

Research Paper: Should Irish households rent or buy over the next ten years? Towards a modest conclusion

Karl Deeter (karl.deeter@mortgagebrokers.ie)

Dr Peter Stafford (peter@peterstafford.ie)

Frank Quinn (fquinn@scd.ie)

July 2010

Introduction

This report seeks to assess whether it is financially more sensible for different Irish household formations to buy or rent their own home over the next decade. By applying six scenarios for house prices and rents over the next decade to five case study households, this report asks whether – after ten years – each of those households should rent or buy a property now, or rent for five years then buy it for the remaining five years of the decade.

Findings

- It is only in scenarios where householders believe that property prices will remain flat or rise over the next decade that there is a strong logic in buying a house now. In all other scenarios, where forecasts are more unsettled, householders should rent, at least for the next five years.
- Delaying buying for five years does not put the renter at any disadvantage over those who buy now in a rising market. In all scenarios over the full decade, the total cost of renting is significantly lower than the cost of buying.
- This difference in renting and buying is greater at the top end of the housing market, where the logic in continuing to rent is strongest. While €950 rent per month will allow a middle-income family to live in a house valued at €250,000, €1,250 per month will allow a family with a slightly greater income to live in a house valued at €500,000, while still avoiding the cost of buying a €500,000 house.

- This total cost difference is less significant at the lower end of the property market. However, lower earners are the least likely to qualify for a mortgage under current banking practices, ruling them out of home ownership in the short-term.

Calculations and Methodology

A ten year fixed rate was used as the benchmark¹, with the assumption that in any case a couple are buying or renting, in either case they do not rent out other rooms. For buyers TRS was factored in at the current rates, for renters the same was done for Rent Relief. The people who rent are assumed to have a deposit, instead of sinking that into the house they put it on deposit in our calculator and this money accrues interest upon which DIRT² is charged.

If a person becomes a buyer in year five or ten the purchase price is taken as being the asking price at that point in time based upon the expected price changes, and the balance for the person who buys now is based upon their balance on an amortizing loan in which no payments have been missed, and no changes to the structure of the loan have been made. Loan term reduces in future purchases to keep the overall time frame identical³ across the comparisons.

The actual calculator accommodates different scenarios for future rental and property price changes; for the sake of interpretation they have been correlated. Future interest rates are based upon the Euribor yield curve, placing the premium upon the current fixed rate to obtain the future rate⁴.

The full comparison looks at the outgoing cost in the first instance (of renting or buying), and in the second instance at the capital sum owed in the future based on price

¹ The 10yr rate is an average of 5 and 10 year rates to obtain a figure above the best 10yr fixed in the market but not as high as the highest, otherwise it would skew the figures as some lenders are charging fixed rates that are essentially there to price them out of the market.

² DIRT – Deposit Interest Retention Tax, currently 25%

³ Which does increase the cost of a mortgage, but without doing this we are not comparing time appropriately.

⁴ This may or may not be the case as there is no concrete way to determine where rates will be, however, the Euribor yield curve is based upon millions of market transactions and is as close to a working tool on future rate expectations as one may obtain.

expectations, combining the two gives an overall picture of which scenario is the most cost effective.

The working calculator can be requested by email where appropriate; we hope to have an online version of it in the near future.

Case studies

On Budget Day each year, the Department of Finance produces a series of briefing papers which illustrate the impact of budgetary policy on five case study household formations. These case studies⁵ give us a great deal of information on the income, earnings and taxation of different household formations. This paper uses the case studies produced by the Department of Finance for the December 2009 Budget. For each, we have assessed what mortgage (if any) would be available to them in July 2010 from the main three lending agencies in Ireland, working on the assumption of a 90% loan to value ratio, which is still the norm in Ireland.⁶

House price scenarios

For each case study household, six scenarios for house prices over the next decade have been applied. In scenarios 2,4 and 5, a constant trend in values over ten years is applied. The remaining three case studies assume a change in the trend in property values in year 5.

