SOCIETY OF CHARTERED SURVEYORS IRELAND

Delivering Houses

A ten step strategy to address the housing supply shortage

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Key Society of Chartered Surveyors Ireland (SCSI) Recommendations

Increasing the supply of housing

1. Introduce a 'Builders Finance Fund' to support SME builders completing developments
2. Reduce development contributions for a period of 2 years
3. Streamline planning process to speed up decisions and reduce delays
4. Reduce VAT on new home construction from 13.5% to 5% for 2 years
5. Reduce windfall tax on land from 80% to 33% to bring it in line with Capital Gains Tax
6. Introduce Vacant Site Levy on sites of strategic importance in a targeted and transparent manner
7. Encourage NAMA to license developers to build out sites in strategic areas in its portfolio
8. Introduce a Local Property Tax exemption for people 'trading- down' to smaller units to increase the availability of second hand homes
9. Introduce a Revolving Infrastructure Fund (RIF) to finance infrastructure provision upfront before development
10. Greater action needed on reducing the number of mortgages in arrears, particularly in the 'Buy to Let' sector.

Delivering Houses

A ten step strategy to address the housing supply shortage

There is a serious shortage of supply of residential property in Dublin at present which is leading to house price inflation of 24% year-on-year according to the Central Statistics Office. Nationally, property prices have increased by approximately 12.5% year on year.

According to the SCSI Construction Sector Outlook 2014 and the Department of Environment, Community & Local Government, approximately 89,000 units were built at the peak in 2006 and 8,301 were built in 2013, representing a decline of 90%.

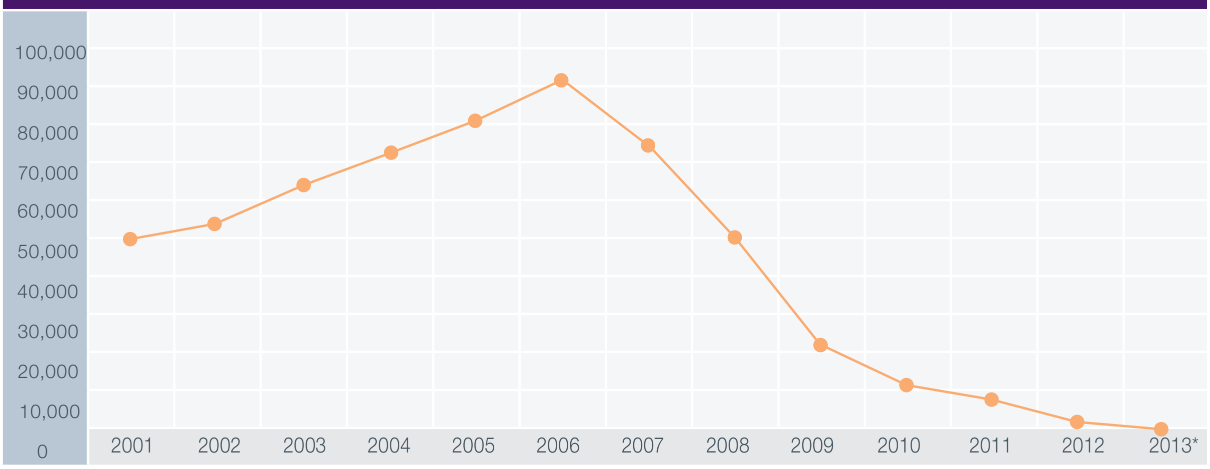
Research by the ESRI suggests that in the coming years, increases in population and changes in Ireland's demographics will result in the formation of at least 20,000 new households per year, each requiring a separate dwelling. The results suggest an ongoing need for approximately 25,000 dwellings a year over the coming fifteen years.

The Housing Agency has estimated that there will be a total requirement for 80,000 units across 272 urban settlements nationally, an average of 15,932 units per annum over the five years (ranging from 9,526 in 2014 to 20,853 in 2020). It estimates that 47% of total supply over this period is required across the Dublin region.

In the second hand home market, there is a lack of mobility for many reasons including negative equity and people wishing to hold onto tracker mortgages. Increases in property prices in Dublin and new products enabling people to take their tracker mortgages with them will assist, but unless supply is increased, there will be nowhere for these people to move to and the problems will persist.

According to the Central Statistics Office Residential Property Price Index May 2014, in Dublin residential property prices grew by 4.2% in May and were 22% higher than a year ago. The CSO Index does not include cash sales which comprise approximately 50% of all transactions. The pace of inflation of property prices in Dublin is of concern to the SCSI.

