SOCIETY OF CHARTERED SURVEYORS IRELAND

Building for Growth

SCSI Pre-Budget Submission 2016

RICS

Building for Growth

SCSI Pre-Budget Submission 2016

For further information email: policy@scsi.ie

Mr Michael Noonan TD
Minister for Finance
Department of Finance
Merrion Street
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Mr Brendan Howlin TD
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Re: Society of Chartered Surveyors Ireland Pre-Budget Submission 2016

Dear Ministers,

On behalf of the Society of Chartered Surveyors Ireland, I would like to submit the attached report for your consideration in advance of Budget 2016.

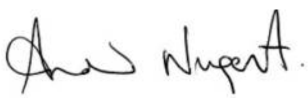
The Society is the largest professional body in the property, land and construction sector with over 5,000 members nationwide. Our remit is to enhance, advance and enforce professional standards in the public interest and in this context, we have prepared a submission which is focussed on the key issues in the property, land and construction sectors.

If we are to meet the Construction 2020 targets of restoring construction output to 12% of GNP and the creation of an additional 60,000 jobs in the sector, we will need to prioritise investment in the housing and construction sectors.

It is our view that maintaining our competitiveness by addressing issues in the property and construction sectors must be a key pillar of Budget 2016. The population of Ireland in 2021 is expected to be 6.6% greater than it was in 2011 and this will have an impact on the sustainability and competiveness of our economy.

The key theme of our Pre-Budget Submission 2016 is Building for Growth. We at the SCSI, believe that increasing the output of the construction sector to support increased levels of housing supply and rental accommodation, increasing the availability of new and renovated commercial office stock will improve our economic competitiveness, create a more affordable housing market and ultimately lead to further economic growth and job creation.

Furthermore, at the recent National Economic Dialogue which was hosted by the Department of Finance, many delegates observed that that public capital spending has fallen to very low levels in Ireland when compared to other EU and OECD countries. The IMF estimates suggest that as much as 27% of Ireland's potential economic output was lost between 2008 and 2013 and the SCSI believes that investment in essential public infrastructure including transport, social housing and broadband provision must be an important consideration in the context of Budget 2016.



Andrew Nugent,
SCSI President

Residential Property Market

RECOMMENDATIONS

1. The Department of the Environment, Community and Local Government's (DECLG) building and development design standards should be the required standard in each planning area.
2. Development levies should be reformed both to reduce their cost and phasing of payment and reviewed every 3 years.
3. The tax regime for providers of private rented accommodation should be reformed to make investment activity more attractive to encourage more professional investment in the sector.
4. The VAT rate should be reduced from 13.5% to 9% on new housing units up to a selling price (excluding V.A.T) of €300,000 for a temporary period of three years to ensure the commercial viability of house building at the lower end of the price range.
5. Increase infrastructural finance from the Exchequer to local authorities to ensure zoned land has the necessary servicing and infrastructure to facilitate the provision of new housing.
6. Through its various programmes and policy instruments Government should make commercially priced finance available for lower priced housing developments where new bank credit rules prevent this.
7. Consideration should be given to offering 'micro-finance' at commercially attractive levels for SME builders, particularly at a regional city level, to renovate existing schemes and for the provision of rental accommodation where there are significant stock shortages.
8. Streamline the planning process to reduce delays in processing applications for housing developments in strategically important areas using delivery models such as SDZ's.
9. Introduce interventions to increase the supply of development land for housing at the lower priced end of the market.
10. Introduce a 'Build to Rent Scheme' to support the funding of developments comprising rental accommodation.
11. The Government should focus on increasing the supply of residential properties and no attempt should be made to control rental levels.
12. Reform the Residential Property Price Register to support more real time transactional data analysis on the property market.
13. Introduce low cost modular housing on a temporary basis to provide accommodation for those in need of social housing support.

Commercial Property Market

RECOMMENDATIONS

1. Increase the provision of development finance at more attractive commercial rates for viable developments.
2. The IDA should underwrite the rent for office buildings, in certain strategic locations, until they are let, to advance the construction of commercial buildings in targeted locations.
3. Increase the availability of finance for the provision of up front infrastructure and services in strategic locations.
4. Streamline the planning process and extend the SDZ model to other targeted areas.
5. Extend the Living Cities Initiative to incorporate other vacant property built after 1915 to encourage further renovation and supply.
6. All vacant property should be provided with 100% relief from commercial rates for 1 year.
7. Reform the Commercial Lease Database.
8. Introduce a Commercial Sales Database.
9. Support the conversion of unused commercial units (i.e. empty units over shops etc), in urban and regional areas, to provide more residential accommodation and to maximise the potential of vacant stock where there is demand.

Land Mobility

RECOMMENDATIONS

1. Taxation allowance for the transfer of property from a parent to a child should be increased to €400,000.
2. The threshold for retirement allowance should remain at €750,000 after the age of 55 and a reduction of the relief could be brought in on a sliding scale so that the highest taxation relief will be made available to those that transfer the property sooner.
3. Reintroduce roll over relief to support farm restructuring and CPO's.

The Construction Industry

RECOMMENDATIONS

1. Ensure consistent investment in public capital projects based on a GDP ratio of 5.5%.
2. Accelerate social housing construction, particularly via the support of partnership approaches to the delivery of social housing through special funding models.
3. Extend the Home Renovation Incentive (HRI) scheme beyond 31 December 2015.
4. Prioritise initiatives and provide investment to address construction sector skills shortages such as Government incentivised employer backed apprenticeship schemes.
5. Promote further use of Building Information Modelling (BIM) in public capital investment projects to promote more cost effective construction and life cycle cost management.

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List of Tables, Figures and Case Studies

Introduction

Throughout 2014 and 2015, the Irish economy has begun to show strong signs of growth. Following a number of years of economic contraction, the Irish economy grew by 5.2% in 2014 and by 1.4% in Q1 2015.

The Irish property market has continued to experience sharp average property price increases. A lack of commercial viability, due to high construction costs, has decreased the supply capacity of the industry, particularly at the lower end of the price range. In 2006, 93,416 units were constructed, however only 11,016 units were built in 2014 representing a decline of 88%.

The decline in the number of units constructed is particularly worrying, given that the Housing Agency has forecasted a need for 21,000 units per annum over the next three years. This shortage of supply is resulting in unsustainable house price and rental price inflation, which is causing an affordability crisis amongst lower income groups.

In the commercial property market, the contraction in construction activity since 2008 has resulted in a decline in new office developments such that, in the context of increased demand from foreign multinationals and domestic firms, there is now a shortage of commercial office space. The shortage of supply of commercial office space is putting upward pressure on rents, with rents forecast to reach €550 per sq.m by the end of 2015. Such rental price inflation may have a negative impact on Ireland's economic competiveness and may impede domestic companies from expanding and foreign multinationals from locating here.

Furthermore, as the economy continues to grow, Ireland needs a construction industry which can support the ongoing recovery through the removal of bottlenecks via the provision of infrastructure. Despite improvements to the volume of construction output in 2014, Ireland's construction industry accounted for approximately 6.9% of GNP in 2014, which is still some way behind the 12% ratio considered a sustainable level by European standards.

The SCSI has compiled a series of recommendations, based on a survey of our members and engagement with various stakeholders, which will support the development of a more sustainable property market. Our recommendations focus on improving the supply capacity of the industry to ensure the provision of:

- a suitable quantity of residential property, particularly at the lower end of the price range, which will meet current and future housing requirements (sales and rental) and moderate the level of house price and rental price inflation

- a suitable quantity of new office developments which will moderate the level of rental price inflation in the office market and which will improve Ireland's economic competitiveness.

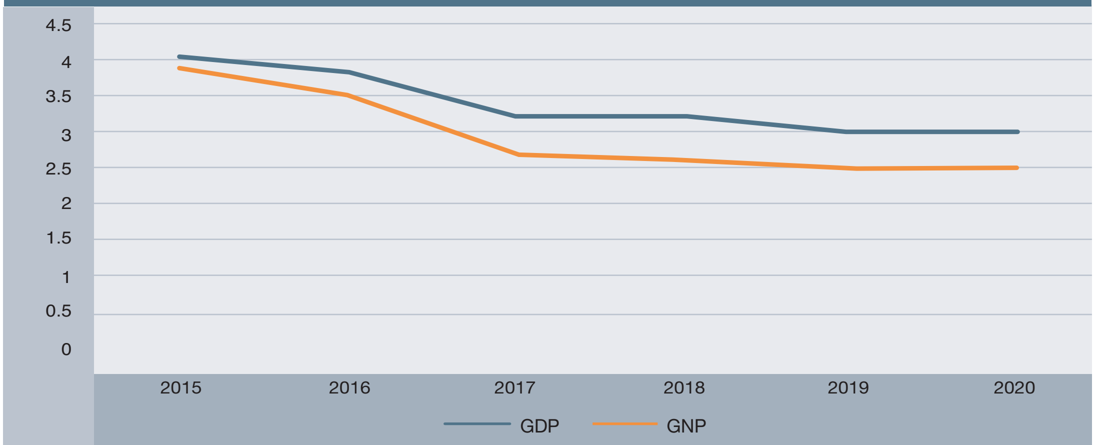
The recommendations will also boost the capacity of the construction industry to ensure that the construction industry can support Ireland's economy as it recovers and grows into the future.

Economic Context

Economic Growth

The Irish economy grew by 5.2% in 2014 and by 1.4% in Q1 2015. According to the Department of Finance's Monthly Economic Bulletin, strong growth in investment (15.3%) combined with growth in personal consumption expenditure (2.4%) will continue to support growth in the economy, throughout this year and into the coming years.

