the dynamic of the market changed, with the cumulative increase in mix-adjusted listed prices between 2016H1 and 2022H1 close to 45% in most of the country, but 57% in Leinster (outside Dublin) and 31% in Dublin. These differences in overall price changes speak to variation in the strength of demand for housing, regionally. For new builds, the overall change in price 2016H1–2021H2 also varied by region. In Dublin, it was 26% to end-2021 (albeit with a dip in 2022H1), similar to the change in prices of existing homes. In Connacht-Ulster, the increase was 33%, compared to 48% for existing homes. But in Leinster (outside Dublin) and Munster, there were larger increases in the listed price of newly-built homes since 2016H1 than for existing homes: slightly in the case of Leinster (62% vs 57%) but substantially in the case of Munster (71% compared to 46%). The Munster panel of Figure 5.5 (bottom left) suggests that, controlling for energy efficiency and exact size, as well as location, type and number of bedrooms and bathrooms, a substantial premium for new dwellings emerged after 2016.

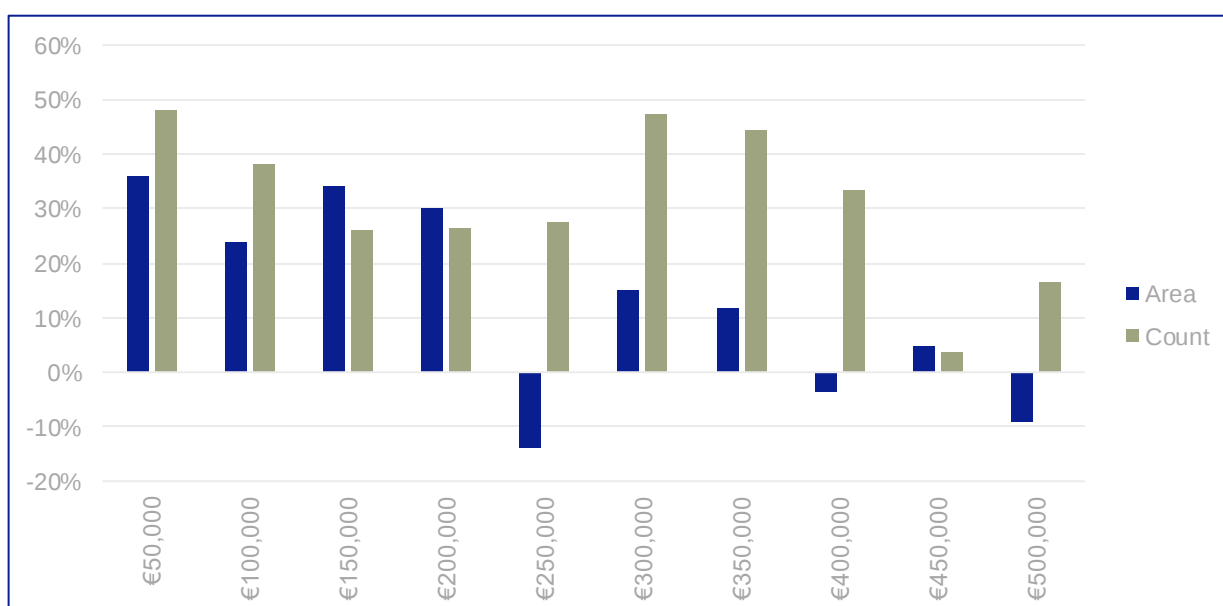
5.3 Results for Impact of HtB on Housing Output

Figure 5.6 presents, for each of 10 price bands, the average change in the area for which residential planning permissions is sought and the average change in the total number of residential planning permissions, comparing the 2017–2019 period with the 2013–2015 period. The price bands are centred: for example,

€250,000 refers to micro-markets where the average value of a three-bed semi-detached house in mid-2016 was between €225,000 and €274,000.

The two metrics presented in Figure 5.6 are those discussed in Section 5.1 above: the total amount of land subject to a residential planning permission; and the total number of residential planning permissions. Series for individual micro-markets are volatile, reflecting the characteristics of underlying sites: year-to-year, there will be variation in the density across sites, while there will also be variation in the number of homes per application. For this reason, micro-markets are aggregated into €50,000 bands, based on the average market value of a three-bedroom semi-detached house in mid-2016, prior to the introduction of Help-to-Buy. Due to their small number, micro-markets with a value above €475,000 are grouped into one band (marked €500,000 in the charts).

Figure 5.6: Changes in Planning Permissions 2017–2019 compared to 2013–2015 (by micro-market value band (2016) and by measure)



Source: Authors' calculations

According to the Society of Chartered Surveyors, the cost of rebuilding a standard three-bedroom home in Dublin in 2016 was just over €180,000 and roughly €140,000 outside Dublin. By 2021, these had risen to nearly €220,000 in Dublin and €166,000 elsewhere. Allowing for other costs not covered by rebuilding estimates, including site costs, development levies and professional fees, as discussed elsewhere in this report, the threshold of viability is likely to have been around €300,000 during the late 2010s. As outlined in Section 5.1, below this market value, Help to Buy is unlikely to have helped with viability, while above this level, viability should not have been an issue in the development of new homes, assuming site costs adjust to reflect viability.

Turning first to the area measure, there is a clear negative relationship: places with cheaper housing in 2016 saw a bigger increase in the area for which residential planning permission was sought after HtB was introduced than more expensive locations⁵⁷. This finding supports two other findings in this report. These are that the use of HtB in the commuter counties around Dublin was double what the population of these counties would suggest, based on the outcome for other areas. This is important because it holds when the comparison is with Dublin. Uptake in these counties was high because they are near Dublin, an important

⁵⁷ While more expensive locations will typically have smaller plot sizes per unit of housing, this is controlled for by comparing before and after.

feature for many FTBs, but site costs were lower than in Dublin. Site costs might be lower per unit in Dublin if high density housing was built, but the costs of doing so made such building non-viable for contractors. The second issue is that this reflects the findings in respect of the UK's Help to Buy initiatives. While there were different in structure, the result was that they had a bigger response to the initiative than areas around London where sites are more expensive. Together, these mean that HtB affected decisions in respect of location and house type, not just prices and output levels.

The second measure presented is the total number of planning permissions lodged relating to residential development, again showing the average of micro-markets within a particular price band. There is no obvious downward trend, by planning permission count, with the biggest increases in planning permissions lodged occurring in markets where the standard home had a value in 2016 of between €275,000 and €375,000, as well as markets where the value in 2016 had been below €75,000. This is consistent with the finding discussed in the next chapter of this report that uptake of HtB was concentrated heavily in semi-detached houses, which can be built and sold in these price ranges, outside urban centres, rather than in apartments which are more expensive to construct.

Across both measures, there is some indicative evidence of differential rates of change at the point of viability. For the 33 micro-markets with average mid-2016 market values of a three-bedroom house of between €225,000 and €275,000, the number of planning applications in 2017–2019 was 28% higher than in 2013–2015, while for the 24 markets with an average value of €275,000–€325,000, the volume rose by 47%. The same difference is evident from site areas: in the lower price bracket, the site area on which permission was sought fell by 14%, but in the higher price bracket, the site area rose by 15%. The 18 markets where values were between €325,000 and €375,000 saw on average similar changes to the €275,000–€325,000 price bracket. This supports the hypothesis that the period when HtB was available coincided with a period where the market shifted to higher priced new build housing.

5.4 Interpretation of Findings

The analysis above aims to establish whether the introduction of the Help to Buy scheme was associated with systematic changes in either prices or quantities, in line with possible effects suggested by economic theory. To this end, published series from the CSO and regression results underlying listed price indices published by daft.ie were analysed. In addition, bespoke regression analysis was undertaken to examine both price and quantity effects. In both cases, use was made of large spatial datasets spanning the period since 2010. These datasets included almost half a million property listings and 160,000 planning permissions relating to residential developments.

In relation to prices, median prices show a substantial premium for newly-built dwellings in recent years. This is unlike what was seen in the early 2010s. An analysis of the regression output underpinning the Daft.ie Reports similarly shows that the premium for new-builds was at least twice as large in 2018–2021 as in 2014–2016.

However, these series do not control for dwelling quality (although the Daft.ie Report control for type, size and location). The CSO's HPQ01 index controls for dwelling quality and suggests that new homes saw significantly smaller price increases than existing homes after the introduction of HtB. The constant-quality price of new homes increased by 35% between 2016Q2 and 2022Q1 compared to an increase of 56% for existing dwellings. (A similar conclusion would apply if the end point were 2017Q4, i.e. the immediate impact, or 2019Q4, i.e. pre-COVID-19, after which the price of existing homes rose strongly.) This suggests that the increase in the new home premium was not a result of HtB, but reflected improvements in the quality of the houses being built relative to the existing stock. However, the coincidence of HtB and rising prices, even when this can be attributed to quality improvements, means that providers were in a position to build

and market better quality houses and sell these at a higher price when HtB was introduced. Consequently, the quality controlled (hedonic) regression results do not rule out a conclusion that HtB allowed prices to rise. However, instead of saying that HtB pushed up prices, it is more accurate to conclude that it facilitated higher prices for better houses. This is quite different from a conclusion that HtB allowed for higher prices that fed through into higher profits for developers.

Economic theory suggests that HtB could have different effects by price point, reflecting viability. The results of the analysis of the Revenue's HtB dataset in the previous chapter of this report, and the survey of contractors that is analysed in the next chapter would suggest that this was a reasonable hypothesis⁵⁸. CSO HPQ01 does not differentiate by region but supplementary regression analysis, using a database of 470,000 listings including 9,350 listings of newly built homes, suggests that there is little difference between trends in listed prices for newly built and existing homes in Dublin and only a small difference in the four other main cities. However, in the rest of Leinster and in particular in Munster, there is evidence that newly-built homes saw bigger increases 2016–2021 than existing homes. This is important as building for sale to purchasers availing of HtB relief was most concentrated in Leinster outside of Dublin. Price increases were likely constrained somewhat in Dublin because of the affordability constraint that arose from the Central Bank's LTI rule. This supports the conclusion that HtB facilitated price rises.

An analysis of the National Planning Applications Database since 2010, with a particular focus on the years just before (2013–2015) and after (2017–2019) HtB was introduced finds no clear pattern overall between viability and change in supply before and after the introduction of HtB. This means that there is no clear evidence that HtB increased supply at an aggregate level.

