



An overview and analysis of the Help to Buy Scheme

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Key messages

- This paper provides an analysis of the Help-to-Buy scheme which was announced in 2016. It is set to expire at the end of 2019 unless it is extended in the forthcoming Budget.
- The number of households availing of the scheme was higher than expected. Original costings suggested that the scheme would cost €130 million in total. However, by August 2019 €206.4 million was already claimed under the scheme.
- The majority of claims were for properties purchased in the Greater Dublin Area (60%).
- The aim of the scheme was stated to help first-time buyers raise a 10% deposit to purchase a property. This is required under the Central Bank's macroprudential lending rules. However, 41% of approved claims were made by households that had a loan-to-value ratio of less than 85%. This means they already had a deposit of at least 10%.
- The average Help-to-Buy purchase was above the average price of residential properties. In 2018, 47% of residential properties (new and existing) sold for less than €225,000, compared to only 13% of sales where the scheme was claimed.
- Roughly 21% of Help-to-Buy claims were for properties priced over €375,000. Assuming a loan-to-value ratio of 90%, a household would need an income of €96,429 to purchase a property of €375,000. This suggests that the scheme is benefiting households at the higher end of the income distribution.
- In 2018, transactions where the Help-to-Buy scheme was claimed accounted for 8% of total residential sales. This was higher in certain counties as 21% of transactions in Meath, 15% in Kildare and 13% in Wicklow claimed the Help-to-Buy scheme.

Introduction

The Help to Buy (HTB) scheme was initially announced in July 2016 as part of the “Rebuilding Ireland: Action Plan for Housing and Homelessness”. Full details of the scheme were outlined in Budget 2017 which took place in October 2016. The primary aim of the scheme was stated to be to make it easier for First-time buyers (FTB) to raise the deposit needed under the Central Bank's macroprudential rules (which was since amended to be 10% of the property value)¹. The scheme is set to expire this year as it was only designed to cover sales that took place over a fixed time period from July 2016 to December 2019.

The scheme works as a tax rebate of income tax and deposit interest retention tax (DIRT) paid over the previous four tax years and is available to FTBs purchasing a new property. However, the following restrictions apply:

- The owner must live in the property for at least five years following the sale.
- The property must be financed using a mortgage of at least 70% of the property value (i.e. loan-to-value ratio of 70%).
- For transactions that took place between 19 July 2016 and 31 December 2016, the purchase price must be less than €600,000 and for transactions that took place after 1 January 2017, the property must be worth less than €500,000.

The maximum a person can claim under the scheme is 5% of the purchase price up to a maximum value of €20,000 per property.

¹ <http://budget.gov.ie/Budgets/2017/Documents/Taxation%20Annexes%20to%20the%20Summary%20of%20Budget%202017%20Measures.pdf>