Figure 1: Forecasted change in Irish GDP and GNP 2015-2020

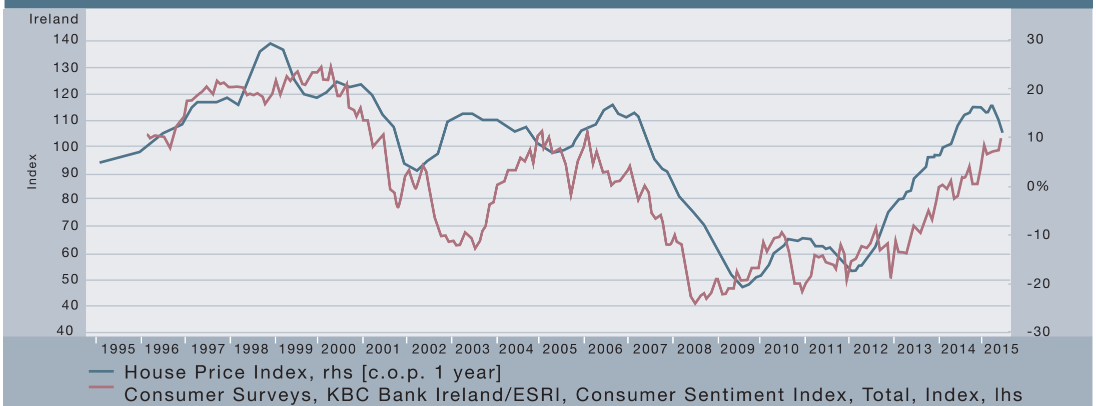


Source: Department of Finance – Spring Statement 2015

Consumer Sentiment

Consumer sentiment has also continued to remain strong despite a slight weakening in July which can be largely attributed to uncertainty around developments in Greece. Sentiment towards the property sector has also improved in line with the recent improvements in general consumer sentiment. This illustrates the close correlation between movements in house prices and consumer sentiment.

Figure 2: Irish consumer sentiment and house prices 1995-2015

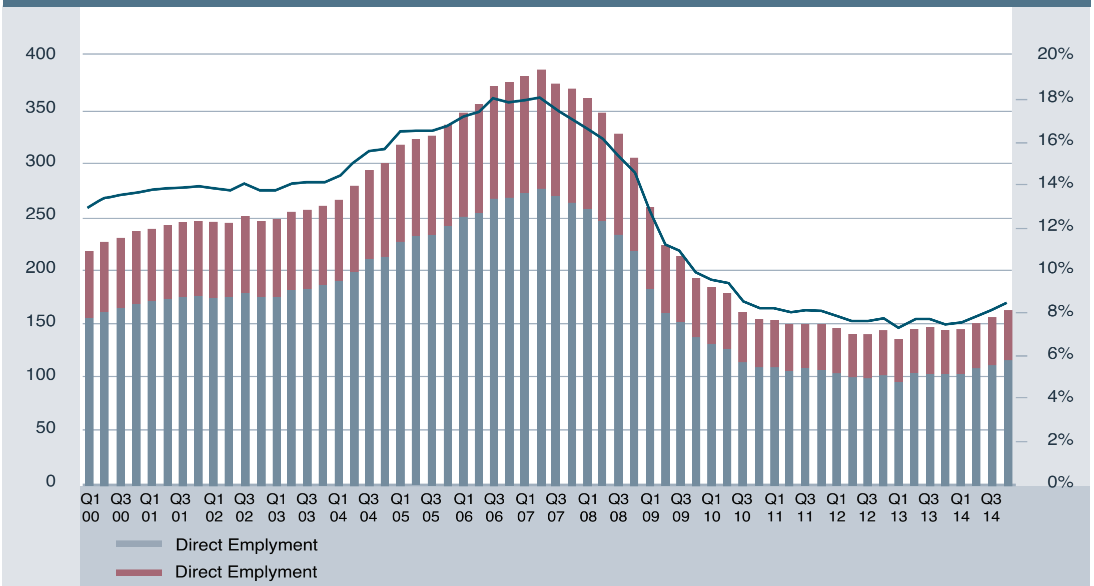


Source: Macrobond

Employment

Unemployment levels have also continued to decline. According to the CSO, on a seasonally adjusted basis, the Live Register recorded a monthly decrease of 2,300 (-0.7%) in June 2015, reducing the seasonally adjusted total to 344,900. There has been a sharp decrease in unemployment in the construction sector. The chart illustrates the exceptional growth in construction employment during the boom years, which culminated in direct employment of 276,000 at the peak (Q2 2007). When persons indirectly employed in firms supplying services to the construction sector are included, the total number of persons employed reached 386,700 or almost one in five persons working in the economy at the peak. One of the key challenges facing the sector, as identified by the SCSI, is the shortage of skills in the construction sector which poses a challenge to meeting the increased output projections of the sector in terms of capacity. In section 4, this submission recommends 'trail blazers' which is a degree apprenticeships scheme backed by the UK Government. The UK government has agreed that for every £1 spent on the apprentices training and qualifications they will give the employer £2 up to the limit of £18,000 per degree level apprentice. If developed in Ireland, this could facilitate an increased delivery of professionals to the industry, in a speedier time frame, whilst ensuring a high standard of education.

Figure 3: Construction employment: direct and indirect (000s,SA)



Source: CSO.

Section 1: The Residential Property Market

Overview of the Residential Property Market

Irish residential property prices have increased since early 2013. According to data from the CSO Residential Property Price Index, in the 12 months to December 2014, prices in Dublin increased by 22.3%. Despite these increases, prices have moderated during the first 6 months of 2015 mainly due to the introduction of the Central Bank's macro prudential measures. However, it should be noted that, despite this moderation, average prices are still 11.1% higher in Dublin in the 12 months to June 2015.

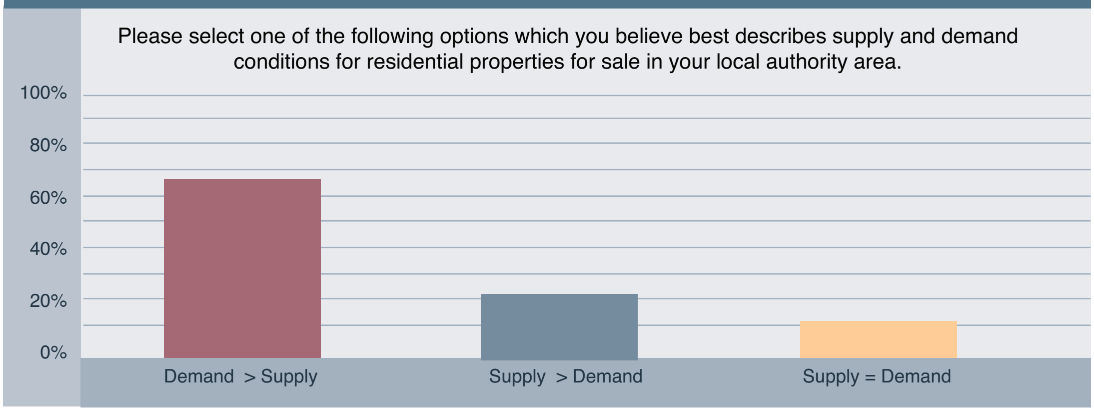
On a national basis, prices increased at a more modest pace throughout 2014, rising by 16.3%. As of June 2015, prices are still 10.7% higher year on year. Underpinning these significant price increases is the continuing mismatch between the supply and demand for housing in the Dublin region and a growing mismatch between supply and demand across the country, particularly in the larger urban centres.

According to the Private Residential Tenancies Board (PRTB) Rent Index, at a national level, average monthly rents were 6.9% higher in Q1 2015 compared with Q1 2014 (9.6% in Dublin and 5.3% outside of Dublin). Rents increased on average by 10.8% for apartments and 9% for houses in Dublin, while outside Dublin the increases were more modest at 5.2% for apartments and 5.7% for houses. The mismatch between the supply of rented properties and the demand for private rented accommodation has resulted in significant rental price inflation. Rising house and rental prices of this magnitude are not sustainable given the fundamental importance of housing to the well-being of Irish citizens.

Decline in House Building Activity

Approximately 70% of SCSI members surveyed said that, in their area, demand for residential properties for sale is presently greater than supply.

Figure 4: SCSI member's views on the shortage of supply of residential properties for sale



Source: SCSI

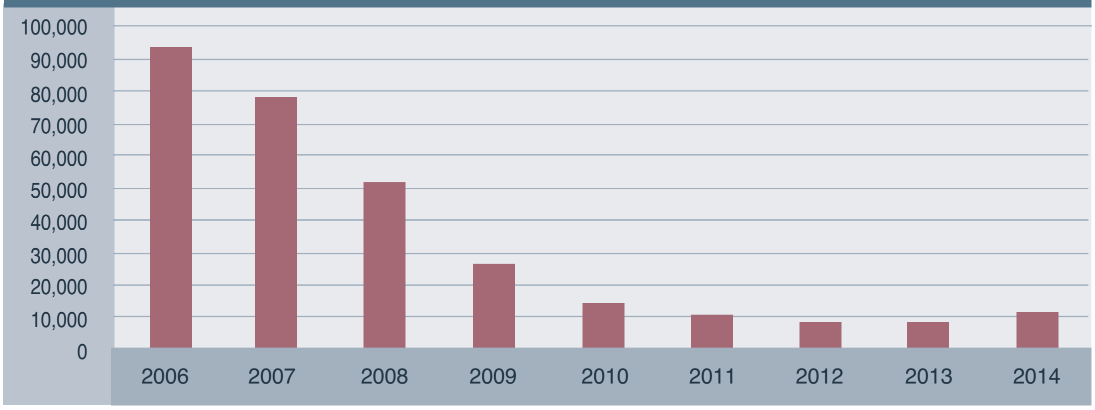
Approximately 90% of SCSI members surveyed said that, in their area, demand conditions for properties for rent are presently greater than supply.

Figure 5: SCSI member's views on the shortage of supply of residential properties for rent

Source: SCSI

The main reason for the shortage of residential properties for sale, and for rent, on the market are the low levels of house building, which is evident from the house completions figures published by the DECLG. Approximately 93,419 units were built at the peak in 2006 and 11,016 units were built in 2014, representing a decline of 88%.

Figure 6: Housing completions 2006-2014



Source: DECLG

It is important to note that the SCSI's *Irish Construction Prospects to 2016* report found that the DECLG commencement figures were far lower than the housing completion figures, which suggests that the actual level of house building is actually lower than the completions figures suggest. This is due to the fact that the completions figures are based on the number of units connected for electricity. It is the SCSI's view that up to 20% of the units connected for electricity in 2014 were actually built in previous years and were properties in receivership or in NAMA. This suggests that the shortage of supply of residential properties for sale, and for rent, is more acute than the estimates would suggest.