» Graph 2: Housing Completions



Source: Department of Enviroment, Community & Local Government

Furthermore, according to the latest Society of Chartered Surveyors Ireland / Central Bank of Ireland[2] Survey of Property Professionals, 95% of property professionals surveyed expect property prices to increase nationally during the year.

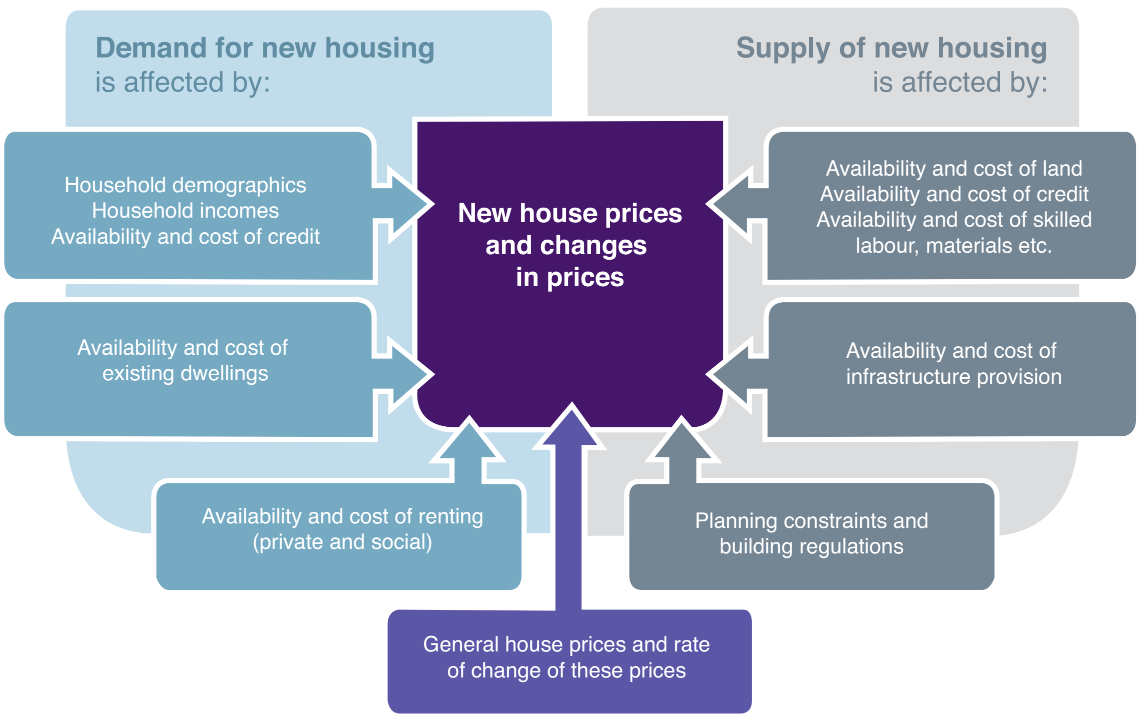
It is imperative that action is taken to mitigate the effects of this unsustainable level of price inflation as a consequence of a critical lack of supply of homes coming onto the market.

The SCSI believes that a properly functioning housing market is an essential component of sustaining economic competitiveness and productivity. It is clear that there is no 'silver bullet' available to overcome the current market dysfunction arising from the 'boom to bust' cycle but there are a number of levers available that can support the development of a more sustainable market.

The SCSI Residential Property Outlook 2014 and Construction Sector Outlook 2014 highlighted a number of barriers to increasing the supply of new homes including the availability of development finance, disproportionately high development levies, local infrastructure deficits and the zoning of land.

Figure 2 visualises a model of supply and demand for new houses. Demand for housing is affected by household demographics, household incomes, the availability and cost of credit (i.e. mortgage finance) and also the availability and cost of renting (private and social housing) as well as the availability and cost of existing dwellings.

» Figure 2: A Model of Supply and Demand for new Housing



[2] SCSI / Central Bank of Ireland Survey of Property Professionals Q1 2014

1.1 Demand for housing

It is the SCSI's view that the demand side of the housing model equation does not require immediate intervention and its members have raised concerns in relation to the proposed 95% mortgages backed by Government, as a way of further exacerbating house price inflation in Dublin and other urban areas.