Property Price and Rental Scenarios

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Scenario 1: falls then stays flat	-8%	-6%	-4%	-2%	-1%	0%	0%	0%	0%	0%
Scenario 2: stays flat continuously	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Scenario 3: falls then rises	-8%	-6%	-4%	-2%	-1%	+1%	+ 2%	+4%	+6%	+8%

⁵ Details of these case studies are given in Appendix A, as well as <http://www.budget.gov.ie>

⁶ Recent research by the Professional Insurance Brokers Association (PIBA) shows that 90% is still the most popular loan to value ratio for new mortgages.

Scenario 4: falls only	-8%	-8%	-6%	-6%	-4%	-4%	-2%	-2%	-1%	-1%
Scenario 5: rises only	1%	1%	2%	2%	2%	2%	2%	2%	4%	4%
Scenario 6: stays flat then rises	0%	0%	0%	0%	0%	1%	2%	3%	4%	5%

Experience in Ireland and overseas suggests that while property prices and rents are not necessarily directly linked, they do show a general correlation, ie, when property prices rise, rents are also likely to rise. In this report, in order to reduce complexity and to make it easier to show changes in rents and prices, rents are assumed to show the same trend as prices and therefore the same six scenarios are used for the five case study households. However, the calculator used in this report is capable of showing a much wider number of scenarios for both rents and prices, such as changes to property taxes and so on in future Budgets. The six scenarios listed here are indicative of what may happen over the next decade without any subsequent state intervention, using current government policy and banking practice.

For each household, the report looks at three decisions:

- Rent a property now
- Rent a property and buy in five years
- Buy a property now

The report assesses the financial position of each household at the end of ten years, if each of the six scenarios are applied. By assessing the total costs for ten years, and the capital amount owed in year ten, the report notes whether it is financially most prudent for the householder to rent for ten years, buy for ten years, or rent for five then buy.

In all cases, the smallest number (in the shaded box) is the recommended course of action under each scenario.

Household 1: Oisín

Oisín is single and works in an insurance company earning €52,000 per annum. He will see no change in his net income due to this Budget.

	2009 (€)	2010 (€)
Gross Income	52,000	52,000
Income Tax	10,016	10,016
PRSI	1,816	1,816
Health Levy	2,080	2,080
Income Levy	1,040	1,040
Total Liability	14,952	14,952
Net Cash Income	37,048	37,048
Deductions as a % of Gross Income	29%	29%
Total Change	0	0
Change as a % of Net Income	0	0

Mortgage amounts available:

- AIB €297,000
- ICS €273,000
- EBS €289,000

Average: €286,333

On a 90% loan to value ratio, **purchase price is €318,148**

Currently, for this price, this household could afford to buy a house in Huntstown or Clonsilla.

Rental of similarly priced property: c. €1,150

Should Oisín rent or buy?

Scenario 1: falls then stays flat

	Cost for 10yrs	Capital amount owed in year 10	Cost + capital amount owed
Buy a property	€157,349	€231,068	€388,417
Rent for 5yrs then buy	€156,236	€202,958	€359,195
Rent only for 10yrs	€108,692	€215,165	€323,857

Scenario 2: stays flat continuously

	Cost for 10yrs	Capital amount owed in year 10	Cost + capital amount owed
Buy a property	€157,349	€231,068	€388,417
Rent for 5yrs then buy	€191,951	€259,941	€451,892
Rent only for 10yrs	€130,000	€277,055	€407,055

Scenario 3: falls then rises

	Cost for 10yrs	Capital amount owed in year 10	Cost + capital amount owed
Buy a property	€157,349	€231,068	€388,417
Rent for 5yrs then buy	€156,236	€202,958	€359,195
Rent only for 10yrs	€111,441	€273,219	€384,660

Scenario 4: falls only

	Cost for 10yrs	Capital amount owed in year 10	Cost + capital amount owed
Buy a property	€157,349	€231,068	€388,417
Rent for 5yrs then buy	€143,021	€177,327	€320,348
Rent only for 10yrs	€102,379	€165,314	€267,694