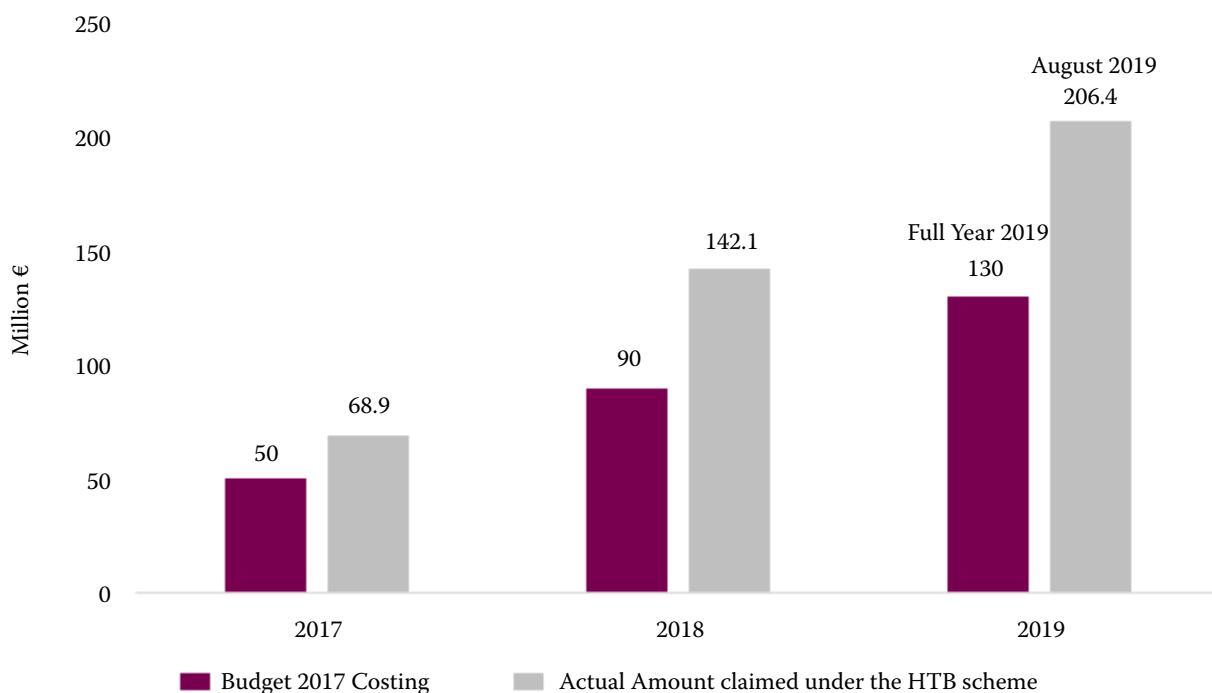
These restrictions were put in place to minimise the deadweight loss (i.e. facilitating transactions that would have taken place even if the scheme wasn't in place). It was also hoped that it would increase the supply of affordable homes within a certain price range.

How much did it cost?

In August 2019, 13,955 claims had been approved under the scheme since it was introduced. The average value of each claim was €14,790. Initial costings from Budget 2017 suggested that the scheme would cost €50 million in 2017 (which would include claims relating to transactions that took place in 2016) and €40 million in both 2018 and 2019. The total cost of the scheme (from July 2016- December 2019) was therefore estimated to be €130 million.

The number of households availing of the scheme has been significantly higher than expected. This has meant that the cost of the scheme is significantly higher than was originally envisaged (see figure 1). In August 2019, €206.4 million had already been claimed under the scheme, which is 59% higher than the original costing. It is likely that this cost will rise over the coming months as more claims will be made before the scheme expires.

