Property Industry Ireland
Ibec

# The Irish Equity Loan

Supported Home Ownership
for the Locked-Out Generation
and the Returning Diaspora

**Discussion Report** | JUNE 2020

## Our Vision

A sustainable Irish Property Industry which is creative, responsive, competitive and well integrated in meeting the socio-economic needs of all the stakeholders in the built environment.

## Our Mission

To be the trusted partner and provider of “evidence based” information, policies and strategies for the property industry at National level, to the Oireachtas, Government, Local Authorities and Agencies, and for the benefit of the people of Ireland.

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# Contents

# Background

We need to shift up a gear in Irish housing and deliver a minimum of 140,000 new homes up to the end of 2024, of which up to 50,000 are likely to be social housing. This document seeks to address how a portion of the balance could be provided.

# Background

## We need to shift up a gear in Irish housing and deliver a minimum of 140,000 new homes up to the end of 2024, of which up to 50,000 are likely to be social housing. This document seeks to address how a portion of the balance could be provided.

The dearth of apartments in the Irish housing stock has been highlighted and this paper addresses this as well as the broader issue of densified housing. Our cities in the 20th century developed in a low-density fashion, often working around geographical restrictions. Moreover, for generation after generation, unlike more affluent countries, we exported many of our young people, which eased the pressure in earlier decades to densify our cities.

Our cities, and Dublin in particular, are not the only cities on the globe to have a housing crisis. Paradoxically, the more successful a city seems to be from a distance, the greater the crisis.

A common characteristic of the global housing crisis in prosperous cities is that a combination of land shortages, increased regulation and a limited supply of personal credit, means that generation Y has become the 'Locked-Out Generation' in terms of housing accessibility. Moreover, the Covid-19 crisis has shown that the Irish diaspora has never been closer to us, and the indications are that many of them wish to return home. They are more likely to return if they have a stake in their own future with some form of home ownership.

Dublin in particular needs to look to other cities such as Copenhagen, Cambridge and Norwich for inspiration in terms of alternative means of densification, such as highly densified 2/3 bedroom own-door houses intermingled with apartments, currently being researched separately by Property Industry Ireland.

This document acknowledges and embraces the fact that a significant part of the supply has to come as social housing, but also that home ownership in our cities should not be put beyond the reach of many of our citizens. For the Locked-Out Generation and the returning diaspora, the opportunity to own a home in the city in which they live, is at present a lofty aspiration for many. This concept of supported ownership is a proposed policy response to meet the needs of this generation.

The proposals contained in this paper address in detail how such a scheme could work.

### At its core, it is a model that has been designed to increase accessibility to urban housing.

The challenge for all stakeholders with the genuine and authentic objective of meeting the economic and social aspirations of this generation, is to reduce development costs and increase viability, without, in the long-term, leading to any unforeseen consequences, such as inflation.

Everybody counts, and the more every individual can control their own destiny, the better it is for people's all-round wellbeing.

The combination of the economic crash and its consequences, followed a decade later by the Covid-19 pandemic, has rocked the hopes of this generation. We need nothing short of significant policy responses to restore hope, to deliver forms of accessible housing and preserve the resources of the Exchequer to be expended on those who need it most.

01

# Executive Summary

Through this scheme, the State will facilitate the aspiration of home ownership.

# Executive Summary

## A significant proportion of Irish households are caught in a situation where their borrowing, and by extension, purchasing power is not sufficient to buy a new build home on key transport corridors and in urban centres.

This scheme is focussed on facilitating home ownership

This is evident when average CSO household incomes, combined with maximum borrowing limits are compared to the entry level SCSI housing delivery costs, particularly for apartments and urban centre locations (as further detailed in section 2).

Of the 21,241 new homes completed in 2019, just 4,334 (approx. 20%) became homes for First Time Buyers. This relative lack of First Time Buyers' presence reflects primarily those individuals and families in this 'Locked-Out Generation' cohort who do not qualify for social housing supports and cannot afford a new A-rated home of their own.

Based on Revenue data, the Locked-Out Generation defined in this paper accounts for approx. 440,000 households in Ireland. A State supported solution, striking the right balance of fairness, is required for this cohort of society.

This scheme, potentially self-financing, is focussed on facilitating home ownership for those whose incomes mean that they are close to home ownership but, because of increased costs of housing and restrictions on borrowing, are unable to do so.

The challenges of the Locked-Out Generation are not unique to Ireland. Similar difficulties are evident in many jurisdictions globally. From the research conducted in drafting this paper, we have identified Homes England and its support schemes as the most relevant to the Irish residential market. The English equity loan scheme as detailed in Section 3, has been operating successfully since 2013 with more than 250,000 new homes supported by the scheme to date, many of whom were not able to purchase a new build home in advance of the scheme being implemented, which is a testament to its success. While similar to shared equity, an equity loan scheme is different and is demand-led.

*"...measures to increase access to wealth and home ownership for those on lower incomes should be an important part of Labour's third-term strategy for social justice." Yvette Cooper, Labour MP in 2005 in advance of establishing the Homes and Communities Agency which became Homes England.*

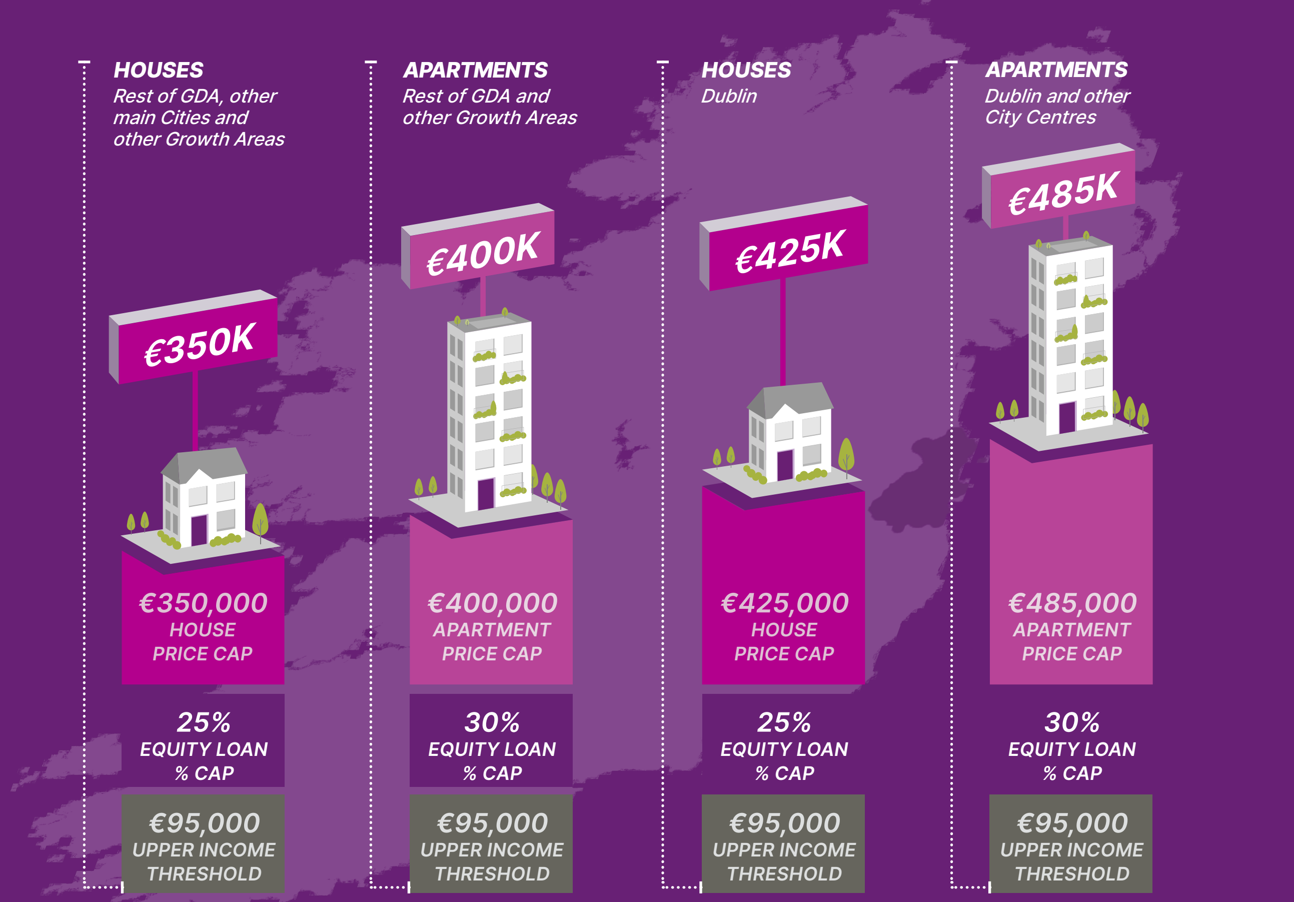
This paper outlines a considered and balanced equity loan scheme for Ireland. The structure is modelled on the experience of the Homes England scheme. However, this paper acknowledges that the Homes England scheme has some shortcomings, particularly its lack of qualifying criteria and that it is not focused on helping specific cohorts of household incomes. Therefore, the suggested Irish structure includes additional qualifying criteria to ensure it is appropriately focused on helping to create a fair society, while in parallel ensuring the scheme does not drive house price inflation.

**The Equity Loan Scheme criteria as detailed in Section 4.1 can be summarised as follows:**

- The scheme is for First Time Buyers looking to purchase a new build A-rated home.
- These purchasers must have household incomes below €95,000 and can apply to get an equity loan of up to 30% of the home value for the difference between the purchase price and the sum of their maximum mortgage borrowings and deposit.
- The purchasers must live in the home as their primary residence and cannot rent the property out.
- Home price caps and equity loan caps will differ for houses and apartments in recognition of the different development costs. This will also enable more people to purchase apartments, driving urban living as targeted in Project Ireland 2040.
- Home price caps and equity loan caps will also differ by region to ensure it is focused on areas where the Locked-Out Generation are most impacted.
- The equity loan is a 2nd charge loan on the property linked to the % of the home's value on purchase. The % value is fixed and the actual value of the loan moves, up and down, with the value of the property. This ensures an appropriate balance of benefit and risk sharing between the State and the citizen.
- There is no interest or mandatory principal repayment on the equity loan in Years 1 – 5. From Year 6, interest only is charged at small annual rate [1.1% suggested] on the equity loan's value but this is not indexed.
- The purchaser can pay back part or all of the equity loan at any time.
- Each purchaser must have borrowed at the maximum loan-to-income (LTI) threshold of 3.5 times income for their mortgage to then be entitled to an equity loan for what they need.
- Figure 1.1 details the suggested qualifying criteria. The home price caps are based on 2016 and 2017 SCSI housing delivery costs for new homes and apartments, adjusted for inflation.

**FIGURE 1.1**

## Suggested Qualifying Criteria



## A solution is required for the Locked-Out Generation

A key benefit of this scheme is that mortgage lenders/state agency will be obliged to inform First Time Buyers of their mortgage obligations and the long-term equity loan responsibilities when selecting a home to purchase, including the possibility that the value of the equity loan could decrease and increase. The varied preferences of households along with this information will lead to a wide range of home prices and corresponding equity loans being taken by purchasers, many of which will be significantly less than the capped amounts. In parallel, the housing industry will need to provide units which qualify for the scheme.

Through this scheme, the State will facilitate the aspiration of home ownership for many of its Locked-Out Generation citizens, many of whom would otherwise remain in the rental market. It avoids placing excessive financial pressures on these households in the early stages of home ownership and is structured to be consistent with the natural lifecycle of income increments over time. Furthermore, this paper shows that many households are currently paying significantly more rent than the combined cost of a mortgage and an equity loan.