Table 1: Housing Output Projections 2012 - 2016

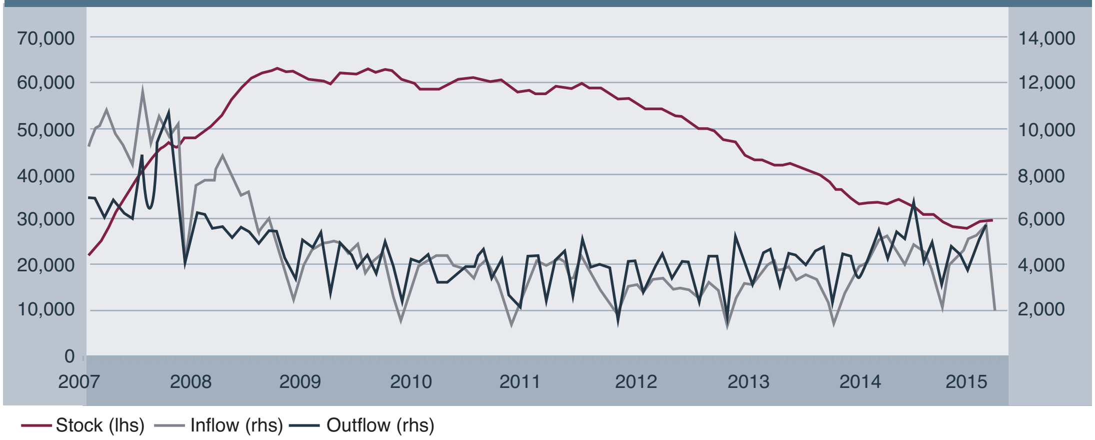
	2012	2013	2014	2015E	2016F
Completions (i.e. electricity connections)	8,488	8,301	11,016	N/A	N/A
Commencements (excl. public housing)	4,042	4,708	7,710	N/A	N/A
Dwellings Built (units)	6,790	6,641	8,813	10,000	14,000

Source: SCSI

Low Levels of Supply of Residential Property

The low levels of house building have resulted in a deterioration in the number of residential properties for sale. Figure 7 provides an illustration of the decline. According to Daft.ie, there were just 30,000 properties for sale nationwide at the start of June 2015, approximately half of the stock available in 2011 (approx. 60,000 units).

Figure 7: Stock of properties for sale on Daft.ie as of Q1 2015

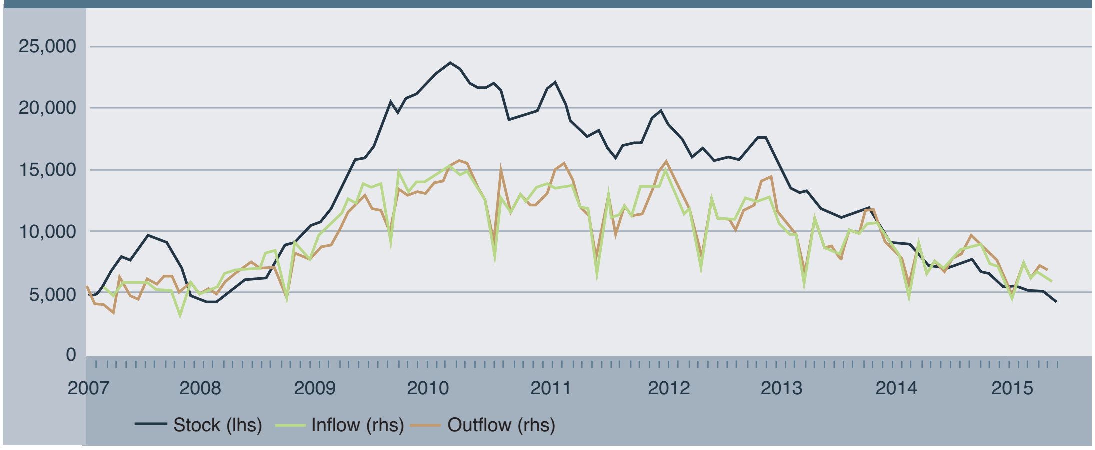


The Daft.ie Asking Price Index is based on asking prices for properties posted for sale on Daft.ie. An index based on asking price, as opposed to closing price, is a measure of sellers' expectations. Figures are calculated from econometric regressions, which calculate changes in price that are independent of changes in observable measures of quality, such as location, or bedroom number.

Source: Daft.ie

The low levels of house building have also created an acute shortage of residential rental properties. Daft.ie has drawn attention to the lack of stock on the rental market. On the 1st May 2015, there were 4,340 properties to rent nationwide, the lowest figure in seven years. This is in contrast to the 25,000 units available to rent in 2010.

Figure 8: Stock of properties for rent on Daft.ie as of Q1 2015



Source: Daft.ie

The shortage of supply of residential properties for sale is of particular concern to the SCSI in the context of current and future housing requirements in Ireland.

Table 2: Future population projections

Region	Population (000s)] 2011	Share of National 2011	Population (000s) 2031	Population National 2031	Change in Population	Change in Share
Border	516	11.3%	533	10.3%	3.3%	-1.0%
Dublin	1,262	27.6%	1,519	29.3%	20.4%	+1.7%
Mid East	534	11.7%	678	13.1%	27.0%	+1.4%
Midlands	284	6.2%	309	6.0%	8.8%	-0.3%
Mid West	378	8.3%	410	7.9%	8.5%	-0.4%
South East	499	10.9%	550	10.6%	10.2%	-0.3%
South West	662	14.5%	733	14.1%	10.7%	-0.3%
West	441	9.6%	456	8.8%	3.4%	-0.8%
	4,576		**5,188**	**100.0%**		

Source: CSO

Increasing levels of demand

There is likely to be considerable pent up demand in the market, presently and over the medium-term, as a result of the need to accommodate future household formation as well as buyers who were not accommodated during the boom years due to affordability problems and those who postponed property purchases during the recession years.

Research by the Housing Agency suggests that, nationally, there was an undersupply of the required housing in 2014 allowing for pent up demand from 2012 and 2013. In addition, new household formation is projected to increase for each of the next three years, and an accelerated delivery of residential units is required to address this deficit. The Housing Agency has stated that almost 21,000 additional residential units are required each year, over the next three years, to meet demand.

Demographics

Of particular significance to this discussion is the tenure type. Based on the 2011 Census of Population, 70.8% of permanent private households were owner-occupied, while 18.8% were in private renting. Compared with 2006, this represents a significant increase in renting (11.0% in 2006) and a substantial decline in home ownership (77.2% in 2006). The growth in the private rented sector is further illustrated by the share of the growth in households absorbed by the private rented market. Between 2006 and 2011, there was an increase of 186,000 in the number of private households.

The private rented sector increased by 160,000, to more than double its 2006 number, while owner occupied households increased by just 58,000. Furthermore, according to the Construction 2020 strategy, 1 in 5 households are now renting. It is likely that a significant proportion of the future requirements for housing will be for private rented accommodation. According to the DECLG, housing completions to date amounted to 5,625 units which represents an increase of 16% on the same period in 2014. However, almost half of the total homes built were one-off properties which are unlikely to meet the required demand. Commencement notices were 6.8% lower over the same period.

Table 3: Minimum housing requirements 2015-2017	
2014 undersupply	4,050
2015 new supply requirement	16,000
2016 new supply requirement	20,200
2017 new supply requirement	22,500
Average new supply required per year 2015 - 2017	20,916

Source: Housing Agency

Assessments of the quantum of land available for development indicate that there is a suitable quantity of land available for construction. The Residential Land Availability Survey 2014 was published in February 2015, and provides data in respect of residentially zoned land available for housing as of 31st March 2014.

The survey does not consider the services available to these lands, such as water services, energy and communications, transport, schools, community facilities and amenities which are very important in terms of the viability of land being developed.

Potential (in terms of the delivery of units) is based on information provided by the relevant planning authorities. The total area of available zoned land, following the Stage 2 assessment, is 17,434 ha nationally, capable of supporting over 414,000 housing units.

Table 4: Residential Land Availability Survey 2014

	Stage 1		**Stage 2**	
	Area (ha)	**Potential Dwellings**	**Area (ha)**	**Potential Dwellings**
South West Region	2,430	45,611	1,995	35,746
Mid-West Region	3,277	66,328	2,168	36,435
South-East Region	4,534	77,930	3,520	58,559
Mid-East Region	3,614	97,089	3,506	94,349
Midlands Region	2,359	44,454	1,343	29,738
West Region	3,097	54,604	1,266	23,820
Dublin Region	2,812	123,451	2,654	116,705
Border Region	5,240	101,8835	983	19,360
National Total	**27,363**	**611,302**	**17, 435**	**414,712**

Source: DECLG

The SCSI report 'Housing Supply Capacity in Dublin's Urban Settlements 2014-2018' analysed the extent of zoned residential lands for development and the amount of extant planning permissions that can contribute to new supply of housing in the short term. There are 2,233 hectares (ha) of land zoned, and potentially available for residential development, which is 2.4% of the total land area in the Dublin Region. This could result in the provision of housing for approximately 269,000 additional persons. There is a total deficit of planning permissions, approximately 25%, across the four Dublin authorities. Dublin City Council has the largest deficit due in part to the limited availability of land and the mixed use nature of many of its zoning classes. There is also the potential to develop residential units within the scope of other development land zonings, such as in mixed use schemes or in town centres. This gives additional scope to address future housing requirements.

Table 5: Number of housing commencements in the Dublin region Q1 2015

Number of bedrooms	1	2	3	4	5	Over 5	**Total**
Dublin region	60	395	647	503	0	0	**1605**
Dun Laoghaire-Rathdown	40	185	122	103	0	0	**450**
Fingal	16	24	408	313	0	0	**761**

Source: SCSI

There were 1605 dwelling commencements in Q1 2015 in the Dublin region. 60 of these were one bedroom dwellings and 395 were two bedroom dwellings. Fingal had only 16 one bedroom dwellings and 24 two bedroom dwellings. In contrast, Dun Laoghaire which had less overall commencements than Fingal, had 40 one bed room dwellings and 185 two bedroom dwellings. The question arises whether this overall mix is appropriate in light of current and future needs in Dublin, and if the different geographic mix within the region is also appropriate relative to needs.

Increasing the Supply of Housing Recommendations

Recommendation 1

The DECLG's building and development design standards should be the required standard in each planning area.