Figure 1: Cumulative cost of the HTB scheme

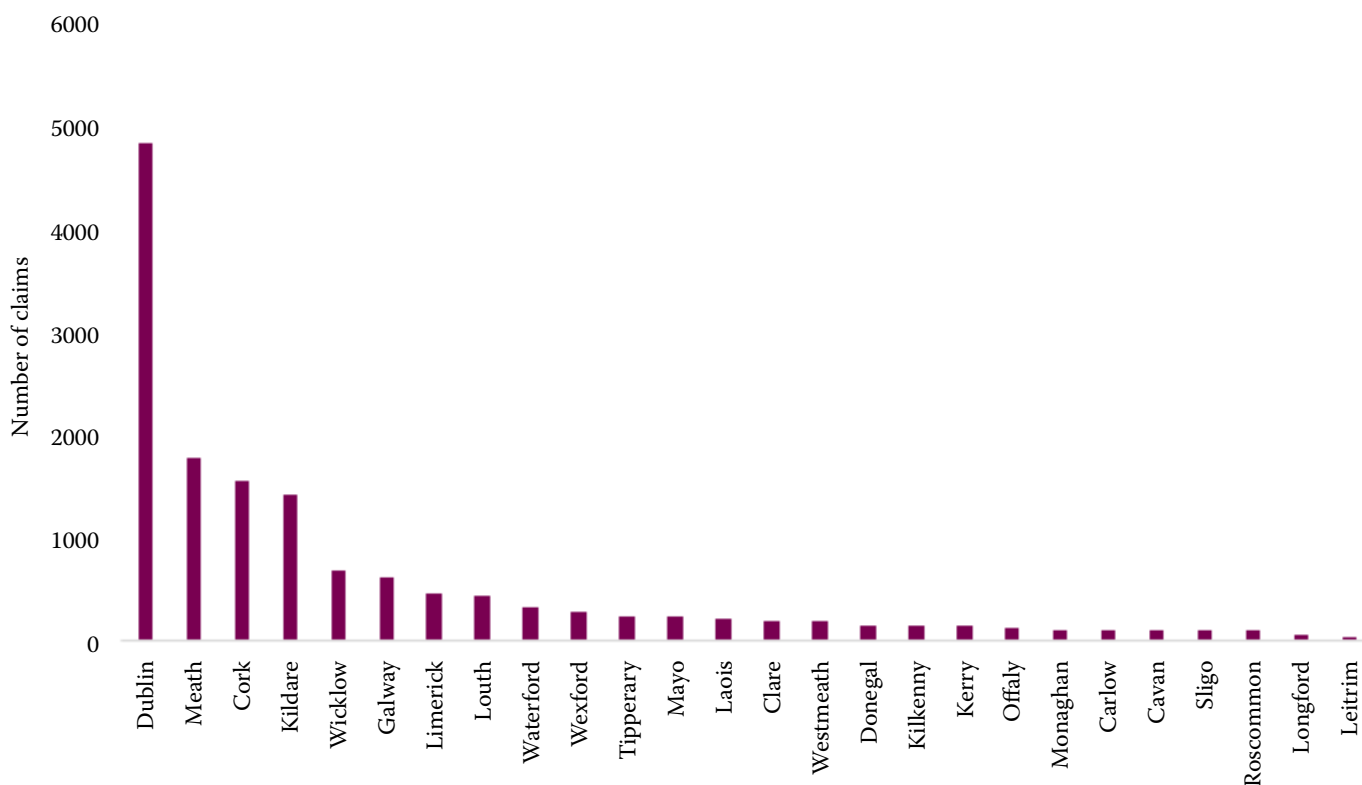


Source: Budget 2017 and Revenue

Who availed of the scheme?

Figure 2 provides a breakdown of HTB claims by county. These claims have been **heavily concentrated in the Greater Dublin Area² (GDA)** which is not surprising as that is where population growth and residential building activity has been strongest in recent years. A third of claims were for properties purchased in Dublin and 60% of claims were for properties in the Greater Dublin Area. Overall, the GDA, Cork, Limerick and Galway accounted for 77% of claims, with only 23% of claims taking place in the remaining counties. Of the total number of claims made, 21.5% were for 'self-build properties'; the remainder were for homes purchased as part of a scheme by an approved developer.

