SOCIETY OF CHARTERED SURVEYORS IRELAND

SCSI Pre-Budget Submission 2015

Submission to the Department of Finance and the Department of Public Expenditure and Reform

RICS

the mark of property professionalism worldwide

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Delivering a more sustainable property and construction sector

RICS the mark of property professionalism worldwide

Mr Michael Noonan TD
Minister for Finance
Department of Finance
Merrion Street
Dublin 2

Mr Brendan Howlin TD
Minister for Public Expenditure & Reform
Department of Public Expenditure & Reform
Merrion Street
Dublin 2

Re: Society of Chartered Surveyors Ireland Pre-Budget Submission 2015

Dear Minister,

On behalf of the Society of Chartered Surveyors Ireland, I would like to submit the attached report for your consideration in advance of Budget 2015.

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.

The supply shortage of housing in Dublin and other urban areas is a key concern. Approximately 89,000 units were built in 2006 and just 8,301 in 2013. In Dublin price inflation is at 22% year on year which is clearly unsustainable. We have set out a series of recommendations which we believe will help improve the supply of property and support the development of a more sustainable and normally functioning property market.

The residential rental sector is also experiencing a supply shortage. Rents have increased by 9% year-on-year in Dublin and there is an urgent need for more social housing, public investment in which has declined by 26%.

Investment volumes in the commercial property sector tripled last year to approximately €2bn, which is a sign of renewed confidence in Ireland from international investors arising from measures introduced by Government. We do, however, have a serious supply shortage of modern Grade A office space in the major cities and a worryingly low vacancy rate. This submission highlights some recommendations to improve supply to provide suitable accommodation to multinational companies.

The population of Ireland in 2021 is expected to be 6.6% greater compared to 2011 and this will have an impact on the sustainability of our infrastructure. It is imperative that construction sector capacity and output returns to more sustainable levels and this submission builds on the SCSI 'Public Capital Programme Priorities to 2020' submission made in conjunction with DKM Economic Consultants to the Department of Public Expenditure & Reform in May 2014. Should you require any further elaboration on our recommendations, we will be delighted to meet with you.

Pauline Daly, SCSI President

Key Society of Chartered Surveyors Ireland (SCSI) Recommendations

Increasing the supply of housing

1. Encourage Financial Institutions to provide Development Finance in a measured manner
2. Introduce a 'Builders Finance Fund' to support SME builders completing developments
3. Reduce development contributions for a period of 2 years
4. Streamline planning process to speed up decisions and reduce delays
5. Reduce VAT on new home construction from 13.5% to 5% for 2 years
6. Reduce windfall tax on land from 80% to 33% to bring it in line with Capital Gains Tax
7. Introduce Vacant Site Levy on sites of strategic importance in a targeted and transparent manner
8. Encourage NAMA to license developers to build out sites in strategic areas in its portfolio
9. Consider other areas of economic importance and with development potential for SDZ's to fast track development
10. Introduce a Local Property Tax exemption for people 'trading- down' to smaller units to increase the availability of second hand homes
11. Ensure Financial Viability in Planning is taken into account by Local Authorities
12. Extend Living Cities Initiative
13. Introduce a standard mortgage application form and extend approval to 6 months
14. Introduce a Revolving Infrastructure Fund (RIF) to finance infrastructure provision upfront before development
15. Home Renovation Incentive (HRI) Scheme threshold should be increased
16. Greater action needed on reducing the number of mortgages in arrears, particularly in the 'Buy to Let' sector.

Increasing supply in the Private Rental Sector

1. Do not introduce a cap on rent as this will disincentivise investment in the private rented sector
2. Explore the possibility of introducing a 'Build to Rent' scheme
3. Increase the provision for investment in the Public Capital Programme for social housing
4. Support PPPs with private developers to build social housing schemes on land owned by local authorities
5. Review proposed Custodial Deposit Protection scheme in a careful manner.

Key Recommendations (continued)

Increasing supply in the Commercial Property Sector

1. Support the availability of development finance for commercial office construction via the 'Builders Finance Fund'
2. IDA financial support to underwrite the rent for office buildings in certain strategic locations until they are let to support development planning in advance of demand
3. Revolving Infrastructure Fund (RIF), outlined in section 1 could support the upfront financing of infrastructure and services for commercial property development
4. Flexible planning system and consideration for other SDZ's with economic development potential
5. CGT relief is extended for commercial property in regional locations to encourage investment in commercial property in regional locations
6. Reintroduction of the old Capital Gains Tax roll over relief, where you sell lands to buy lands, should be reintroduced without restriction
7. Promote energy retrofitting and modernisation of older commercial property stock
8. Section 598 on retirement relief limit to €500,000 should be phased in over a number of years and the upper age limit be increased to 75 years of age
9. Improve level of information available on the Residential Property Price Register and Commercial Lease Database
10. Introduce Commercial Sales Database detailing sales transactions.