Individual local authorities should be prohibited in applying more demanding standards than the national ones. This will still maintain acceptable and desirable standards and will reduce costs in areas with above average need for new building. It will also end differences in regulation between different local authorities. This new approach should be reviewed after 3 years. This recommendation is capable of immediate implementation.

"A re-think of Dublin City Council's minimum size for apartments - whilst very well-intentioned, these units have been argued by the head of the Housing Agency to be too large. The large sizes significantly impact on the risk/reward expectations of developers and when compared with sales prices that are affordable to the market, developers may not have considered potential returns merited development of their potential schemes." SCSI member.

A recent study by the SCSI comparing the viability of an apartment scheme under the National Standard and the Dublin City Council Apartment Design Standards has shown the negative effects of the Dublin City Council Apartment Design Standards on the commercial viability of apartments. The table below shows that there was a 25% increase in the cost of a unit and an 18% loss in density under the Dublin City Council Apartment Design Standards.

Table 6: Impact of the Dublin City Council Apartment Design Standards on the commercial viability of apartments.

Increased cost per apartment	25.79%
Decrease in density	-17.97%
Increase in apartment size (incl circulation)	43.04%
Land value decreased	-17.97%
Loss in Part V units	4.60
Loss in financial contributions	€299,000

Source: SCSI

The SCSI believes that an easement of the Dublin City Council Apartment Design Standards to the National Standard would improve viability and increase the supply of apartments.

Table 7: Comparisons of the viability of apartment developments under the DCC and national standards.

Project Details	Standards 2007-2011	Standards 2011-2017
Number of Cores	6	7
Gross internal Floor Area	9,462	11,103
Number of Apartments	128	106

Source: SCSI

Recommendation 2

Development levies should be reformed both to reduce their cost and phasing of payment.

Development contributions are paid to local authorities to fund future infrastructure and services. According to SCSI research, on a typical 3 – bedroom semi-detached house as part of a larger development, typically the development levies could cost between €4,000-€10,000 on a single unit. For single houses, and developments outside of urban areas, the costs are far greater.

The SCSI acknowledges that the Urban Regeneration and Housing Act 2015 will support the retrospective reduction in development levies for existing schemes. There is a need to develop a transparent methodology for the calculation of development contributions.

Furthermore, in terms of supporting viability in the context of challenges accessing development finance, SCSI recommends that reductions in development contributions should be phased in and reviewed every 3 years.

Recommendation 3

The tax regime for providers of private rented accommodation should be reformed to make investment activity more attractive to encourage more professional investment in the sector.

In general, Government should operate a supportive policy regime for suppliers in this sector in light of the growing need for additional private rented accommodation. Despite the ultimately negative effects of some property tax incentives in the past, there is a strong justification, in certain areas, for tax incentives for the purchase of new houses/apartments, for rental purposes, given the new and continuing increased emphasis on renting as an accommodation mode. This should be included as part of Budget 2016.

Recommendation 4

Lower the VAT rate from 13.5% to 9% on new housing units up to a selling price (excluding VAT) of €300,000 for a temporary period of three years to ensure the commercial viability of house building at the lower end of the price range.

A reduction of the VAT rate to 9% would have a strong impact on potential profitability. The explicit aim of this measure is to improve commercial viability for suppliers. An inability to supply adequate numbers of lower priced owner occupier houses will impose additional pressure on social housing and the private rented sector.

Recommendation 4 (continued)

Table 8: Cost of construction of a standard three bedroom house in the Dublin Region

	Lower Range		Higher Range	Comment
	1,200		1,200	
Cost of building House Including Site Development Costs	€ 112,000.00	to	€ 125,000.00	Specification and site specification affect this cost on a site by site basis
Other Cost:				
Part V compliance	5,000.00		12,000.00	We note Part V being reduced to 10% from 20% imminently
Development Contributions	4,000.00		9,000.00	Depends on where house being built (i.e. which Local Authority). Being reviewed as part of Construction 2020
Legals, Agents Marketing, Designers	7,000.00		11,000.00	Specific to each developer/site
Site & Building Finance variables	5,000.00		6,000.00	Need to include contingency to cover
Assigned Certifier	750.00		1,200.00	New Regulations – March 2014
ESB, Gas connections contributions etc	800.00		1,500.00	Site specific
Contingency	5,000.00		6,000.00	Need to include contingency to cover variables
Overall Costs Excluding VAT	**139,550.00**		**172,700.00**	
Cost per square foot	**116.29**		**143.92**	
Value Added Tax				
Overall Cost Brought Forward	139,550.00		172,700.00	
Value Added Tax @ 13.5%	**18,839.00**		**23,314.50**	
VAT has to be charged to the consumer at 13.5%				
Overall Costs Including VAT	**158,389.25**		**196,014.50**	
Cost per square foot	**131.99**		**163.35**	

The foregoing excludes:
- Site acquisition cost
- Developer's Margin/profit
- Site specific cost issues such as for example rock excavation on a site or contamination underground etc.

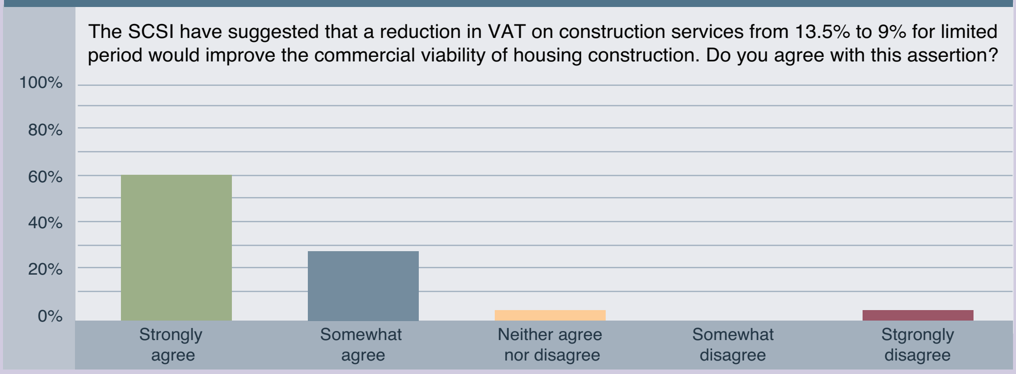
These costs are based on a 'typical' estate standard to 'builders finish' in the Greater Dublin Area. The costs outlined in the 'Lower Cost' range would also represent typical costs in the other urban centres of Ireland.

These costs are derived from case studies reviewed by SCSI members. SCSI accepts no liability for any errors.

It is important to note that there are strong regional variations in the cost to build across Ireland. In some regions the costs outlined above could be reduced due to lower building costs.

Source SCSI

Figure 9: SCSI member views on the impact of a reduction of VAT on construction services.



Source: SCSI

Recommendation 5

Increase infrastructural finance from the exchequer to the local authorities to ensure zoned land has the necessary infrastructure to facilitate the provision of new housing.

"Fast track planning in areas with suitable infrastructure."
SCSI Member

A significant barrier to unlocking the supply of residential homes is the requirement to fund infrastructure in advance of the development being completed. In the current environment, there are fiscal constraints on developers in financing upfront infrastructure. This is problematic and is leading to delays in the completion of developments. There are also situations, whereby, funding for the delivery of a piece of local infrastructure is required by a number of landowners/developers (i.e. a traffic calming measures or roundabout), but the developers may be at different stages of development or even insolvent. This means that the local piece of infrastructure cannot be financed and thus the development, which is ready, cannot be completed. Therefore, there is a requirement for a mechanism to assist with the funding of pieces of local infrastructure up front.

Case Study 1: UK Case Study: Revolving Infrastructure Funds (RIFs)

In the UK, Revolving Infrastructure Funds (RIFs) are being introduced as a funding mechanism for infrastructure ahead of developments being completed. The fund enables the delivery of infrastructure, required to unlock or serve developments, which will bring about economic and/or housing growth. By providing this key infrastructure upfront, planning risk is reduced, as are up-front planning obligation costs, enabling developments to come forward quicker than they would ordinarily do. The new developments will also have a reduced impact on existing communities, as new infrastructure required to serve them will be in place prior to the completion of large-scale developments.

The proposition is for the RIF to provide cash to pay (in part or all of) for the key items of physical infrastructure, which in turn enables associated land to be released for development over time. This is the investment phase, with money being paid out to fund infrastructure. A proportion of the value of the development land is used to pay back the RIF for its outlay (potentially plus a commensurate return). This is the repayment phase, with receipts coming back to the RIF. Value is typically released, either through the sale of land or proceeds of the development itself, (through the sale of houses) and the funding is returned and revolving. Hence, an RIF is a means of providing financing, and is not a grant or subsidy. Once it has generated sufficient receipts, the RIF is then able to reinvest amounts returned to pay for infrastructure on further projects.

The West of England Revolving Infrastructure Fund (RIF) is worth £56.7m and is made up of two elements; £16.9m from the Growing Places Fund and £39.8m from the Regional Growth Fund (RGF).

Recommendation 6

Through its various programmes and policy instruments, Government should make commercially priced finance available for lower priced housing developments where new bank credit rules prevent this.

One of the main reasons for the delay in new housing coming to the market is the lack of development finance available for SME developers and builders. The Ireland Strategic Investment Fund (ISIF), managed by the National Treasury Management Agency (NTMA), together with KKR Credit, have announced the launch of a new €500 million joint venture, which transforms the funding options available to the Irish house building sector. This will be capable of financing the construction of over 11,000 new homes in Ireland.

There is a need, however, for more commercially priced finance to be made available to developments at the lower end of the market, and not just higher value developments, which offer the prospect for greater returns and less risk.

Recommendation 7

Provide micro-finance at commercially attractive levels for SME builders

Consideration should be given to offering 'micro-finance'. This would be made available at commercially attractive levels for SME builders, particularly at a regional city level, to renovate existing schemes and for the provision of rental accommodation where there are significant stock shortages.

Recommendation 8

Streamline the planning process to reduce delays in processing applications for housing developments.

An operational review of the current procedures should be immediately undertaken by an independent source, with a view to devising better systems. Consideration should be given to an incentive structure to accelerate the administration of the planning process.

The Construction 2020 report states that *'a fit for purpose, flexible, effective and proactive community led planning system is a vital support to a properly functioning construction and development sector and to the wider economy'*. The SCSI acknowledges the recent announcement that the Minister for Environment, Community & Local Government has initiated a review of An Bord Pleanala.