Scenario 5: rises only

	Cost for 10yrs	Capital amount owed in year 10	Cost + capital amount owed
Buy a property	€157,349	€231,068	€388,417
Rent for 5yrs then buy	€206,006	€284,118	€490,124
Rent only for 10yrs	€142,721	€354,218	€496,939

Scenario 6: stays flat then rises

	Cost for 10yrs	Capital amount owed in year 10	Cost + capital amount owed
Buy a property	€157,349	€231,068	€388,417
Rent for 5yrs then buy	€191,951	€259,941	€451,892
Rent only for 10yrs	€135,017	€327,554	€462,571

For Oisín, there is a clear logic in buying a house in scenarios 2, 5 and 6 where property prices remain flat or begin to grow at some point for the next ten years. In scenario 4, the financial costs of renting are significantly lower than buying for ten years, and in scenario 3, Oisín should continue to rent, and buy in year 5.

Household 2: Ruth

Ruth is single and has a son, Darragh, who is 4 years old. Ruth is employed as a waitress and is earning the minimum wage of €17,542 per annum. The discontinuation of the Early Childcare Supplement (ECS) means that Ruth can now avail of the new Early Childhood Care and Education Scheme (ECCE) to pay for pre-school attendance for Darragh. Taking this into account, together with an increase in the Family Income Supplement, Ruth will have a net gain of €1,969 in 2010.

	2009 (€)	2010 (€)
Gross Income	17,524	17,542
Income Tax	0	0
PRSI	0	0
Health Levy	0	0
Income Levy	351	351
Total Liability	351	351
Net Cash Income	17,191	17,191
Deductions as a % of Gross Income	2%	2%
Family Income Supplement	5,304	5,512
ECS	498	0
ECCE	0	2,451 *
Child Benefit	1,992	1,800
Net Income	24,985	26,954
Total Gain		1,969
Gain as a % of Net Income		7.90%

* Denotes monetary value of ECCE paid to service provider

Mortgage amounts available:

- AIB (will not lend)
- ICS (will not lend)
- EBS (will not lend)

Under current bank criteria Ruth would be unable to obtain a mortgage on her own. She therefore has no option but to rent, possibly for the next decade, but realistically over the next five years. Ruth would need to experience a doubling in her salary in order to avail of a mortgage, or for the property market to see an extreme drop in prices.

Household 3: Eileen & Dominic

Eileen and Dominic are married with two children. Vincent is 3 and a half years old and Áine is six months. Dominic works in the home and Eileen is employed as a public servant earning €45,000 and paying full rate PRSI. Eileen will see a €2,625 reduction in her gross pay as a result of the public service pay adjustment. The family will see a loss of ECS and a reduction of Child Benefit (CB) in 2010, but will gain on ECCE leaving a total loss of €455.

	2009 (€)	2010 (€)
Gross Income	45,000	42,375
Income Tax	1,643	1,204
PRSI	1,342	1,255
Health Levy	1,607	1,519
Income Levy	900	848
Pension Levy	2,750	2,488
Pension Contribution	2,087	1,916
Net Cash Income	34,671	33,145
Deductions as % of Gross income	23%	21.80%
ECS	996	0
ECCE	0	2,451 *
Child Benefit	3,984	3,600
Net Income	39,651	39,196
Total Loss		455
Loss as a % of Net income		1.10%

Mortgage amounts available:

- AIB (will not lend)
- ICS €202,500
- EBS €247,500

Average: €225,000

On a 90% loan to value ration: **purchase price is €250,000**

For this money, this household could afford to buy a house a Donnycarney, Santry, Cabra, Lusk or Drimnagh

Rental of similarly priced property: c. €950 p.m.

Should Eileen and Dominic rent or buy?

