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The Housing Aspirations and Preferences of Renters

IGEES Research Paper - March 2019

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Prepared by the Department of Housing, Planning and Local Government and the
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Irish Government Economic & Evaluation Service

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The views expressed in this paper are those of the authors and should not be regarded as an official position of the Irish Government Economic and Evaluation Service, of the Department of Housing, Planning and Local Government or of the Department of Finance.

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Executive Summary

The survey was conducted in August 2018 and had 750 respondents.

Homeownership is a tenure goal of a majority of respondents. 86.5% of respondents expressed a preference for homeownership. Household sovereignty, stability and planning for life-cycle events such as the raising of children and retirement seem to be important motivations. Certain financial considerations are also important, however the tax efficiency of homeownership seems relatively secondary.

Motivations associated with renting, such as choice and mobility, were not widely held to be major reasons to rent. Many respondents reported that they rented because they could not yet, or ever, afford to purchase.

The median respondent was willing to pay a premium of 20% to own a given residential unit than to rent the same unit. A quarter of respondents were willing to pay a premium of 40% or more. Respondents were also willing to undertake considerably extended commutes in order to achieve homeownership.

The median private rent reported by respondents was €700 per month. The mean was €787 per month.

The mean commute time among respondents was 28 minutes. 59.6% of respondents commuted by car.

53.2% of aspirant owners indicated a preference for the Greater Dublin Area.

Respondents indicated a marked preference for three or four bedroom houses.

The relatively large proportion of respondents who were living with family may, in part, be a response to price inflation in rental markets, and may also be the result of individuals seeking to maximise deposit savings.

Some respondents demonstrated what appears to be poor appreciation of the risks associated with excessive housing costs as a proportion of disposable income.

Most respondents expect home purchase and rental prices to increase over the next 10 years.

The most pressing housing related concerns among respondents were those related to the future prices of rents and mortgages.

Many of the findings of this project have policy implications, for instance:

- Given geographic preferences and the strong inclination toward houses over

apartments, demand for housing subsidies targeting first-time buyers may persist or strengthen;

- The preference for three and four bedroom houses and a willingness to undertake lengthy commutes to attain homeownership has implications for the attainment of compact growth and greater urban residential density. Housing markets, if unconstrained, may disproportionately lean toward development in urban peripheries;
- It seems unlikely that there will be wholesale changes in attitudes towards homeownership and renting in the absence of a rebalancing of the property rights associated with the different tenures; and,
- The willingness of some individuals to expose themselves to financial risk is a strong argument for the continuation of measures such as the Central Bank's macro-prudential regulation regime.

1 Introduction

This Research Paper is provided to communicate the findings of a survey of renters, which included an examination of renters' attitudes towards housing tenures. The sampling method used was a simple random sample; 750 respondents were contacted by telephone. The response rate was 52.7%.¹ All respondents were in the age range 25-49,² were renting in the private market, from a local authority, or were living with parents or other family members.³ The survey took place in August 2018 and was administered by Ipsos MRBI. The survey was intended to explore the beliefs, preferences, and other characteristics of renters with a view to generating policy-relevant information and insights. Gaining a better understanding of the dynamics shaping the tenure decisions of households is important, especially when set against the backdrop of the growth in size and economic significance of the private rental sector in recent decades.

2 Profile of Respondents

53.6% of respondents were aged 25-34, which likely reflects the extent to which, for many households, rental tenure is a function of lifecycle. However, a considerable proportion, 10%, of respondents were aged 45 or higher. Table 1 sets out other principal demographic and educational characteristics of respondents.

Over 50% of respondents had a university degree. By comparison, Census 2016 reports that 23.5% of the population aged 15 or more had a bachelors degree or higher level qualification.

81.5% of respondents were active in the labour market. By comparison, Quarter 3 2018 labour market data indicates a labour force participation rate of 62.6% and an employment rate of 69.1%.⁴

¹Estimated, as calculated based on the proportions of refusals and non-contacts predicted to fall within the scope of the survey.