The scheme carries no development risk and modest financial risk for the State as detailed in section 5.1. The equity loans remain State assets which purchasers repay over time making it a much lower risk to the State when compared to other housing support schemes. From the 1st charge mortgage lenders' perspective, the scheme has the advantage of getting more people into their own home without placing further financial strain on purchasers and in-turn ensuring no additional credit and lending risk is placed on the banks.

While the State has developed some affordable housing initiatives for State land, progress in delivering homes to middle income households has been limited. These initiatives are limited to State-owned lands and therefore will take considerable time to deliver homes at scale due to the inherent challenges in mobilizing, procuring and delivering homes on State land (further details in Annex 3).

In the short and medium term, a solution is required for the Locked-Out Generation. The equity loan structure leverages the functioning private sector led housing delivery platform in Ireland to give aspiring homeowners a time-realistic and credible pathway to home ownership. We recommend that focus group research is also implemented with prospective purchasers in parallel to obtain qualitative and quantitative input on the scheme.

We believe with equity loan funding of approx. €500m for an initial 2 years, 7,000 - 8,000 families from the Locked-Out Generation would be supported to purchase new homes who would otherwise not be able to afford a new home. The VAT, Stamp Duty and development levy contributions/ returns from 4,000 units a year could total approximately €256m.

Equity loan transactions would remain a small part of the overall market. In 2019, there were 45,112 second-hand transactions and 21,241 new homes completed. Assuming a long-run average of 40,000 second-hand transactions and achieving the target of 35,000 new home transactions including the additional 4,000 annual sales supported by equity loans, the equity loan sales would only represent 5.1% of the overall market. In parallel however, these 4,000 additional First Time Buyer homes annually would produce an impressive 92% increase on the modest 4,334 First Time Buyer purchased homes in 2019.

*In developing this policy paper, we have engaged across industry with a number of representative bodies including Homes England, BPFI (Banking and Payments Federation Ireland), IIP (Irish Institutional Property), IHBA (Irish House-Builders Association) and SCSI (Society of Chartered Surveyors Ireland).*

02

# Market Background

## The Locked-Out Generation

Over the next 5 years, the private and public sectors together will need to target 140,000 new-build homes across the social, private sale, rental and self-build categories.

# Market Background

## The Locked-Out Generation

From a macroeconomic perspective, the Department of Finance expect that Ireland's economy will contract by -10.5% and grow by 6.0% next year (Stability Programme Update (2020)).

There is a consensus that annual housing demand is between 30,000 - 45,000 per annum across all tenures and typographies. Over the next 5 years, the private and public sectors together will need to target 140,000 new-build homes across the social, private sale, rental and self-build categories. In 2019, 21,241 new units were supplied to the market of which only 4,334 were purchased by First Time Buyers ('FTB').

Affordability continues to be a challenge in the housing system. For many the Loan-to-Income limits of the macroprudential rules ('LTI') have made access to the new homes market increasingly difficult. This cohort of households who can neither afford to purchase a new build home nor qualify for State social housing supports are referred to in this paper as the 'Locked-Out Generation'. These individuals and families are core to a functioning economy, have modest average incomes, make their contribution to the State through the relevant PAYE and income taxes and in many cases fulfil really important roles in the public and private sectors of society, including those currently providing essential services during the COVID-19 crisis.

A component of the discussion is that some households on average earnings could pay back a mortgage but they are unable to purchase a new build home due to a variety of factors including availability of new homes, housing delivery costs and macro-prudential rules.

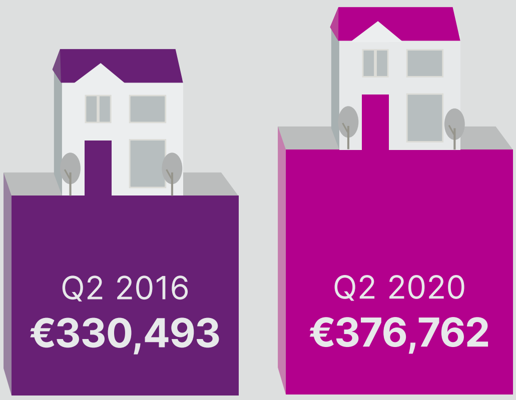
CSO data on earnings show that average individual annual income in 2019 was €40,248 up 3.6% on 2018. The CSO data also show that in 2018 the average income for a 2-earner household was 1.6 times that of a single earner household[1] making average household income €64,397. Applying the macroprudential loan-to-income (LTI) limits gives the average family an affordability level of €225,389 plus deposit, essentially €253,000, assuming the household has a 10% deposit saved.

1. CSO, Survey of Income and Living Conditions. This is based on mean disposable income. We have assumed a similar ratio for gross income.

A Society of Chartered Surveyors Ireland (SCSI) study from May 2016 determined the real cost of delivering an average 3-bed semi-detached house as follows:

FIGURE 2.1

## Housing Delivery Cost – Median Cost




*3 Bed Semi-Detached House*

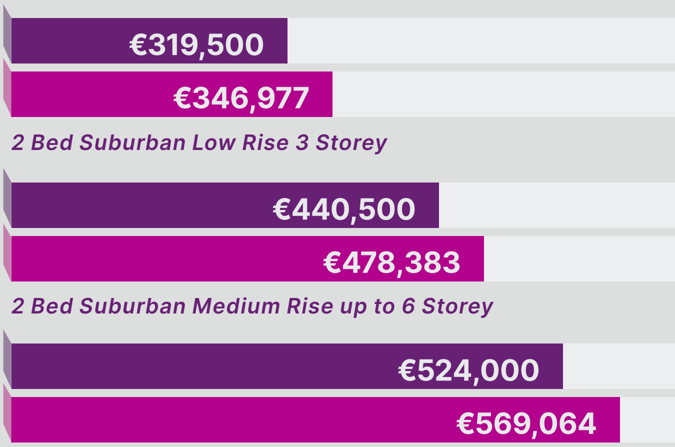
*May 2016 Date of Report* *Adjusted for Inflation*[2]

↘ These SCSI costs use a blended finance cost of 10% and an 11% risk and development margin. When compared to the CSO figures on purchasing power above, the affordability issue is clear for average households.

The SCSI also completed a study on apartment construction in October 2017 which found the average delivery costs as follows:

FIGURE 2.2

## Apartment Development Types – Median Delivery Cost




*2 Bed Urban Medium Rise up to 8 Storey*

*Oct 2017 Date of Report* *2020 Adjusted for Inflation*[2]

↘ These SCSI costs used a blended finance cost of 9% and a 15% risk and development margin. It is evident that the large majority of the Locked-Out Generation cannot even consider urban or suburban apartment living. This is a serious matter considering many of the sustainable planning policies surrounding urban and compact living as detailed in Project Ireland 2040.

2. *Inflation is calculated utilising the Tender Price Indices produced by the SCSI and applying this to 60% of the total delivery cost.*

FIGURE 2.3

## Revenue 2017 – Number of Income Cases by Type of Gross Income, Marital Status

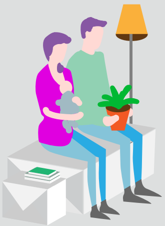
### Household Income

*Single, Widowers*

*Married/ partners - both earning*

*Married/ partners - one earning*

### Total Households 443,204



State intervention is now required to provide a housing solution to those households in the Locked-Out Generation.

From our analysis of Revenue tax data, there are approx. 440,000 households in the Locked-Out Generation with incomes between €50k and €95k per annum (Figure 2.3). Our analysis shows that the equity loan scheme suggested in this paper would initially enable 3,500 to 4,000 households per year from the Locked-Out Generation to buy their own home, while adhering to the LTI borrowing rules.

The Locked-Out Generation are counted within the total 'demand' side figures for housing but as these families cannot purchase at new home delivery prices, they fall outside what this paper refers to as 'Capable Demand' which counts home purchasers that have sufficient income and borrowing capacity to buy a new build property. Capable Demand is a key factor determining the number of new homes that will be supplied to the private housing market as it is used in the forecasts of homebuilders and their funders in determining viability.

As highlighted in a number of recent publicly released analyses, including the ESRI and the Central Bank of Ireland, supply of new homes in the short-term will be lower than was previously forecast. The impact of COVID-19 including the closure of sites, the necessary measures put in place to contain its spread and the future diminished financial circumstances of many more households will result in a decline in supply of new dwellings in 2020. PII analysis suggests that COVID-19 is likely to cause housing completions to contract to between 14,000 and 16,500 new homes in 2020 following sites reopening in May 2020.

State intervention is now required to provide a housing solution to those households in the Locked-Out Generation. This scheme, potentially self-financing, is focussed on facilitating home ownership for those whose incomes mean that they are close to home ownership but, because of increased costs of housing and restrictions on borrowing are unable to do so. Such intervention will increase the number of people capable of purchasing a new home.

Our analysis shows that the equity loan scheme suggested in this paper would initially enable 3,500 to 4,000 households per year from the Locked-Out Generation to buy their own home.

03

# The Equity Loan

## Benchmark Scheme

Help to Buy - Equity Loan Scheme in England was identified as the most appropriate benchmark.

# The Equity Loan

## Benchmark Scheme

### Numerous schemes globally were analysed and compared in an Irish context as part of developing this policy paper to increase housing affordability[3].

While there are many developed countries and cities globally that have affordability challenges, it became clear that the nuances of the Irish residential sector require that any benchmark scheme must be as closely correlated to the current Irish situation as possible; notably,

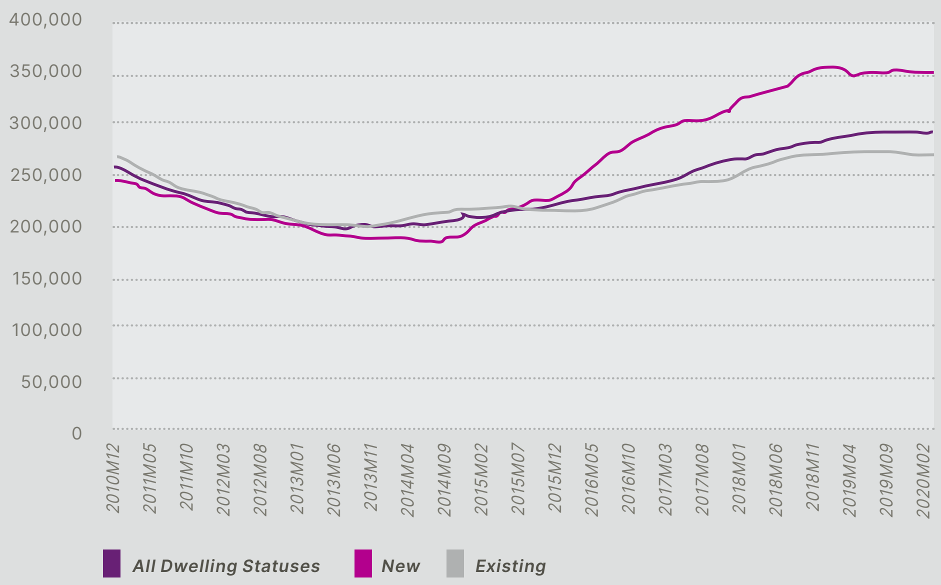
- the SCSI documented high cost of building new A-rated homes;
- the Central Bank borrowing limits on purchasers.

In that regard, the Help to Buy - Equity Loan Scheme [the 'HTB-EL'] in England was identified as the most appropriate benchmark for the following reasons:

- Similar housing typologies and purchaser preferences
- Similar market price premium of new homes over 2nd hand homes
- Two-tiered-location affordability of London vs outside London and how this mirrors the Dublin vs outside Dublin situation
- The overwhelming availability of data on the scheme and its implementation
- Its proven success and the learnings that have come out of the first 7 years of the scheme.