Figure 2: Total cumulative number of claims August 2019



Source: Revenue

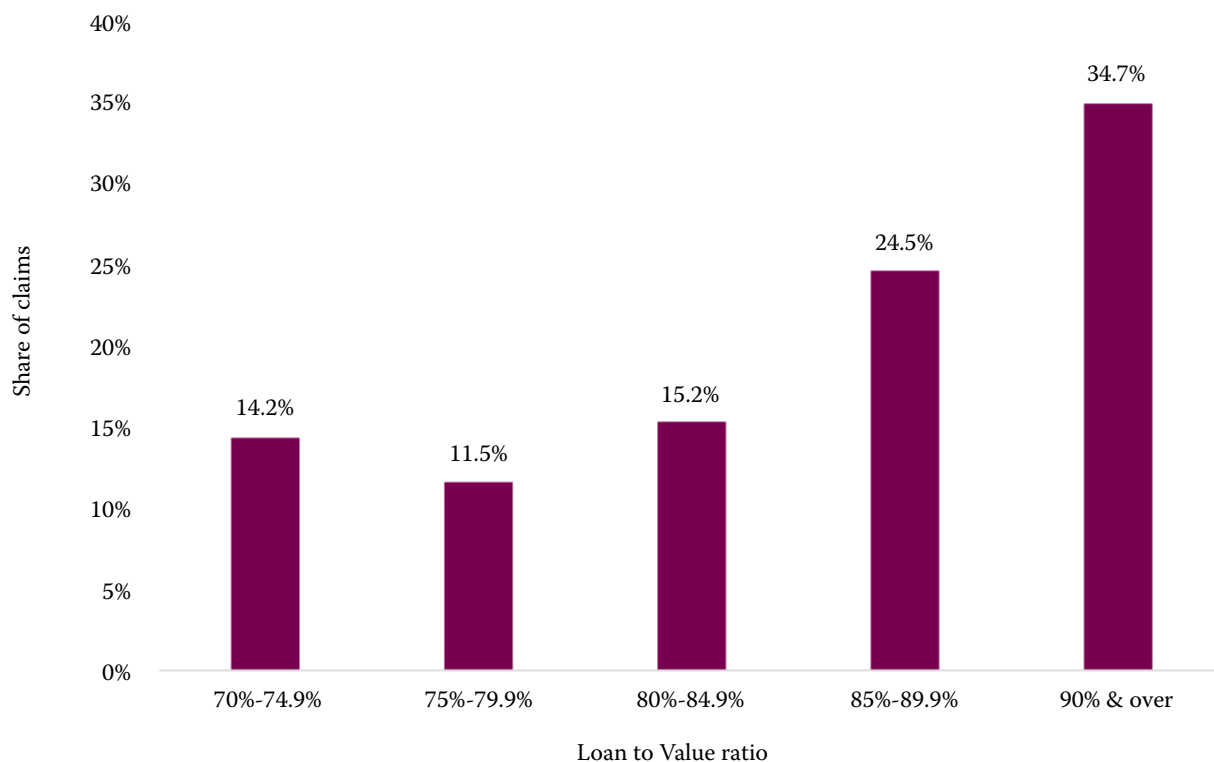
The aim of the scheme was stated to be to help FTBs obtain a 10% deposit required under the Central Bank's lending rules. If a FTB qualified for the full amount under the HTB scheme, they would only need to save a deposit of 5%, as the HTB rebate would help them reach the 10% threshold³. When the scheme was originally announced (in Budget 2017), FTBs needed to have a loan to value ratio of more than 80% to qualify for the scheme. This was to ensure that the scheme was restricted to those struggling to raise a deposit. However, this ratio was lowered to 70% in the Finance Bill.

Figure 3 provides a breakdown of the loan to value ratio of those who have availed of the scheme. Roughly 59% of claims were made by FTBs with a loan to value ratio of 85% or higher, suggesting that a significant proportion of households needed the HTB scheme to reach the 10% deposit requirement. However, 41% had a loan to value ratio of less than 85%, which means that they already had the 10% deposit requirement and didn't need the scheme to meet the macroprudential rules. This could be seen as a deadweight loss.

² The greater Dublin Area is defined as Dublin, Kildare, Wicklow and Meath

³ This assumes the property is valued at less than €400,000. If a buyer claimed the full amount (€20,000) and was purchasing a property for €500,000 they would need to save a 6% deposit to reach the 10% threshold.

Figure 3: Loan to Value Ratio



Source: Revenue

On average new properties are more expensive than second-hand properties. In 2018, the median⁴ price of a new property was €321,685 compared to €215,000 for a second-hand property. Figure 4 below provides a breakdown of the distribution of properties purchased under the HTB scheme compared to total sales in 2018.