However, there is some indicative evidence of differential trends in planning applications and the volume of land subject to planning, just above and below likely viability levels. The results provide additional evidence that while HtB did not directly address viability/affordability issues, it did distort output towards building in areas with lower site costs, outside but close to the main urban centres, and concentrated development towards traditional 3 and – to a lesser extent – 4 bedroom semi-detached houses. This is despite the fact that housing and spatial policy in Ireland has emphasised and targeted greater housing development in high density urban areas. The result is that HtB did increase output of some house types in some areas.

⁵⁸ The econometric analysis was undertaken separately from the data and survey analysis to avoid any possibility of bias being introduced into this analysis.



06

Survey of Contractors

6 Survey of Contractors

6.1 Overview of the Survey and Respondents

A written survey in relation to experience with HtB was distributed to registered contractors for completion online in June 2022⁵⁹. The aim of the survey was to inform the review and gain insight into the sentiments of housing providers who had direct experience of how the HtB operated and how it was perceived by both providers and purchasers. The responses were also used to inform follow-up consultations, as discussed further below.

A total of 41 responses was received as a result of this engagement exercise. However, five respondents indicated that they had never sold a property under the Help to Buy Scheme and were excluded from the analysis. Of the valid responses, 25 contractors indicated that they had fewer than 50 employees, while just 4 had over 100 employees. Contractors were split between Dublin and other areas with 21 (almost 60%) responding that they did not build any units in Dublin (city and county) while 9 respondents said that all or most of their sales were in Dublin.

The respondent organisations indicated that they had built approximately 12,500 housing units in the period between the commencement of the Help to Buy Scheme in July 2016 and May 2022. CSO data indicate that there were approximately 99,700 new dwelling completions in Ireland in that period⁶⁰. Assuming similar levels of completions for Q1 and Q2 of 2022 as for the second half of 2021, this survey represents approximately 11% of all dwelling completions in the period. Three respondent organisations indicated that they had built over 1,000 units in this period. Consequently, while the number of respondents to the survey is quite low given the size of the contractor registration list, the respondents are responsible for a significant element of total housing output.

Purchasers availing of the HtB scheme were an important element of the demand for the output of these suppliers. Among respondents, 25 companies (70%) indicated that they had sold over half the units they had built through the HtB scheme. Notably, few of these sales related to apartments with over 80% of respondents responding that all of the units they built in the period were houses. Only two firms reported that all their output was apartments while the remainder sold some apartments, but mostly houses.

This issue was explored in follow-up consultations and interviewees confirmed that HtB has not been widely used by people buying apartments⁶¹. The problem is affordability – viability from the point of view of providers. While it is viable to build low rise apartments – 2 or 3 stories – outside Dublin, it is not viable at market prices to achieve the densities that are required in Dublin. HtB does not assist in this regard to any great extent, since the constraint is the inability of most FTBs, even when two people are involved, to qualify for a sufficient mortgage to make it viable for a contractor to build.

6.2 Views on the Impact of HtB on Housing Output

The Help to Buy scheme is generally viewed favourably among contractors and most were of the opinion that it was a positive intervention. However, as discussed further below, their views were a lot less positive when probed regarding the ability of a scheme such as this to address the major issues that are inhibiting the supply of housing.

⁵⁹ The co-operation of the Construction Industry Federation in facilitating the distribution of this survey is acknowledged. The consultants were fully responsible for the contents of the survey and replies were not shared with the CIF.

⁶⁰ CSO (2022) [New Dwelling Completions](#).

⁶¹ The survey responses were analysed on an anonymous basis and it is not known if there was any cross-over between firms who responded to the survey and those that were selected at random for further contact.

The primary aim of HtB is to increase output. The survey found that almost 90% of respondents felt that the availability of the scheme directly resulted in an increase in the number of units they sold with only 4 responding that there was no impact on the level of output in this period as result of the initiative. In follow-up conversations, contractors indicated that the introduction of HtB had an immediate and important impact on stimulating activity when it was introduced in 2016, and while it is more difficult to assess its impact after it being a feature of the market for a number of years, the general view was that this positive effect persisted. For some respondents the impact was large, with 4 saying that their output increased by over 100% directly as a result of HtB being introduced. A further 8 firms said HtB increased their output by 30 to 50%, while 16 firms reported that output increased by 10 to 30% as a result of the scheme. While it is impossible to validate the responses as the assessment is relative to what was experienced in the years prior to 2016, the widespread view from the industry is that HtB had a meaningful impact on the output of houses, but much less so in the case of apartments. However, this is based on perceptions and the fact is that the quantitative analysis in the previous chapter concluded that there is not clear evidence that HtB had this sort of impact. What is clear is that, despite the overall shortage of housing, there was a low level of confidence among contractors before HtB was introduced and the scheme had a definite positive impact in this respect.

Respondents were asked if their prices increased as a result of HtB being introduced. A quarter of firms said that HtB did lead to price increases, while 75% said it did not. Again, it is difficult to validate these views as the assessment is against a hypothetical, but the issue was explored in follow-up consultations. The views expressed was that prices did not increase to any great extent as a result of HtB because of the constraints imposed by affordability. Providers of housing are concerned that attempts to increase prices will be met with resistance, not because purchasers have a choice to go elsewhere, but because they have no choice due to lack of affordability.

The strategy contractors have employed has centred on trying to contain the cost of construction through focussing on traditional 3-bed semi-detached houses outside urban centres. Planning regulations that require high densities, particularly in Dublin, preclude building for FTBs who can access HtB relief in urban centres, even when sites are available, as higher densities quickly make construction non-viable. Building larger scale, higher density apartment schemes, as would be required to meet the overall level of demand, would inevitably push up prices, due to higher construction costs, but the Central Bank's LTI rule means this cannot happen. According to contractors, these features of the market, despite large unmet housing demand, mean that HtB has had little impact on prices.

These arguments raise the possibility that HtB might be distorting the type of housing that is being built relative to planning and policy objectives. Contractors did not agree with this proposition in interviews, but it was clear to the consultants that the strategy that has been pursued has resulted in a concentration on a particular type of output that can be bought by FTBs using HtB relief. These are semi-detached houses outside the main urban areas, as well as one-off self builds.

As well as prompting a higher level of demand, 53% of respondents indicated that the availability of the scheme made it easier for them to secure bank (or equity) finance to fund their developments. In follow-up consultations it became clear that this issue depends on the type of building that is taking place. Contractors responded that there is no longer a major issue in securing funding for small to medium scale housing developments, provided they are low rise. Much of this finance is secured from outside the traditional banks. HtB assists in this regard, since these houses are affordable (viable) and HtB reduces the risk as contractors find that sales can be secured at an earlier stage of the construction process when purchasers are confident that they will have the deposit. However, funding cannot be secured for high density apartment developments and large scale developments remain rare. HtB does not assist in this regard as this is a mortgage affordability, not a deposit, issue. This further pushes contractors towards low density housing outside the urban areas.

6.3 Views on Determinants of Housing Output and Prices

Leaving aside the impact of the COVID-19 shutdown, respondents were asked to indicate the significance of each of a range of factors that may have constrained the number of units they decided to construct since HtB was introduced. The opinions are shown in Table 6.1.

Table 6.1: The Significance of Different Constraints on the Number of Housing Units Built

	Very significant	Somewhat significant	Not significant
Difficulties obtaining sites and/or planning permission for more units	64%	22%	14%
The cost of building relative to the price you could expect to achieve	58%	33%	8%
Difficulties obtaining financing from banks for greater output	28%	42%	31%
Concerns that there would not be sufficient buyers with funds in place if you built more	17%	42%	42%
Shortages of labour and/or materials restricted the ability to increase output	61%	28%	11%

The results show that by far the most significant factors constraining output are related to planning, affordability/viability, and growing concerns regarding supply chain shortages, including labour. Follow-up consultations explored the issues around planning and it was clear that this is not simply an issue of the quantum of zoned land for residential development. Indeed, this was never raised. Two issues are most important. The first is the length of time that it takes to get construction started as projects navigate the planning and legal systems. There is no single or simple answer to these delays, but there is a systemic problem that ranges across the legal, planning and policy areas. The second issue relates to the multitude of objectives that are being pursued through the planning system. These are far too diverse to be considered here – social integration of housing and densities were among the most important – but the net effect is that there is a system that places increasing the output of housing as a low priority relative to a number of other objectives, each of which is valid and desirable in its own respect. In the face of this, an initiative such as HtB, despite its positive impact on the confidence of contractors, will not have a major impact on the market in terms of balancing demand and supply.

The importance placed on affordability as a constraint has been discussed above. HtB was an initiative that, while viewed positively, was working in isolation. It addressed one issue, but the lack of measures to address affordability meant that its efficacy was limited. Interestingly, the table also indicates that lack of buyers is not a significant constraint. This appears to contradict this narrative and the consultations did not resolve this issue as interviewees did not point to a lack of market demand as a constraint on their output. However, it may be that this is the case with HtB, and there might be a different response if the relief was not available.

Supply chain and labour constraints are a growing concern and are at least partly related to the rapid inflation that has been seen in housing inputs over the past year. This has not fed through into house prices yet according to contractors, but is becoming a major risk factor that could constrain development. This will disrupt the market, and means that any revision of HtB in the short term could have an exaggerated disruptive impact.

Contractors were asked to rank a number of factors in order of their importance in determining the prices of new residential properties in the period since 2017, and how these prices have been changing. Respondents

gave each identified factor a score of 1 to 5, with 1 being most important and 5 being the least important. The results are shown in Table 6.2.

Table 6.2: Ranking of Factors that Determined House Prices since 2017

	1	2	3	4	5
The costs of construction (including site costs)	81%	8%	8%	0%	3%
Increased demand from first time buyers with finance in place	6%	33%	33%	25%	3%
Increased demand from other buyers	3%	14%	19%	47%	17%
The general shortage of supply of new housing	8%	36%	31%	25%	0%
The level of returns available from non-residential property development	3%	8%	8%	3%	78%

These results leave no doubt about the main driver of prices in this period: the costs of construction. This was ranked the most important factor by 81% of respondents. While this would seem like an obvious outcome in some respects, it actually contradicts many of the concerns that have been expressed about HtB, namely, that it would stimulate demand and thereby push up prices. The econometric analysis in this report examines this possibility in more detail at an aggregate level and the results obtained in that analysis are aligned with these views. However, the other results in this table, while not contradicting this view, appear to confirm that demand and supply conditions have had an impact. Over 70% of respondents ranked market demand from FTBs and lack of supply as being among the top 3 factors affecting prices, with about 40% of respondents ranking these factors as either the primary determinant of prices, or the second most important after construction costs. Interestingly, given that these contractors will have been selling a portion of their output to second and subsequent buyers (SSBs) and investors, the impact of demand from these purchasers on prices was deemed to be less important than the impact of increased demand from FTBs.