²By design, as the likelihood of gaining access to mortgage credit would seem to be low for persons aged 50 or more.

³The latter category was included to encompass potential home purchasers who are not formally renting.

⁴Central Statistics Office (2018) Labour Force Survey, Quarter 3 2018.

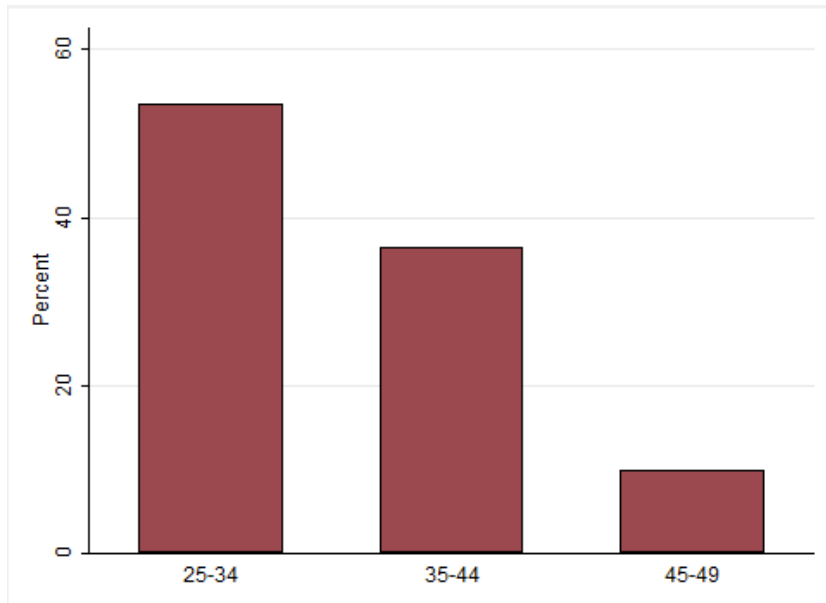


Figure 1: Respondent Age

Table 2 presents information on the housing status of respondents. Of note is the high proportion of respondents living with parents or other family. This may, in part, reflect a cohort which has returned to the parental home to divert expenditure from rental payments to deposit savings. Almost 36% of respondents not living with family were living in apartments. Over half of respondents not living with family were living in units with three or more bedrooms.

Table 1: Socio-Economic Characteristics

	%
<i>Gender</i>	
Male	57.3
Female	42.7
<i>Education</i>	
Primary or Lower	1.9
Junior / Inter Cert	4.8
Leaving Cert	15.3
Post-Leaving Cert	16.8
University Degree	36.0
Master's Degree or Higher	24.1
Don't Know	1.1
<i>Principal Economic Status</i>	
Working	81.5
Unemployed	8.1
Student	3.6
Home Duties	3.7
Retired	0.3
Unable to Work due to Permanent Illness or Disability	2.4
Other	0.4

Table 2: Housing Characteristics

	%
<i>Current Tenure</i>	
Renting Privately	63.1
Renting from a Local Authority	6.3
Living with Parents or Family	30.7
<i>Unit Type⁵</i>	
Studio Apartment	1.0
Apartment - 1 Bedroom	9.6
Apartment - 2 Bedrooms	20.0
Apartment - 3+ Bedrooms	5.2
House - 1 Bedroom	1.4
House - 2 Bedrooms	14.2
House - 3 Bedrooms	28.7
House - 4+ Bedrooms	20.0

⁵If renting privately or from a local authority.

43.7% of respondents were resident in Dublin. A further 9.7% were resident in other parts of the Greater Dublin Area.

Table 3: Relationships and Co-Habitation

	%
<i>Relationship Status</i>	
Single	47.2
Engaged or Long-term Relationship	21.3
Married	26.3
Remarried	0.4
Civil Partnership	0.3
Separated	2.5
Divorced	1.7
Widowed	0.3
<i>Co-habitation</i>	
Live with Children	31.7
Live with Spouse or Partner	45.6
Live with Other Family	30.7
Live with Others (Non-Relatives)	16.4
Live Alone	8.1

47% of respondents were single, having never been married. Almost one-third of respondents live with their children. Less than one-in-ten respondents lived alone.