**FIGURE 3.1**

**National House Prices Ireland – 12-month average**




3. For example, a number of schemes were looked at in countries including UK, US, Canada, and Australia.

## 3.1 Background

"It's clearly helping those on moderate incomes to afford purchasing a home"

The HTB-EL scheme was introduced in Q2 2013 to provide 'access and affordability to would- be home owners', particularly those that could not participate in the market and to 'encourage additional homes to be built'.

Importantly, it is a demand, market-led scheme which in turn addresses some supply side issues, all while remaining within borrowing limits set by the financial regulator and the Bank of England.

As there is a cost and price premium to develop new build homes over and above 2nd hand home prices, the scheme encourages purchasers to acquire higher quality new build homes and reduce the average carbon footprint of the housing stock. Ireland is experiencing the same cost premium issue on new build homes.

### Summary of how the Homes England HTB-EL works

The scheme is applicable primarily for those for whom mortgage borrowing restrictions require the purchaser to have a significantly large deposit in order to buy a new home. The original scheme in 2013 was available to first-time buyers and existing homeowners.

The purchase price cap is £600,000 and the purchaser can take an equity loan of up to 20% of the home's price as long as they have a 5% deposit or more. The equity loan limit increases to 40% in London due to market price levels.

The equity loan is a straightforward 2nd charge loan on the property linked to the % of the home's value on purchase. The % value is fixed and the actual monetary value of the loan moves with the value of the property.

There is no interest or principal on the HTB-EL in Years 1 – 5. From Year 6, interest only is charged at an annual fee of 1.75% of the loan's value and is indexed annually. This adds a minimal interest payment to the purchaser and is intended to incentivise the purchaser to start to pay back the HTB-EL and increase the purchaser's own equity.

The purchaser can pay back part or all of the equity loan at any time and the smallest repayment is 10% of the market value of the home.

### The State's Perspective

The HTB-EL is a government loan product and is exempt from financial regulation in the UK as it is a restricted public loan. As a result, the loan is not considered in the macroprudential calculation from the purchaser's perspective. This also reduces the LTV of the 1st charge loans of the primary mortgage providers.

Despite this, the interest payment from Year 6 onwards is included in an 'affordability' assessment implemented by the Financial Conduct Authority at the time of issue of the HTB-EL. This is typically assessed up to a level of 45% of net household income. Homes England also engage with the Prudential Regulatory Authority (PRA) annually to review the scheme and its impact on affordability.

The scheme is funded by Treasury and is administered centrally by Homes England which is vital to its success and, due to their strong data, forecasting and budgeting each year has been well structured and accurate.

The main objective in England is to help its citizens to purchase a property while respecting and adhering to the macroprudential rules for the open-market loan portion of the property. Treating customers well is key to the scheme. See Annex 1 for further details on the roles and responsibilities in the scheme.

## 3.2 Analysis and Review

### Review by UK Government

The UK Government implemented a number of detailed analyses of the data on the scheme including the following which are publicly available:

- *October 2018: Ministry of Housing:* 'Evaluation of the Help to Buy Equity Loan Scheme 2017'[4]
- *June 2019: National Audit Office:* 'Help to Buy: Equity Loan scheme – progress review'[5]

### High Level Numbers

TABLE 3.1

#### HTB-EL Homes and Funding Committed

| YEAR | HTB-EL HOMES | FUNDING COMMITTED |
|---|---|---|
| 2013 | Launched | £3.5 Bn |
| 2017 [Actual] | 135,000 | |
| 2023 [Target] | 352,000 | £22.1 Bn |

A total of £11.7 Bn in HTB-EL equity loans were issued by December 2018 with 11% of this recouped in redemptions through purchaser repayments.

The UK Government is currently considering extending this scheme to help relaunch the new homes housebuilding market post the COVID-19 crisis.

Based on published statistics from the HTB-EL scheme across all of England:

- 81% are FTB
- 19% were second steppers/existing homeowners.

Some additional interesting statistics on First-Time Buyers using the HTB-EL include:

- 65% of the FTB are < 34 years of age
- 64% of the FTB are currently renting
- Majority borrowed at LTI between 4 – 4.5 on their 1st charge mortgage
- 56% would not have purchased new build without the scheme.

75% said it helped them enter the market.

### Effectiveness by Region

By 2017, HTB-EL supported homes represented almost 50% of all new build homes in England.

In London, it was as low as 16% of new builds, as many units exceeded the price cap and many purchasers had sufficient income to purchase without the HTB-EL.

It is important to note that despite this, HTB-EL purchased homes represented less than 4% of the total transacted homes [both new and 2nd hand] in the same timeframe and was less than 2% in London. As a result, HTB-EL transactions represent a very small proportion of the overall market and with this, it was found not to impact house price inflation any more than any other market driven factor.

*"Of the 8,813 equity loan transactions to buy new build homes in London, 98% of these purchasers were FTB"*

### Home Price Stability

The data from the scheme has enabled house price inflation (HPI) to be monitored more granularly to determine if movement in HPI is correlated to any of the government support schemes.

The data show that the HTB-EL does not drive local price premiums – further details are available in the review reports mentioned at the start of Section 3.2.

For example, in many areas where HTB-EL represented more than 70% of new builds, prices were flat.

Some of the key data from the Homes England review papers are included in Annex 1 for reference.

### Supply and Demand Additionality

The scheme has drawn in 37% new purchasers who could not buy a new build home before HTB-EL was introduced. Within this number most FTB in London area are buying 1 and 2 bed compact living properties.

*"In London and the South West, additionality is primarily FTB, 76% of whom are buying 1 or 2 bed properties"*

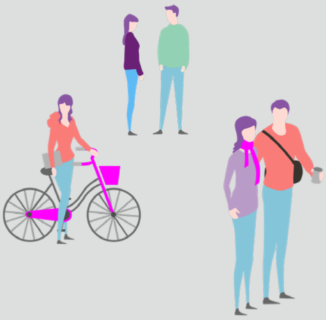
Output supply from private development is estimated to have increased by more than 16% because of Demand Additionality across the whole of England. The overall confidence that HTB-EL brings to the wider residential market is likely to be greater than this. It is important to note that there is no minimum or maximum % of HTB-EL that can be issued on a particular scheme or site as it is market-led.

### Conclusions

The success of the market-led scheme rather than an affordable income subsidy is seen by the UK government as a significant advantage. It brought in mainstream purchasers and made new build more acceptable. Similarly, the rate of delivery and availability of new build from the private market helped more people enter the market sooner.

The Bank of England is encouraged by the scheme and says it's an important way of risk sharing between the Government and its citizens. It was noted that the HTB-EL overall book value had already risen by 2018 [5 years into the scheme] and over a 30-year time will rise above its base value.

4. *Evaluation_of_the_Help_to_Buy_equity_loan_scheme_2017.pdf, last accessed 22 May 2020*
5. *Help-to-Buy-Equity-Loan-scheme-progress-review.pdf, last accessed 22 May 2020*



Of the 8,813 equity loan transactions to buy new build homes in London, 98% of these purchasers were FTB.

## 3.3 Learnings and Tailoring to Irish Market

While reviews of the Homes England scheme confirm that the scheme achieved its core objectives, the scheme was very broadly applied with very few qualifying criteria as it:

- Allowed FTB and second steppers to apply
- Only applied a single home price cap for all regions
- Had no income cap qualifying criteria
- Had no requirement for purchasers to borrow up to LTI limits to qualify.

While the scheme has drawn some negative commentary; that the home price cap was too high in some areas; and that approx. 4% of people on incomes above £100k had availed of the scheme, Homes England noted that it was deliberately designed to ensure the scheme was non-complex and as broadly available as possible. That being noted, the scheme in England is being amended in 2021 to be only for FTBs and they are reducing the maximum home price outside of London.

As part of this benchmarking process, this paper has taken elements of the Homes England scheme. However, we have tailored the scheme for Ireland to incorporate further qualifying criteria. This is done to ensure the scheme helps a targeted cohort of Irish society to purchase viable new build homes and in parallel ensure that house price inflation is not impacted by the scheme. The following sections of this paper outline the recommended criteria for the scheme in Ireland so that the best practice and learnings can be applied from the outset.

The data shows that the HTB-EL does not drive local price premiums.

# 04

# An Equity Loan Scheme for Ireland

This Scheme will provide FTBs with a financial support to acquire a new home.

# An Equity Loan Scheme for Ireland

## 4.1 Determining the Criteria

This policy paper proposes taking elements of the Homes England HTB-EL scheme and tailoring a scheme with additional criteria for Ireland to ensure the scheme helps a specific and targeted cohort of Irish society.

The scheme will provide FTBs with a financial support to acquire a new home while ensuring their monthly housing costs remain affordable. The following criteria are suggested:

1. ***It is only for First Time Buyers***
   a. While the Homes England scheme achieved its core objectives, one of the key learning points was that almost 20% of the HTB-EL's were issued to non-FTBs, with most buying larger properties. While trader-uppers are an important part of the overall market in Ireland, it is recommended to launch the Irish Equity Loan scheme initially for FTBs only.
   b. The scheme could be extended in future iterations to certain segments of the 2nd stepper market depending on qualifying criteria.
   c. As the scheme progresses, the administering authority, reporting to the Government, could look at expanding the scheme to 2nd hand homes in urban centres subject to analysis of data and the market situation at the time.
2. ***It is only for new build homes initially***
   a. This will help Ireland to achieve its environmental targets by encouraging people to purchase new NZEB A-rated homes and live in higher quality living environments as determined through the Irish planning system of new home schemes.
   b. If determined appropriate by the Government, the scope of the scheme could be extended to include urban regeneration properties to encourage housing units in city centres, above shop units etc, subject to strict qualifying criteria to drive the agenda for urban regeneration and quality urban living.
3. ***It is only for households below a specific income threshold***
   a. This is to ensure that the scheme is primarily to help those that cannot currently purchase in the market and create additionality from that earnings cohort.
   b. This threshold must be selected to help those on moderate incomes and also encourage city dwellers to purchase apartments in urban locations.
4. ***It has separate criteria for houses and apartments***
   a. It is widely acknowledged in Ireland that there is a significant price premium for new build apartments in urban areas as documented by the SCSI. As a result, very few viable apartment schemes in Ireland are within the borrowing capacity of most purchasers who would like to buy an apartment.
   b. While rental apartments are a key a part of the market in Ireland, the EL scheme in Ireland should be tailored to encourage more apartments to be purchased by individuals and families. With this, the scheme should have separate criteria for apartments and houses.
   c. The caps set for apartments will have to be balanced to ensure that equity loans do not exceed reasonable levels while also ensuring that apartments can be developed viably.
5. ***It has separate criteria for different locales***
   a. While new homes in most of the urban centres of Ireland are beyond the borrowing capacity of many purchasers, there are a number of geographical locations where the affordability of new homes are within the borrowing limits and an equity loan scheme is not deemed essential.
   b. Furthermore, with the movement of people towards urban centres and the focus of Project Ireland 2040 to encourage sustainable communities and compact living, the equity loan scheme in Ireland should be focused on the main urban geographies and areas well served by public transport.
   c. The criteria thus suggest dividing the qualifying geographies in two distinct segments as will be detailed later.
6. ***The maximum price and related maximum equity loan of a home is capped***
   a. For each of the criteria under 3 and 4 above, a maximum home price will be set to reduce any effect the scheme could have on house price inflation and ensure it is addressing the appropriate FTB market.
   b. The cap is suggested in line with SCSI viable housing delivery costs for new homes and apartments.
7. ***The purchaser must take a 1st charge mortgage at the maximum LTI limit***
   a. This criterion is important to ensure that purchasers cannot use the equity loan scheme to lower their overall 1st charge mortgage payment.
8. ***The equity loan will carry an interest payment from year 6 onwards***
   a. This is included at a low interest rate to financially incentivise the purchaser to start paying back the equity loan without putting them under significant extra financial strain.
   b. The interest rate should not be indexed.
9. ***The purchaser must live in the home as their primary residence***
   a. They must repay the equity loan on the sale of the home, if they vacate the home to live in another home or if they decide to rent out the home.
   b. While there are numerous unforeseen situations that can arise for homeowners such as becoming accidental landlords or where they have to emigrate etc., there can be flexibility to deal with this on a case by case basis and can be implemented in the next phase of the development of the scheme.