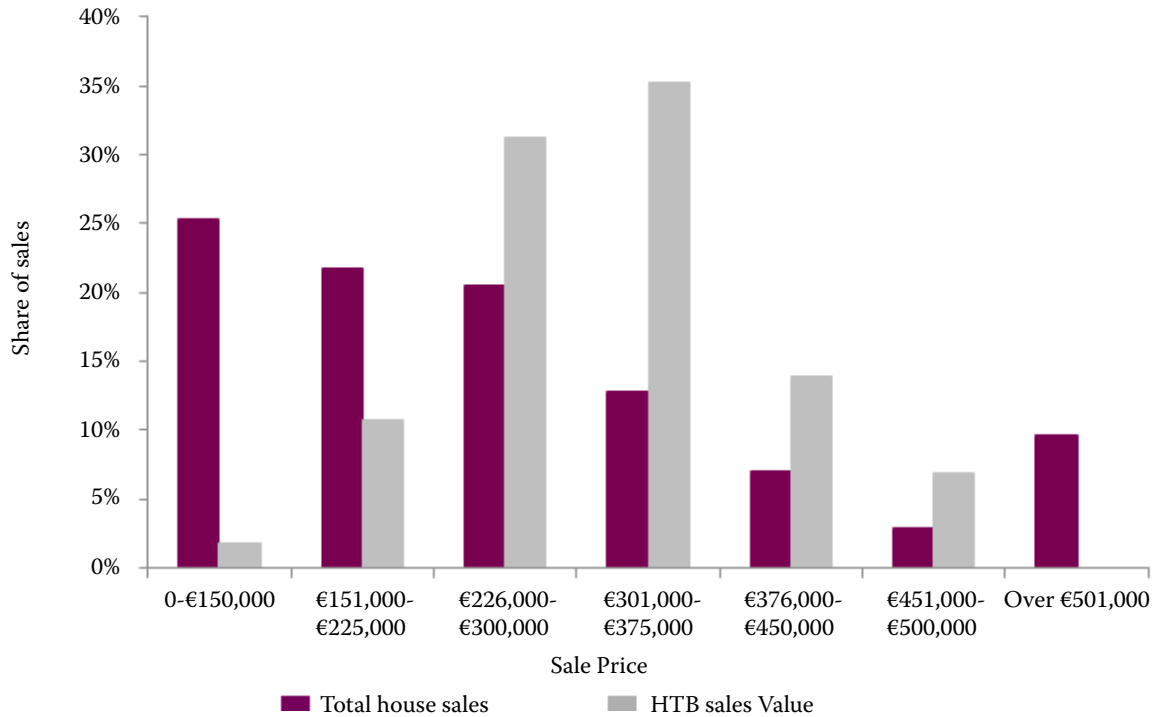
The average HTB purchase was above the average price of residential sales. In 2018, 47% of second-hand properties were sold for less than €225,000, compared to only 13% of sales where the HTB scheme was claimed. This is possibly because HTB purchases were heavily concentrated in the GDA where property and land prices are higher. In 2018, at least 56% of HTB claims were above the average house price (€286,931). This poses some risk as schemes which stimulate demand for more expensive properties could put inflationary pressures on property prices.

Given the mortgage lending rules, the income needed to purchase a property at these values is significantly higher than the national average. Assuming a loan to value ratio of 90%, a household would need an income of €96,429 to purchase a property of €375,000 and an income of at least €115,714 to purchase a property €450,000 or more. These incomes are significantly higher than the national median which was €45,256 in 2016⁵. This suggests that the scheme is largely benefiting households at the higher end of the income distribution.

4 Median is the point which half of properties are sold above this price and half are sold below this price.

5 <https://cso.ie/en/releasesandpublications/ep/p-gpii/geographicalprofilesandincomeinireland2016/>

Figure 4: Distribution of house sales by property value



Source: Revenue

Impact of the HTB scheme on the housing market

When the scheme was introduced it was expected that it would be a small measure with a relatively low cost. The low estimated cost and the restrictions in place suggested that it was not intended to have a significant impact on the market overall. However, the scheme has played a relatively large role in the housing market. In 2018, the HTB scheme was claimed for 8% of all transactions. This was significantly higher in the Dublin commuter belt, as in Meath 21% of transactions claimed the HTB scheme followed by Kildare (15%) and Wicklow (13%).

In terms of the scheme's impact on new properties, the scheme supported 28% of transactions for new properties⁶. Again, this varies across counties ranging from 11% to 43%. This is significant particularly given that a certain number of new builds are bought by second-time or non-household buyers or are too expensive to qualify for the scheme.