Scenario 1: falls then stays flat

	Cost for 10yrs	Capital amount owed in year 10	Cost + capital amount owed
Buy a property	€123,644	€181,573	€305,217
Rent for 5yrs then buy	€124,376	€159,484	€283,860
Rent only for 10yrs	€88,398	€169,076	€257,474

Scenario 2: stays flat continuously

	Cost for 10yrs	Capital amount owed in year 10	Cost + capital amount owed
Buy a property	€123,644	€181,573	€305,217
Rent for 5yrs then buy	€152,758	€204,261	€357,019
Rent only for 10yrs	€106,000	€217,709	€323,709

Scenario 3: falls then rises

	Cost for 10yrs	Capital amount owed in year 10	Cost + capital amount owed
Buy a property	€123,644	€181,573	€305,217
Rent for 5yrs then buy	€124,376	€159,484	€283,860
Rent only for 10yrs	€90,669	€214,695	€305,364

Scenario 4: falls only

	Cost for 10yrs	Capital amount owed in year 10	Cost + capital amount owed
Buy a property	€123,644	€181,573	€305,217
Rent for 5yrs then buy	€113,963	€139,343	€253,306
Rent only for 10yrs	€83,183	€129,903	€213,086

Scenario 5: rises only

	Cost for 10yrs	Capital amount owed in year 10	Cost + capital amount owed
Buy a property	€123,644	€181,573	€305,217
Rent for 5yrs then buy	€163,892	€223,259	€387,152
Rent only for 10yrs	€116,508	€278,344	€394,852

Scenario 6: stays flat then rises

	Cost for 10yrs	Capital amount owed in year 10	Cost + capital amount owed
Buy a property	€123,644	€181,573	€305,217
Rent for 5yrs then buy	€152,758	€204,261	€357,019
Rent only for 10yrs	€110,145	€257,391	€367,536

Under three of the scenarios (2, 5, 6) Eileen and Dominic would be better buying a home now. They could afford to buy a €250,000 house, or rent a similar house for €950 per month. The margin between renting and buying is very small over ten years, and under scenario 3 (house prices fall then rise) after ten years, the difference between renting and buying is only a matter of a few hundred euro.

Household 4: Kate & David

Kate and David are married with two children. Mairead is 14 and Alan is 12 years old. Both Kate and David joined the public service in 1994 and are now earning €50,000 and €37,000, respectively. They will see a reduction in their combined gross pay of €5,025 as a result of the public service pay adjustment. With a reduction in CB their net loss in 2010 will be €2,691.

	2009 (€)	2010 (€)
Gross Income	87,000	81,975
Income Tax	10,395	8,572
PRSI	700	660
Health Levy	3,220	3,042
Income Levy	1,740	1,640
Pension Levy	5,200	4,698
Pension Contribution	1,305	1,230
Net Cash Income	64,440	62,133
Deductions as % of Gross income	26%	24%
Child Benefit	3,984	3,600
Net Income	68,424	65,733
Total Loss		2,691
Loss as a % of Net income		3.90%

Mortgage amounts available:

- AIB €435,000
- ICS €435,000
- EBS €482,500

Average: €450,833

At a 90% loan to value ration, **Purchase price is €500,925**

Currently for this price, this household could afford to buy a house in Malahide, Drumcondra, Blackrock, Ballsbridge, Castleknock, and Donnybrook.

Rental of a similarly priced property: c. €1,250

Should Kate and David rent or buy?

Scenario 1: falls then stays flat

	Cost for 10yrs	Capital amount owed in year 10	Cost + capital amount owed
Buy a property	€247,746	€363,817	€611,563
Rent for 5yrs then buy	€218,496	€319,559	€538,055
Rent only for 10yrs	€118,839	€338,777	€457,617

Scenario 2: stays flat continuously

	Cost for 10yrs	Capital amount owed in year 10	Cost + capital amount owed
Buy a property	€247,746	€363,817	€611,563
Rent for 5yrs then buy	€270,885	€409,278	€680,162
Rent only for 10yrs	€142,000	€436,223	€578,223