## The focus of Project 2040 to encourage sustainable communities and compact living.

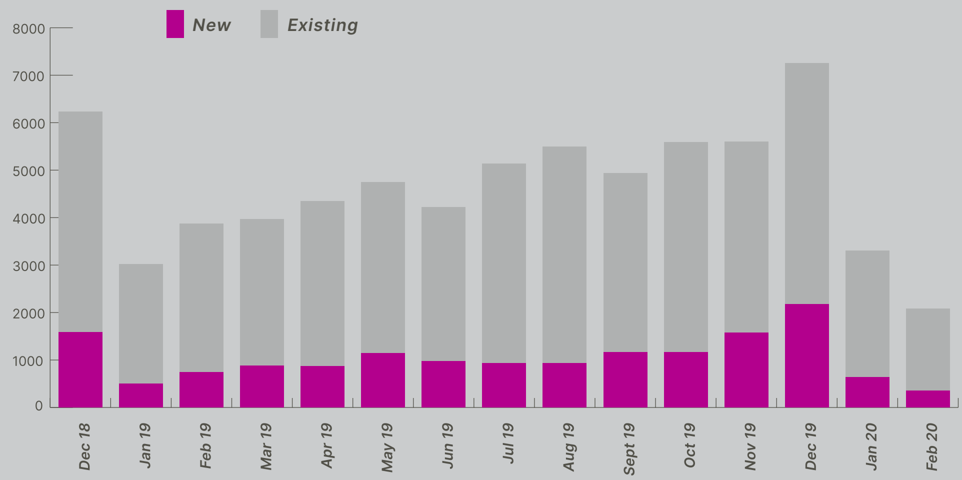
Taking the household tax data detailed in Section 2, more than 440,000 households are eligible for this scheme. As part of the development of this policy paper, a scenario analysis was undertaken using the various criteria for a variety of earnings cohorts in the Locked-Out Generation who could not buy new builds before (Annex 2).

This paper also looked to ensure the home price caps are established to ensure viability of new build homes based on well documented SCSI costs. While there was only one home price cap in England, the additional and more conservative price caps suggested here will prevent the upward movement in home prices given the tight correlation between home price caps and viability. Furthermore, as demonstrated in the Homes England scheme, local market prices are determined by much wider market factors including the 2nd hand market.

As can be seen from CSO data, new homes represented 22.4% of the total housing market since December 2018. As an equity loan scheme in Ireland would bring up to 4,000 additional households to the market per year, this will help to drive more supply in the market and the price caps will ensure that this additional supply will be at entry level price points. Furthermore, these additional equity loan homes would only represent approx. 5.1% of the overall housing market and would thus limit any impact it would have on overall market prices.

**FIGURE 4.1**

### CSO, New and Existing home transactions Ireland, Dec. 2018 to Feb. 2020




As can be seen in the financial analysis in Annex 2, the scheme criteria have been designed to help cohorts of households with incomes between approx. €50,000 and €95,000. With the average household salary noted in section 2 as €64,397, this scheme will assist a large majority of the Locked-Out Generation to enter the market who could not purchase new build A-rated homes in the absence of the scheme. While Annex 2 shows the maximum price that purchasers on various incomes could pay, in practice purchasers will be cognisant that the equity loan needs to be paid back eventually and will only pay what they are willing to for a given home.

Based on the home price caps suggested, this scheme can run in parallel with the current HTB scheme in Ireland as they will help different cohorts of earners to buy different properties. Discontinuing the HTB scheme would have a negative impact on current supply and demand. The HTB scheme should be assessed within its own timeframe of application (end 2021). The Equity Loan scheme criteria could in future be adjusted to replace/takeover the HTB scheme but this should only be done after the Equity Loan scheme is up and running.

## 4.2 The Suggested Criteria

The scheme is targeted at those with a 10% deposit and who can borrow at the maximum LTI limit but who could not otherwise afford a new build home.

Targeted areas where FTB cannot currently access new homes

TABLE 4.1

### Suggested Criteria

The following are the suggested criteria and terms:

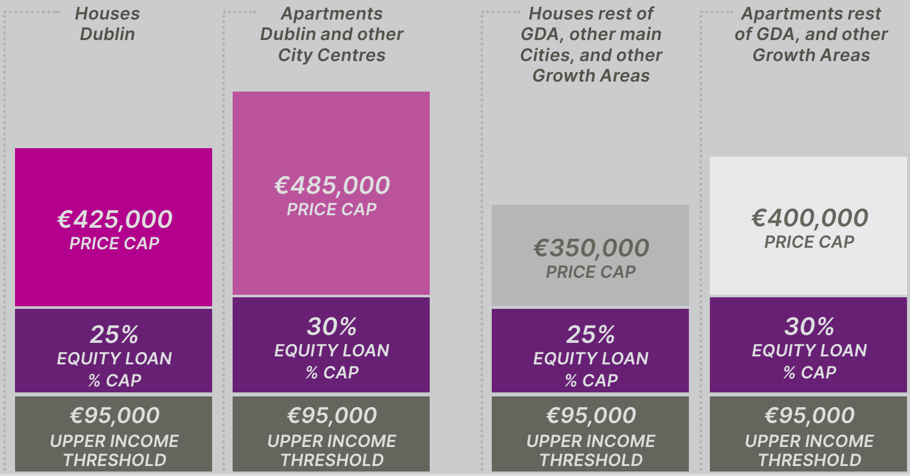
| | |
|---|---|
| **TYPE OF DWELLING** | New Build House Or Apartment. |
| **SUGGESTED GEOGRAPHICAL AREAS** | Targeted areas where first time buyers cannot currently access new homes:<br>1. Dublin<br>2. Rest of Greater Dublin Area ["GDA"], other main cities, and other growth areas in line with Ireland 2040. |
| **PURCHASER PROFILE** | First Time Buyer who occupies the home as principal private residence. |
| **INCOME CAP** | €95,000 |
| **LTI BORROWINGS** | Must borrow at the maximum LTI to qualify. |
| **TERM** | Maximum 30 Years. |
| **INTEREST** | Years 1 – 5: 0%<br>Year 6 onwards: 1.1% of the original equity loan amount [suggested with no indexing]. |
| **REPAYMENT** | Allowed at any time – staircasing where a minimum of 10% of the home value can be repaid at any one time. Required to be repaid on sale/where property ceases to be principal private residence. |
| **SECURITY** | 2nd charge loan on the property linked to the % of the home. |

Figure 4.2 details the suggested qualifying criteria. The home price caps are based on the 2016 and 2017 SCSI baseline housing delivery costs for new homes and apartments adjusted for inflation, as detailed in Section 2. The equity loan percentages are determined from the financial scenario analysis undertaken, to try to ensure a balance between enabling various cohorts of earners to purchase within each category while also ensuring their monthly outgoings for housing are still affordable.

While these qualifying criteria and home price caps will serve as constraints to prevent any unintended consequences such as house price inflation, it is recommended that the State implements a bi-annual review and audit of the entire scheme's data to ensure that the homes being purchased with equity loans are of reasonable value. This will enable the Government to review and adjust the criteria from time to time as required to ensure it is meeting its core objectives.

FIGURE 4.2

**Suggested Qualifying Criteria**




## 4.3 The Purchasers' Perspective

The equity loan is designed to support potential home purchasers in the Locked-Out Generation. In parallel, the purchaser needs to be cognisant of their responsibilities in taking the loan and how it affects their equity over time.

It is important that the purchaser understands the scheme in advance of taking the equity loan and how the scheme is promoted and administered is key. Mortgage lenders/state agency will be obliged to inform First Time Buyers of their obligations and the long-term equity loan responsibilities when selecting a home to purchase, including the possibility for the value of the equity loan to decrease and increase. The key elements that the purchaser must be informed of include:

- The home price that the purchaser is eligible for in that area
- That they must take a 1st charge mortgage at the maximum LTI allowed
- The resulting deposit that they must have
- The total equity loan that they will be taking
- That there is no interest or principal payments initially but that they will have to pay interest from Year 6 and they must understand this monthly cost
- That while there is no clawback, if they wish to move home in future, they must be able to pay the equity loan back as part of the sale
- That the equity loan is linked to the value of the home, which can rise or fall
- That it is in the purchaser's interest to pay off the equity loan in interim payments as and when the purchaser has the cash available as this increases their equity in the home and reduces the amount they would have to repay to the State if they choose to move.

In tandem with the advantages to the purchaser, the scheme is structured to also protect the purchaser, where the loan acts like an extended deposit on the home, particularly for the first 5 years. While the equity loan is a 2nd charge on the home, there is no obligation on the purchaser to repay the loan principal until they wish to, they leave the home, or the loan term expires.

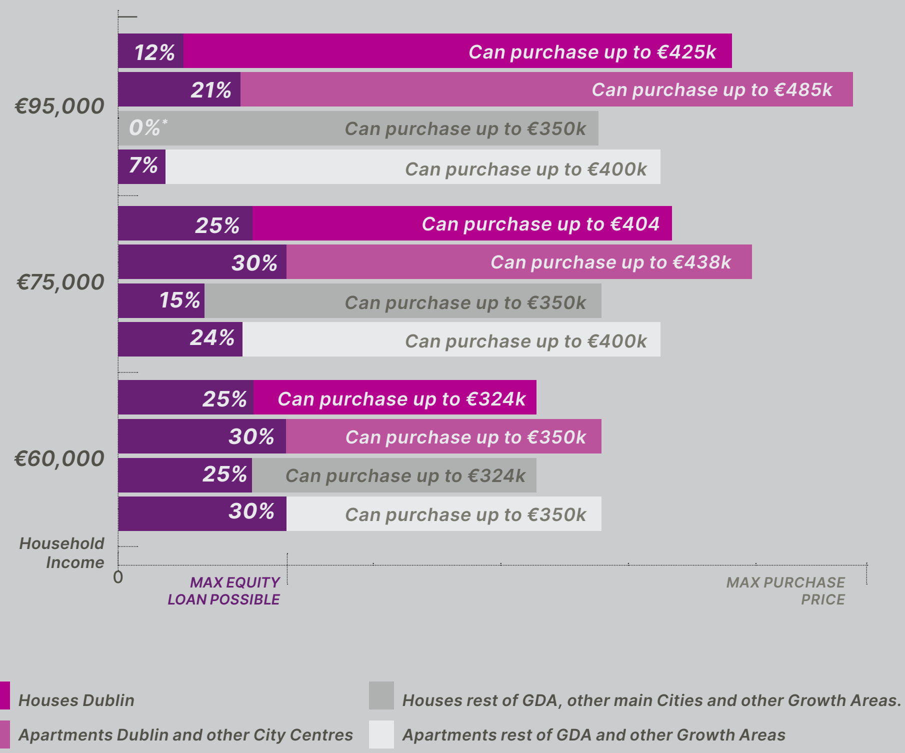
As suggested, the scheme is limited to First Time Buyers. Thus, it is focused on relatively younger cohorts of society who are generally earlier in their careers. As such they are likely to increase their incomes over time which aligns with the deferred equity loan interest and their ability to then buy back the equity loan as further disposable income becomes available. Furthermore, the interest payment from year 6 onwards is low and linked only to the equity loan amount originally issued.