There is however, a need for a more sustainable mortgage market. According to the Irish Banking Federation (IBF), the total value of new mortgage lending in the first quarter of 2014 was €568 million which represents a 34.2% decline compared to the previous quarter although it did represent an increase year on year. On average, the value of the mortgage market on an annual basis is approximately €2bn, which is significantly down from around €40bn at the peak. It would be imprudent to revert to the level of credit available during the height of the economy in 2006, but a more sustainable level of €8-€10bn is more in line with appropriate levels of residential lending.

One of the recommendations made last year by the SCSI was for the introduction of a standardised mortgage application form to ensure a more simplified and transferrable mortgage application process in addition to extending provisional mortgage approval to 6 months as standard. The current timeframe is too short in the context of reduced housing supply.

The availability and cost of rental accommodation in the private rented sector (and social housing) is another factor that influences demand in the housing market and this is examined in section 2 in greater detail. It is clear that supply shortages are putting additional pressures on the private rented sector in Ireland which is causing rents to increase and is impacting our competitiveness from an international perspective.

1.2 Supply of Housing

It is the SCSI's view that the demand side of the housing equation does not need Government intervention per se in the short term and that the immediate priority is on the supply side of new housing. On this basis, the SCSI has set out a number of recommendations that would support a quicker delivery of new homes to meet the supply shortages in urban areas, and in Dublin in particular where house price inflation is most acute.

Supply of new housing is affected by the inputs to housing development including the availability and cost of land, the availability and cost of credit (i.e. development finance) and the availability and cost of skilled labour and the cost of materials. Supply of new housing is also greatly affected by the availability and cost of infrastructure provision as well as planning constraints and building regulations.

Availability of Development Finance

According to SCSI members surveyed, 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. AIB has launched a €350m fund for experienced developers who want to build residential developments in Dublin, Cork and Galway. Bank of Ireland has only recently stated its intention to return to providing development finance. Other domestic lenders do not appear to have become active in development finance lending as of yet.

NAMA expects to approve total development funding of €2.5 billion for commercially viable projects in Ireland over the period to end-2016. This will include the construction of 4,500 new houses and apartments in Dublin in addition to office accommodation in Dublin and investment in viable retail projects. It will include significant development in the Dublin Docklands. This funding will, however, take time to come through and increase supply in the market. Frank Daly, Chairman of NAMA recently stated that "Many of those who are interested in buying development land in the Dublin area at the moment will have rate of return targets of 15%-20% and realistically those targets are unlikely to be met unless market prices rise significantly from current levels. Which means that they are unlikely to be in a position to initiate development projects in the near future".

Earlier this year, Government introduced a €500m Strategic Banking Corporation fund for SME's. The SCSI believes that a similar fund could be established to provide liquidity for builders seeking to access development finance.

[3] IBF Housing Market Monitor May 2014
[4] NAMA Annual Report 2013

UK Case Study: Builders Finance Fund

In the UK, the Department for Communities and Local Government and the Homes and Communities Agency have launched a £525 million Builders Finance Fund to help restart and speed up housing developments between 15 and 250 units that have slowed down or stalled. Its main objective is to address difficulties in accessing development finance faced by some housebuilders, particularly smaller developers, and to help bring forward stalled but viable sites. Funding will be made available to accelerate or unlock fundamentally viable housing schemes. Access to the fund is on a recoverable capital investment basis and for private sector developers. It will make investments over 2 years from 2015 to 2016 through to 2016 to 2017 and will be operated as an open competition.

Input costs on new Houses

In order to improve the economic viability of the construction of new homes, the SCSI recommends that the VAT rate on new homes, currently set at 13.5% is reduced to 5% for a period of 2 years.

In the Tourism sector, the reduction of VAT to 9% is estimated to have created 15,000 jobs since it was introduced in July 2011 and has been very successful.

It is likely that the short-term reduction in VAT will increase the economic viability of development and consequently result in more supply of housing coming onto the market.

UK Case Study

The provision of construction services and goods in the UK is generally standard-rated at 17.5%. However, a zero rate of VAT is applicable for services provided in the course of construction of new homes.

The supply of building materials is VAT standard-rated at 17.5%. The supply of building materials to a person to whom the supplier is also providing construction services, where these materials are incorporated into the building or its site, can be zero-rated in most cases.

Other housing input costs including labour and materials are more inelastic and therefore VAT is a lever that could be used to stimulate construction and create jobs.

Part V Obligations

Evidence in the UK has shown that reducing social and affordable obligations has improved the viability of certain developments and enabled more houses to be brought to the market. The social housing crisis in Ireland is very serious but the SCSI does not believe that part V is delivering in terms of social housing under the current model and in particular in cases where Local Authorities have accepted cash payments in lieu of social housing provision. Reducing Part V obligations may increase viability of schemes and result in faster development.