Given the majority view among contractors that HtB did have a positive impact on FTBs being able to enter the market, this finding that demand from FTBs was an important driver of prices, albeit considerably less important than construction costs, adds support to the view that HtB did indeed push up prices. When this issue was explored in follow-up consultations with contractors, interviewees generally expressed the opinion that any such impact was minor due to the affordability constraint.

The final line of this table also indicates that the returns that may have been available in recent years from other types of construction, such as civil engineering and commercial development, are not important determinants of developments in the housing market.

6.4 Looking to the Future

Under the current arrangements, the Help to Buy scheme is due to expire at the end of 2022 and an important element of the Terms of Reference for this review covers the possible future role of HtB in the context of new initiatives under *Housing for All* programme. This is considered in greater detail in the next chapter of this report. In the survey, respondents were asked to look forward and consider the impact of discontinuing the HtB scheme. Given that the respondents were all involved in housing construction and all were familiar with policy, it was assumed that they would be familiar, in outline at least, with the proposed initiative to be introduced under *Housing for All* and no prompting was provided in respect of the design or possible impact of these future initiatives.

Respondents were asked which of the following statements would they agree with regarding developments in the housing market if the HtB scheme were to be withdrawn gradually over the next few years⁶². The results are shown in Table 6.3.

Responses to the first three statements can be analysed as a group. It is not surprising that contractors would expect a fall in supply. What is interesting is the reason why they expect this to happen. The risk they perceive is that output would fall because they could not be sure that they would be able to sell new houses due to a lack of purchasers. This seems paradoxical given the generally accepted consensus that the problems in the housing market result from a lack of supply, not a lack of demand. However, it fully agrees with the analysis and conclusions elsewhere in this report that the effective demand in the housing market is a sub-set of the demand that would be expected given the size and structure of the population of Ireland. Put another way, there are lots of people who would like to buy, but few in a position to do so. HtB has worked to transfer some of this latent demand to the market and has given housing suppliers – the contractors for whom market demand is what matters – confidence that they will be able to sell their output.

Table 6.3: The Impact of Withdrawing the Help to Buy Scheme

	Agree Strongly	Agree Somewhat	Disagree
The supply of new units would fall as there would be less certainty that sufficient purchasers would be active in the market	78%	17%	6%
The supply of new units would fall as prices would ease making it less viable to build	36%	39%	25%
The supply of units would fall as it would be more difficult to get adequate bank funding	39%	47%	14%
The prospect of a withdrawal of the HtB would cause a surge in demand during the withdrawal and an increase in prices and output	44%	39%	17%
While there could be disruption during the withdrawal period, the growth in housing supply seen in recent years is likely to continue	8%	47%	44%

The response to this question also agrees with the results from above that there is a price effect due to the presence of HtB and that withdrawing the relief would lead to a short term price easing. However, this would soon lead to a slowdown in production, the implication being that the price fall would soon be reversed. The loss of confidence would also make it more difficult to obtain bank funding. However, this issue may not be as important as in previous years as the consultations indicate that alternative sources of funding from outside the traditional banks are available for houses. It is unclear however, if these alternatives would continue to provide funding in the absence of HtB.

The answers to the fourth statement in Table 6.3 point to a particular issue that was also stressed in consultations. Irrespective of the efficiency or effectiveness of HtB from an objective point of view, it is an attractive scheme for prospective purchasers. The prospect of its withdrawal, even if tapered over a number of years, in the absence of a replacement scheme to enable purchasers to enter the market, would be likely to cause a surge in demand during the period before withdrawal that could accelerate price increases. This emphasises that great care is required in regard to any proposals in this regard.

⁶² Implicit in this question is the idea that the scheme will not simply be discontinued at the end of 2022. This was not done to imply that HtB will be extended but to avoid extreme answers to the statements.

The final statement indicates that this might not be a short term disruption. Respondents are clear that the ending of HtB without a clear replacement would disrupt the market to an extent that the recovery that has been seen in recent years could be curtailed. This point was emphasised in follow-up consultations, with the consensus being that the housing sector, as is the case with much of the economy, is entering a period of adverse conditions as a result of increased inflation and the imminent raising of interest rates in response.

6.5 Additional Points from Consultations

The follow-up consultations provided additional information on a number of the points made by respondents to the survey as referenced above. However, the consultations included meetings with stakeholders beyond contractors, including representative associations and public sector bodies. There was a wide degree of agreement across these meetings, although areas of specialism differed.

One of the most important issues raised, that reflects the final point discussed above, is that housing policy needs to be clear, consistent and stable. HtB meets these requirements to an extent as it was clearly set out and easily understood. However, the annual extensions and the enhancement, which was at first considered temporary but has also been extended, do not provide a stable policy environment. Housing supply has a lead-in time of 3 to 5 years, often longer, and annual policy renewals and adjustments are disruptive. The main positive impact of HtB in terms of achieving its objectives is that it gave confidence to contractors. However, not knowing what the situation will be in a year or more undermines this.

This is a vitally important point. Irrespective of the decisions that are made in respect of the future of HtB, they need to be clarified well in advance and maintained in place, allowing for adjustments as unforeseen issues might arise. These decisions must be communicated clearly, and with commitment. Furthermore, any proposed changes to the current policy should be simple. While the idea of a gradual phasing out of the HtB scheme might ease the potential disruption somewhat, it would introduce a degree of complexity into the policy environment that would persist for a number of years. This is highly undesirable and considerable care is required.

There is also a considerable fear of longer term disruption if HtB is discontinued, even if phased out, as the issue it addresses will remain. Consequently, a replacement policy is required and there was little confidence from any of the consultations that the proposed initiatives under *Housing for All* will adequately fill the gap as they are not targeted to do so. Indeed, the consultants concluded that these initiatives are being designed to operate alongside HtB, not as a replacement. The main criticism of HtB was that it was of limited effectiveness as it could not address all issues leaving important financial constraints in place. There is a danger that its phasing out, if not replaced by a scheme that is targeted at the same market failure, would diminish the effectiveness of the new initiatives.

There was a general recognition that, while it has a positive impact on housing supply, HtB is not necessarily an optimal type of mechanism to address the challenges that exist. There was widespread acceptance that changes are inevitable, and no opposition was expressed to a different type of mechanism that would address the problems that are encountered, by people on average incomes and above, in saving a deposit. While purchasers will obviously like the idea of a tax refund, other stakeholders are largely indifferent to the mechanics of a replacement initiative, provided it achieves the objective.

The final issue that arose is perhaps the most important, albeit outside the Terms of Reference for this study. By far the greatest inhibitor to increasing the supply of housing is the delays and requirements of the planning system. Financial instruments can help to improve the situation. But a solution to the housing crisis requires a far wider reform of what are seen as systemic failures, as well as the perceived sub-optimal current prioritisation of a range of objectives.



Appraisal of Policy Options

7 Appraisal of Policy Options

7.1 Overview of Methodology

The Terms of Reference for this review required the consultants to examine if there is an ongoing role for Help-to-Buy in the context of new initiatives under the Government's *Housing for All* strategy and, if so, to present options on how this role might best be fulfilled in the medium to long term. It was also required to examine options for any transition from the current scheme. The consultants determined that addressing this requirement would be informed by undertaking an appraisal of the range of policy options that have been developed under HfA and to also appraise the potential roles of options for any transition. These options were based on ideas developed in the course of undertaking this study.

It was determined at an early stage that this appraisal would be best undertaken by means of a multicriteria analysis (MCA) and that the scoring of options in the MCA would be done according to the Analytical Hierarchy Process (AHP). This is a recommended methodology under the Public Sector Code, published by the Department of Public Expenditure and Reform, for the appraisal of public expenditure. A major benefit of the AHP approach is that it breaks down what can be a complex array of choices into their simplest parts: the assessment of two alternative policy initiatives in respect of a single objective. By assigning scores to different options according to a pre-determined scoring table, the approach ensures both consistency and transparency in the scoring process⁶³.

Scoring in this process was undertaken by a panel of informed individuals who decided which of two possible options is preferable in respect of a particular criterion. The criteria reflected policy objectives. They then agreed a score, which was the consensus of the panel, and the reasons for the decision were recorded. This was done for all possible pairs from among the different options in respect of each criterion. The panel was drawn from personnel identified by the consultants and included individuals from within both the public and private sectors. The only criteria for inclusion were that each person was highly familiar with the Irish housing market and housing policy, and was willing to express options and reach consensus on different policy options.

7.2 Assessment of Policy Initiatives: Options and Criteria

The process involved identifying relevant policy options and criteria in advance. Participants were not asked directly to assess the role of different options but to assess the relative effectiveness of the available options in terms of achieving the objective in question. Because the methodology involves comparing different options, it is necessary to treat the various policies as though they were alternatives. In practice, it is quite possible that all options could be active at any time and could work to reinforce each other. However, the aim was to identify the role of HtB in the context of the alternative approaches that have been developed.

The initiatives of relevance that have been, or will be, introduced under *Housing for All* were combined into three groups: shared equity schemes, subsidies and the HtB scheme. HtB is distinctly different from other initiatives in that it is targeted at addressing difficulties that arise as a result of the Central Bank loan to value maximum of 90% of a mortgage, the LTV rule. The others are targeted at addressing the restriction that a mortgage will not exceed 3.5 times the gross household income of purchasers, the LTI rule. The options provided to participants in the process were as follows⁶⁴:

⁶³ The methodology was set out in Saaty T. (1980) *The Analytic Hierarchy Process: Planning, Priority Setting and Resource Allocation*, McGraw-Hill and has been further developed and applied in MCAs over the years.

⁶⁴ It was stressed to participants in the scoring process that the labelling of the Options and Criteria is nominal only and no ordering or preference is implied.