Median monthly rental payments⁶ were €700, excluding respondents renting from a local authority, and averaged €787.⁷ ⁸ The distribution of rents is displayed in Figure 2, broken down for Dublin and non-Dublin respondents.⁹ The median rent reported by Dublin respondents was €900, that of respondents living elsewhere was €600.

⁶The top and bottom centiles have been omitted.

⁷Median and mean values are generally reported in this paper when considerably different, that is, in the presence of skewed distributions.

⁸The reported rents are considerably lower than the Residential Tenancies Board's standardised rent and can be explained by two factors. Firstly, the standardised rent is a measure of freshly registered rents, communicated to the Board during the most recent quarter, and does not therefore capture all rents. Secondly, the standardised rent is a household rent while respondents to this survey reported an individual rent.

⁹600 respondents provided monthly rental cost data. 277 were resident in Dublin, 323 elsewhere.

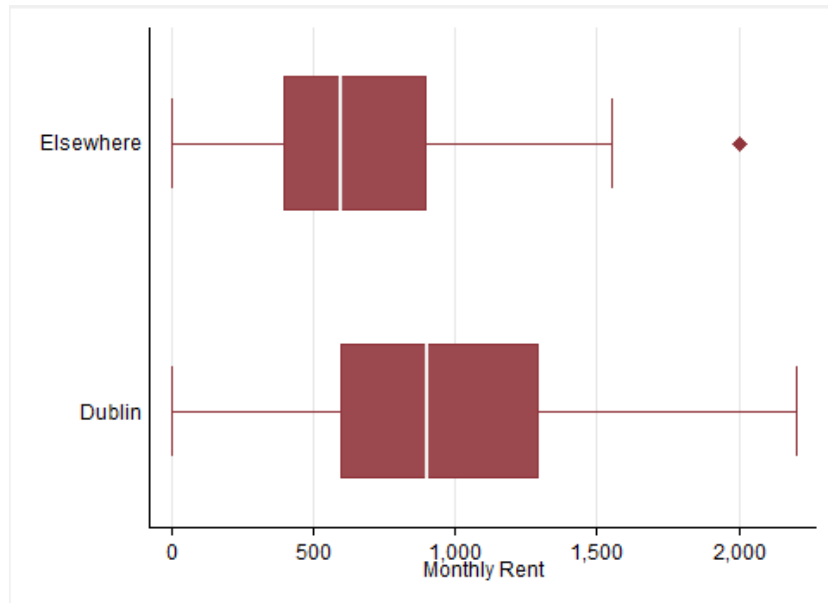


Figure 2: Monthly Rents for non-Local Authority Renters, Dublin and Elsewhere

3 Attitudes to Tenure Types

3.1 Homeownership

Survey respondents indicated a strong preference for homeownership. 86.5% of respondents agreed that “owning a home makes more sense because you are protected against rent increases and owning is a good investment”. Examining motivations in more detail, Table 4 sets out the degree to which respondents concur with some of the principal motivations for home ownership.¹⁰

73.1% of respondents identified themselves as Irish. The preference for homeownership over renting was very similar among Irish and non-Irish respondents.

Table 4: *Benefits of Homeownership*

¹⁰All 750 respondents responded to the statements set out in Table 4.

	Major Reason %	Minor Reason %	Not a Reason %
Owning means having a good place to raise children and provide them with a good education	73.3	16.5	10.1
Owners have a physical structure where they and their families can feel safe	78.0	16.3	5.7
Owning allows you to have more space for your family	70.3	19.9	9.9
Owning gives you control over what you do with your living space, like renovations	78.8	16.9	4.3
Owning is a good way to build up wealth that can be passed along to family	66.0	26.4	7.6
Owning allows you to live in a nicer home	48.8	34.0	17.2
Owning is a good retirement investment	69.3	20.3	10.4
Paying rent is not a good investment	75.5	15.9	8.7
Owning allows you to live in a more convenient location that is closer to work, family or friends	43.9	32.5	23.6
Owning a home provides tax benefits	23.1	42.3	34.7
Owning is a symbol of success or achievement	37.6	35.1	27.3
Owning motivates you to become a better citizen and engage in important civic activities	21.6	33.1	45.3