SCSI recognises the success of the Docklands SDZ, where there are sites which make up over 22 hectares of development potential, and recommends that SDZ models are considered in other areas which could increase supply in a fast-tracked manner and which are of economic and social importance.

Recommendation 9

Introduce interventions to ensure land is made available for housing at the lower priced end of the market

The price of land is a significant component of the final price of a dwelling. Policy interventions are necessary to manage the price of development land and to make appropriately priced land available for housing developments at the lower price end of the market. This could include the use of NAMA or local authority land. Consideration should also be given to the possibility of zoning additional land to prevent significant land price increases.

"Land not available at reasonable prices."
SCSI Member

According to the SCSI / Teagasc Land Sector Outlook Report, the current level of land for sale is, however, minimal with just 0.5% of all land transacted annually. SCSI believes that more land should be brought to the market and developed by financial institutions, and NAMA, under licensing arrangements with experienced developers.

Recommendation 10

Introduce a Build to Rent Scheme to support the funding of developments comprising rental accommodation

The SCSI recommends that the Irish Government introduces a Build to Rent fund to increase the provision of property in the private rented sector, and also in the social housing sector, via the housing associations.

Case Study 2: Build to Rent Funds

Demand for rented properties in London is expected to increase in the future, as the city's population is expected to increase to over nine million by 2021, meaning 800,000 homes are required to meet both existing and future demand. As a result, the Build to Rent Fund was launched by the UK Government to increase the supply of private housing and to provide new opportunities for institutional investment. The scheme was created to cut risk for developers looking to invest in homes constructed for the private rental market. The initiative reduces the up-front risk for developers by the Government sharing the risk, or providing bridge finance, to allow schemes to be built, managed and let. Once the scheme is fully let, the developer will sell on its interest, or re-finance, and repay the loan or equity. The investment could be used to cover development costs such as land, construction or management costs. Any properties that form part of the programme will need to remain as private rented accommodation at least until the scheme is refinanced and the investment is repaid. The amount available under the Build to Rent Fund was initially set at £200m, but was increased to £1bn in the 2013 Budget. So far 45 projects have been announced. These projects are expected to help fund the construction of up to 10,000 new private rented homes. A quarter of the projects are in London and the 45 projects will be built by a mixture of developers, regeneration specialists and housing associations.

Recommendation 11

The Government should focus on increasing the supply of residential properties and should not attempt to control rental levels

The SCSI recommends that Government should focus on improving the commercial viability of housing construction and stimulating the supply of private rented accomodation. The SCSI believes that this will moderate the pace of rental price inflation.

International evidence has shown that rent controls have despressed the supply of private rented accomodation and have resulted in a detioration in the quality of the existing stock. A further reduction in the quantity of rental accomodation will only serve to increase rental prices. The SCSI recommends that Government should not attempt to control rental levels and should focus on increasing supply.

Recommendation 12

Reform the Residential Property Price Register to support more real time transactional data analysis on the property market.

The SCSI acknowledges the work of Government in introducing the Residential Property Price Register which is a statutory source of information that has significantly improved transparency in the property sector. The SCSI recommends that this could be improved, and has made submissions to the Property Services Regulatory Authority (PSRA) with suggested areas for improvement, in terms of usability in the interests of the public and international investors. These include:

- Include floor area of the property
- Include the number of bedrooms
- Improve search – by postcode
- New properties should be noted

Recommendation 13

Introduce low cost modular housing on a temporary basis to provide accommodation for those in need of social housing support.

The SCSI acknowledges the Government's Social Housing Strategy which will increase the number of social housing units. There is, however, an urgent need to provide temporary accommodation for the homeless and SCSI recommends that modular units are a low cost solution. The units can be connected to local services above ground and could be placed on in-fill sites on a temporary basis while new social housing is being constructed.

Section 2: Commercial Property Market

Overview of the Commercial Property Sector

The Irish commercial property market has been experiencing considerable interest from domestic and international investors over the past twelve months. Irish REITs (Green, Hibernia and IRES) have been very active in the office, retail and other commercial investment markets.

The recovery is driven by increasing stability in the economy, the strength of Dublin and Ireland as an investment location and recent Budget initiatives to support increased investment in the sector.

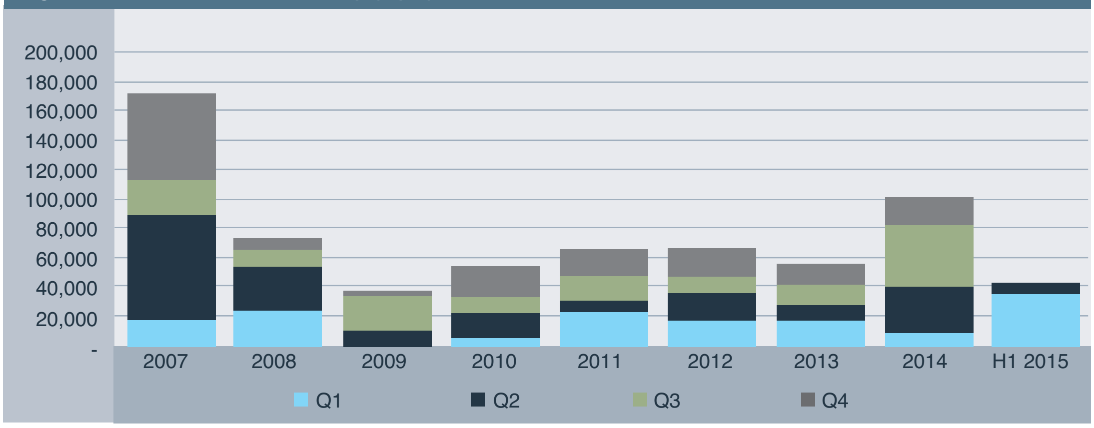
Many of the property assets coming to the market, at present, are as a result of the sale of distressed assets/loans by financial institutions, and NAMA, a development which is expected to continue throughout 2015. The expectation would be that the large volume of transactions in the commercial property market might improve viability for new build and renovation projects over the medium-term.

Demand exists across all asset classes, notably offices, retail, industrial and hotels. Investment activity has now returned to levels ahead of the peak, with total investment volumes for 2014 estimated at over €4.5 billion representing an increase of nearly €2.6 billion on the corresponding 2013 figure. As a result, Dublin jumped to 24th place in the global investment hierarchy (from 93rd in 2013), and to 5th in Europe, according to research by JLL. Dublin also had the world's fastest growth in office rents over the past year.

The Shortage of Supply of Office Property in Dublin

In the office sector, the Dublin market is experiencing a shortage of prime space, particularly in the south suburbs according to property agents. The supply shortage is evident from the declining vacancy rate. The vacancy rate for prime office space in Dublin City Centre is around 9%, with 7-8% considered a shortage. There has been very little commencements of new office developments since 2008, and there is a demand for approximately 2 million sq. ft. per annum according to JLL. There is evidence that 1.7 million sq. ft. of office accommodation is currently under construction however, this activity level is still well below market demand.

Figure 10: CBD office – half take up (sq.m)



Source: Sherry Fitzgerald

The lack of construction of office space in recent years has resulted in a tightening of supply and an increase in rents. According to JLL, average rents in the CBD are now on average €50 per sq. ft., with a continuing supply shortage expected to drive rents up further in 2015 and 2016 until new supply comes on stream.

A Davy report from October 2014, projected that the backdrop of deep demand and limited supply would be very supportive of office rents out to year-end 2017, and it is expected that the market will reach the previous peak of €673 per sq. m during this period.

Figure 11: JLL Dublin Vacancy Rate 2001 – 2014

Source JLL

The IDA recently stated that there was a lack of modern large floorplate offices in prime locations of 70-120,000 sq. ft. There are concerns, among members of the SCSI, that this lack of modern commercial space might be a threat to our continued competitiveness in attracting Foreign Direct Investment (FDI).

Members of the SCSI believe that there is a need for greater speed in relation to planning applications to support targeted high potential commercial development for FDI purposes. The current turnaround time, of up to three years, may be too lengthy for FDI demand from multinational companies seeking to locate or expand in Ireland.

"*Dublin has picked up and mostly better/new buildings are being leased. Now there is a shortage of large office buildings in the city centre and a severe shortage in the large prime category. There will be no real development completions until 2015/17. In 2014 we are facing into a shortage of large prime office buildings in the city centre. We are also seeing a fall off in prime suburban offices coming towards the end of this year, particularly in South Dublin", Chartered Surveyor, Dublin*

Commercial Property market Recommendations

Recommendation 1

Increase the provision of development finance, at more attractive commercial rates for viable developments.

The availability of development finance for new construction remains a challenge facing the commercial property sector. The provision of development finance, at commercial rates, needs to be made available in order to stimulate the provision of development finance. The Ireland Strategic Investment Fund (ISIF), managed by the National Treasury Management Agency (NTMA), together with KKR Credit, have announced the launch of a new €500 million joint venture for the housing sector. Similar funds should be considered for commercial projects. The SCSI recommends that a Builders Finance Fund should be introduced to support developers/builders commencing development.

Recommendation 2

The IDA should underwrite the rent for office buildings, in certain strategic locations, until they are let to support the construction of commercial buildings in targeted locations.

The SCSI recommends, that in the absence of available investment for regional commercial office space in strategically important locations, the IDA underwrites the rent for office buildings, until they are let.

Recommendation 3

Increase the availability of finance for the provision of up front infrastructure and services in strategic locations.

The upfront provision of infrastructure, and in particular water, sewerage and other services, in strategic locations, would support commercial space development and the economic viability of same. The SCSI recommends that a Revolving Infrastructure Fund (RIF) could support the upfront financing of infrastructure and services for commercial property development.

Recommendation 4

Streamline the planning process and extend the SDZ model to other targeted areas.

As highlighted in Construction 2020, a fit for purpose, flexible, effective and proactive community led planning system is needed, and this also applies to the commercial property market. The Docklands SDZ approval will increase supply of commercial buildings in key strategic areas. The SCSI recommends that the SDZ model is considered for other key urban areas with economic potential.

Recommendation 5

Extend the Living Cities Initiative to incorporate other vacant property built after 1915 to encourage further renovation and supply.

Recommendation 6

Vacant property should be provided with 100% relief from rates for 1 year.