- A. **Shared Equity** schemes: (the First Home Scheme and the Local Authority Affordable Purchase Scheme). These are separate schemes, but they are mutually exclusive and sufficiently similar to be taken together in this MCA.
- B. The **Croí Cónaithe** schemes: (including both the 'Cities' and 'Towns' schemes), which provide subsidies to providers of new housing.
- C. The **Help to Buy** scheme in its current, enhanced format.

Five criteria based on policy objectives were defined as follows:

1. **Supply**: The likely or potential impact of the scheme in terms of increasing the supply of new housing units;
2. **Affordability**: The overall impact of the scheme on the affordability of housing for first time buyers taking into account the potential impact on prices and the ability of FTBs to obtain the finance necessary to buy;
3. **Ownership**: The medium term contribution of each policy option to increasing home ownership;
4. **Socioeconomic**: The alignment of each option with wider equality policies and objectives;
5. **Balance**: The overall effectiveness of the scheme in moving towards balancing the supply and demand for housing in the longer term.

Because a range of criteria was included, it was necessary to assess if all should be given equal weighting. This was done by a similar process except that the comparison related not to the options but to the relative importance that should be given to each criterion in this assessment. This weighting process provided a set of numerical values that were then applied to the scores that had been awarded.

7.3 Scoring and Results

A big advantage of this methodology is that once the expert panel has made its decisions, the results are produced by means of the computer model without any further input from the consultants. This ensures that the views of the panel are accurately reflected in the results. The final results, along with the ranking of the options, are contained in Table 7.1 below. The final line of this table shows the weights that were assigned to each of the criteria by the panel.

Table 7.1: Scoring and Ranking of Housing Initiatives

	Supply	Affordability	Ownership	Socioeconomic	Balance	Total	Rank
Shared Equity	0.031	0.035	0.010	0.114	0.260	0.450	1
Croí Cónaithe	0.018	0.055	0.006	0.114	0.114	0.307	2
Help to Buy	0.081	0.007	0.032	0.023	0.100	0.243	3
	0.130	0.098	0.047	0.251	0.474	1.000	

The process resulted in a clear ranking with the panel identifying that, overall, the shared equity schemes performed best in terms of their likely effectiveness in achieving the range of objectives. The Croí Cónaithe subsidy schemes were ranked second and Help to Buy third. However, the reasons that are given by the panel for the scores awarded in respect of any particular pairwise comparison of options can be an important source of information. Details on this are contained in Appendix 3 below.

Among the most important issues raised by the panel were that:

- While Help to Buy might be ranked lower than the other schemes, it has an important role to play in supporting these schemes. As a result, if Shared Equity were to be implemented in the absence of HtB, or some initiative that addressed the difficulties of saving a deposit, the impact of the other schemes would be greatly reduced. In effect, the availability of HtB is an important assumption in the design of the Shared Equity schemes.

- The Help to Buy scheme benefited in the scoring as it is familiar, easy to understand and is already in operation. The panel accepted that if the other schemes were similarly familiar, they would have been scored more highly in respect of some criteria with the result that there would have been a greater difference in the overall scores.
- The fact that ownership will be shared in the First Home and Local Authority Affordable Purchase schemes will not be a big issue for younger age groups and others for whom long term renting is a desirable option.
- The Croí Cónaithe scheme has the potential to have a major impact in respect of apartments, but its scores were lower than this potential would suggest as it would require revision to ensure that developers will not be left with unsold apartments if the potential is to be fully realised⁶⁵.
- HtB has a limited impact on affordability and is weak socially. In contrast, Croí Cónaithe was seen as being strongly aligned with wider socioeconomic policies as it will achieve a better social mix and will provide housing in areas close to shops and employment. Conditions attached to the Shared Equity schemes are also better aligned with social equality goals.
- The panel were of the opinion that while a withdrawal of HtB would be disruptive, it is poorly designed to act as a long term intervention and could actually be disruptive if ongoing extensions were made over a prolonged period.

The AHP model also assessed the logical consistency of the scores that was awarded to different pairs in each iteration of the scoring process. In all cases the calculated Inconsistency Ratio was well within the acceptable level of 10% inconsistency, with 5% inconsistency being the highest recorded estimate.

The data in the last line of the table above show that the scoring panel placed much greater weight on achieving what were interpreted as longer term objectives, such as achieving long term balance in the housing market and ensuring that housing policy is well aligned with other socioeconomic policies, particularly in respect of equality. The table shows that, despite being ranked third overall, Help to Buy actually scored well in terms of its impact on supply and increasing home ownership. However, it scored low in respect of improving affordability, its alignment with wider socioeconomic policies and achieving long term balance. The views of the panel in these respects coincide with concerns that the scheme is socially regressive and is not suitable for use as a long term measure. This further underpins the view that HtB is poorly designed to act as a long term intervention. As is detailed in Appendix 3 below, the panel was clear that long term housing market balance and policies that are aligned with wider socioeconomic policies should be given a greater weighting when appraising the role of different elements of housing policy, compared to interventions that have a shorter term impact on affordability and achieving home ownership. Indeed, the panel were of the view that policy objectives that emphasise the level of ownership are inappropriate and can be detrimental to lower income groups, as well as not reflecting the changing aspirations of younger age groups.

7.4 Sensitivity

Given the quite wide disparity in the weights that were accorded to different criteria and the quite different performance of each scheme under the different criteria, it was appropriate that a sensitivity analysis of the results be undertaken to assess if the ranking above was being excessively determined by the weights, or by any particular criterion. A number of different recalculations of the results, using the original scores, were undertaken to address these possibilities.

The following assumptions were made in these recalculations:

1. The weights were removed, and all criteria allocated an equal weighting;

⁶⁵ Despite this observation, the panel scored the schemes according to what has been designed, not according to some desired revision.

2. The calculations were redone in 5 reiterations with one of the criteria excluded in each iteration.

Removing the weighting resulted in a smaller scoring spread – as would be expected from the discussion above – and Help to Buy was ranked second ahead of Croí Cónaithe. However, the Shared Equity schemes remained the highest ranked.

Excluding the Supply, Affordability and Ownership criteria, one at a time, had no meaningful impact on the results. When the Socioeconomic criterion was omitted, Help to Buy was ranked higher than Croí Cónaithe, but Shared Equity was still the highest ranked scheme. When the long-term market Balance criterion was omitted, Croí Cónaithe was ranked first ahead of Shared Equity.

The overall result of these sensitivity calculations is that, while there were changes to the numerical scores, as might be expected, the rankings were not greatly affected. The results do not depend on the weighting or on the inclusion of any particular criterion. It is concluded therefore that the original ranking was not as a result of the process but represented the true views of participants as expressed in the scores awarded.

7.5 Other Issues in Relation to the Role of HtB

A number of other issues in relation to the role of HtB as a policy initiative in the context of HfA have also been raised in research that was undertaken in preparing this review. The most common was that while HtB is perceived to have had a positive impact on the supply of housing, its real potential will only be fully realised when the Shared Equity and subsidy schemes are up and running.

As noted in the discussion earlier in this report on the market failure that is addressed, HtB reduces or eliminates the constraint that is placed on the ability of FTBs to buy as a result of the Central Bank's LTV rule. However, except to the extent that it can reduce for some purchasers by up to 10% of the purchase price the required mortgage amount where eligibility criteria are fulfilled and where the purchaser already has the full mortgage saved, it does not relieve the constraint that is placed on purchasers by the LTI constraint. The data are not available to assess which is the more compelling constraint on the numbers of FTBs who can afford to buy, but the view from the consultations would appear to be that the LTI rule is a major inhibitor of market demand, even since HtB has been operational. As a result, many potential purchasers remain excluded from the market even though they would have the deposit either saved or funded by HtB.

The Shared Equity and Subsidy schemes are designed to address this requirement. Consequently, this line of argument concludes that these schemes are compatible with HtB. It will play an important supporting role, but it is also the case that the impact of HtB will be increased as a result of the introduction of the HfA schemes. This also means that the impact of the new schemes will be enhanced by HtB as they do not assist in saving the deposit.

This does not address the question of the value for money that HtB represents, but it does mean that the socially regressive impact of the scheme will be reduced somewhat since lower income groups will now be able to enter the market to a greater extent and avail of the scheme than has been the case to date. It is likely that this will reduce somewhat the deadweight associated with HtB. This provides an argument for the extension of HtB, although not necessarily in its current format, or for the development of a scheme that is specifically targeted at addressing the constraint imposed by the LTV rule.

If HtB were to be extended, a number of small revisions would be required to address some anomalies. The definition of a FTB should be revised to coincide with the definition used in the Shared Equity schemes by making 'fresh starts' eligible. Not to do so would clearly disadvantage a particular group who would qualify for the HfA schemes, but not for HtB. This is unlikely to have any major cost impact since HtB can still only

be availed of in respect of the purchase of new houses and this will not be determined to any great extent by this change.

A specific issue also arises in respect of people availing of the Local Authority Affordable Purchase (LAAP) scheme. The HtB conditions specify that the mortgage LTV must be 70% or above of the market value of the house being purchased. Under the scheme, a Local Authority may provide a house to a purchaser at a discount of up to 40% of the market price. The purchaser still has to fund a deposit but, for any discount above 22.2%, the LTV will be below the 70% eligibility cut off. As a result, the HtB rules require revision in respect of some purchasers who are eligible to qualify for Local Authority Affordable Purchase scheme. It has been suggested that the minimum LTV should be set at 70% of the discounted price that is actually paid for purchases under the Local Authority Affordable Purchase, not the market price. However, this would mean providing HtB of 10% of the value assistance where the value of the mortgage could be as low as 42% of the market value of the house in some cases. This could give rise to deadweight to arise in a transaction where considerable amounts of public funds are being spent. Consequently, it is considered that setting the threshold at a level that falls as the level of discount rises would address the issue in a more cost-effective manner. At the limit, this would require a 90% mortgage for anyone who has availed of the full 40% discount. Indicative levels for the appropriate LTV levels are shown in Table 7.2.