The SCSI believes that there is an urgent requirement for social and affordable housing and that Part V needs to be reviewed and has recommended that increased provision is made in the Public Capital Programme to 2020 for investment in social housing, which is down 26% on the peak. This is covered in more detail in section 4.

Development Contributions

The economic viability of projects is a major concern for the lack of house building, according to Chartered Surveyors.

Development levies are another factor affecting the economic viability of construction. They have been reduced by the local authorities in Dublin by 26% and the SCSI acknowledges the measure in Construction 2020 to amend the current arrangements so that the lower rates of contributions can have a retrospective effect for existing planning permissions that have yet to be activated. This measure should be implemented.

The SCSI recommends that development levies should be reduced and that the rate at which development levies are charged should be index linked so that levies can react in line with market changes. An example of this would be to index link the rate of development levies to the SCSI Construction Tender Price Index.The latest SCSI Construction Tender Price Index shows that tender prices are approximately a third lower than they were at the peak and this should be reflected in development levies to improve the economic viability of residential developments.

Financing local infrastructure development

A significant barrier to unlocking 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 leads to delays in 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 roundabouts) 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 to speed up the delivery of housing (and commercial projects).

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 development that 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 development to come forward quicker than it 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 development.

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).

The SCSI recommends that the possibility of a Revolving Infrastructure Fund (RIF) being established in Ireland by Government and funded by the European Investment Bank (EIB) to provide upfront funding for the completion of local infrastructure projects in strategic areas to unlock development land for completion.

Planning delays and design requirements

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 believes that we must avoid the planning mistakes made during the boom and that all future planning is based on in depth analysis of demographic trends and key infrastructure availability.

"Some local authorities remain too firmly fixed on high density residential development, even in less central locations. Demographic changes – in particular a sharp decline in the number of people in their 20's – mean that the natural demand for apartments outside the city centre and locations close to good public transport links has diminished"
Chartered Surveyor, Dublin

In the UK, planning authorities take a very proactive approach to land management and the SCSI would like

[5] NAMA Annual Report 2013

to see a similar approach taken in Ireland to land management on a strategic level with a long term view.

A number of critical projects within the NAMA portfolio currently have no planning permission or have permissions that are no longer viable. For example, while there is extant planning permission on NAMA-secured sites in south Co. Dublin for 1,500 residential units, it is estimated that, for planning, infrastructure or economic considerations, just over 200 of these properties are currently deliverable[5].

The SCSI Submission on the Development Management Guidelines recommended the need to ensure that future apartments are designed to be more suitable for family living. It has become evident that the current design of apartments is not suitable for family occupation and it is our view that consideration should be given towards the European style of apartments which are more suitable for long term habitation, when new developments are being designed, particularly as we move towards more high density schemes in urban areas.

It is the view of the SCSI, that if apartments are designed for families and long term occupation, this would reduce the pressure on the supply of traditional 3 and 4 bedroom homes.

In December 2012, the Government announced the designation of some 66 hectares of land in Dublin Docklands as a SDZ. Such zones are designated to facilitate development which is of economic or social importance to the state. The SDZ legislation allows for a fast tracked planning regime. Once a SDZ is adopted by An Bord Pleanala on appeal future planning applications which are consistent with it must be granted permission and no appeal can be taken against a grant of permission. The planning authority may also compulsory acquire land in the SDZ. SCSI welcomes the recent approval of the Docklands SDZ where there are sites which make up over 22 hectares of development potential and recommends that SDZ's are considered in other areas which could increase supply in a fast-tracked manner and which are of economic and social importance.

Increasing the availability of land for development

The supply of land to the market for development is a key element of increasing the supply of residential homes.

According to the SCSI / Teagasc Land Sector Outlook 2014, the current level of land transfer for sale is minimal with just 0.5% of all land transacted annually and while transactions have increased nationally in 2013, Dublin was the only region members recorded a decrease of 1.4% in 2013. The current windfall tax is a disincentive to sell land and should be reduced from 80% to 33% to bring it in line with Capital Gains Tax.

The SCSI is represented on the Lord Mayor of Dublin's Vacant Site Levy task-force which proposed a mechanism to stimulate housing and commercial space development. In principle, the SCSI agrees with such a mechanism to free up derelict sites but also notes that in many cases the costs of bringing these sites forward are prohibitive and economically unviable and due care and consideration should be given to the mechanism and methodology to ensure that smaller landowners and builders are not penalised in favour of larger better funded investors. The levy should be focussed on sites of strategic importance and be introduced on a piloted basis in a fair and transparent manner. Furthermore, due care and careful consideration needs to be given to the methodology used for the levy.