Where owners have struggled to make the equity loan interest payments in England, for whatever reason, Homes England has worked with those homeowners to find solutions. Similarly, where the homeowner's circumstances have changed and they need to vacate the home or move abroad for example, they work with the homeowner to find a solution. We would recommend the administering entity in Ireland would take a similar approach.

The scheme is designed so that the State supports its citizens on average incomes to secure a new home, reduce their environmental impact and improve their quality of life. It would be in the State's interest to implement an equity loan scheme that always prioritises the stability and security of its citizens in their homes.

The following table shows the maximum that households at various incomes could purchase *(further analysis in Annex 2)*. The varied preferences of households will lead to a wide range of home prices and corresponding equity loans being taken by purchasers, many of which will be less than the capped amounts. It is important to note that many will decide to purchase a smaller or less expensive new build than the price cap. In parallel, the housing industry will need to provide units which qualify for the scheme.

**FIGURE 4.3**




* The household borrowings and deposit already exceed the home price cap.

While the financial analysis in Annex 2 highlight the specific cohorts that the scheme will assist and to what degree, this document seeks to explore the implications of the suggested scheme on **3 example purchaser profiles** in Ireland.

Under each of the purchaser profiles, a worked example illustrates the potential cost of the scheme per month for the purchaser, as well as the potential savings against current estimated rental payments for the same property type.

The mortgage rates charged to the purchaser will vary over time, but the workings assume a rate of 2.85% over the life of the mortgage. The current rents will vary based on location and property type so for illustrative purposes have been calculated based on a gross yield of 6% of the purchase price based on a representative average yield across the target demographic areas.

# EXAMPLE PURCHASER PROFILE 1

## Brendan and Caoimhe, both aged 35, are a young family with 2 children. They have an annual household income of €75,000.

They are both First Time Buyers and are currently renting in Cork City.

Under the current LTI limits, with a standard 10% deposit, Brendan and Caoimhe can only access a home with a value of up to €291,500, far below the cost of new A-rated home in Cork city.

Under the qualifying criteria for the equity loan scheme, Brendan and Caoimhe could instead access a home in the €350,000 to €400,000 range in Cork, depending on the type of home they choose.

With two children, they are keen to purchase a 3-bed house in the city and realise that in order to qualify for an equity loan, they must find a house for less than €350,000.

We assume Brendan and Caoimhe have found a house in the city priced at €340,000 and will require an equity loan of €43,500 representing 13% of the home's value.

| HOME | PURCHASE PRICE | MORTGAGE | DEPOSIT | EL NEEDED | EL % |
|---|---|---|---|---|---|
| CORK CITY 3-BED HOUSE | €340,000 | €262,500 | €34,000 | €43,500 | 13% |

By taking on the equity loan, Brendan and Caoimhe have no additional interest cost for the first 5 years and from year 6 onwards they pay an interest payment of €40 per month on the equity loan amount at the same time as their main mortgage.

| YEARS OF OWNERSHIP | MORTGAGE INTEREST RATE | MONTHLY MORTGAGE PAYMENTS | EL INTEREST | EL INTEREST RATE | ADDITIONAL EL INTEREST PER MONTH | TOTAL MORTGAGE & EL MONTHLY | % OF MONTHLY GROSS INCOME |
|---|---|---|---|---|---|---|---|
| YEAR 1 – 5 | 2.85% | €1,095 | NO | N/A | € - | €1,095 | 18% |
| YEAR 6 ONWARDS | 2.85% | €1,095 | YES | 1.10% | € 40 | €1,134 | 18% |

Their mortgage payments represent 18% of their gross monthly income even when combined with the equity loan and are significantly lower than current rental payments.

| | ESTIMATED CURRENT RENT COST AT GROSS YIELD OF | SAVINGS PER MONTH V CURRENT RENT COSTS | REVISED SAVINGS IF RENTS FELL BY | REVISED SAVINGS IF MORTGAGE RATES INCREASED TO |
|---|---|---|---|---|
| | 6.0% | | 20% | 4.85% |
| YEAR 1 - 5 | €1,700 | €605 | €265 | €301 |
| YEAR 6 ONWARDS | €1,700 | €566 | €226 | €261 |

The workings further illustrate that even if rents were to fall by 20% from current monthly prices, or where mortgage interest rates were to increase by a further 2%, savings against current rental prices are still significant.

# EXAMPLE PURCHASER PROFILE 2

## Aine is single, aged 32, works full time and has an annual income of €55,000. She is a First Time Buyer and is currently renting in Maynooth.

Under the current LTI limits, with a standard 10% deposit, Aine can only access a home with a value of up to €214,000, far below the cost of a new A-rated home in the Kildare area.

Under the qualifying criteria for the equity loan scheme, Aine could instead access a home in the €296,000 to €321,000 range in Kildare, depending on the type of home she chooses.

Aine is keen to purchase a 2-bed apartment and realises that in order to qualify for an equity loan, she must find an apartment for less than €321,000.

We assume Aine has found an apartment in the town priced at €315,000 and will require an equity loan of €91,000 representing 29% of the home's value.

| HOME | PURCHASE PRICE | MORTGAGE | DEPOSIT | EL NEEDED | EL % |
|---|---|---|---|---|---|
| NORTH KILDARE 2-BED APARTMENT | €315,000 | €192,500 | €31,500 | €91,000 | 29% |

By taking on the equity loan, Aine has no additional interest cost for the first 5 years and from year 6 onwards she pays an interest payment of €83 per month on the equity loan amount at the same time as their main mortgage.

| YEARS OF OWNERSHIP | MORTGAGE INTEREST RATE | MONTHLY MORTGAGE PAYMENTS | EL INTEREST | EL INTEREST RATE | ADDITIONAL EL INTEREST PER MONTH | TOTAL MORTGAGE & EL MONTHLY | % OF MONTHLY GROSS INCOME |
|---|---|---|---|---|---|---|---|
| YEAR 1 – 5 | 2.85% | €803 | NO | N/A | € - | €803 | 18% |
| YEAR 6 ONWARDS | 2.85% | €803 | YES | 1.10% | €83 | €886 | 19% |

Her mortgage payment represents 19% of her gross monthly income even when combined with the equity loan and are significantly lower than current rental payments.

| | ESTIMATED CURRENT RENT COST AT GROSS YIELD OF | SAVINGS PER MONTH V CURRENT RENT COSTS | REVISED SAVINGS IF RENTS FELL BY | REVISED SAVINGS IF MORTGAGE RATES INCREASED TO |
|---|---|---|---|---|
| | 6.0% | | 20% | 4.85% |
| YEAR 1 - 5 | €1,575 | €772 | €457 | €549 |
| YEAR 6 ONWARDS | €1,575 | €689 | €374 | €466 |

The workings further illustrate that even if rents were to fall by 20% from current monthly prices, or where mortgage interest rates were to increase by a further 2%, savings against current rental prices are still significant.

# EXAMPLE PURCHASER PROFILE 3

## Daithi and Eimear are a young couple, both aged 29 and both working full-time in Dublin on average incomes. They have an annual combined income of €90,000.

They are both First Time Buyers and are currently renting.

Under the current LTI limits, with a standard 10% deposit, they can only access a home with a value of up to €350,000, far below the cost of new A-rated home in Dublin city.

Under the qualifying criteria for the equity loan scheme, Daithi and Eimear could instead access a home in the €425,000 to €485,000 range in the city, depending on the type of home they choose.

Daithi and Eimear are keen to purchase a 2-bed apartment and realise that in order to qualify for an equity loan, they must find an apartment for less than €485,000.

We assume Daithi and Eimear have found an apartment in a new 7-storey building priced at €460,000 and will require an equity loan of €99,000 representing 22% of the home's value.

| HOME | PURCHASE PRICE | MORTGAGE | DEPOSIT | EL NEEDED | EL % |
|---|---|---|---|---|---|
| DUBLIN CITY 2 BED APARTMENT | €460,000 | €315,000 | €46,000 | €99,000 | 22% |

By taking on the equity loan, Daithi and Eimear have no additional interest cost for the first 5 years and from year 6 onwards they pay an interest payment of €91 per month on the equity loan amount at the same time as their main mortgage.

| YEARS OF OWNERSHIP | MORTGAGE INTEREST RATE | MONTHLY MORTGAGE PAYMENTS | EL INTEREST | EL INTEREST RATE | ADDITIONAL EL INTEREST PER MONTH | TOTAL MORTGAGE & EL MONTHLY | % OF MONTHLY GROSS INCOME |
|---|---|---|---|---|---|---|---|
| YEAR 1 – 5 | 2.85% | €1,313 | NO | N/A | €- | €1,313 | 18% |
| YEAR 6 ONWARDS | 2.85% | €1,313 | YES | 1.10% | €91 | €1,404 | 19% |

Their mortgage payments represent 19% of their gross monthly income even when combined with the equity loan and are significantly lower than current rental payments.

| | ESTIMATED CURRENT RENT COST AT GROSS YIELD OF | SAVINGS PER MONTH V CURRENT RENT COSTS | REVISED SAVINGS IF RENTS FELL BY | REVISED SAVINGS IF MORTGAGE RATES INCREASED TO |
|---|---|---|---|---|
| | 6.0% | | 20% | 4.85% |
| YEAR 1 - 5 | €2,300 | €987 | €527 | €621 |
| YEAR 6 ONWARDS | €2,300 | €896 | €436 | €531 |

The workings further illustrate that even if rents were to fall by 20% from current monthly prices, or where mortgage interest rates were to increase by a further 2%, savings against current rental prices are still significant.

# 05

# The State's Perspective

The State's support of these homeowners will track the house price index and is expected to rise over a 30-year average period and reduce the State equity loan risk.

# The State's Perspective

It is not linked to specific pieces of land or focused on a small number of large public housing projects

## 5.1 Benefits and Risk Mitigation

An equity loan scheme for Irish home-owners would achieve the following key objectives for the Irish State:

- Provide access and affordability to high quality new homes for those in the Locked-Out Generation on moderate incomes
- Help to increase the supply of new homes in core employment and key transport corridor locations
- Encourage compact living and sustainable communities within convenient and commutable distances to centres of work achieving a number of Ireland 2040 objectives
- Reduce the carbon footprint of individuals who purchase these homes, both through the home's NZEB energy rating and through reduced car commuting
- Respect the macroprudential rules of the CBI and ensuring borrowers of equity loans are not taking on significant financial strain, reducing the risk of distressed situations
- Remove pressure from the rental sector by enabling the Locked-Out Generation to purchase and therefore create downward pressure on rents
- Help to increase the supply of residential homes through additionality
- Provide additional construction activity, with all the implied benefits to the Exchequer and the economy of additional VAT intake, additional labour tax intake, removing people from the Live Register, additional spend in the local economy, etc.
- Provide homes at scale to the Locked-Out Generation at a low risk to the State.

The scheme is potentially self-financing. The VAT, Stamp Duty and development levy contributions/returns from 4,000 units in a year could total approximately €256m.

The scheme is a demand side support. This in-turn means that it is not linked to specific pieces of land or all focused in a small number of large public housing projects. It enables all developments within the geographical locations to be potential homes for these purchasers and will incentivise open-market developments to price themselves accordingly to encourage equity loan buyers to their scheme – in essence market forces will drive efficiency and price competitiveness, while ensuring viability.

The State's support of these homeowners will track the house price index and is expected to rise over a 30-year average period and reduce the State equity loan risk.

It is perhaps appropriate to draw a comparison here between this scheme and other current account expenditure schemes such as HAP. The Equity Loan would be a State provided loan which supports the Irish citizen to own their own home and repay it in full, potentially with an uplift in the long term. While the HAP support payment does not apply to the Locked-Out Generation, it is a current account expenditure which the State does not recover.