Table 7.2: Minimum Allowable LTVs to avoid Anomalies between HtB and LAAP Schemes

Discount rate applied	15%	20%	25%	30%	35%	40%
Market Value	€300,000	€300,000	€300,000	€300,000	€300,000	€300,000
LAAP discount	€45,000	€60,000	€75,000	€90,000	€105,000	€120,000
Price to purchaser	€255,000	€240,000	€225,000	€210,000	€195,000	€180,000
Minimum deposit (10%)	€25,500	€24,000	€22,500	€21,000	€19,500	€18,000
Mortgage	€229,500	€216,000	€202,500	€189,000	€175,500	€162,000
LTV	76.5%	72.0%	67.5%	63.0%	58.5%	54.0%
Minimum allowable LTV (70%)	70%	70%	67.5%	63.0%	58.5%	54.0%
Minimum allowable LTV (80%)	76.5%	72.0%	67.5%	63.0%	58.5%	54.0%

These calculations are based on a house with a market value of €300,000 but the results remain the same for all house prices. The final two lines are alternatives depending on whether the general eligibility rule is retained at 70% LTV, as has been the case to date, or is revised to 80% as discussed later in this report. Application of this approach will ensure that assistance is provided to the fullest extent only to those who are not in a position to save the deposit. This simple calculation would reduce the deadweight associated with providing relief to this cohort of applicants, while addressing the possibility that the potential purchasers who qualify for higher levels of assistance under the LAAP scheme could be excluded by the HtB eligibility criteria.

7.6 Assessment of Transition Requirements

The second part of the examination required by the Terms of Reference was to assess options for any transition from the current HtB scheme. This was undertaken by a similar, but separate, process by the same panel in the MCA process. In doing so, it was stressed to the panel that this did not infer any decision to transition from HtB had been made, but that current policy is that the scheme will expire at the end of 2022. The objective therefore was to identify what would replace it, with an extension of HtB being a possibility.

The panel was presented with a range of options for the transition. These were to be assessed against a single criterion: which option is considered to be the least disruptive to the housing market? ⁶⁶ Participants

⁶⁶ As the MCA involved just a single criterion there was no weighting element to the process.

were asked to interpret what was meant by disruption as they saw best and were encouraged to think in terms of longer term impact, as well as the potential short term impacts where most attention was focussed.

Six options for policy to replace the existing HtB scheme at the end of 2022 were identified as follows:

- A. **Extend:** extend the existing HtB scheme for a further 2 years retaining its current (enhanced) conditions with the scheme expiring at the end of 2024.
- B. **Revert:** revert to the pre-enhancement conditions at end 2022 and extend HtB for 5 years, expiring at end 2027.
- C. **Tapering:** HtB would continue as is for a further year, up to the end of 2023. At that stage it would begin a process of gradually being phased out. In 2024, the scheme would revert to its pre-enhancement conditions. After the end of 2024, the years against which tax can be reclaimed would reduce annually. So, while in 2023 and 2024, tax could continue to be reclaimed against payments in the previous 4 years, in 2025 it could be reclaimed against tax paid in 3 years only (2022, 2023 and 2024), in 2026 it could be reclaimed against tax paid in 2024 and 2025, and in 2027 it could be reclaimed against tax paid in 2026 only. The HtB scheme would expire at the end of 2027.
- D. **Targeting:** retain HtB but restrict the relief to the lower of 10% of the mortgage amount borrowed (rather than the house price) and 10% of the median new build house price in the county where the new house is located after end 2022 in order to reduce deadweight and other adverse effects. Reduce these limits by 2 percentage points each year after end of 2023 to gradually phase out the scheme at end 2027.
- E. **Integration:** Integrate HtB with the Shared Equity schemes. Purchasers could choose to allocate 20% of the equity to the State under the same conditions as currently set out. However, they could also allocate up to a further 10% with the funds generated being used as a deposit under a similar mechanism and set of conditions as currently govern HtB. This would continue for as long as the Shared Equity scheme is in place.
- F. **Loan:** Allow the HtB scheme to expire at the end of 2022 and replace it with a state-guaranteed loan of up to 10% of the purchase price of the house up to a maximum of €40,000. This would be repaid according to conditions similar to mortgages with first repayment deferred for 5 years. This loan would not be taken into account when assessing the CBI LTI rule, but would be taken into account by finance providers when assessing the borrowers' ability to repay a mortgage. Loan recovery in respect of a sale would be similar to what is proposed for the First Home scheme.

In MCAs such as this, a 'do nothing' option is generally included in the range of options to be considered. In this case this would amount simply to allowing HtB to expire at the end of 2022 with no transition arrangements. However, this was not included in the range of options that were presented to the panel as it was not considered that this would be a 'competitive' option in terms of the scoring as it would inevitably imply a considerably greater level of disruption compared to any of the other options. As a result, including it would simply make the process more complicated without providing any additional insight.

The results of this process are shown in Table 7.3. The outcome indicates a clear preference for a continuation of the existing scheme (Option A). This was the case even though it was fully appreciated that this would simply defer the decision for two years and participants were clearly of the view that policy uncertainty was detrimental. The proposals to gradually phase out the scheme were rejected (Options C and D) while preferences varied in relation to the other proposals.

Table 7.3: Scoring of Alternative Transition Policy Options

	Score	Rank
A: Extend HtB for 2 years	0.434	1
B: Revert to pre-enhancement for 5 years	0.169	2
F: Loan scheme to provide deposit from 2022	0.169	2
E: Integrate with Shared Equity schemes	0.119	4
C: Taper tax years and remove in 5 years	0.063	5
D: Target better and remove in 5 years	0.045	6
Total	1.000	

On the surface, these results would appear to suggest that participants simply want to continue with what is in place, despite the longer term uncertainty. However, the discussion was considerably more nuanced than these scores would suggest and a number of points of importance were raised.

Participants acknowledged that Option A: Extend HtB for a further two years was intuitively the most appealing but needed to balance this against the fact that this implied ongoing uncertainty regarding future policy. The need for long term stability had been stressed in the consultations and was reflected in the discussion. In this respect, the HfA Shared Equity and Subsidy schemes are important. However, these schemes are not yet operational and there is no basis on which to ascertain their likely impact. This was the principal reason for the preference for the continuation of HtB – Option A and, to a lesser extent, Option B – over Options E and F. The risk that was perceived was that allowing HtB to expire at the end of 2022, even if to be replaced by a shared equity or loan scheme, would be highly disruptive given that no one knows what these schemes would look like in practice. The important point was that the higher scoring for Option A is not a deep belief in HtB, but a fear of what its short term withdrawal could imply.

Participants fully acknowledged that if the alternatives were already in place then Options E and F would have been scored more highly and indicated that a period of 2 years would likely provide some assurance in this regard. The current cost volatility reinforced this view so that, rather than interpreting the scores above as meaning a strong preference for HtB over alternatives, the preference was to avoid short term disruption and work towards change down the line. The panel acknowledged the benefits of integrating the schemes as this would simplify policy from the point of view of potential purchasers, and would help to avoid possible anomalies. Participants also agreed that Options E and F were desirable as they removed a tax expenditure from housing policy, while continuing to address the issues that HtB targeted. Finally, while not strongly expressed, the panel had a preference for a new loan scheme over integrating HtB into the shared equity scheme.

The panel did not favour Options C and D which would aim to retain HtB and phase it out over a period of 5 years while introducing revisions to make it more efficient. These were not favoured due to the complexity inherent in these options. While they set out a plan for the gradual phasing out of HtB, thereby reducing the impact of its withdrawal, they were seen as confusing and likely to increase uncertainty in relation to policy. Furthermore, they offered no long term solution as participants did not see the challenges in relation to housing being addressed adequately within 5 years. As a result, the preference was for HtB to be retained of two years with a longer term arrangement thereafter.



08

Conclusion

8 Conclusion

8.1 Main Findings

This study is a review of the Help to Buy scheme, not an appraisal of its socioeconomic impact or whether there have been net economic benefits. The focus has been placed on detailing the operation of the scheme, assessing progress in respect of the objectives that can be identified, assessing the efficiency of its design as shown by its operation, and appraising the potential role of HtB in a policy context that has changed considerably since it was introduced.

Despite being able to identify a clear market failure for the scheme to address, there is a considerable basis on which to construct a critique of HtB:

- The scheme promotes demand for new housing in a market where the problems that exist are unequivocally supply constraints. Concerns in this regard were expressed within the Department of Finance before the introduction of HtB, but no alternative to the scheme, or to the use of a tax expenditure mechanism for this purpose, appears to have been considered.
- There were also concerns expressed when it was introduced that it can be difficult to remove schemes such as this once they have become part of the operation of the market. This has clearly been the case as its operational life have been extended a number of times and the original conditions that constrained expenditure have been relaxed. This was not foreseen in appraisals of the scheme previously undertaken.
- Expenditure on the scheme has far surpassed projected values and is rising rapidly. This trend appears likely to continue and may accelerate. This is the result of a number of factors including the growth of the output of new housing, the impact of the enhancement, and an in-built underestimate in the original projection.
- The scheme is poorly targeted with respect to incomes, location, house prices and other socioeconomic factors. As a result, it has socially regressive impacts, there is a considerable deadweight associated with the expenditure, and it is poorly aligned with spatial policy.
- The issues that were to be addressed, including the shortage of housing output and affordability in house purchase and rental markets, have intensified since it was introduced with increasing deficits and higher prices.
- There is little evidence from other comparable areas that schemes to extend home ownership have been implemented successfully.

Analysis of data taken directly from approved applications illustrates the extent to which these criticisms are valid and allows estimation in key regards. Relief was provided in general to people in the higher earning percentiles of the population with an estimated 81% of households having lower income than the median approved application. The enhancement caused an acceleration in the cost of the scheme of over 25% per annum in 2020 and 2021. As a result, HtB will likely cost in excess of €200 million in 2022. Most importantly, almost half of the funds that have been spent are deadweight, in other words, they play no part in achieving an objective of the scheme. This is particularly the case in respect of self builds where over three-quarters of the expenditure is deadweight.

These critiques and outcomes raise important questions regarding the appropriateness of HtB as a tax expenditure in the first place. While acknowledging that concerns were raised in the Department of Finance before it was introduced, the fact remains that it was introduced without undergoing sufficient consideration in advance. The consideration of alternatives and the appraisal of HtB against such alternatives does not appear to have been undertaken. The extensions and enhancement of the scheme in subsequent years can be similarly criticised.

However, the research indicates that many of the risks that were perceived when HtB was introduced have not come to pass. There is not definitive evidence that HtB pushed up the price of new houses. Certainly new builds have a large and growing premium over the price of existing houses. However, this existed before HtB. Importantly, when prices are adjusted to reflect quality improvements in new houses relative to existing houses, the apparent impact in the raw data disappears. This is particularly the case in areas where prices were already high and were up against the affordability limit. It is also not the case that the prices that were paid for new homes by people who received HtB relief were above new house prices in the economy in general. In fact, they were slightly lower, likely because of the price eligibility cap.