Several points are notable. Firstly, the strength of what seems to be a widespread preference for homeownership, despite the volatility in the housing sector in recent decades. Judging by the relative strengths of aggregate responses to the statements set out in Table 4, it seems that household autonomy is considered to be an important benefit. Stability and life-cycle events such as planning for the raising of children and retirement also seem to be highly relevant. Certain financial considerations are important, however the tax efficiency of homeownership seems relatively secondary.¹¹ Social cachet and community-oriented motivations would seem to be relatively unimportant.

80.8% of respondents, when growing up, had parents who owned their own home, which reflects higher levels of homeownership in the past. Respondents' aspirations may be anchored in the tenure experienced during their formative years.

¹¹Homeownership, arguably, is more tax efficient due to the non-taxation of imputed rent and the wider tax treatment of primary residences.

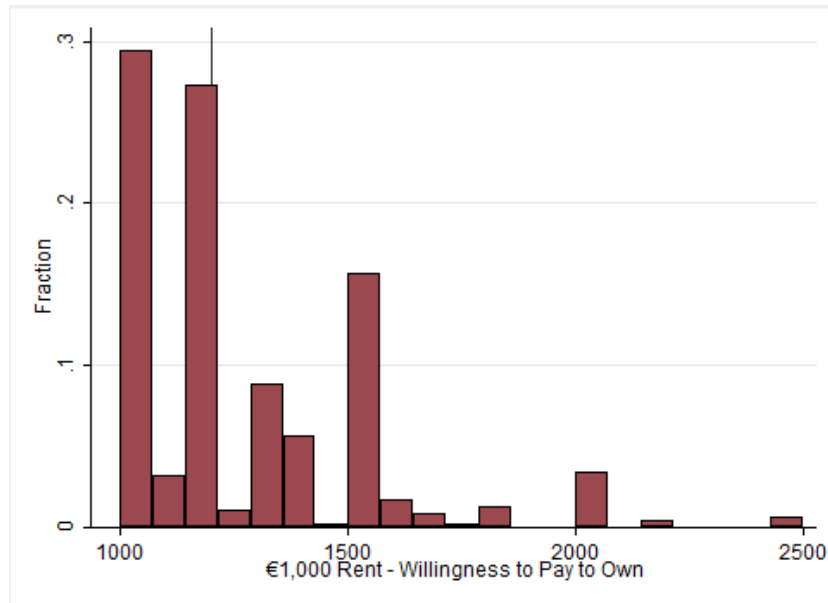


Figure 3: Willingness to Pay to Own

Respondents were asked “if it costs €1,000 to rent a home, how much would you be willing to pay each month to own that home?” The median response was €1,200 however, as described in Figure 3, there was considerable dispersal among respondents. 25% of respondents were willing to pay €1,400 or more to own.

3.2 Renting

13.5% of all respondents agreed that “renting a home makes more sense because it protects you against house price declines and is a better deal than owning”.

121 survey respondents indicated they expected to be renting privately in the medium to long-term. These respondents were asked to provide their views on the motivations and constraints determining their likelihood to be long-term renters, which are set out in Table 5.

Table 5: Motivations and Constraints associated with Long-term Renting

	Major Reason %	Minor Reason %	Not a Reason %
I do not plan on living in the same area indefinitely	34.7	35.5	29.8
The ability to live in a certain type of property that I could not buy	33.9	38.8	27.3
The ability to live in a certain type of area where I could not buy	46.3	36.4	17.4
Because I don't plan on living in Ireland indefinitely	21.5	30.6	48.0
Because I will never earn enough to afford to buy the type of property I want	62.8	21.5	15.7
Because I will never have enough savings to afford to buy the type of property that I want	71.1	18.2	10.7

Some respondents indicated a preference for the flexibility provided by renting. A majority indicated that savings and earnings constraints are the primary factors shaping respondents' expectations.