With the recent introduction of the Local Government Act 2014, local authorities have the discretion to alter the refund of rates relief to property owners/landlords by varying amounts.

The SCSI recommends that all vacant property should be provided with 100% relief from rates, for 1 year, as it can often take 6 months or more to re-let a property.

Recommendation 7

Reform the Commercial Lease Register

The SCSI acknowledges the work of Government in introducing the Commercial Lease Register which is a statutory source of information that has significantly improved transparency in the property sector. The SCSI recommends that this could be improved, and has made submissions to the Property Services Regulatory Authority (PSRA), in terms of usability in the interests of the public and international investors. These include:

- The form currently provides for “gross” or “net” as a form of measurement input. We would advise a further clarification, “gross internal” or “gross external”, the latter being established market practice in the case of the measurement of most industrial property.

- Ensure that the Commercial Lease Return is being completed and returned to improve the quality of data available on the Commercial Lease Register.

Recommendation 8

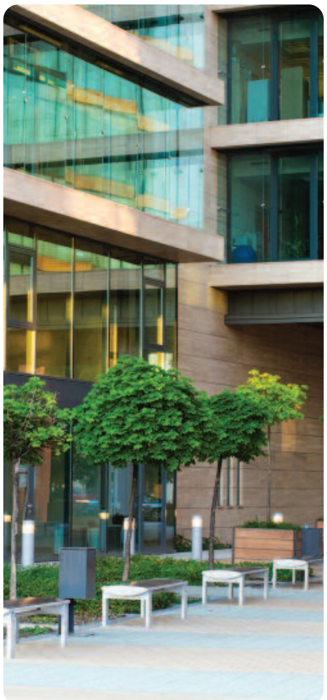
Introduce a Commercial Sales Database

A commercial property database that captures all transactions has the capability to deliver fundamental improvements to the commercial property sector, into the future, and its importance in this regard cannot be overstated. The SCSI recommends that a Commercial Sales Database is published, detailing sales transactions of commercial property, which would improve transparency.

Recommendation 9

Support the conversion of unused commercial units in regional cities into residential units

Support the conversion of unused commercial units, in urban and regional areas (i.e. empty units over shops etc), to provide more residential accommodation and to maximise the potential of vacant stock where there is demand.



Section 3: Land Mobility

Increasing Land Mobility

Improving Land Mobility is a key recommendation from the SCSI. According to the SCSI / Teagasc Land Sector Outlook Report, the current level of land for sale is minimal with just 0.5% of all land transacted annually.

Recommendations

The SCSI recommends that initiatives are introduced to improve land mobility including:

Recommendation 1:

Taxation allowance for the transfer of property from a parent to a child should be increased to €400,000.

The current taxation allowance in relation to the transfer of property from a parent to a child is at a threshold of €235,000. This threshold stood at €500,000 in 2006. With the recent increases in both residential and land prices, the SCSI recommends that this threshold is increased to €400,000 as the current limit is punitive to those inheriting property.

Recommendation 2:

The threshold for retirement allowance should remain at €750,000 after the age of 55 and a reduction of the relief could be brought in on a sliding scale so that the highest taxation relief will be made available to those that transfer the property sooner.

A threshold of €750,000 applies to retirement allowance for those aged between 55 and 65 years of age. The threshold is then reduced to €500,000 after 65 years of age. The SCSI is of the view that this is preventing the transfer of land to younger generations, as landowners are disincentivised in transferring property after the age of 65. The SCSI recommends that the threshold should remain at €750,000, after the age of 55. In order to incentivise landowners to transfer property to younger generations, a reduction of the relief could be brought in on a sliding scale so that the highest taxation relief will be made available to those that transfer the property sooner. If the existing thresholds are to remain, there is no incentive for those already over 65 to transfer sooner. If a sliding scale down to €500,000 were to be brought in for those already over the 65 it could encourage more transfers.

Recommendation 3:

Reintroduce roll over relief to support farm restructuring and CPO's.

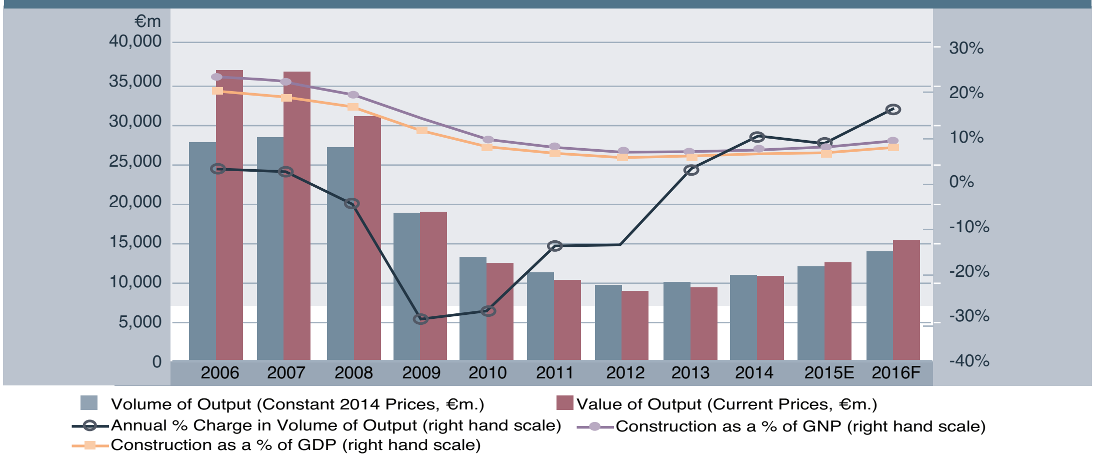
Roll over relief should be reintroduced to assist landowners, and farmers, so that they do not incur a tax liability when they engage in the process of replacing a parcel of land that they have sold. The advantage of this type of relief is that it assists famers wishing to restructure their farm holding into a more manageable and efficient unit. The SCSI recommends that this should be reintroduced in the upcoming Budget, especially in light of an increase in compulsory purchase orders.

Section 4: The Irish Construction Industry

Irish Construction Sector Overview

A sustainable construction sector is a key element of any properly functioning economy, and following several years of decline in output, the construction sector finally began to stabilise in 2013 and grew by 9.9% in 2014 to €11 billion. Since the industry bottomed out in 2012, the overall volume of output is projected to be almost 42% higher by 2016.

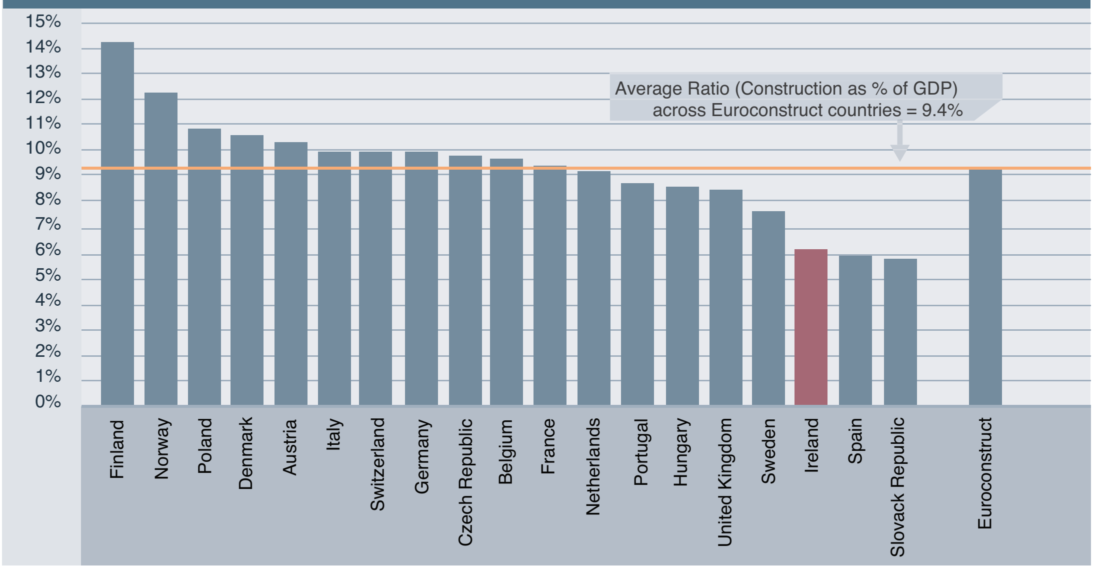
Figure 12: Medium term prospects for construction output to 2016



SCSI Construction Sector Prospects to 2016 / DKM estimates, CSO.

The sector accounted for approximately 6.9% of GNP in 2014 and is expected to reach a value of €12.5 billion or 7.5% of GNP this year. These proportions are still below the 12% ratio considered a sustainable level by European standards.

Figure 13: Construction/GPD ratio across the Euroconstruct countries 2014



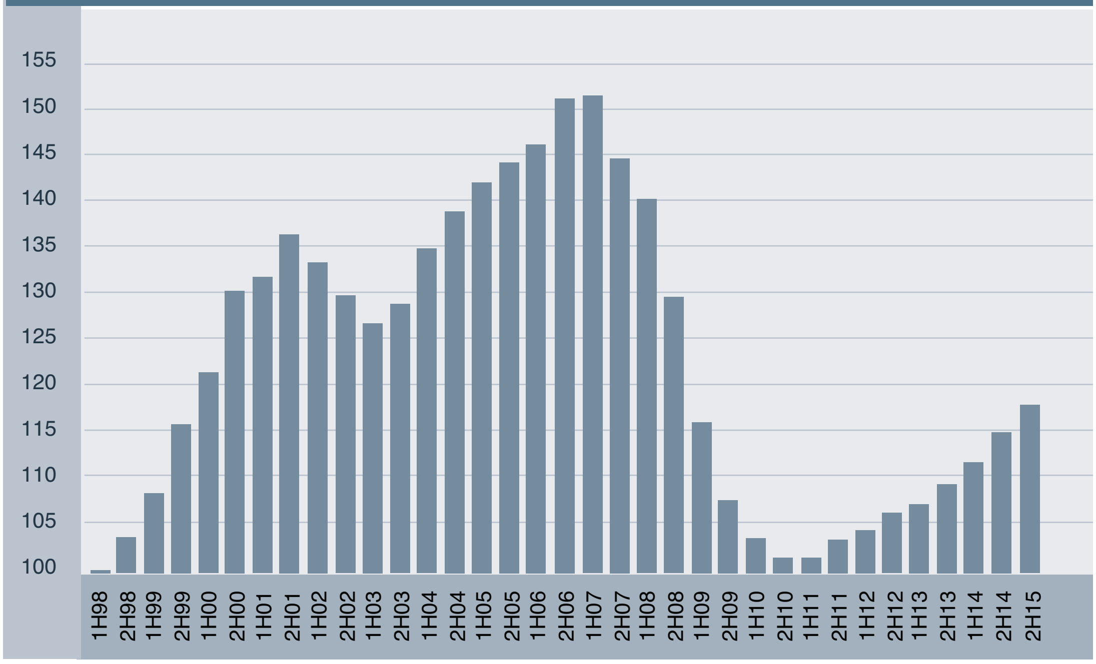
Source: Euroconstruct

Movements in tender prices for new non-residential projects across the country, with values in excess of €0.5m, are tracked by the SCSI. Figure 14 shows the peak was reached in the first half of 2007. Construction tender prices increased at an annual average rate of 4.6% in the four years to 2007.