One challenge with the viability of developing land is the fragmentation of sites around major urban areas. In the UK, the local authorities are taking a proactive approach to land assembly.

UK Case Study: Green Belt Swaps and Land Assembly

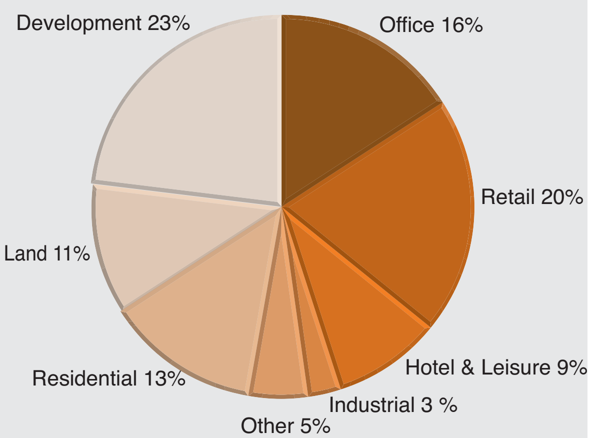
Green Belt Swaps

In the UK, the Office of National Statistics used census data to estimate that urban land represents around 9% of the UK's total land area. The Government currently states that all housing needs could be met if another 3% was to be developed, so that total urban land totalled 12%. Growth management that aims to contain urban sprawl is clearly attractive but there is now a discussion in relation to regularly reviewing boundary limits. A key aim is to ensure that infrastructure is put in place before the boundary is adjusted. Green belt land swaps, whereby brownfield land in the green belt is given permission for development in return for more attractive land for leisure to be added to the green belt is being encouraged by Government. A variation of this model is used in Cheshire East which aims to deliver 27,000 new homes and 30,000 new jobs by 2030. It is proposing the release of around 80 hectares of council owned green belt farmland to develop a new community of 1800 homes and will designate a new area of green belt in the South of the borough.

Land Assembly

In France, Germany and the Netherlands and in parts of the USA, Australia and New Zealand, local authorities play an active role in land assembly which is often coupled with Compulsory Purchase powers. This can be crucial in large scale extensions and new towns as well as redevelopment and regeneration. Land readjustment is a way of pooling existing use values of land in multiple ownership in order to create added value through regeneration or redevelopment.

» Graph 3: NAMA Property Portfolio by Property Type



Source: www.nama.ie

Licensing of building on land owned by NAMA

According to NAMA's Annual Report 2013, 11% of its portfolio is made up of land and 23% of development property.

The SCSI recommends that NAMA issues licences to developers to build on viable sites in strategic locations in the NAMA portfolio in Ireland. As the small developer/builder does not have to pay for the site upfront, it can devote its capital to the construction cost. When the completed house is sold, NAMA would then receive payment. This model worked very successfully in Dublin during the 1970's and 1980's.

Financial Viability in Planning

Existing planning policy plays a part in forward planning and development, however issues have arisen over time, especially since the economic downturn in relation to the viability of developments. In particular, the principle of viability considerations forming a core part of a development plan making process should be considered by Government and Planning Authorities alike. A proper understanding of financial viability is essential in ensuring that land is willingly released for development by landowners, that developers are capable of obtaining an appropriate market risk adjusted return for delivering the proposed development and the proposed development is capable of securing funding.

The financial implications of policy in terms of viability of projects needs to be revisited at a local level rather than rely on a formula with fixed percentages at a national level. Guidance should be provided to Local Authorities to test the viability of a proposed development that has encountered particular policy requirements and efforts should be made to track this back to the market conditions in order to achieve viability. For example, social housing contributions can be set too high and therefore renders a development non-viable and neither the market housing nor the affordable housing is delivered.

UK Case Study:

The UK Government introduced legislation under the Growth & Infrastructure Act to enable re-negotiation of planning permissions which were non-viable as a result of affordable housing obligations. This has been very successful in the UK for delivering housing units which would have previously failed to commence.[6]

Mobility and Housing Lifecycle

The lack of mobility in the second hand home market is also having a significant impact on the supply of properties coming to the market. This lack of mobility has been caused by negative equity and also an unwillingness of homeowners to lose valuable tracker mortgages. Some financial institutions have introduced products but their uptake remains to be seen.