4 Aspirant Owners

252 respondents indicated that they are currently looking for a home to buy or that they expect to begin to do so within 2 years.¹² 33.3% of these active aspirant owners indicated they intended to purchase alone; almost all of the remainder indicated they intended to purchase with a spouse or partner.

Aspirant owners indicated the price categories of the homes they anticipated they will purchase. As described by Figure 4, just under 60% anticipated purchasing a home for less than €300,000. Just over 17% anticipated purchasing a home priced at €400,000 or higher.

Price expectations did vary considerably depending on whether respondents were resident in Dublin or elsewhere; the median Dublin-resident expected to buy a house in the range €350-399,000 while the median non-Dublin resident expected to buy a house in the range €200-249,000.

¹²Certain survey questions were asked only of active aspirant owners, as these questions had limited relevance to other groups among the wider sample of 750. Hence the lower number of responses reported in this section.

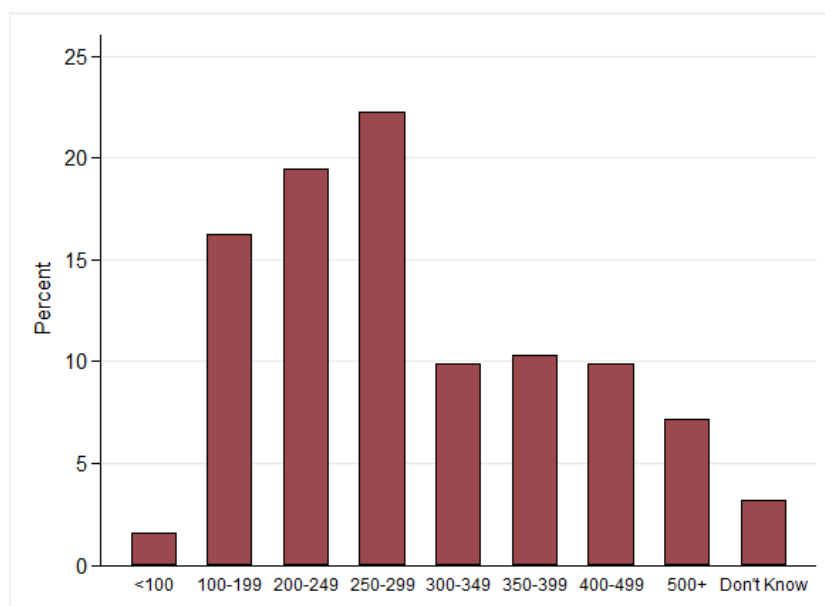


Figure 4: Purchase Price Expectations among Aspirant Owners, €0,000s

Asked whether they were likely to buy a house or apartment, 84.5% indicated a likelihood that they would buy a house, 6.4% an apartment and 9.1% stated ‘either’. Male respondents expressed a stronger preference for houses than females, however this difference was not found to be statistically significant. 39.3% indicated a preference for Dublin, while a further 13.9% indicated a preference for other parts of the Greater Dublin Area.

57.1% of respondents indicated that they plan to purchase a three bedroom home. 24.2% indicated that they plan to purchase a four bedroom home. 15.1% indicated that they plan to purchase a two bedroom home.

27% of aspirant owners reported that they were mortgage approved. 92% of respondents¹³ indicated they intend to fund their home purchase using a mortgage.

Excluding respondents who answered that they did not know¹⁴, 33.7% of respondents indicated that they intend to use a mortgage to fund 69% or less of the price of the home they expect to buy. 4% of respondents indicated that they expect to use a mortgage to fund greater than 90% of the price of the home.

58.4% of respondents expected to take a fixed rate mortgage, 16.5% a variable rate and 25.1% did not know. Respondents were asked for an estimate of the typical

¹³196 respondents provided an answer to this question.