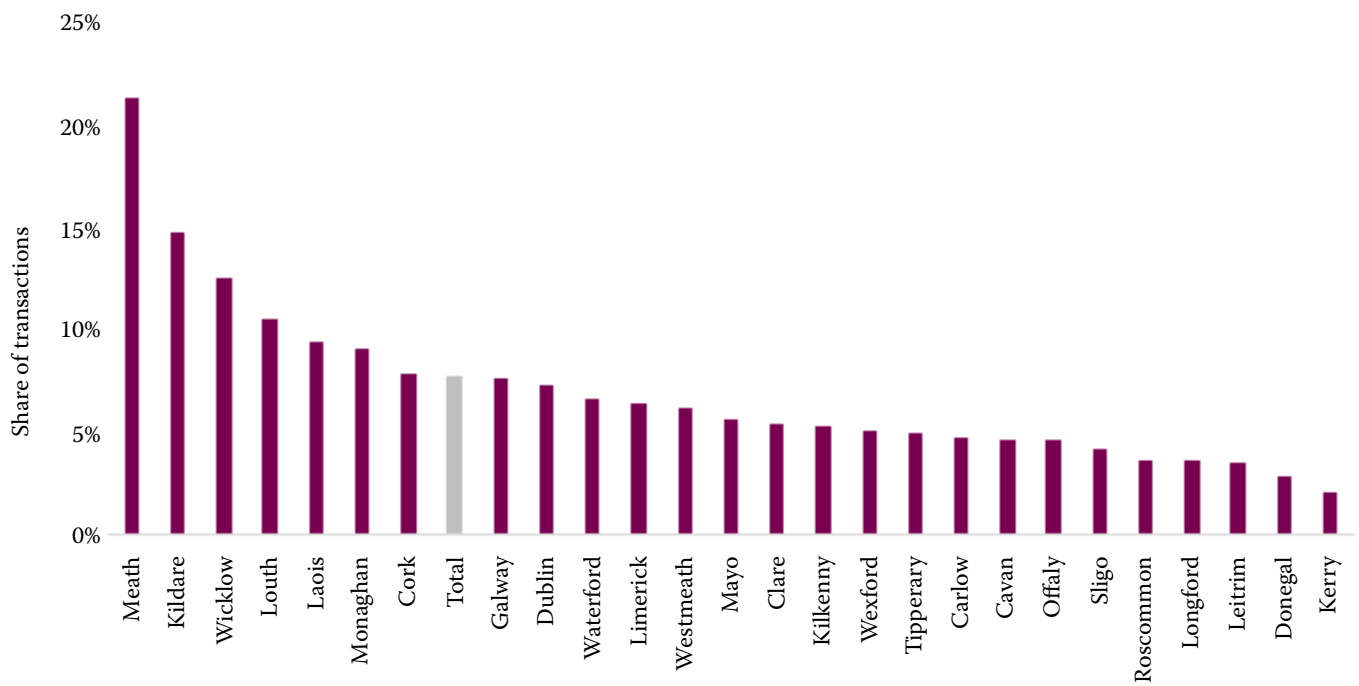
⁶ This refers to new dwelling completions

Figure 5: HTB as share of new house completions in 2018



Source: Revenue and CSO

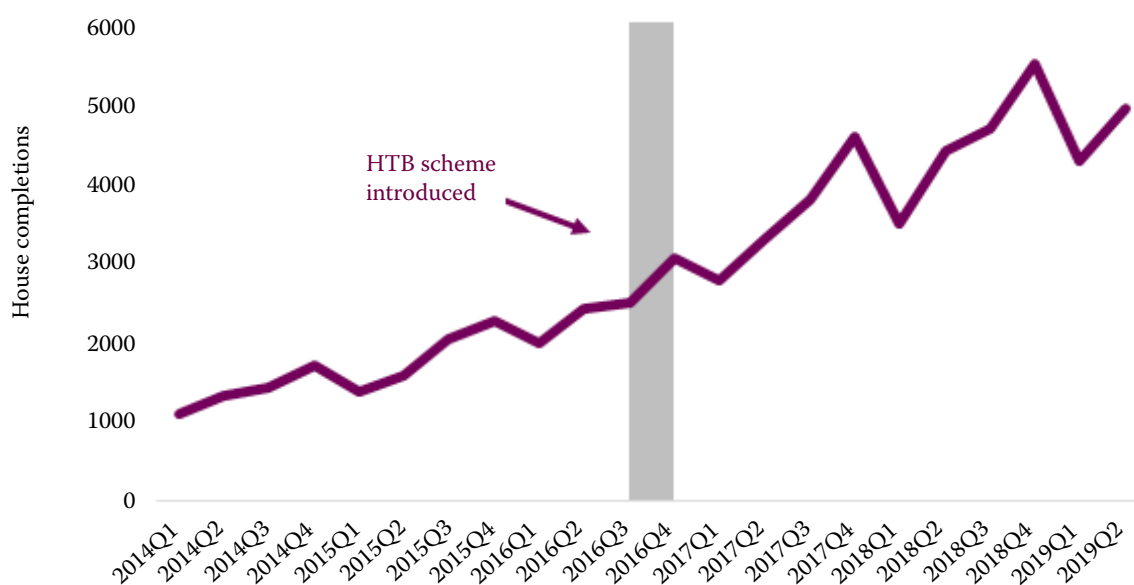
Figure 6: HTB share of total transactions 2018