Thereafter, tender prices fell every six months during the recession at an annual average rate of 9.6% until the second half of 2011. A modest recovery followed, with tender prices recovering every six months such that, by the second half of 2014, tender prices had increased by 13.5%. The most recent data shows that tender prices increased by 2.6% in the first half of 2015 and are 5.5% higher on an annual basis.

These increases are significantly higher than general consumer price inflation, which increased at an annual rate of 0.5% in 2013 and 0.2% in 2014.

Figure 14: SCSI construction tender price index 1998-2015 (H1 1998=100)



Source: SCSI

Increasing output in construction of public projects and infrastructure

The prospects for public sector construction are determined by the allocations in the Multi-Annual Exchequer Capital Investment Framework (MACIF). The most recent MACIF, for the period 2015 to 2017, allocated a total of €11.1 billion over the three year period.

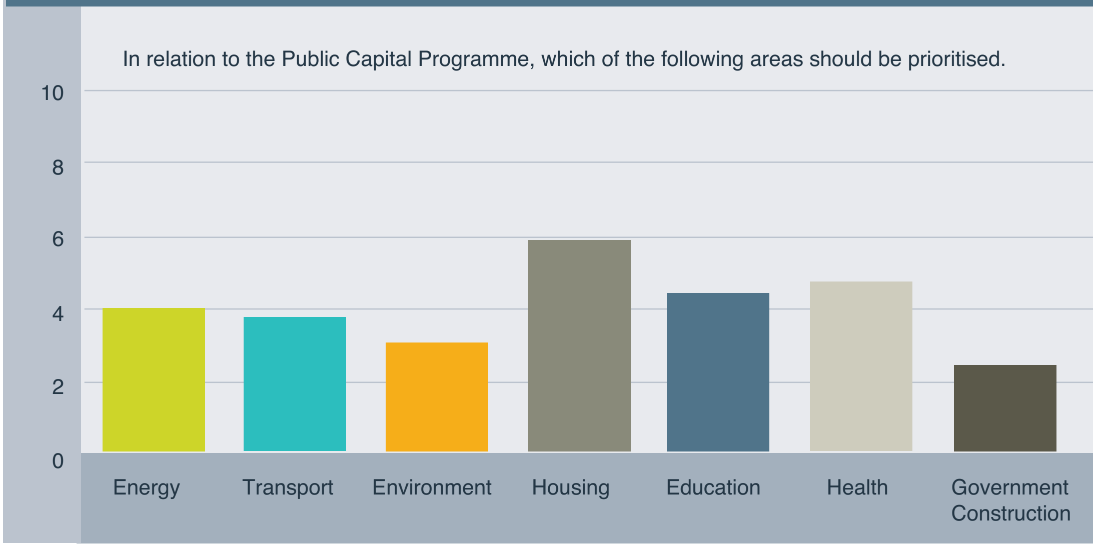
The main spending departments from a construction perspective are: Transport, Tourism and Sport (€2.93 billion over period 2015-2017), Education and Skills (€1.7 billion over the period 2015-2017), Environment, Community and Local Government (€1.6 billion over the period 2015-2017) and Health (€1.28 billion over the period 2015-2017).

In 2015, the more detailed public capital programme (PCP) has provided for investment of €6.53 billion (including Exchequer and non-Exchequer funding as well as public private partnership costs) towards a range of building and infrastructure projects:

- €576m for road Improvement and maintenance (-11% on 2014),
- €343m for public transport (-20%),
- €190m in PPP costs for transport projects (+245%),
- €667m for educational infrastructure at all levels (+13%),
- €327m for hospital and health infrastructure (-4%), and
- €361m for social housing (+36%).

In the survey, members of the SCSI were asked to highlight which areas they would like to see prioritised for investment in the PCP.

Figure 15: SCSI members views on areas for priority investment under the new PCP



A key concern amongst SCSI members is the uneven distribution of the pipeline of work, with the recovery considered to be most prevalent in the Dublin region and to a lesser extent in some other urban areas. SCSI members raised concerns that the current public procurement regime, which is considered by some to be complex and onerous, could discourage some firms from bidding for public sector work, given that the flow of work from the private sector is now recovering.

The cost of tendering, particularly for public contracts, was seen as the most important issue faced by SCSI members followed by the risk of future wage demands and skills shortages.

The Government is currently undertaking a detailed review of the PCP, which will set out the priorities to 2020, and is due to be published this year. Industry sources suggest that private capital will play a significant role in the delivery of national infrastructure over the coming years.

The Irish Construction Industry Recommendations

Recommendation 1

Ensure consistent investment in public capital projects based on GDP ratios

The industry requires a consistent steady level of public capital investment over the next five years, which is considered to be above these levels. The SCSI has proposed a ratio above 6.6% of GNP. It is recognised that a higher level may not be achievable given that the fiscal situation is likely to remain a constraint into the medium-term. Accordingly, the projected ratio of PCP to GNP in 2020 is less than would be desirable at 6.1% of GNP (5% of GDP) in recognition of the fiscal situation. Moreover, there is a need to front-end the investment as the industry needs the stimulus now.

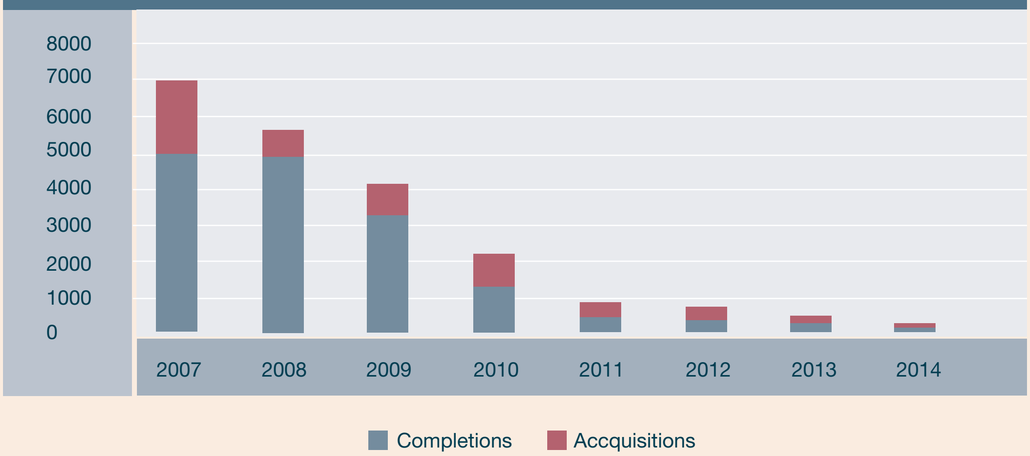
Recommendation 2

Accelerate social housing construction

The most significant public capital housing investment package since 2011 was announced in Budget 2015, and subsequently published in the Social Housing Strategy (SHS) in November 2014, in an effort to begin to address the crisis in the social housing sector.

The key issues are the increasing homelessness problem, the high number of households on the social housing waiting lists (last estimated at around 90,000 as of May 2013) and increasing rents in the private sector, which are crowding out tenants who depend on assistance with their rent payments from the State.

Figure 16: Provision of local authority housing 2007-2014



Source: Department of the Environment, Community and Local Government

Recommendation 2 (continued)

The fundamental problem has been the lack of new building in the public sector since the financial crisis. Consequently, the SHS contains a capital investment programme of over €2.2 billion for social housing provision for the next three years. Including the provision for current expenditure, the total investment is €3.8 billion by 2020.

The planned large-scale investment in social housing is expected to fund the provision of over 35,000 new social housing units by 2020, via an investment package, which will involve a combination of new build, acquisitions and leased properties. While there are substantial provisions for social housing in the PCP to address a programme of new build, acquisitions, regeneration, refurbishment of vacant units and remediation works, the provision of new units in the short-term is likely to be challenging.

Figure 17: Total social housing units to be built, acquired and leased to 2020.

Total Social Housing Units to Be Built, Acquired and Leased to 2020

	2015-2020	2015	2016	2017	2018	2019	2020
Projected Social Housing Units							
Total	**35,000**						
Capital (Table 1 of SHS)		2,386	2,386	2,711	2,400	1,145	1,145
Current (Table 1 of SHS)		3,000	4,114	4,286	3,600	4,000	4,400
TOTAL	**35,573***	**5,386**	**6,500**	**6,997**	**6,000**	**5,145**	**5,545**

*The total sums to 35,573 as per Table 1 page 25 of SHS. The annual provisions are DKM estimates.
Source: Social Housing Strategy to 2020, December 2014.

Figure 18: Total housing PCP in 2015 Vs. 2014

	2014	2015	% Change
From Public Capital Programme (PCP)	**€m.**	**€m.**	
Local Authority and Social Housing	271.0	459.2	+69
Local Authority Housing Loans	200.9	200.9	0
Private Housing Grants	38.6	24.1	-38
Other Housing/Pyrite Resolution	-	12.6	
Total Housing PCP	**510.5**	**696.8**	**+36**

Source Social Housing Strategy and Revised Estimates for Public Service,2015

SCSI recommends that there is a fast-tracking of refurbishment projects to support the short term needs of the estimated 89,000 people in need of some form of social housing support.