An important issue, however, is the impact on output. As a demand side impact that did not appear to have much impact on prices, it is unclear how HtB might induce greater impact. The data analysis in this regard is inconclusive, although the output of certain types of houses – 3 be semis in particular – did increase and some areas likely experienced higher output than they would otherwise have seen. It is also the case that the scheme is viewed very favourably by people who are involved with housing. It is clear that there is a market failure that is created by the Central Bank's LTV rule and that this both feeds into, and is intensified by, the shortage of rental accommodation. The scheme is a key element in addressing this and suppliers point to the impact of HtB on confidence and a definite positive impact in this regard.

An important insight is that estimates of the demand for housing in Ireland that are based on population projections and demographics – while useful in indicating the output that would be required to achieve a stable housing market where needs are met – are inappropriate metrics against which to assess the potential impact of a policy measure on the market. The market is distorted to a degree that these measures of total demand do not represent market demand. The level of risk, real and perceived, means that the actual market demand facing the providers of housing output is insufficient in many cases to make increased output a realistic option.

However, the LTI rule continues to constrain demand and HtB has no more than a marginal impact in this respect and only for FTBs who have a deposit already saved. The appropriate comparison therefore is not whether the problems in the housing market have been solved but what they would be if HtB had not been implemented. A wide range of interests conclude that they would be worse. Even more important given the timing of this review, there are deep concerns regarding the impact on the supply of housing if HtB were to be ended or if the current lack of certainty about its future were to persist. The message in this respect is clear.

A further important issue is that the housing measures that are to be introduced under the *Housing for All* programme have clearly been developed in the expectation that HtB will operate in the market. Initiatives such as the Shared Equity and Croí Cónaithe schemes are designed to address the difficulties that arise as a result of the Central Bank's LTI rule and will not assist in saving a deposit. There are reasons to support an argument that interventions are required in both respects. The consequence is that ending HtB would not only disrupt the market in the short term but would also weaken the impact of these measures which are expected to persist for a longer period.

It is also important to note that, while there are certainly issues of targeting associated with HtB, the scheme is restricted to FTBs and new homes only. There are a number of costs built into the cost of new homes that do not arise directly from construction. Site costs, taxes and financing costs are inevitable and have not been examined in this report. However, policy and legislation also means that costs associated with the provision of social housing and infrastructure are incorporated respectively due to Part V and Sections 48 and 49 of the Planning & Development Act 2000. These costs are arguably social costs that should be paid from general taxation, rather than by purchasers of new homes. HtB, and other subsidy schemes that are focussed solely

on FTBs and new builds address the distortions that arise from this legislation to some extent. Viewed in this manner, HtB is targeted, although imperfectly so.

Despite these arguments, there are weaknesses in HtB and it cannot be concluded that it is sufficiently efficient to represent good value for money. Consequently, the consultants conclude that it should be withdrawn. However, now is not the time to do so. Furthermore, the problems that it sought to address remain and the specific market failure at which it was targeted will not be addressed by proposed new initiatives under the HfA program. As a result, HtB needs to be replaced by an instrument that will address this issue.

A rational approach would not design the scheme as it currently exists, but there are considerable risks with ending the scheme. Retaining and revising the scheme would be one option, but the use of a tax expenditure as the appropriate mechanism is questionable. Furthermore, it is considered that the extent of revision that would be required would effectively amount to the design of a new initiative. This is the challenge that the recommendations below seek to address.

8.2 Recommendations

HtB was introduced as a time limited scheme and ongoing annual extensions are inappropriate as they mean persistence with a scheme that is not efficient while creating ongoing policy uncertainty. However, simply allowing HtB to expire at the end of 2022 would be very disruptive at a time that rising prices and the prospect of an economic slowdown are already causing increased perceptions of risk. Consequently, the recommendations below amount to the replacement of the scheme with a more appropriate, more efficient mechanism, not its elimination in isolation.

Despite the problems that have been identified, now is not the time to withdraw HtB. Because of this, **it is recommended that the HtB scheme should be extended in its current format for a period of two years to expire at the end of 2024.**

The sort of policy uncertainty that has arisen with ongoing annual extensions without a clear picture of the longer-term policy environment is undesirable. To avoid this, **it is recommended that the announcement of this extension should be accompanied by a clearly communicated acknowledgement that the issue that HtB sought to address remains a difficulty and that a more appropriate policy mechanism will be designed to replace HtB.**

Deadweight is a major issue and efforts to better target HtB should be made for the 2 year interim. **It is recommended that self-builds will no longer be eligible for HtB for applications to the scheme after the end of 2022.**

It is further recommended that the minimum mortgage LTV should be increased to 80%, from its current 70%, for applications to the scheme after the end of 2022. Together, these revisions will help to reduce the level of deadweight.

An efficient, well targeted measure to assist FTBs to save the deposit, must include a disincentive for purchasers who do not need assistance to reduce deadweight and the socially regressive element of the scheme. This cannot be done through a tax expenditure mechanism. This means that the Department of Finance is not the appropriate responsible Department for this aspect of housing policy. **It is recommended that the Department of Finance only facilitate the withdrawal of HtB when a mechanism has been designed to effectively integrate an initiative to address the problems that arise due to the LTV rule into the new Shared**

Equity schemes being devised by the Department of Housing, Planning and Local Government. This will amount to prospective purchasers who are eligible for shared equity being able to use part of the funds allocated to fund their deposit.

This will involve some limited revision of conditions associated with the Shared Equity schemes. It will be required that the conditions associated with the shared equity schemes are revised so that the equity limit is increased to 30% of the house price, without reference to HtB. However, this should be accompanied by a stipulation that the funds that are provided to finance shared equity above 20% in respect of any property must be used for all or part of the deposit. In the case of purchasers who buy using a shared equity scheme where the shared element does not exceed 20% of the value, but is at least 10% of the value, they may allocate up to 10% of this finance to fund the deposit. However, to ensure that the targeting of the Shared Equity scheme is not diluted, a condition should also be imposed that the percentage of the value of the house that is allocated to fund the deposit cannot exceed the value that is used to reduce the mortgage. So, for example, if a house is purchased with shared equity amounting to 15% of its value, it cannot be the case that the purchaser only pays a deposit of 2% or less of the house price from savings.

Some limited revisions to HtB should be introduced at the end of 2022 to address some anomalies and smooth its replacement with this new mechanism while minimising disruption in the housing market. **It is recommended that ‘fresh starts’ should be included in the definition of FTBs for the HtB scheme from the end of 2022** to align it with the definition used in the Housing for All initiatives.

Where a house is being purchased under a Local Authority scheme such as the Local Authority Affordable Purchase Scheme, **it is recommended that the price at which the house is purchased under the LAAPS should be used when calculating the minimum LTV, not the market price as currently.** This calculation of the minimum LTV should be undertaken in line with the methodology described in Chapter 7 of this report and a simple 70% or 80% rule should not be used.



A

Appendices

Appendix 1: Projected and Actual Costs of HtB

The case for undertaking a formal review was set out in the report of the Tax Strategy Group in advance of Budget 2022. The TSG noted that the cost of the scheme was increasing each year and was expected in 2021 to reach '*over four times greater than the original estimated cost of the €40 million per annum for the scheme when it was first introduced*'. Based on this divergence between expected costs and the actual outcome, plus the fact the *Housing for All* programme would include initiatives targeted at FTBs, the Group concluded that '*it is reasonable to consider whether the scheme should be allowed to expire at the end of 2021 as per its current sunset clause*'. (TSG, 2021 p.28).

The recent report from the Parliamentary Budget Office also paid particular attention to the fact that the scheme has cost considerably more than originally projected, even allowing for the extensions and the enhancement (PBO, 2022, p.5). It related that the Budget 2017 papers had projected that the scheme would cost €50 million in 2017 – because some retrospective claims relating to purchases in the latter half of 2016 would be eligible for relief and would be included in the 2017 cost estimate – and would cost €40 million per annum thereafter⁶⁷. This would give a total cost up to end 2019, when the scheme was originally scheduled to expire, of €130 million. The PBO paper also relates that the extension and enhancement of the scheme was projected to mean a total cost of €391 by the end of 2021⁶⁸. As the data earlier in this report showed, the actual cost at end 2021 was €541 million.

The fact that the cost of HtB exceeded its projected cost or that the cost is growing each year are not conclusive reasons to argue that the scheme is either wasteful, or that it should be discontinued. These *ex post* observations may only indicate that the scheme has been more successful than expected and that it is becoming even more so over time. After all, actually addressing the market failure at which the intervention is targeted and implementing an intervention that has a reasonable chance of success, as could be indicated by high uptake, are key requirements for a successful policy.

Of far more importance is to assess if the scheme is efficient, or if what was once an efficient scheme requires revision as circumstances change. These changes may be because of changes in the economy – or more specifically in a particular market at which the intervention is targeted – or in the wider policy environment as it impacts on that market. After all, if a small scheme is efficient and provides benefits, it may be reasonable to argue that its uptake should be increased – which would increase its cost – to increase the size of the benefits. Consequently, this examination of the growing divergence between the cost of HtB and its expected cost is undertaken not to identify a failure of some sort, but to identify the factors that have caused the increase in costs so as to inform considerations in this respect.

Furthermore, it is neither unusual nor unreasonable to expect that the actual cost of a tax expenditure scheme when assessed *ex post* would diverge somewhat from the projected *ex ante* projections. *Ex ante* projections can only be made on the best available evidence at that time, which is by definition incomplete. In the case of the HtB scheme, the cost projections were developed in 2016 using the most recent available housing market and mortgage data from 2015. Many changes can occur, not all of which can be foreseen. However, it is reasonable to expect that the model that provided the original estimates should provide accurate *ex post* estimates for subsequent years when recalibrated with actual data for those years⁶⁹.

⁶⁷ The Budget 2017 papers also described that the conditions attached to the scheme would mean that only purchases where the mortgage was a minimum of 80% of the property value would be eligible. This criterion was revised to 70% when the scheme was implemented.