As was noted in the reviews of the Homes England HTB-EL scheme, some risks to the State's equity loan exist. The primary risks and the mitigating factors are:

- Forced sales in times of distress Human nature dictates that, when in negative equity, the overwhelming majority would not choose to sell their house unless their 1st charge mortgage is in distress. However, as purchasers' LTI remains as determined by the CBI, this controls the debt level and associated repayment obligations and the risk of distressed situations arising is significantly reduced and improves the overall risk adjusted return of the State's equity loan. As the reviews of the Homes England scheme highlighted: 'owners in negative equity generally tend only to sell when their personal circumstances make it imperative – so losses are typically not crystallised for either the purchaser or government.' Furthermore, the incredibly low % of default situations in that scheme is testament to this. In addition, the Irish scheme will be run under the CBI rules which are more conservative than in England.

- Re-mortgaging the equity loan when home value is less than the original purchase price. Homes England have experience of dealing with this and appropriate criteria can be set to limit this risk.

It is important to also recognise that all schemes where Government support is provided whether directly or indirectly will carry some risk. However, the risks associated with this equity loan scheme are significantly lower than the direct building of public housing and include:

- No requirement by State for up front funding for land acquisition and taking on planning risk
- Not competing with private market for land
- No requirement for development finance, professional fees or construction project management and the associated overhead with managing the same, which stretches public resources
- No risk of unsold 'affordable' units
- Avoids the inevitable barriers and difficulties inherent in mobilising State lands for the provision of mixed tenure schemes.

## 5.2 Legislation and Administration

While the Equity Loan structure may ideally require its own legislative structure, it could potentially be considered under Part V of the Housing (Miscellaneous Provisions) Act 2009, which provides for affordable housing with respect to State housing agencies. The Act has been amended recently to facilitate an equity share approach whereby:

- A purchaser may pay instalments off the charge, during the charge period
- A purchaser must pay off a charge, at market value, on property resale or expiration of the charged period

***Housing (Miscellaneous Provisions) Act 2009***

***PART 5 - AFFORDABLE DWELLING PURCHASE ARRANGEMENTS***

***Open Market Dwelling 81.—***

(1) A housing authority may, subject to the Housing Acts1966 to 2009, and regulations made thereunder, provide financial assistance to an eligible household to purchase a dwelling (in this Part referred to as an "open market dwelling") under an affordable dwelling purchase arrangement, subject to the dwelling being —

(a) available for purchase in the State, and
(b) of a class of dwelling prescribed undersection 95(1)(a) for the purposes of this section.

(2) The amount of financial assistance which may be provided to an eligible household under this section in respect of the purchase of an open market dwelling—

(a) shall be the difference between the purchase money and the market value of the dwelling, and

(b) shall not exceed such maximum amount as the Minister may prescribe undersection 95(1)(d).

Further analysis is required as to the exact legislative route for this scheme.

Based on the research of the Homes England structure, the centralised administration of this scheme is essential to its success. This is not only because it should be funded centrally by the Government, but also to ensure consistency of its application and underwriting across all the applicable geographies.

In this regard, it could be administered by an entity within the remit of the NTMA – for example:

- The Ireland Strategic Investment Fund (ISIF) which has a mandate to support economic activity and employment in Ireland with housing as one of its five priority themes and is actively invested in housing related activity or
- The Housing Finance Agency (HFA) which is currently managing the repayment of equity share discounts and the Rebuilding Ireland home loan.

The administering authority will need to keep a detailed register of the properties and their current occupancy and ownership status and their databases should be referenced to the mortgage and RTB databases to ensure that they must be retained as principle residences.

The scheme also presents the opportunity to gather anonymized, but very helpful, data on the housing market as they have done so in Homes England. This can lead to much better data driven decisions in future regarding the equity loan scheme and any other public or private supported housing schemes.

# 06

# The Lenders' Perspective

The consensus from participating mortgage lenders (in England) is that the underlying mortgage loans have performed well from a credit perspective.

# The Lenders' Perspective

## 6.1 Overview

As outlined in Section 3, under the Homes England HTB-EL scheme, home buyers can apply to receive an equity loan for up to 20% (40% in London) of the market value of a new build property, interest-free for five years. The equity loan supplements the buyer's deposit (minimum 5%) and facilitates purchasers who are constrained in mortgage borrowing capacity by their applicable macroprudential LTI limit. The average bank mortgage LTV% across the entire scheme is approx. 68% (see chart below) with the bank's mortgage benefits from a first ranking charge against the property, while the equity loan carries a second ranking charge.

The equity loan must be paid back on sale of the property, or after 30 years (unless extended). The equity loan may also be repaid or refinanced in full or in part prior to maturity.

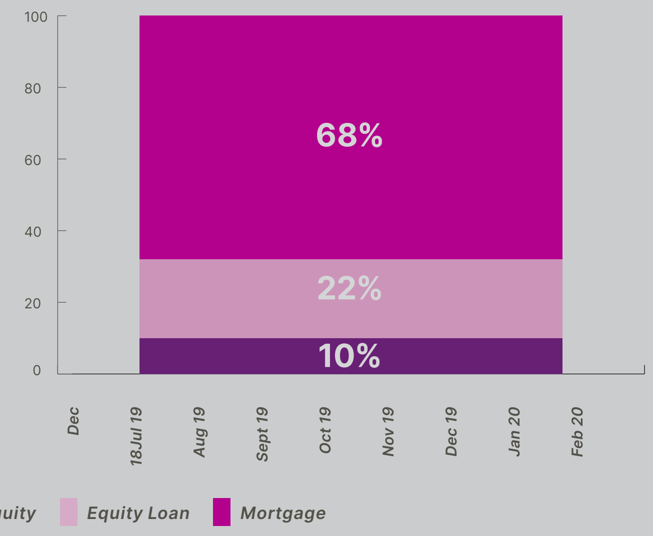
The percentage value of the equity loan is fixed on acquisition (as a percentage of the property's purchase price), such that the monetary value of the equity loan moves in parallel with movements in the actual property value following acquisition. For the avoidance of doubt, the mortgage lender's 1st charge retains the right to first recovery ahead of both the equity loan provider and the purchaser in all scenarios.

Interest becomes payable on the Equity Loan from year 6. We understand that the primary purpose of the deferred interest charge is to promote the refinancing/ repayment of the Equity Loan, particularly given the potential growth in implied borrower equity, together with increased incomes, in the intervening period. In considering the potential for an Irish Equity Loan scheme, if the cash payment of the equity loan interest gives rise to affordability concerns, then it may be that capitalising part of this interest expense could achieve the same objective.

In 2018, the average purchaser financed approx. 68% of the purchase consideration via bank mortgage, approx. 22% through the equity loan and approx. 10% via traditional equity/ deposit:

**FIGURE 6.1**

### Homes England HTB-EL average LTV makeup



## 6.2 Experience

The HTB-EL scheme has been operating for a period of approx. 7 years. In that time, in excess of 250,000 bank mortgages have been issued on properties availing of an equity loan. The consensus from participating mortgage lenders is that the underlying mortgage loans have performed well from a credit perspective (aligned to wider mortgage loan book experience).

This is supported by the lower mortgage LTV (approx. 68%) that typically applies to an equity loan transaction (for example relative to a 90% LTV first-time buyer mortgage). This provides the mortgage lender with greater headroom to underlying property value at the outset of the loan, in addition to enhanced affordability for the purchaser who typically pays a lower interest rate.

The 2018 Homes England review of the HTB-EL scheme concluded as follows in this regard: *"Lenders have joined the scheme in increasing numbers and it was recognised as a vehicle for enabling low-risk medium Loan to Value lending, along with the government's Equity Loan, to serve the same purpose as relatively higher risk Loan to Value lending without such support"* (emphasis added).

## 6.3 Collaboration

In establishing the HTB-EL Scheme, Homes England and the main mortgage lenders (through their representative organisation UK Finance) worked collaboratively across a number of aspects, including in engaging with the regulator around macroprudential matters.

In considering the potential for an equity loan scheme in Ireland, the support of key stakeholders will likely be required to facilitate efficient and effective implementation:

1. The Irish Banks (particularly those active in the mortgage sector)
2. The Central Bank of Ireland (in its oversight role for macroprudential policy as it relates to mortgages).
3. Furthermore, there may be an opportunity for the Banking & Payments Federation to play a representative role on behalf of the Irish banking industry.

As it relates to macroprudential matters in England, the equity loan is disregarded from the mortgage macroprudential LTI and LTV assessments. However, the obligation to meet equity loan interest payments from year 6 is factored into the 'affordability' assessment of monthly repayments. Key considerations in this determination include: the length of equity loan term; the limited principal repayment obligations (primarily in a disposal scenario); the equity-like accordion nature of the loan's principal value (reduces in the scenario of lower house prices) and its non-recourse nature (i.e. recourse to the property proceeds only).

One of the key objectives in establishing the equity loan scheme was to minimise "complexity" for the purchaser. This extended to the creation of the documentation, with market standard template documentation that would apply to all transactions agreed upfront with UK Finance (available here: ***HTB Equity Mortgage 12 Feb 2016.pdf***).

For the purposes of this report, a leading Irish law firm has conducted a high-level initial review of the HTB-EL template documentation, in the context of its potential applicability to the Irish marketplace. While this documentation appears clearly drafted, concise and workable, this initial review suggests that supplementing same with a short form inter-lender agreement between the equity loan provider and the mortgage provider, may merit consideration.

### Administration

As set-out in Annex 1, in operating the HTB-EL scheme, Homes England employs "Help to Buy Agents" to vet prospective equity loan purchasers from an affordability perspective. Once an equity loan is granted, Target Servicing Limited (part of the Target Group, ***www.targetgroup.com***) administers the loan on behalf of Homes England.

In an Irish context, it may be worth considering whether parallel underwriting and administration of the equity loan by the Irish mortgage banks, would facilitate a more efficient process for all stakeholders.

## 6.4 Implementation

In establishing an Equity Loan scheme in Ireland, the following actions are suggested from a mortgage lending perspective:

1. The Mortgage Banks (potentially through the Banking and Payments Federation Ireland) and the appropriate Government agency, engage with the Central Bank of Ireland to finalise the criteria to implement the Irish equity loan scheme while respecting the current macro prudential rules.
2. The Mortgage Banks and the appropriate Government agency agree concise, market standard documentation (potentially based on Homes England precedent) that would facilitate mass market adoption of the equity loan product.
3. Consideration be given to the topic of potential borrower refinancing:
   - Finding a mechanism that does not hinder or prevent the equity loan holder from refinancing its primary mortgage at a future date.
   - Agreeing a mechanism that mitigates "artificial losses" being created by equity loan borrowers, in the scenario where (absent a sale of property) it is sought to refinance or repay the equity loan in a lower house price environment.
4. The optimum transmission and administration mechanism for the scheme be determined by adopting best practice and learnings.

# 07

# About Property Industry Ireland

# About Property Industry Ireland

## Our Vision

A sustainable Irish Property Industry which is creative, responsive, competitive and well integrated in meeting the socio-economic needs of all the stakeholders in the built environment.

## Our Mission

To be the trusted partner and provider of "evidence based" information, policies and strategies for the property industry at National level, to the Oireachtas, Government, Local Authorities and Agencies, and for the benefit of the people of Ireland.

## Our Objectives

1. Be the Leadership Forum in the Industry for the discussion on National Property Issues.
2. Develop, propose and support a National Property Strategy, policies and solutions to issues for the benefit of the nation as a whole.
3. Be a research led organisation, which collates and commissions relevant and innovative research on Ireland's construction sector in order to promote and sustain a competitive economy.
4. Be the go-to organisation for Government and the Oireachtas on all aspects of property.
5. Work with all stakeholders in the industry to restore it to a sustainable position in the economy.
6. Increase membership through demonstrating the achievements and outcomes in relation to national strategy and policy.