¹⁴47 of 252 respondents, or 18.7%.

variable interest rate for a mortgage. 39.1% did not know, 25.9% stated that the typical rate fell between 3.1 and 4.0%, while 12.8% stated that the typical rate fell between 2.1 and 3.0%.¹⁵ The relatively high numbers of aspirant owners who were uncertain of typical interest rates, or who over- or under-estimated typical rates, perhaps raises the question of whether homeownership aspirations among some respondents are realistic.

93.9% of respondents¹⁶ stated that they expect to fund the deposit required to purchase a home using savings, while a further 27.0% stated that they expect to fund a deposit using a tax refund such as the Help to Buy scheme. 17.9% expect to fund using a gift or loan from family. The mean monthly savings towards a deposit was €1,007.

Respondents were asked how much more they intend to save to reach their deposit target. The median response was €20,000, the average was €33,492. Given savings rates, aspirant owner respondents were typically 2.5 to 3 years from achieving their deposit savings targets.

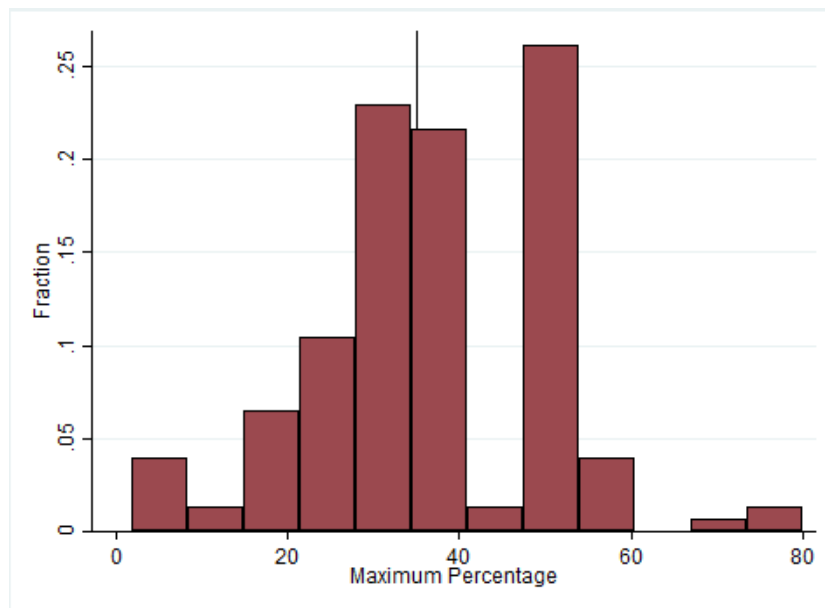


Figure 5: Maximum Percentage of Income Dedicated to Mortgage Repayments

Respondents were asked the maximum percentage of their future net income they would be willing to spend on mortgage repayments. Figure 5 describes the

¹⁵At the time of the survey, typical interest rates offered to first time buyers by the major banks were in the approximate range of 3.0% to 4.0% for a 90% loan-to-value mortgage.

¹⁶196 respondents provided an answer to this question.

response. The median response was 35%. Almost one-third of respondents stated that they would be willing to spend 50% or more of their future net income on mortgage repayments.

5 Long-term Renters / Non-Purchasers

Those respondents who did not expect to purchase a home in the future were asked about their tenure expectations in 10 to 15 years. 29.1% expected to remain renting in the private sector, 17.6% expected to be renting from a local authority, 4.9% expected to be living abroad, 6.1% expected to be living with parents or family, 30.9% expected to be homeowners and 11.5% did not know or answered 'something else'. The 30.9% who expect to be homeowners may anticipate attaining homeownership via inheritance.

Among those respondents who indicated that they expect to be renting privately in the medium to long-term, 11.6% indicated a preference for renting while 85.1% indicated that they would prefer to own a home but felt that this would be unlikely. 27.3% of medium to long-term renters were actively searching for another rental property when surveyed.

6 Expectations & Concerns

Respondents were asked about price expectations. 58.7% believed that house purchase prices would be higher in 10 years than at the time of questioning, 21.5% believed house prices would be lower, 14.7% believed prices would not change and 5.2% stated that they did not know. Regarding rental prices, 62.4% believed they would be higher in 10 years than at the time of questioning, 19.5% believed they would be lower, 15.2% believed prices would not change and 3.0% stated that they did not know.