Support partnership approaches to the delivery of social housing through special funding models

The SCSI has produced a report to provide an assessment of potential partnership approaches to the delivery of social housing. The report focuses on a new build model at Cherry Orchard in Dublin as being part of a variety of solutions being proposed.

The purpose of the new funding model is to meet the need for more social housing through the construction of new units by way of PPP. The methodology proposed is to create a structure that will attract professional and institutional investors into the sector to deliver a quality product, while removing the significant capital funding costs from local authorities. In addition, it is envisaged that the funding provided by professional investors will ensure that quality and standards are met, as with any professional developer operating in an advanced development market (i.e. meeting the proper building regulations, delivering a good mix and quality scheme, etc.).

Recommendation 2 (continued)

The proposals being considered are for the local authority to partner in a structure with a promoter/developer/contractor. Under this scenario, the local authority will offer up the land and the developer/promoter will provide the working capital, manage the design and construction process and deliver a quality fit for purpose social housing scheme within a set timeframe. The models under consideration should allow the developer/funder to then sell the completed investment to a third party such as a REIT or pension fund. The REIT or pension fund will hold the properties for a significant period of time and seek a moderate level of return based on the difference between the rental income achieved on the housing units and the cost of managing same.

The concept is not new in that many social housing entities and charitable organisations going back over 100 years have worked to such a model.

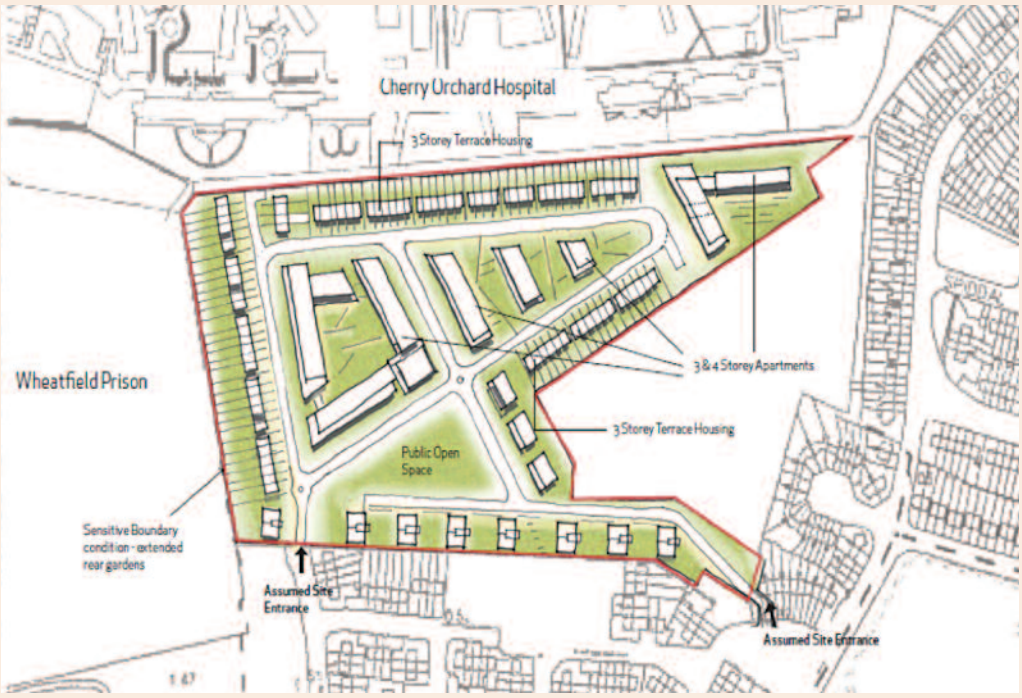
Worked Example - Dublin city council site located at Cherry Orchard, Dublin 10

The site is located in Cherry Orchard, Dublin 10. The boundaries of the site are Cherry Orchard Hospital to the north, Wheatfield Prison to the west and existing local authority housing to the south and east.

The site is approximately 20 acres/8.09 hectares. Plus Architecture produced an indicative site layout and accommodation schedule based on the site plan below and this equates to the following indicative schedule.

Figure 19: Accommodation schedule for the Cherry Orchard site

Accomodation type	1-Bed	2-Bed	3-Bed	Semi-D	3 Storey Terraced	Total
	110	220	16	16	88	450



Source: SCSI

Recommendation 2 (continued)

Figure 20: Viability study of the Cherry Orchard site as a social housing location

1.0	**Revenue**				
1.1	**Type**	**Units**	**Monthly Rent**	**Annual Rent**	
	1-Bed Apartment	110	€750	€990,000	
	2-Bed Apartment	220	€1,000	€2,640,000	
	3-Bed Apartment	16	€1,200	€230,400	
	Semi-D	16	€1,200	€230,400	
	Terraced	88	€1,200	€1,267,200	
	Less				
1.2	Service Charge	450	€1,000	(€450,000)	
1.3	Asset Management Fee	5%	€5,358,000	(€267,900)	
1.4	**Net Annual Rent**			**€4,640,100**	
2.0	**Costs**				
2.1	**Build Costs**				
	(Site Clearance, Landscaping & Planting, Roads, etc.)			-	
	Build Costs			€63,650,000	KSN Order of Magnitude c
	Abnormal Site Conditions			-	currently €67m reduced by
	Work re Boundaries			-	on value engineering
	Contingency	3.00%		€1,909,500	
	Professional Fees	10.00%		€6,555,950	
	Total Build Costs			**€72,115,450**	
2.3	**Local Authority Contributions**			**€0**	
	Contributions/Levies			-	
2.4	**Costs Subtotal**			**€72,115,450**	
2.5	**Funding Cost**		5%	**€3,605,773**	
	To be funded	€72,115,450	24	**€3,605,773**	
2.6	**Cost including Funding Cost**			**€75,721,223**	
3.0	**Add Profit being a % of construction costs**	10.00%	€72,115,450	**€7,211,545**	
4.0	**Land**			€0	
5.0	**Total cost of Development**			**€82,932,768**	
	Net Annual Rent			**€4,640,100**	
6.0	**Annual Return %**			**5.60%**	

Source: SCSI

When the scheme is completed and occupied, it will produce an annual rent that can be pre-sold to a REIT or pension fund for a set term, possibly 20/30 years, depending on returns.

The assessment provides a high level financial study as to how to extract the optimum use for the Cherry Orchard site as a social housing location. The most sustainable planning position may be to have the location mixed as part social and part private rental for key workers. This will require proactive and ongoing management by a quality housing association. In fact, such precedents already exist in Dublin.

However, while this is preferable from a sustainable planning perspective, a mixture of tenures (i.e. non-social housing rents and therefore no certainty of income) may affect the funding that will be available for that element of the scheme. In addition, the local authority has to consider whether they will convey their interest in the land/site to the chosen PPP partner. This will be an important consideration as any return being sought by a REIT or pension fund will include an interest rate and also pay down on the amount of capital invested.

Recommendation 3

Extend the Home Renovation Incentive (HRI) scheme

This scheme was reported to have attracted nearly €300 million worth of construction work, on 14,438 properties, since it was introduced across the country in Budget 2014.

The SCSI recommends that the HRI Scheme is extended in duration, both for homeowners and for the private rented sector, to encourage the upgrading of property stock and to tackle the loss of VAT through the shadow economy.

Recommendation 4

Prioritise initiatives and provide investment to address construction sector skills shortages such as Government incentivised employer backed apprenticeship schemes

One of the key concerns of the SCSI is the capacity of the industry to meet the anticipated growth levels. There has been a decline in the availability of skilled tradespeople, specialist contractors and graduates entering the sector. Employment levels have improved and CSO data points to 18,500 additional people working in the sector since the lowest point in the cycle in Q1 2013.

Figure 23: Construction employment by broad occupational group and construction related occupations across the economy (000s)

	2007 Q2	2010 Q4	2011 Q4	2012 Q4	2013 Q1	2013 Q4	2014 Q3	2014 Q4
Construction Related Occupations Across the Economy								
Skilled Construction and Building Trades	151.7	62.7	58.3	51.9	51.1	57.2	60.4	60.4
of which								
- Construction & Building Trades	112.5	45.7	46.0	38.2	38.9	42.3	44.0	44.7
- Building Finishing Trades	33.7	13.8	10.0	10.7	9.4	11.7	13.4	12.9
- Construction/Building Trades Supervisors	5.5	3.2	2.3	3.0	2.8	3.2	3.0	2.9
Draughtspersons & Architectural Technicians	3.4	2.4	2.9	2.5	*	3.2	*	*
Engineering Professionals	19.3	19.9	20.1	19.4	17.6	20.2	17.8	19.2
Architects, Town Planners & Surveyors	13.2	8.6	8.0	9.5	9.4	8.4	9.5	9.9
Plant & Machine Operatives	12.9	6.3	7.2	5.9	6.5	8.9	8.3	7.3
Construction Operatives	15.2	11.0	11.7	9.8	9.7	9.2	10.7	10.5
Elementary Construction Occupations	88.2	29.0	24.9	32.2	27.5	32.9	33.5	38.0

Source: CSO

The availability of the requisite skills in the medium term is a significant challenge facing the construction industry and is raised in the SCSI survey by several respondents.

The SCSI carried out a study of employment prospects for graduates which showed that there could be a shortfall of up to 65% to meet demand between 2014 and 2018.

Recommendation 4 (continuation)

Case Study 3: UK Spotlight – 'Trailblazers' Industry / Vocational Degree Apprenticeships

The UK Government has rolled-out 9 new industry designed Degree Apprenticeships - an innovative new model bringing together the best of higher and vocational education. As with other apprenticeships, the cost of course fees are shared between government and employers meaning that the apprentice can earn a full bachelors or even masters degree without paying any fees. The UK government has agreed that for every £1 spent on the apprentices training and qualifications they will give the employer £2 up to the limit of £18,000 per degree level apprentice.

"Equipping people with the skills they need to get on in life and backing businesses to create jobs are key parts of our long-term economic plan. Degree Apprenticeships will give people a great head start, combining a full degree with the real practical skills gained in work and the financial security of a regular pay packet. They will bring the world of business and the world of education closer together, and let us build the high-level technical skills needed for the jobs of the future. I want to see many more businesses and universities begin to offer them".

UK Prime Minister David Cameron

Recommendation 5

Promote the further use of Building Information Modelling (BIM) in public capital investment projects to promote more cost effective construction and life cycle cost management.

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