Scenario 3: falls then rises

	Cost for 10yrs	Capital amount owed in year 10	Cost + capital amount owed
Buy a property	€247,746	€363,817	€611,563
Rent for 5yrs then buy	€218,496	€319,559	€538,055
Rent only for 10yrs	€121,827	€430,185	€552,012

Scenario 4: falls only

	Cost for 10yrs	Capital amount owed in year 10	Cost + capital amount owed
Buy a property	€247,746	€363,817	€611,563
Rent for 5yrs then buy	€198,029	€279,201	€477,230
Rent only for 10yrs	€111,978	€260,288	€372,265

Scenario 5: rises only

	Cost for 10yrs	Capital amount owed in year 10	Cost + capital amount owed
Buy a property	€247,746	€363,817	€611,563
Rent for 5yrs then buy	€291,918	€447,345	€739,263
Rent only for 10yrs	€155,827	€557,718	€713,545

Scenario 6: stays flat then rises

	Cost for 10yrs	Capital amount owed in year 10	Cost + capital amount owed
Buy a property	€247,746	€363,817	€611,563
Rent for 5yrs then buy	€270,885	€409,278	€680,162
Rent only for 10yrs	€147,454	€515,734	€663,188

In three scenarios, it makes sense for Kate and David to rent their house. Because of their good income levels, for €1,250 per month, they can rent a €500,000 house. It is only in scenario 5, where prices rise for the full decade that there is a clear benefit in buying now. In scenarios 3 and 6, there is little material benefit in buying a house now, or in five years time.

Household 5: Caroline & Seamus

Caroline and Seamus are married with two children. Brid is 2 years old and Aoibheann is 1 year old. Caroline works in the home and Seamus is employed as a manager in a large company, with an annual salary of €45,000. There will be no change to his net pay as a result of Budget 2010. The family will see a loss of ECS and a reduction of CB in 2010, resulting in a net income loss of €1,380 for the year.

	2009 (€)	2010 (€)
Gross Income	45,000	45,000
Income Tax	2,610	2,610
PRSI	1,536	1,536
Health Levy	1,800	1,800
Income Levy	900	900
Net Cash Income	38,154	38,154
Deductions as % of Gross income	15.20%	15.20%
ECS	996	0
Child Benefit	3,984	3,600
Net Income	43,134	41,754
Total Loss		1,380
Loss as a % of Net income		3.20%

Mortgage amounts available:

- AIB (won't lend)
- ICS €202,500
- EBS €247,500

Average: €225,000

On a 90% loan to value ration: **purchase price is €250,000**

For this money, this household could afford to buy a house a Donnycarney, Santry, Cabra, Lusk or Drimnagh

Rental of similarly priced property: c. €950 p.m

Should Caroline and Seamus rent or buy?

Scenario 1: falls then stays flat

	Cost for 10yrs	Capital amount owed in year 10	Cost + capital amount owed
Buy a property	€123,644	€181,573	€305,217
Rent for 5yrs then buy	€124,376	€159,484	€283,860
Rent only for 10yrs	€88,398	€169,076	€257,474

Scenario 2: stays flat continuously

	Cost for 10yrs	Capital amount owed in year 10	Cost + capital amount owed
Buy a property	€123,644	€181,573	€305,217
Rent for 5yrs then buy	€152,758	€204,261	€357,019
Rent only for 10yrs	€106,000	€217,709	€323,709

Scenario 3: falls then rises

	Cost for 10yrs	Capital amount owed in year 10	Cost + capital amount owed
Buy a property	€123,644	€181,573	€305,217
Rent for 5yrs then buy	€124,376	€159,484	€283,860
Rent only for 10yrs	€90,669	€214,695	€305,364

Scenario 4: falls only

	Cost for 10yrs	Capital amount owed in year 10	Cost + capital amount owed
Buy a property	€123,644	€181,573	€305,217
Rent for 5yrs then buy	€113,963	€139,343	€253,306
Rent only for 10yrs	€83,183	€129,903	€213,086