Among those respondents who expected house and rent prices to increase, 56.4% expected rents to increase at a faster pace than purchase prices. Among those respondents who expected house and rent prices to decline, 38.0% expected house prices to decline at a faster pace than rents, 21.8% expected the converse, and 31.5% expected house and rent prices to decline at the same pace.

Respondents who intended to fund a purchase using a mortgage were asked about their income expectations. 55.0% of respondents expected their income to increase by more than 10%, a further 28.3% expected their income to increase by

less than 10%. 1.1% expected their income to decrease by more than 10%, 12% expected their income to remain unchanged and 3.9% stated that they did not know.

Aspirant owners were asked about their interest rate movement expectations. 57.2% expected that variable interest rates will be higher in 5 years' time, 19.8% expected that variable interest rates will be lower and 13.2% expected that rates would be the same. 9.9% stated that they did not know.

The survey sought to explore the degree to which respondents were concerned about future housing-related risks or circumstances. All 750 respondents were asked about their concerns; the responses to these questions are set out in Table 6.

Table 6: Concerns Related to Housing

	Very Worried	Fairly Worried	Not Very Worried	Not At All Worried
	%	%	%	%
That the cost of renting will become too high or unaffordable	44.7	28.8	13.7	12.8
That you will not be able to live in your current property for as long as you wish	28.0	20.4	22.8	28.8
That future mortgage costs will become too high or unaffordable	42.5	31.1	14.4	12.0
That you may have to live in an area where you would prefer not to live	31.9	29.7	19.5	18.9
That you may have to live with parents or other family members	21.5	12.7	22.9	42.9

The strongest concerns seem to be those relating to future prices, of renting and of future mortgage costs, although a considerable degree of disquiet was expressed in respect of each of the five potential concerns, with the exception of the possibility that respondents may be forced to live with parents or other family members.

7 Commuting Patterns & Tolerance

606 employed respondents provided details of their commute types. 59.6% commute by car, 16.2% use public transport, 14.7% walk and 6.8% cycle. The remaining 2.8% either have no regular place of employment, commute some other way, work from home or have transport provided by their employer.

The mean single-journey length in minutes was reported by respondents to be 28 minutes. Almost 12% of respondents reported single-journey commute times of 60 minutes or more.

Employed, aspirant owner respondents¹⁷ were asked “what is the longest you would be willing to travel between a home that you own and your place of work?”;

¹⁷122 respondents.

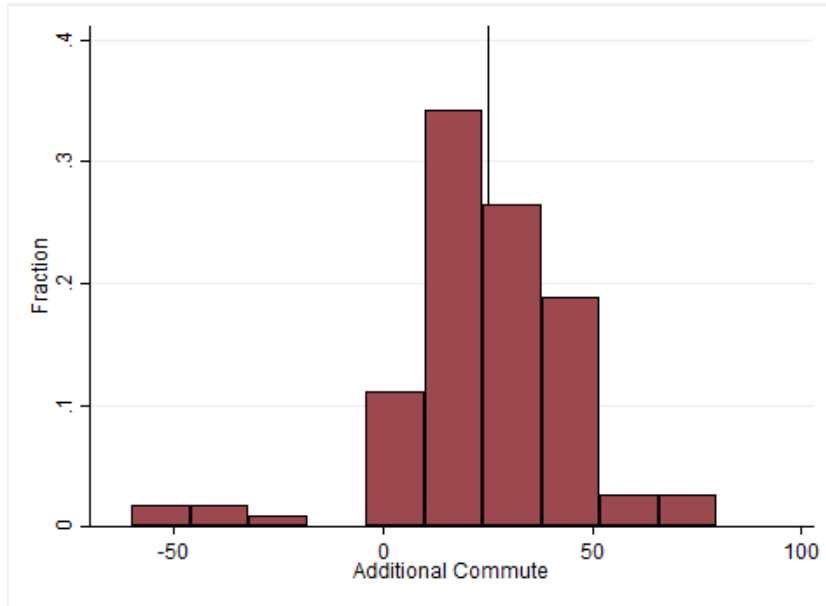


Figure 6: Willingness to Absorb Extra Commute to Own, Minutes

the mean response was 49 minutes. 43.4% of respondents were willing to commute for one hour or more.