***PII Council:***

David O'Connor ...................... David O'Connor Consulting (Chair)
Mark FitzGerald ..................... Sherry FitzGerald (Vice-Chair)
David Clarke .......................... Goodbody Stockbrokers
Jim Gallagher ......................... Lafferty Architects
Ivan Gaine.............................. Sherry FitzGerald
Carmel Logan ......................... KPMG
John Spain............................. John Spain Associates
Mark McGreevy....................... Sisk Living
Paddy McElligott.................... Activate Capital
Patricia O'Brien ..................... BHK Solicitors
Aidan O'Hogan ....................... Property Byte Ltd
Michael O'Flynn..................... O'Flynn Group
Tony Reddy............................ Reddy Architecture + Urbanism
Padraic Rhatigan.................... JJ Rhatigan and Company
Peter Gavican......................... Glenveagh Properties
Tom Phillips ........................... Tom Phillips + Associates
Padraic Whelan ...................... Deloitte

***Policy Committee Chairs:***

Construction Innovation......... Jim Gallagher, Lafferty Architects
Planning and Development .... John Spain, John Spain Associates
Property Finance .................... Paddy McElligott, Activate Capital
Market Supply and Demand... Ivan Gaine, Sherry FitzGerald

***Executive:***

David Duffy ........................... Director
David Howard......................... Policy Executive

***Recent Publications:***

- Policy Reform to Increase the Delivery of New Housing (2016)
- Delivering Rebuilding Ireland: PII Pre-Budget 2017 Submission (2016)
- Tax Treatment of Rental Income (2017)
- Rental Strategy Response (2017)
- Pre-Budget 2018 Submission (2017)
- Submission to Rebuilding Ireland Review (2017)
- Property Industry Ireland (PII) response to Draft Ireland 2040 – Our Plan National Planning Framework (2017)
- Brexit and Ireland's Property Sector (2018)
- BCAR – Recommendations for Reform (2018)
- Pre-Budget 2019 Submission (2018)
- PII Submission to Review of Vacant Property Levy (2018)
- Submission on National Regeneration and Development Agency (2018)
- Submission to Cost-Benefit Analysis of the Help-to-Buy Scheme (2018)
- PII Submission on Land Development Agency (2018)
- Estimating Ireland's long-run housing demand (2019)
- Pre-Budget 2020 Submission (2019)
- General Scheme of the Land Development Agency Bill 2019 (2019)
- Housing Ireland into the Future – PII's Housing Policy Position 2020 (2020)
- Planning Functions during the Covid-19 Crisis (2020)

# 08

# Annexs

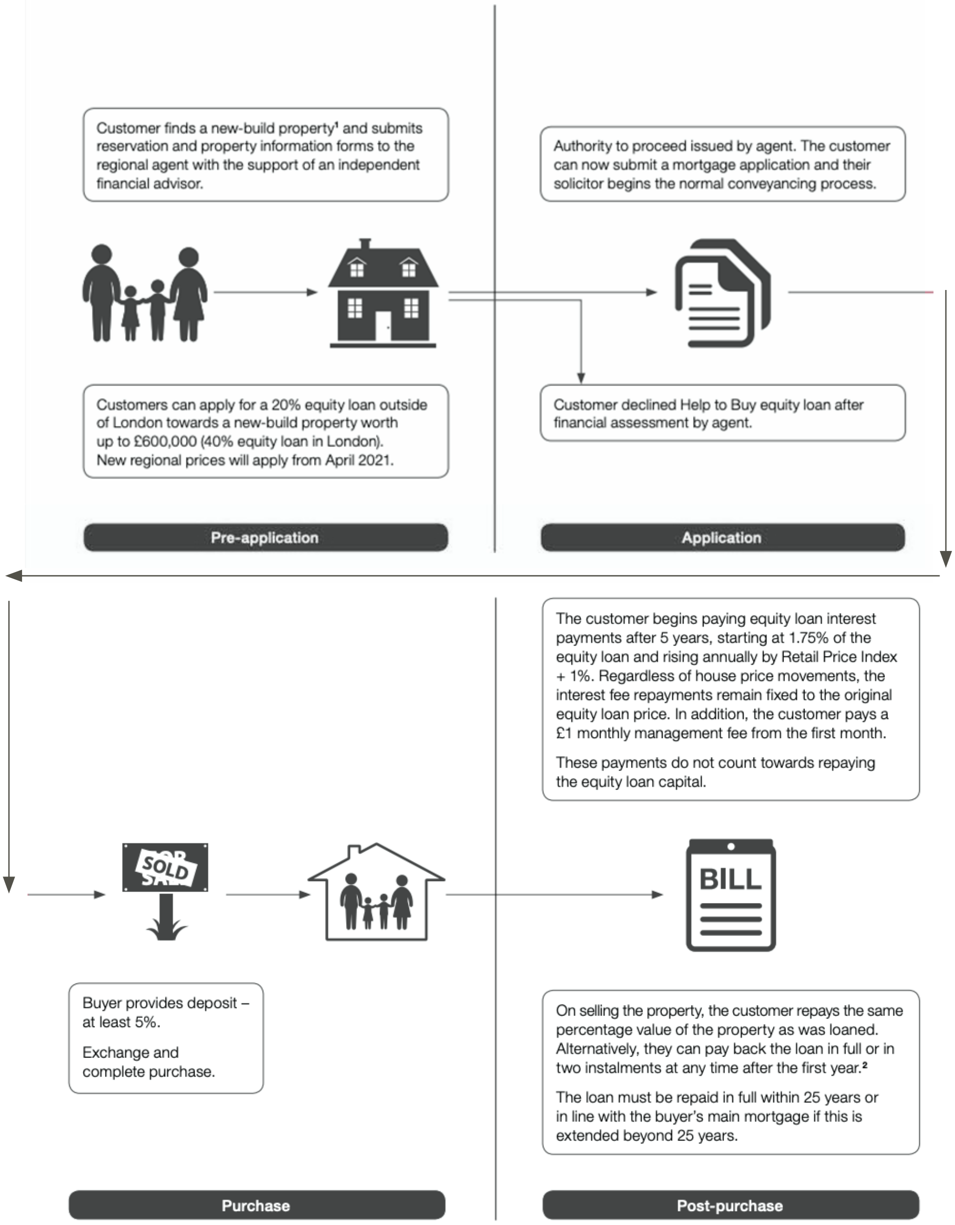
# Annex 1

## Homes England HTB-EL, Sample Data

### Annex 1.1

**Figure 3**
Help to Buy customer experience in England

**Prospective homeowners looking to use the equity loan have an additional application stage when purchasing their home**




**Notes**

1 Customer must not own a property at the point of finalising the equity loan. This is set to change to only first-time buyers in 2021.

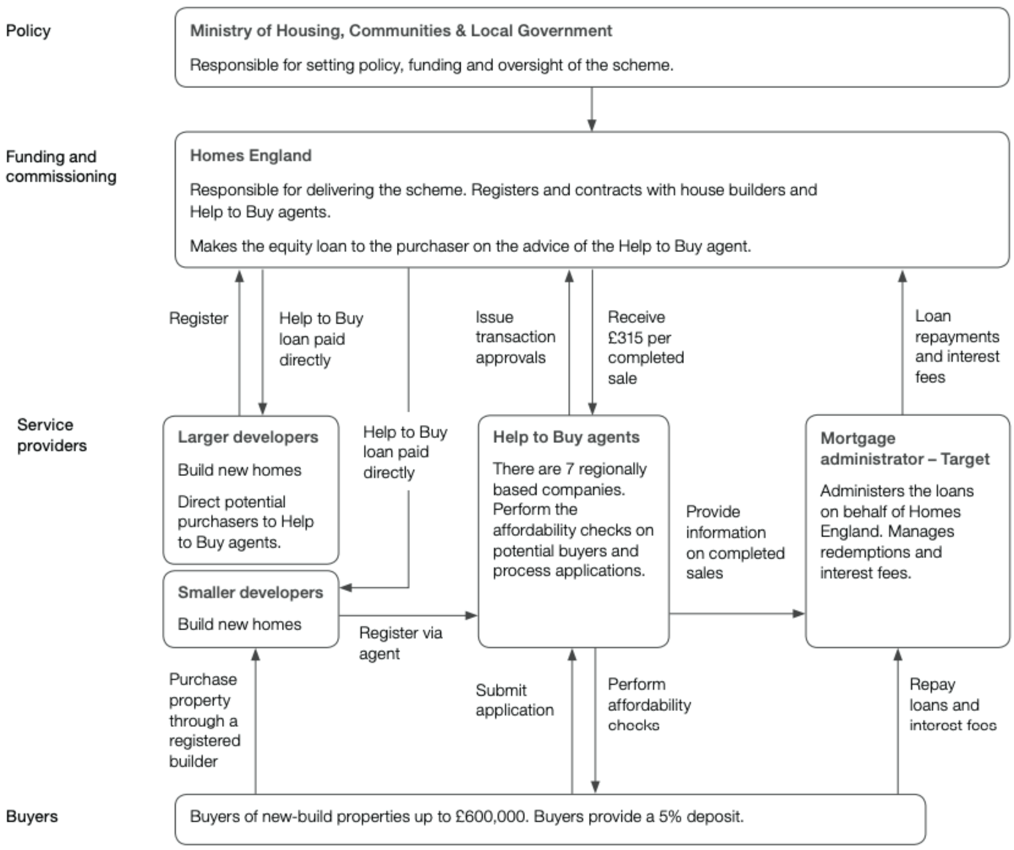
2 In London, customers can repay in up to four instalments, each at least 10% of the home's current market value, at any time after the first year.

Source: National Audit Office

## Annex 1.2

**Figure 2**
Roles and responsibilities for the Help to Buy: Equity Loan

**The Department is responsible for the Help to Buy scheme, with Homes England and its agents, developers and buyers playing important roles**




Source: Adapted from Comptroller and Auditor General, *The Help to Buy equity loan scheme*, Session 2013-14, HC 1099, National Audit Office, March 2014

## Annex 1.3

**Table 2.3: Estimated new build price premium (the ratio of the average newly built house price to the average existing house price) by region & property type, annual data year ending in March 2017**

| | Detached | Semi-detached | Terraced | Flat |
|---|---|---|---|---|
| North East | 1.00 | 1.08 | 1.27 | 1.45 |
| North West | 0.95 | 1.02 | 1.50 | 1.12 |
| Yorkshire & The Humber | 1.04 | 1.12 | 1.38 | 1.28 |
| East Midlands | 1.11 | 1.18 | 1.29 | 1.35 |
| West Midlands | 1.02 | 1.11 | 1.26 | 1.27 |
| East of England | 0.99 | 1.01 | 1.18 | 1.32 |
| London | 0.72 | 0.95 | 0.96 | 1.27 |
| South East | 0.90 | 1.01 | 1.22 | 1.32 |
| South West | 0.96 | 1.01 | 1.15 | 1.28 |
| England | 0.90 | 0.99 | 1.15 | 1.51 |

*Source: Authors' estimation drawing on Office for National Statistics, Land Registry, Price Statistics for Small Areas September 2017- Dataset 14 (existing dwellings. Mean price paid for administrative geographies and Dataset 13. Mean price paid for administrative geographies (newly built dwellings). Note: this comparison is only an approximation as it cannot take account of differences in property size, location and quality.*

## Annex 1.4

**Figure 2.20: Local authorities by Help to Buy transactions per new build sales* and change in newly built house price****