Source: Revenue and CSO

When the scheme was announced there were concerns it could increase demand and lead to higher prices, particularly if the supply remained fixed. This would offset any gain made by the buyer as the benefit would be passed onto the seller through a higher price. However, following the scheme's introduction there was a significant increase in the number of house completions.

Figure 7: New house completions



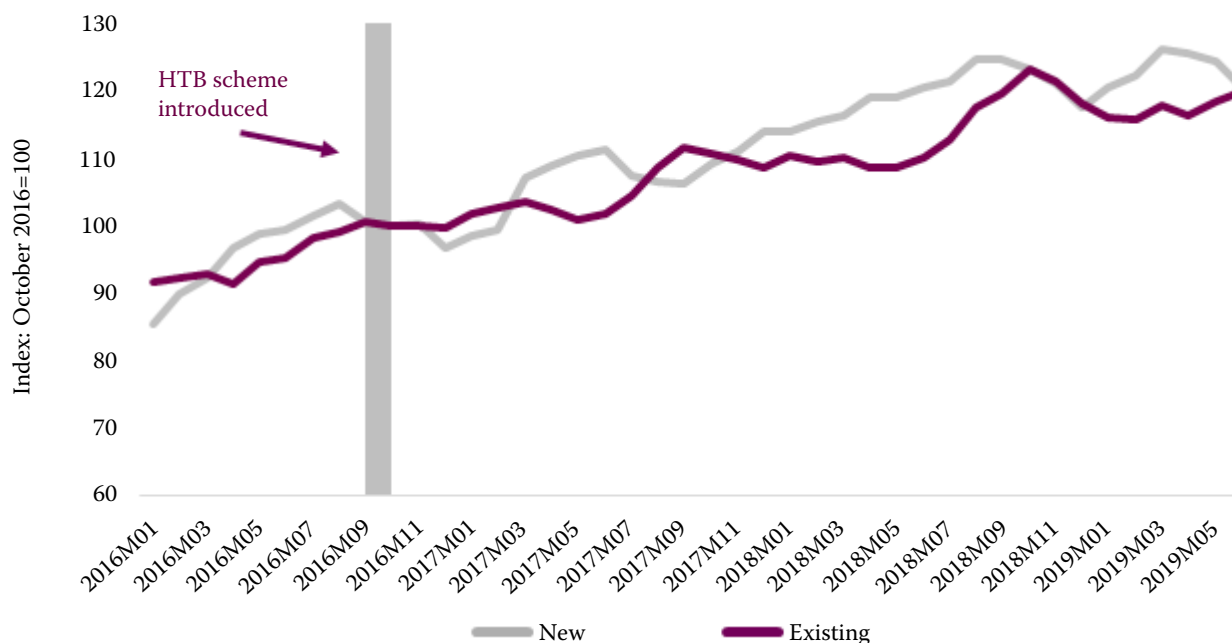
Source: CSO

The number of new dwellings increased from 9,896 in 2016 to 18,016 in 2018. This trend is likely to continue in 2019 as the number of houses built in the first half of the year was 16.8% higher than the same period in 2018. It is unclear whether the increased activity was driven by the scheme or by other factors influencing the market. There were several other measures implemented around this time period as part of the Rebuilding Ireland Action Plan (e.g. Local Infrastructure Housing Activation Fund).