One area the SCSI believes should be considered is in relation to single occupancy of large 3 and 4 bedroom homes. Due to the lack of suitable alternatives, older people are staying in houses that are no longer suitable for their needs. The SCSI recommends that an incentive is introduced for older people to 'trade-down' their properties to smaller units. This incentive could be in the form of a reduction or waiver on the Local Property Tax for several years.

Living Cities

The Living Cities Initiative introduced and extended in recent Budgets has been a useful mechanism to encourage the redevelopment of the Georgian Core of many cities. The SCSI recommends that this is extended and also that it is coupled with less onerous planning conditions to convert unused commercial units into residential apartments and houses.

Home Renovation Incentive Scheme

The Home Renovation Incentive Scheme (HRI), introduced in the last Budget has been very successful with over 4,300 separate contracts already agreed on 3,830 properties and a spend of over €80m so far.

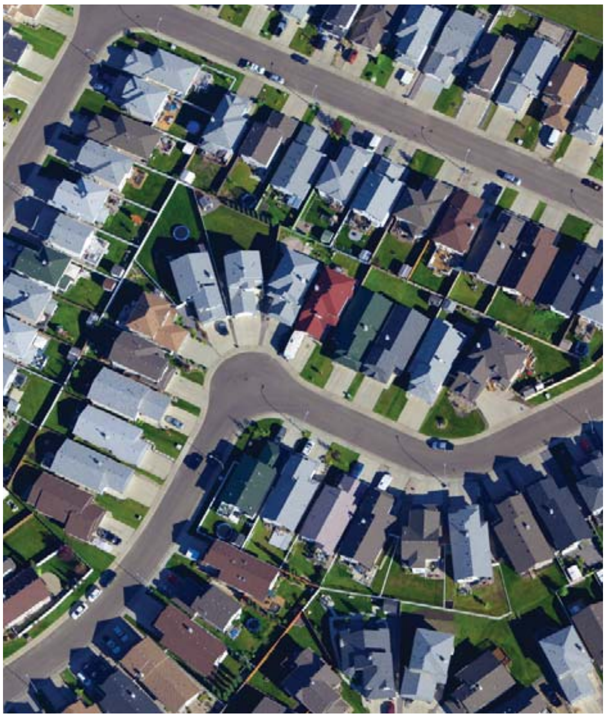
The SCSI recommends that the threshold for the HRI should be increased.

Mortgage Arrears

According to the Department of Finance Mortgage Restructures Data, April 2014, which includes data from AIB, Bank of Ireland, PTSB, ACC, KBC Ireland & Ulster Bank, there are 107,967 mortgages, or 15% of all mortgages, are in arrears. Of those, 32,821 mortgages are in arrears of less than 90 days and 75,146 are in arrears of greater than 90 days.
The SCSI recognises the challenges for people in mortgage arrears and welcome the fact that increased engagement between homeowners and financial institutions has resulted in restructuring.

The SCSI also believes that if supply is to be increased, greater action will need to be taken by the financial institutions to reduce the number of accounts in arrears, particularly in relation to the Buy to Let sector.

In the US, the use of non-recourse mortgages provide additional safeguards to homeowners and because the lender assumes this additional risk, lending practices and loan to value requirements are far more prudent and therefore the incidence of non-performing loans is dramatically reduced.



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Dating back to 1895, the Society of Chartered Surveyors Ireland is the independent professional body for Chartered Surveyors working and practicing in Ireland.

Working in **partnership with RICS**, the pre-eminent Chartered professional body for the **construction, land** and **property** sectors around the world, the Society and RICS act in the public interest: setting and maintaining the **highest standards of competence and integrity** among the profession; and providing **impartial, authoritative** advice on key issues for business, society and governments worldwide.

Advancing standards in construction, land and property, the Chartered Surveyor professional qualification is the **world's leading qualification** when it comes to professional standards. In a world where more and more people, governments, banks and commercial organisations demand greater certainty of professional standards and ethics, attaining the Chartered Surveyor qualification is the recognised mark of **property professionalism.**

Members of the profession are typically employed in the construction, land and property markets through private practice, in central and local government, in state agencies, in academic institutions, in business organisations and in non governmental organisations.

Members' services are diverse and can include offering strategic advice on the economics, valuation, law, technology, finance and management in all aspects of the construction, land and property industry.

All aspects of the profession, from **education** through to **qualification** and the continuing **maintenance of the highest professional standards** are **regulated** and overseen through the partnership of the Society of Chartered Surveyors Ireland and RICS, in the public interest.

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