⁶⁸ The PBO paper identifies the 2020 July Jobs Stimulus as the source of this estimate, but this publication only mentions that the enhanced levels of support would add a further €18 million to the cost of the scheme up to December 2020.

⁶⁹ The analysis below is mostly restricted to the period up to the end of 2019 as the enhancement of the scheme in 2020 represents a discontinuity that would have clearly increased the cost of the scheme thereafter.

If this is the case, it is worth examining the underlying data to identify which of the inputs had changed most markedly between 2015 and the years 2017 to 2019. This would identify the reason for the divergence and could point to a possible unexpected impact of the scheme in terms of changing the behaviour of those availing of the assistance. It could also identify if the scheme was being availed of in ways that had not been intended. Revisions could then be identified to reflect these developments and to address these findings.

The original calculation was based on just 3,680 claims in a year with an average cost of €10,430. By 2019, before COVID-19 and the recovery programme enhancements, there were 6,392 approved claims costing a total of €98 million, an average of €15,350. This means that the divergence is explained by both a much higher level of approved claims than had been expected, and a higher percentage of the claims relating to higher priced houses.

The number of approved claims was 74% higher in 2019 than the projection based on the 2015 data. The number of completions in 2019, at 21,087, was 66% higher than in 2015. The CSO house price index rose by 34.3% between 2015 and 2019. However, the average approved claim in 2019 was 47% higher in 2019 than the projections based on 2015 data had indicated. In other words, the average rose at 1.4 times the rate of price inflation in the housing market in this period. This means either that the rate of price increase of new houses was well in excess of the general rate of housing inflation, or that FTBs who were able to avail of the HtB bought properties that would have been in higher price bands even without any price increase. A combination of both – in other words, that HtB had a demand and a supply impact on average prices – is possible, but the analysis of the Revenue's dataset above indicated that recipients of relief through HtB did not generally buy houses that were above the prices of all new homes.

The Calculation

The way in which the original estimates were calculated has been identified from papers that were prepared by the Department of Finance in advance of the scheme being introduced and from consultations undertaken in preparing this study⁷⁰. Estimating the projected cost of the scheme required the Department to identify data that could provide an estimate of the value of houses transacted. This was done using residential stamp duty payments. When this value is multiplied by the portion of new houses in the total, the portion sold to first time buyers, and the portion that comply with other features of the scheme – the price cap and the restriction of the refund to 5% of the price, in particular – the result is a projection of the cost of the scheme if there is 100% uptake by eligible purchasers and that purchasers have paid enough tax in the reference years to allow them a refund equal to the maximum allowed by other conditions of the scheme.

These final two points are important. Since the projection included no adjustment for the possibility that uptake might be below 100%, in the early years in particular, or for instances where purchasers who qualify for a particular level of rebate based on the price of the house have paid tax that totals less than this level in the reference years, the resulting projection should be a maximum likely cost. Neither was there any allowance for the fact that some FTBs might buy with a mortgage below 70% and be ineligible for relief.

Furthermore, as outlined below, the house price used was based on the upper limit of stamp duty price bands, whereas most houses in a particular stamp duty band were likely sold somewhat below the maximum.

This would again work to mean that the projected cost of the scheme was a maximum value that would be above its actual level. In contrast, there was no allowance for inflation included in the calculation.

⁷⁰ Of particular relevance are the table on page 6 of the document entitled 'Help to Buy Scheme' (dated 30 June 2016) and Appendix 2(A) of the document entitled 'Budget 2017 – First Home Incentive Scheme' (undated, but understood to have been produced at about the same time).

The calculation underlying the projected cost can be modelled as five numbers multiplied, referenced as A x B x C x D x E, with A and B being value variables, the others being quantity variables, where:

- A is a vector of the number of stamp duty tax payments in each price band in 2015 up to the maximum allowable price level⁷¹.
- B is the upper price limit of each band.
- C represents the portion of purchasers who were FTBs. Based on data on mortgage drawdowns this was estimated at 29% in total and it was assumed that this was constant across all price bands;
- D is the portion of new builds in total sales. This was estimated at 26% based on house completion numbers and stamp duty payment numbers. Again it was assumed that this was the same across all price ranges.
- E is the maximum percentage of the house price that would be eligible for the rebate. This was 5% for all price bands.

Based on the data and calculations in the documents from 2016 – these are done on different iterations of conditions as the scheme was being developed – the model gives a projected cost in the range of €35 to €44 million. We redid this calculation using updated data on Stamp Duty payments in 2015 and the actual final conditions for the scheme. This resulted in the estimates shown in Table A1.1.

Table A1.1: Projected Cost of HtB using 2015 Data and Original Methodology

Stamp Duty Bands	A Number of Taxpayers	B Price Band Limit	D Number of FTBs (29%)	C New Builds (26%)	E Rebate Allowed (5%)
0 – 1,000	12,635	€100,000	3,664	953	€4,763,395
1,000 – 2,000	14,878	€200,000	4,315	1,122	€11,218,012
2,000 – 3,000	9,628	€300,000	2,792	726	€10,889,268
3,000 – 4,000	4,489	€400,000	1,302	338	€6,769,412
4,000 – 5,000	2,220	€500,000	644	167	€4,184,700
Total	43,850		12,717	3,306	€37,824,787

This gives a total projected value of just under €38 million. On the basis that this was derived using 2015 data and it was known that the output of new builds and the price of houses was rising at this time, a projection in the range of €40 per annum, and €50 million for 2017, appears reasonable. The actual outturn for 2017, when retrospective claims related to the latter part of 2016 are removed, was €51 million. This suggests that the calculation somewhat underestimated costs from the start, but this is within the error interval that would be expected due to the increases in output and house price inflation that were occurring by 2017. This suggests that the model is reliable.

If this is the case then it should be possible to use this same model using actual data for 2017 to 2019, before the impact of the 2020 enhancement, to derive estimates that are comparable to the known outcome. The results are shown in Table A1.2.

⁷¹ This was assumed to be €400,000 in the projections that were done at the time. Although this was increased to €500,000 in the scheme that was announced it is thought that most FTB purchases would be below this level. This was subsequently the case.

Table A1.2: Model Projections and Actual Costs of HtB (2017–19, €m.)

	Projection	Actual Cost	Difference (%)
2017	€44.9	51.0	13.5%
2018	€56.8	70.8	24.7%
2019	€75.7	98.1	29.7%
Total	€177.4	219.9	24.0%

The model underestimates the actual cost in each year and by an increasing amount. This is particularly surprising given that the model would be expected to provide an estimate of the maximum cost each year. This indicates that the issue arises from the methodology and not just the growth that occurred in the market.

The problem arises because the model applies the known percentage of all houses in total sales that were new, to the known percentage of houses that were bought by FTBs. The hidden assumption in this methodology is that the propensity of FTBs to buy newly build houses is the same as the propensity of all purchasers to buy new builds. In other words, FTBs are no more likely to buy a newly built house than are all house purchasers, most of whom are not FTBs. This is not supported by the data.

Central Bank data show that in 2017, 26.3% of loans to FTBs were for the purchase of new properties. In the case of SSBs, 20.8% were for new homes. If it assumed that SSBs are just as likely to take out a mortgage when buying a new house as when build an existing property – in fact, it is probable that they are more likely to take out a mortgage when buying a new house – then FTBs were about 1.3 times as likely to buy a new house compared to SSBs. Calculations based on data for 2020 and 2021 indicate that this ratio rose to 1.4 and then to 1.6 in these years. In other words, FTBs are considerably more likely to buy new houses than in the case of SSBs. It is likely that the availability of HtB also made it more attractive to FTBs to buy a new house, rather than an existing one, provided one was available. No such incentive is present for SSBs. This ratio is likely to continue to rise as more new houses become available – thereby enabling more FTBs to buy new houses.

The projections were redone using the same data as in Table A1.2, but using Central Bank data for the proportion of new houses in all purchases by FTBs. The results are shown in Table A1.3.

Table A1.3: Revised Model Projections and Actual Costs of HtB (2017–19, €m.)

	Projection	Actual Cost	Difference (%)
2017	€56.4	51	–9.5%
2018	€60.7	70.8	16.6%
2019	€105.3	98.1	–6.9%
Total	€222.4	219.9	–1.1%

This revision to reflect the fact that FTBs are more likely to buy new-builds than are all purchasers results in a much more accurate calculation.

It could be argued that the projection was reasonably accurate, given the data that were available at the time. CSO data on the housing market, which are based on stamp duty filings, indicate that there were some considerable changes in this period. In 2015, the data show that just under 20% a total house sales were sales to FTBs. FTBs purchased 25% of all the new homes that were sold. In 2019, the total number of houses sold had increased by of 14% over 2015. However, the number sold to FTBs had increased by 42% over the 2015 number. As a result, FTBs now accounted for almost 29% of all sales. Furthermore, the portion of new builds that were sold to FTBs had increased to just over one-third of the houses on which stamp duty was paid in that year. In contrast to what is sometimes asserted, FTBs became a larger part of the new homes

market in this period and were able to acquire a larger portion of the additional output that was produced in 2019 than in 2015.

However, that the updated projections in Table A1.2 approximated the actual outcome in 2017 is most likely a coincidental outcome as two countervailing factors balanced. The model design will lead to a maximal projection as it does not take into account uptake or the eligibility requirement for the mortgage to be greater than 70% of the price. It also uses the upper house price in each band to represent the average price of houses bought in that band. This balanced the impact of the implicit assumption that FTBs are no more likely than SSBs to purchase new homes, which would reduce the cost estimate. However, over time it is to be expected that the impact of the first set of factors would reduce in importance as the increase in output of new houses, plus the HtB scheme, would enable more FTBs to begin to buy and to concentrate their buying in new houses. As a result, this factor would become more of an issue with the result that as the scheme grew in importance it would exceed the projections.

Conclusion

In summary, the large growing divergence between the expected annual cost of the scheme and its actual cost was seen even before the 2020 enhancement. This analysis shows that this was a combination of two factors. The first relate to market developments. Of most importance are the growth in the number of FTBs who could avail of the scheme as the output of houses increased and the increase in house prices. The projection model did not include any element to allow for these increases. The second is that there is an implicit assumption in the model that FTBs are no more likely than SSBs to purchase new houses. This is not supported by the data, particularly as HtB provides a strong incentive to buy new houses and as these became available in this period.