Data from the residential property price register suggests that while the number of new properties sold for less than €500,000 increased, the number of properties sold for more than €500,000 (which wouldn't qualify for the scheme) also increased. As the latter properties would not qualify for the scheme, this suggests that **other factors may have been driving residential building activity** and the increase can't be shown to be solely due to the introduction of the scheme.

This increase in supply should mean that prices did not increase as much as they would have if supply had remained fixed. Figure 8 shows growth in median prices for new and existing houses following the introduction of the HTB scheme. While median prices for new builds did increase following the introduction of the scheme, the price of existing properties followed a broadly similar trend. However, some caution should be used in interpreting this data as it is unweighted and therefore subject to volatility due to compositional changes.

Figure 8: Median house prices new vs old, 3 month moving average



Source: CSO

Modelling exercise to estimate the impact of the HTB scheme on property prices

The PBO undertook a modelling exercise to examine the impact of the scheme on new properties using data from the CSO. A difference in difference (DID) estimator technique is used to evaluate the impact the Help-to-Buy scheme had on house prices. It compares prices for new properties (treatment group) with prices for existing properties (control group) before and after the scheme was put in place. Overall, the results suggest that the HTB scheme did not have a statistically significant impact on prices. Results from two models are presented in the box below.

Box 1: Modelling Exercise

For the estimates to be valid, the ‘parallel trend assumption’ must hold. This means that both series (prices of new and existing properties) must follow a similar trend before the policy is implemented. While prices for new and existing properties are highly correlated (i.e. move in the same direction) from 2010-2014, increased volatility in 2015 caused new property prices to grow at a faster rate, violating this assumption. Therefore, the two models presented below use data from January 2016 to July 2019.

The variable ‘HTB scheme’ controls for transactions that took place from October 2016 onwards (intervention period). While the scheme could be claimed on transactions that took place from July 2016, details of the scheme weren’t available until October 2016. Therefore, as it is unlikely that prices would have been affected before details were available, October 2016 is used as the start of the ‘treatment’ period. The variable ‘new build’ controls for new properties which are likely to have a higher price due to both quality and geographical factors. The variable ‘DID’ is the difference in difference estimator. This subtracts the change in the control group (the difference in prices pre and post HTB) from the change in treatment group (also pre and post HTB) and determines the impact of the intervention (in this case the Help to Buy scheme).

The dependent variable (the variable that we want to explain) in model 1 is the median property price in Ireland, the dependent variable in model 2 is the average prices in Wicklow Kildare and Meath. Model 2 focuses on these three counties as this is where take up of the Help to Buy scheme was heavily concentrated and therefore likely had the biggest impact on prices.



While both models found that the first two variables had a statistically significant impact, it appears that the HTB scheme did not have a statistically significant impact on the price of new properties (the DID estimator is not statistically significant).

Table 1 – Estimation Results

Variable	Model 1	Model 2
HTB scheme	0.14*	0.08*
New Build	0.38*	0.17*
Difference in Difference (DID)	0.02	0.02
Constant	12.10	12.45
Observations	86	86
Region	All counties	Wicklow, Kildare and Meath
R ²	0.89	0.74

The dependent variable is expressed in logarithms. * indicates that the coefficients are statistically significant at the 5% significance level.

Conclusion

The aim of the help-to-buy scheme was stated to be to help FTBs raise the 10% deposit required under the Central Bank's macroprudential rules. The scheme is set to expire in 2020. If it is continued, it will need an additional allocation of resources as the original costings underestimated how much the scheme would cost.

The analysis provided in this paper suggests that the scheme was used for a significant number of properties that are above the median national house price and benefited households at the upper end of the income distribution. A significant number of claims were also made by households that already had a 10% deposit saved. This suggests that the scheme did not fulfil its original aims in an efficient manner as the scheme supported a significant number of transactions that would have taken place without the scheme.

Any scheme targeted at home owners is likely to raise these issues. Future housing schemes should take distributional impacts into account and potentially direct resources towards lower income households in the rental and social housing sectors.

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