## Annex 1.5

**Table 2.2: Help to Buy Equity Loan transactions and sales: number and percent England.**

| | | Help to Buy transactions (H) | All sales (S) | H/S (%) | Sales of newly built dwellings (NB) | H/NB (%) |
|---|---|---|---|---|---|---|
| **2013** | **Q2** | 2,103 | 175,602 | 1.20 | 20,220 | 10.4 |
| | **Q3** | 3,944 | 213,252 | 1.85 | 17,034 | 23.2 |
| | **Q4** | 7,976 | 228,280 | 3.49 | 23,134 | 34.5 |
| **2014** | **Q1** | 5,581 | 189,204 | 2.95 | 16,154 | 34.5 |
| | **Q2** | 8,775 | 218,433 | 4.02 | 24,101 | 36.4 |
| | **Q3** | 5,846 | 240,416 | 2.43 | 18,914 | 30.9 |
| | **Q4** | 8,174 | 227,188 | 3.6 | 23,492 | 34.8 |
| **2015** | **Q1** | 4,929 | 172,669 | 2.85 | 16,373 | 30.1 |
| | **Q2** | 9,356 | 208,289 | 4.49 | 27,499 | 34.0 |
| | **Q3** | 6,901 | 244,451 | 2.82 | 22,248 | 31.0 |
| | **Q4** | 10,652 | 246,399 | 4.32 | 27,892 | 38.2 |
| **2016** | **Q1** | 6,814 | 239,931 | 2.84 | 23,574 | 28.9 |
| | **Q2** | 10,813 | 182,414 | 5.93 | 25,842 | 41.8 |
| | **Q3** | 8,543 | 226,879 | 3.77 | 21,462 | 39.8 |
| | **Q4** | 12,240 | 206,128 | 5.94 | 22,004 | 55.6 |
| **2017** | **Q1** | 8,211 | 186,062 | 4.41 | 20,297 | 40.5 |
| | **Q2** | 13,700 | - | | - | |

*Source: (H) Authors' analysis drawing on Ipsos MORI (2017) Help to Buy Apr13-Mar17 (on behalf of MHCLG). (S & NB) Office for National Statistics, Land Registry. House Price Statistics for Small Areas (unpublished) June 2017*

# Annex 1.6

Table 2.4: Help to Buy transactions by region (April 2013 - June 2017*)

| | Help to Buy transactions | | As proportion of all transactions | As proportion of new build transactions |
|---|---|---|---|---|
| | Count | % | | |
| **South East** | 22,040 | 16.4 | 3.5 | 36.1 |
| **North West** | 17,297 | 12.9 | 4.2 | 46.1 |
| **East of England** | 17,080 | 12.7 | 4.0 | 39.2 |
| **South West** | 16,561 | 12.3 | 4.0 | 38.2 |
| **East Midlands** | 15,971 | 11.9 | 5.2 | 47.0 |
| **West Midlands** | 14,799 | 11.0 | 4.7 | 48.0 |
| **Yorkshire & The Humber** | 12,625 | 9.4 | 4.1 | 43.9 |
| **North East** | 9,372 | 7.0 | 6.7 | 50.3 |
| **London** | 8,813 | 6.5 | 2.0 | 16.7 |
| ***England*** | ***134,558*** | ***100.0*** | ***3.9*** | ***38.4*** |

*Source: For Help to Buy figures, as Table 2.2. For the denominators of sales, Office for National Statistics, Land Registry. House Price Statistics for Small Areas September 2017- Datasets 6 and 7 (for all sales and Newly Built respectively). Note: * "Proportion of Sales" measures are based on transactions up to Q1 2017.*

# Annex 1.7

Table 2.7: Average purchase-related variables by region (4 quarters to Q2 2017)

| | Purchase price (£) | Mortgage (£) | Equity Loan (£) | Deposit (£) |
|---|---|---|---|---|
| **London** | 446,216 | 242,065 | 160,416 | 43,735 |
| **South East** | 337,319 | 234,106 | 66,851 | 36,362 |
| **East of England** | 297,634 | 206,767 | 58,901 | 31,967 |
| **South West** | 257,938 | 179,226 | 51,121 | 27,592 |
| **East Midlands** | 233,671 | 164,008 | 46,368 | 23,295 |
| **West Midlands** | 224,819 | 158,670 | 44,574 | 21,575 |
| **North West** | 213,345 | 151,631 | 42,495 | 19,219 |
| **Yorkshire & The Humber** | 200,380 | 143,148 | 39,872 | 17,359 |
| **North East** | 180,497 | 129,464 | 35,907 | 15,127 |
| ***England*** | ***269,719*** | ***183,060*** | ***59,650*** | ***27,009*** |

*Source: As Table 2.2. Note: not adjusted for Inflation.*

# Annex 1.8

**Table 4.1: Profile of buyers using Help to Buy Equity Loan by buyer status**

| | % All (1,500) | % First-time buyers (1,216) | % Non first time buyers (284) |
|---|---|---|---|
| **Age** | | | |
| 16-24 | 4 | 6 | 0 |
| 25-34 | 53 | 57 | 37 |
| 35-44 | 32 | 30 | 41 |
| 45+ | 11 | 8 | 23 |
| Total | 100 | 100 | 100 |

| | | | |
|---|---|---|---|
| **Previoua Tenure** | | | |
| Living with parents | 27 | 32 | 6 |
| Rented (Private & Social) | 54 | 64 | 11 |
| Owend (with/without mortgage) | 14 | 0 | 75 |
| Other | 4 | 4 | 8 |
| Total | 100 | 100 | 100 |

*Source: Ipsos MORI, Buyer survey 2nd – 20th August 2017 Base sizes in brackets. NOTE: Financial figures relating to income, purchase price, deposit and Equity Loan amounts have been rounded.*

# Annex 2

## Financial Analysis of Cohort Access to the Scheme

***Location and Home Type***

Houses (A) Dublin
Apartments (B) Dublin and other city Centres
Houses (C) rest of GDA, other main Cities and other Growth Areas
Apartments (D) rest of GDA and other Growth Areas

Can purchase at the Home Price Cap. Can only purchase below Home Price Cap.

| 95,000 Household Income | | | |
|---|---|---|---|
| | Deposit Required | Max. Home Price that can be paid, at or up to, the max EL % | Max. Equity Loan Required |
| Houses (A) | €42,500 | €425,000 | €50,000 |
| Apartments (B) | €48,500 | €485,000 | €104,000 |
| Houses (C) | €35,000 | €350,000 | Does not require an equity loan and does not qualify for one |
| Apartments (D) | €40,000 | €400,000 | €27,500 |

| 90,000 Household Income | | | |
|---|---|---|---|
| | Deposit Required | Max. Home Price that can be paid, at or up to, the max EL % | Max. Equity Loan Required |
| Houses (A) | €42,500 | €425,000 | €67,500 |
| Apartments (B) | €48,500 | €485,000 | €121,500 |
| Houses (C) | €35,000 | €350,000 | Does not require an equity loan and does not qualify for one |
| Apartments (D) | €40,000 | €400,000 | €45,000 |

| 80,000 Household Income | | | |
|---|---|---|---|
| | Deposit Required | Max. Home Price that can be paid, at or up to, the max EL % | Max. Equity Loan Required |
| Houses (A) | € 42,500 | € 425,000 | €102,500 |
| Apartments (B) | €48,500 | €466,667 | €140,000 |
| Houses (C) | €35,000 | €350,000 | €35,000 |
| Apartments (D) | €40,000 | €400,000 | €80,000 |

| 70,000 Household Income | | | |
|---|---|---|---|
| | Deposit Required | Max. Home Price that can be paid, at or up to, the max EL % | Max. Equity Loan Required |
| Houses (A) | €42,500 | €376,923 | €94,231 |
| Apartments (B) | €48,500 | €408,333 | €122,500 |
| Houses (C) | €35,000 | €350,000 | €70,000 |
| Apartments (D) | €40,000 | €400,000 | €115,000 |

| 60,000 Household Income | | | |
|---|---|---|---|
| | Deposit Required | Max. Home Price that can be paid, at or up to, the max EL % | Max. Equity Loan Required |
| Houses (A) | €42,500 | €323,077 | €80,769 |
| Apartments (B) | €48,500 | €350,000 | €105,000 |
| Houses (C) | €35,000 | €323,077 | €80,769 |
| Apartments (D) | €40,000 | €350,000 | €105,000 |

# Annex 3

## Current State Affordable Housing Schemes

### Legislation

The current affordable home purchase scheme is based on various delivery mechanisms set out below and enables households to buy a home at a price that is initially lower than the market value of the property. It is a national scheme. However, the property must be located on State lands and facilitates affordable homes being built on public land in co-operation with local authorities. The scheme is aimed at households who would be able to repay a mortgage but are struggling to buy a home. This scheme replaced previous affordable purchase initiatives which were discontinued.

The legislation behind this scheme is Part V of the Housing (Miscellaneous Provisions) Act 2009, which was commenced in June 2018. It is understood that each local authority prepares a "scheme of priority" that governs how eligible households will be selected when affordable homes are available to buy. Regulations (S.I. No. 81 of 2019) describing what local authorities must include in their scheme of priority were published in March 2019 [and are available on the Irish Statue Book website]. It describes criteria such as requirement to live in the local authority area, the impact of recently relocating, households with members currently working or in education in the area the houses are being offered, suitable house types, requirements for advertising eligible houses, etc.

The main structures available to the State in delivering affordable housing is either through:

- Deferred or reduced cost of the site on which the house is located or
- Direct costs associated with the Serviced Site Fund to support local authorities in the provision of key enabling infrastructure to get the sites ready for the delivery of affordable housing.

### The Land Development Agency

The Land Development Agency (the 'LDA') is intended to play a critical role in delivering mixed tenure private, affordable and social schemes by mobilising State and semi-State land banks. However, the function of the LDA still requires legislation to be passed. If this happens, the LDA is likely to have to deliver affordable homes through the current approved mechanism as per Part V of the Housing (Miscellaneous Provisions) Act 2009, which was commenced in June 2018. The delivery can be through a number of vehicles but ultimately is either:

- an equity share providing the discount
- land providing the discount
- the serviced site fund providing infrastructure for the discount or
- as part of an overall mixed tenure scheme with other housing tenure costs being increased to supplement the discount on the affordable lands.

Assuming an LDA legislation is approved, it will have to navigate through the various policies, procedures and systems that are embedded within the ownership and current management structures on State lands. Such barriers include procedures around land transfer/ disposal including council chambers, State and semi-State boards and the various Department of Finance procedures regarding land transfer/ disposal and will inevitably take significant time to navigate/address in order to deliver affordable/discounted housing to the market.

### Cost Rental

Cost Rental has also been discussed as part of an affordable solution. This concept in simple terms revolves around the State delivering residential units with cheaper rates of finance, foregoing the perceived 'developer margin', in theory producing a home that can be rented at monthly rent below current market rents. Very few projects have gained traction under this scheme and in fact it will only be able to deliver real 'discounted rents' in very specific geographical locations where market rents are far in excess of cost + 15% developer's margin.

Overall, the Cost Rental model is very complicated and takes significant time to model out, obtain planning, construct and ultimately deliver (assuming it is finically viable in the first instance).

### Summary

Public sector housing delivery solutions for those in the 'affordable'/non-social housing cohorts is both complex in terms of its procurement process and has significant timeframe challenges. To date, a very limited number of affordable homes are under construction and will not address the scale of the need. It is therefore essential that a scheme facilitated through the functioning private market
is implemented.

84 - 86 Lower Baggot Street
Dublin 2
Ireland.

info@propertyindustry.ie
+353 (0)1 605 1666
www.propertyindustry.ie

Property Industry Ireland
Ibec