Scenario 5: rises only

	Cost for 10yrs	Capital amount owed in year 10	Cost + capital amount owed
Buy a property	€123,644	€181,573	€305,217
Rent for 5yrs then buy	€163,892	€223,259	€387,152
Rent only for 10yrs	€116,508	€278,344	€394,852

Scenario 6: stays flat then rises

	Cost for 10yrs	Capital amount owed in year 10	Cost + capital amount owed
Buy a property	€123,644	€181,573	€305,217
Rent for 5yrs then buy	€152,758	€204,261	€357,019
Rent only for 10yrs	€110,145	€257,391	€367,536

Caroline and Seamus should buy a house if they believe prices will rise or remain flat over the next decade. If they believe that in the shorter term, prices will fall, they should continue to rent and then re-assess their position in five years time, when buying will make sense. In all six scenarios, the cost of renting is lower than buying, but by a very small degree.

A Renters Opinion: Frank Quinn, Lecturer of Valuations, Senior College Dun Laoire.

1: Prices will continue to fall.

The major reason to delay purchasing a property is that property prices will continue to fall for the foreseeable future. From a peak of 310,000 in February 2007 the average price now stands at 210,000 a drop of over 30%. In 2009 the price falls were increasing and in quarter 4 alone the price reduction was 8.5%, twice the decline of any quarter since the fall began.

The argument therefore that house prices have reached a bottom and will begin to stabilise looks to be an incorrect one. The property which would cost a purchaser 300,000 today could well be on the market for 250,000 in a years time. Therefore, by renting for another year the prospective purchaser should find themselves 50,000 better off by delaying their purchase.

2: Fundamentals are against the market.

The factors that drove the property market from 1996-2006 were low unemployment rates, low mortgage rates, demographic factors such as net migration and Investor/Buyer confidence. Unemployment rates in Ireland fell from 15% in the early 90's to 4% by the year 2000. This increase in people employed fuelled a demand for purchasing property. However the unemployment rate is now over 13% and is showing no sign of decreasing for the foreseeable future.

Mortgage rates fell from 10%-14% in the early 90's to 4-5% in the early 2000's due to our entrance to the euro. Low interest rates are the one factor still stabilising the property market as they are at historically low levels but mortgage rates of 3% are not going to last for the term of a 20-25 year mortgage. The inevitable mortgage rate increases will cause difficulties for the property market and for over exposed mortgage holders.

In the late 80's there was net migration out of Ireland of approx 30,000 people each year. But by the late 90's there was net migration into Ireland of approx 40,000 people each year which continued up to 2007. In 2010 there will be 60,000 people leaving Ireland

and in 2011 there will be 40,000 people leaving. The age profile of these people is very important as the majority are in the key 25-40 house buying demographic.

Investor/Buyer confidence has disappeared as the market has turned from a sellers to a buyers one. The overnight queues outside estate agents and developments have been replaced by unsuccessful auctions and longer selling periods for properties.

3: Don't jump into the recovery too early

It is my belief that house prices will continue to fall for at least the next 2 years with further price falls of about 40% from today till we see prices stabilise. So my belief is that the property selling for 300,000 today will be available for 180,000 in 2 years time. But what if I'm wrong and prices stabilise quicker than expected.

In Derek Brawns excellent book "Ireland's House Party", Derek examines the prospect of price recovery and argues that the possible recovery increases in house prices of 2-3% pa are far outweighed by the prospective falls of 20%pa. In other words, if I'm wrong and house prices recover quicker than expected then the property costing 300,000 today will be available for 310,000 next year. However, if I'm right the same property will be available for purchase at 240,000, a saving of 60,000 euro.

In my opinion the advantages of waiting to buy far outweigh the disadvantages of missing out on a sudden price stabilisation.