It is surprising that the model did not include any growth factor. After all, the output of new houses in 2015 was particularly low and it should not have been assumed that this would persist. Furthermore, prices had begun to rise at that time. This may have been based on an assumption that the output was a maximal estimate for reasons discussed above. However, the implicit assumption meant that this proved not to be the case and there is an inbuilt mechanism that would lead outcomes to exceed initial projections quite quickly.

This is indeed the case as the cost grew rapidly to exceed the initial projection of €40 per annum. When the model is revised to remove the assumption and recalibrated using actual data for these years, the estimates are close to actual outcomes.

The implication of this analysis is that greater care needs to be taken when appraising tax expenditures before they are introduced. That outcomes will inevitably diverge from projections is an unavoidable hazard. However, this should not be because of unsupported assumptions in the model that is used for the projections. This is particularly important where there are known risks with the intervention and, in this case, where the impression that *'the scheme is a relatively limited measure'* was used as a reason to discount the potential impact of these risks in subsequent appraisals. This argument was based on a projected total cost of €130 million (€50 million for 2017 plus €40 million per annum for a further 2 years) the original time horizon for the scheme. It is not known if a similar argument would have been made for a scheme that cost almost 75% more than expected in its first three years, and was subsequently extended so that the cost is likely to reach €740 million, 5.7 times its original estimate, by the end of 2022.

Appendix 2: Specification of Econometric Model

The Hedonic Approach

The econometric analysis in Chapter 5 of this report uses a hedonic price model, also known as hedonic demand theory or hedonic regression. This methodology recognises that many marketed products, such as a house, are actually a package, or combination, of goods each of which contributes to the overall value of the product. It attempts to split the product into its constituent parts, or qualities, and estimate the value of the characteristics of the product that indirectly affect its market price. As a result, it is particularly useful for time series analysis where the constituent elements of a good may be changing over time. The method can be used in a range of applications, such as consumer and market research (e.g. Hirschman and Holbrook, 1982), calculation of consumer price indices (e.g. Moulton, 1996), tax assessment (e.g. Berry and Bednarz, 1975), the valuation of cars (e.g. Cowling and Cubbin, 1972), computers (e.g. White et al, 2004), and housing. The housing data used in this research comes from a national dataset of real estate listings from the property website *daft.ie*. The *daft.ie* listings, which cover the period 2010–2022, capture the national market in its entirety, with the company estimating its coverage to be over 95% of all listings in the Irish market. There are just under 500,000 observations used in this analysis.

Key property-level attributes for inclusion in a hedonic housing price model include the property's type, size and location. Property type includes two categories, each with sub-categories: houses (terraced, semi-detached, detached and bungalow) and apartments (regular and duplex), also whether the listed dwelling is new or second-hand. Size is measured in Ireland by the number of bedrooms (and bathrooms) and floor area in square metres. The Building Energy Rating (BER) of the dwelling is also included.

Based on a dwelling's location, it can also be assigned one of 312 micro-markets, which are real estate market segments, manually constructed based on geographic, demographic and economic factors. These are considered to be the main qualitative factors that determine the price of a house and how it is changing over time.

The aim is to construct a price index for new and used homes, for five different regions (Dublin, other cities, Leinster, Munster, Connaught/Ulster). An interaction term was included in the model specification in respect of each of these dimensions to achieve this. The three interacted variables were thus:

1. A dummy variable for whether a home was new or second-hand
2. A half-year categorical variable
3. A categorical variable representing the five regions of interest

The model uses ordinary least squares and a semi-log or log-log specification (depending on the variable), as is typical in this type of study. Allowing for the long duration of the sample, and the focus on new dwellings, the baseline specification the value of a dwelling then takes the following form:

$$\text{Listed Daft.ie Price} = f(S, L, T) + \varepsilon,$$

where the natural log of the dwelling's price is a function of the dwelling's structural characteristics (S ; such as type of property, new or second-hand, number of bedrooms, bathrooms, size in square metres, and energy rating), its location characteristics (L ; micro-market in which it is located) and the time it was listed (T ; half-year categorical variable).

The error term, ϵ , reflects the gap between the predicted and actual (listed) prices. The dwelling price is thus a function of all attributes relating to the dwelling and the resulting coefficients are the implicit marginal prices of the attributes.

The estimated coefficients from this model are therefore the price index, by half-year for new and second-hand homes, in the five regions of Ireland. The output provides the hedonic model results that are illustrated in Chapter 5.

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Appendix 3: Scoring of Policy Options

The element of the MCA dealing with the relative effectiveness of different policy options elicited extensive and wide ranging discussion on the various options. Some of this reflected perceived weaknesses in the policies, particularly in the design of Croí Cónaithe. There was not full consensus on this and the comments below summarise those opinions that received general support from the panel and that were used to determine preferences and the scores awarded. Having said this, it is likely that this issue reduced the scores awarded to the Croí Cónaithe option.

The policy options being assessed are:

1. The First Home and the Local Authority Affordable Purchase **Shared Equity** schemes.
2. The **Croí Cónaithe** 'Cities' and 'Towns' schemes subsidy schemes.
3. The enhanced **Help to Buy** scheme.

The scores awarded are shown in Table A3.1.

Table A3.1 : Scores Awarded to Policy Options in MCA

Criterion 1: Impact on Supply of Housing Units			Calculated Inconsistency Rate: 0.02
Options	Preference	Score	Reasoning
A:B	A	2	The panel had a slight preference for the Shared Equity schemes as they apply to a wider range of housing units.
A:C	C	3	HtB was preferred because of its simplicity and the fact that it is already in place. However, if Shared Equity was already in place the preference would likely be reversed.
B:C	C	4	Similar arguments apply and there is a perceived weakness in Croí Cónaithe – developers need assurance that LDA will purchase any surplus – that needs to be addressed to realise its full potential.
Criterion 2: Beneficial Impact on Affordability			Calculated Inconsistency Rate: 0.05
A:B	B	2	The panel found it difficult to identify a preference but B was slightly preferred as A will imply repayment at some future date and Croí Cónaithe includes provisions to ensure that houses will be closer to employment and transport thereby reducing other costs.
A:C	A	6	A will have a greater impact for any property above €200,000, which is almost all properties, simply as a result of the calculations.
B:C	B	6	Since A and B reduce costs by a similar amount a similar argument applies.
Criterion 3: Positive Impact on Ownership			Calculated Inconsistency Rate: 0.02
A:B	A	2	There are two competing factors: the cultural preference for full ownership and the higher costs of owning an apartment. The panel concluded that full ownership is not the key factor for younger age groups so that there was a slight preference for A.
A:C	C	4	HtB is key to getting onto the ownership ladder. The real value will be seen when both policies can work together.
B:C	C	5	HtB definitely has a greater potential impact due to its wider application for purchasers and developers.

Criterion 4: Alignment with Socioeconomic Policies			Calculated Inconsistency Rate: 0.00
A:B	A/B	1	A is marginally more targeted at lower income levels but B is better at achieving a mix of tenure in developments. The different strengths meant that there was no overall preference expressed.
A:C	A	5	A definite preference for A as HtB has regressive aspects. It is not targeted in respect of purchasers' incomes or house prices and the people who benefit most are on higher incomes who have paid most tax and can buy houses up to the quite high price cap.
B:C	B	5	Similar arguments to above arise. In addition, HtB is not conditional in respect of spatial location.
Criterion 5: Long term Impact on Market Balance			Calculated Inconsistency Rate: 0.02
A:B	A	2	B might have greater potential but not as currently designed. Result is a slight preference for A.
A:C	A	3	HtB isn't designed to be a long term intervention and a long extension could undermine its impact. Qualifying for an adequate mortgage is a greater long term issue than saving a deposit.
B:C	B/C	1	The panel were unable to reach a consensus. B has long term potential and is focussed on addressing income (LTI) constraint, but the risk of low take-up could undermine this potential.

The argument that Croí Cónaithe does not adequately address the risks that are faced by developers due to the lack of a 'back-stop' where the LDA would purchase units that are not sold was raised in respect of many of the deliberations. However, the focus remained on the policies as they have been formulated, rather than as participants might have desired them to be, and the scores reflect this.

Weighting the Criteria

The criteria were then weighted by means of a broadly similar process and the reasons for the scores were recorded. Overall, consensus was considerably easier to achieve as the focus moved away from views on the optimal design of policy to the process being followed in the MCA. The five criteria being weighted in terms of the importance that should be accorded to each in the MCA were:

1. **Supply:** The likely or potential impact of policies on the supply of new housing;
2. **Affordability:** The overall impact of scheme on the affordability of housing for FTBs;
3. **Ownership:** The medium term contribution of policy to increasing home ownership;
4. **Socioeconomic:** The alignment of schemes with wider equality policies and objectives;
5. **Balance:** The effectiveness of policies in balancing the market in the longer term.

The scores awarded are shown in Table A3.2.

Table A3.2: Weighting Scores Awarded to Criteria

Criteria	Preference	Score	Reasoning
1:2	1	2	Housing affordability is a wider issue than affordability for FTBs. Supply is the means to improve affordability.
1:3	1	4	Ownership is not a well defined objective for policy, it is not equitable for the lower income levels and is not that important for younger age groups and some others.
1:4	4	4	Wider socioeconomic goals transcend housing supply numbers. This is reflected in the National Spatial Strategy and other policies.
1:5	5	4	Avoiding long term volatility should be the key goal, not short term supply.
2:3	2	4	Ownership is a secondary aspect compared to ensuring housing affordability.
2:4	4	4	Ownership is less important than social equity.
2:5	5	5	Achieving long term balance in the housing market is definitely more important than achieving any particular level of ownership.
3:4	4	5	Ownership contributes to equality but is only a subset of what constitutes social equality.
3:5	5	5	Long term balance is a more important goal than ownership.
4:5	5	5	Achieving socioeconomic equality requires avoiding housing market volatility and ensuring adequate housing and this requires long term balance in the market.

When these scores were put into the MCA model, they produced the weightings shown in Table A3.3.

Table A3.3: Weightings Applied to Criteria in the MCA

Criterion	Weight
Supply	0.130
Affordability	0.098
Ownership	0.047
Socioeconomic	0.251
Balance	0.474
Total (must = 1)	1.000

The values in this table were applied to the results provided when the scores for the various options were put into the model to provide the final scoring and ranking as shown in the text.

Mazars,
Block 3 Harcourt Centre,
Harcourt Road,
Dublin 2,
Ireland

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