The survey responses permit a calculation of the additional single-journey commute time, over and above their current commute, which employed and aspirant owner respondents would be willing to undertake in order to achieve homeownership, which is described by Figure 6.¹⁸ The mean additional single-journey commute was 23 minutes. 41% of respondents were willing to undertake an additional commute of 30 minutes or more. A small number of respondents were willing to buy only if their commute times were to reduce.

8 Experimental Results

The survey included an experimental component, intended to identify or explore behavioural aspects relating to tenure choice, affordability, commuting time and unit-type preferences. Each respondent was randomly assigned to one of three groups; the first in which respondents were told that their commute times stayed as they were, the second were told that their commute times would halve and the third were told that their commute times would double. Based on his or her

¹⁸117 respondents.

assigned commute time, each respondent was then asked to signal their likelihood of buying and of renting a home under four other circumstances; whether the home would be a house or apartment, and whether the cost of the home would be one-third or half of their disposable income.

As such, each respondent provided a likelihood under eight conditions. We intend to undertake a detailed Analysis of Variance examination of the experimental results, which will be the subject of a further IGEES Research Paper. Preliminary analysis indicates that some aspects of the experimental results may be of interest, for instance:

- There is evidence of loss aversion, in that respondents were considerably more sensitive to time losses than to time gains arising from changes to commute times;
- Echoing other components of the survey, respondents again signalled a relatively pervasive preference for purchasing over renting, and for houses over apartments; and,
- Respondents indicated a strong risk tolerance with respect to the level of financial obligation they were willing to assume in order to become homeowners.

9 Conclusion

Principal findings of the survey include the strengths of the preferences among respondents for homeownership over renting, for houses over apartments, and for three and four bedroom houses over other unit types.¹⁹ Wholesale changes in attitudes towards homeownership and renting may be unlikely in the absence of a rebalancing of the property rights associated with the different tenures.

There are also implications for spatial development in that market dynamics, if unconstrained, seem likely to result in pressure for excessive development in peripheral urban areas and thereby challenge the policy impetus toward greater density.

Respondents demonstrated a willingness to pay to achieve homeownership relative to rental, financially and also in terms of a willingness to absorb relatively

¹⁹The strength of the preference for three and four bedroom houses could be due to several factors such as familiarity, perceptions of the quality of the existing apartment stock, well-grounded comparative judgements, or deep-seated preferences. Exploring such preferences would be a worthwhile research endeavour.

lengthy additional commute times.

In most cases those respondents who judged themselves likely to be long-term market renters did so on the basis that they would be unable to afford homeownership, as opposed to making a positive choice based on perceived benefits of renting. Given respondents' preferences for the security, certainty and autonomy associated with homeownership, it seems likely that these preferences will be expressed politically in the form of persistent, and perhaps strengthening, demand for subsidies in one form or another.²⁰ Such demand could potentially compete for scarce resources which could be allocated to meet other housing policy goals, such as the provision of social housing.

The willingness of some individuals to expose themselves to what may be regarded as excessive levels of financial risk to attain homeownership is a strong argument for the continuation of measures such as the Central Bank's macro-prudential regulation regime.

The proportion of respondents reporting that they lived with parents or other family may indicate a modification of what might be regarded as a typical tenure transition, in urban areas in particular, from parental home to rental to ownership. This may be due to escalating rental costs and may also reflect efforts by respondents to maximise deposit savings. In any event it may be the case that housing market conditions are driving changes to habitation patterns.

²⁰Policy mechanisms intended to support attainment of home ownership currently include the Help to Buy Scheme, the Rebuilding Ireland Home Loan and affordable housing delivered by local authorities.