4: Rents are falling fast

Rents peaked in early 2008 according to Ronan Lyons, economist with Daft.ie. Since then, the cost of renting has decreased by 25% making it more affordable for people to rent in areas they may previously have been priced out of. The decline in prices is due to oversupply of properties and the fall in demand due mainly to net emigration.

With rents falling the prospective or present renter can drive a hard bargain with multiple properties available in many locations. The other effect of the declining rents is it lowers the prospective of property prices recovering in the near future as it keeps the yield on properties low making them less attractive to investors.

Frank's Conclusion

Due to the falling house prices, falling rents and lack of buyer confidence it is my opinion that house prices will continue to fall from their present levels by about 40%. Prospective purchasers who want to buy today should drive a hard bargain with sellers but my advice would be to continue to rent for the foreseeable future.

Our General Report Conclusions & Commentary

Deciding whether to rent or buy is an emotional and a financial decision. It is also a decision which can be affected by external factors such as fluctuating property and rental prices, and government policy. In some of the cases presented here, especially at the lower end of the market, and in a flat property market, the financial gap between renting and buying after ten years is marginal and could easily be negated should a future government decide to reform property taxes, mortgage interest relief and other benefits to home ownership.

Many of the case study households which are used in this report have children, which will create new factors when deciding if and when to buy a house, which cannot be factored into a generalised report like this. Other households may find their career prospects have changed during the last couple of years, affecting their confidence in the economy and confidence in the property market. The report does not take into account the savings which each household has made prior to making the decision to rent or buy. While it assumes a 90% loan to value ratio, it does not take note of the households saving money during their period of renting to pay for their deposit.⁷

A significant question for any follow up research on this topic is: Does a renter naturally tend to be in a certain demographic and therefore have certain behaviour? Likewise, is there a recognisable non-economic point at which someone decides to buy? A still wider question for further research is the societal and economic consequence of Ireland having such a large cohort of home owners and relatively weak protection for long-term renters. This is an issue for a separate report, but as the conclusions presented here suggest that renting is the best option for many households over the next decade, they are issues which will require attention and policy development.

⁷ The authors are grateful to economist Ronan Lyons (<http://ronanlyons.com>) for his feedback on the method of calculation and for assisting us in developing the operating assumptions underpinning this report.

There are many facets of the calculations used in this report which are statistically weak – this is why it is presented merely as a step towards a modest conclusion – the first weakness is that of the assumption where property prices and rental prices move in tandem. This pattern does not (in the real world) correlate exactly, however, it would be unrealistic to look at one of six property scenarios then give six outcomes depending on how rents moved during that time, in that case there are 36 potential outcomes per individual. While the authors acknowledge that the correlation is not strict between prices and rental prices, it is certainly not an antithesis and for that reason the report (for the sake of interpretation) works with a simplified structure. Interested readers are free to contact the authors for a copy of the calculator and run whatever parameters they wish to use.

Another shortfall is that of yield curve interpretation, it is not necessarily accurate as the credit crunch recently proved, uncertainty is priced into forward markets. The timeframe is only 10 years, a property purchase takes longer than that, perhaps a similar project could be undertaken, looking at a 20 or 30 year comparison. As this may add further weaknesses, a 10 year outlook is perhaps more realistic and less prone to being skewed by future inflation, by taking an identical point in time it also reduces the need to use discounted cash-flows. Complexity is a fact of life but not necessarily a service.

This report assumes that the households in question will put themselves in positions where their monthly rental payments and monthly mortgage payments are roughly equal. However, real world examples would suggest there is a premium which purchasers are willing to pay each month for their mortgage above their rents.

The final figures look at a cost over ten years then a capital amount remaining, they are actually not the same thing, one could determine at any point to continue renting or to sell (if they have equity) and then rent, the timeframe of deciding to buy in year 5 is also an assumption that does not reflect real life. The idea of this report is to give indications using certain parameters, and so it is simply impossible to factor in every possibility – the authors have resigned themselves to finding the Rosetta Stone first, and pointing the way for others to undertake further work towards a more complete conclusion.