Key Recommendations (continued)

Improving output and sustainability in the Construction Sector

1. The Public Capital Programme to 2020 should be set at 5% of GDP (6.1% of GNP) to 2020
2. There is a need to front-end the investment as the industry needs the stimulus now
3. The total capital expenditure in the first 4 months of 2014 is 10% behind profile – the planned expenditure should be fully expended
4. (1) Housing, (2) Education, (3) Health, (4) Road Infrastructure/Transport and (5) Commercial Office/Enterprise Facilities should be the key national priorities in the Public Capital Programme to 2020
5. (1) Broadband provision, (2) Education (mainly primary schools), (3) Flood defence & remediation, (4) Infrastructure linkages and (5) Tourism should be the key regional priorities in the Public Capital Programme to 2020
6. Focus on job creation and skills development through the Public Capital Programme which accounts for 60% of the construction sector output.

Contents

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Introduction

The Irish economy has shown signs of improvement over the first half of 2014, albeit the outlook remains uncertain.

According to the Department of Finance, GDP growth of 2.1% is forecast for 2014 which is expected to accelerate to 2.7% in 2015. Domestic demand is expected to make a positive contribution to this growth in 2014 for the first time since 2007. Ireland's Debt-to-GDP ratio peaked in 2013 at 123.7%, but this is on a firmly downward trajectory.

International sentiment towards Ireland has also improved. The yield on Ireland's 10-year benchmark government bonds has fallen 87 basis points over the last 12 months and the bonds are trading at historic lows. Furthermore, Forbes named Ireland the best country for business in December 2013 and this positive sentiment has improved Foreign Direct Investment levels.

Unemployment levels have also reduced to around 12%, down from 15% at the peak on the back of several Government 'Action Plans for Jobs', Jobs Initiatives and large multinationals locating to Ireland arising from IDA efforts. 42,700 additional jobs have been created year-on-year in Q1 2014.

The recent improvement in the outlook for the economy is, however, tentative and several challenges remain – particularly in relation to the property and construction sectors in the context of housing and office supply shortages, difficulties in obtaining development finance, mortgage arrears, negative equity and other issues in developing a sustainable and competitive market over the longer term.

Table 1: Economic Growth Forecasts

(% annual change)	**2013**	**2014 (f)**	**2015 (f)**
GNP	3.4	2.8	2.7
GDP	-0.3	2.2	2.9
Domestic Demand	-0.1	2.3	2.6
Private Consumption	-1.1	1.3	1.7
Public Expenditure	-0.5	-1.4	-1.0
Investment	4.2	12.0	10.9
Exports	0.2	3.2	4.0
Imports	1.0	3.3	3.9
Unemployment Rate	13.1	11.3	10.2
Employment Growth	3.3	2.3	2.1
Wage Growth	0.5	0.6	1.1
CPI Inflation	0.5	0.4	1.2
General Government Balance	-7.2	-4.7	-2.9

Source: DKM Economy Watch April 2014

Note: The National Accounts aggregates presented throughout this submission are based on the old methodology and do not take into account the revised figures using the new methodology published by the CSO on 3rd July. All forecasts presented are equally based on the National Accounts published prior to that date

Property Sector

The property sector can now be characterised as being multi-tiered in terms of its performance and outlook. The shortage of supply in urban areas of both residential and commercial property is a significant concern to the SCSI.

"The lack of available stock though is creating issues with availability and driving prices up, where most properties in our region are starting to see competitive bidding scenarios again - which is becoming alarming as it makes you wonder how sustainable this is and are we back where we were pre bust" Chartered Surveyor, Dublin

It should also be remembered that the supply issue is very much a Dublin / Urban issue and that the situation in regional areas is markedly different.

"While CSO data shows that prices have stabilised throughout the country, they have not bottomed out in parts of Connaught/Ulster and they won't until next year" Chartered Surveyor, Western Region

According to the Central Statistics Office Residential Property Price Index, Dublin residential property prices grew by 4.2% in May and were 22% higher than a year ago and are compounded by a shortage of supply, down from approximately 89,000 units in 2006 to 8,301 in 2013, which poses a threat to affordability given the anticipated demand of around 25,000 units per annum as stated by the ESRI. The private rented sector almost doubled in size between 2006 and 2011 and approximately 1 in 5 households in the country are now renting privately.

According to Daft.ie, the average rent nationwide is now 9% higher than it was at the same time last year and rental price inflation is also being fuelled by a shortage of supply of property in urban areas which is posing a risk to the economic competitiveness of the country.

According to the SCSI Commercial Property Outlook, prime office rents increased by up to 10% over the first 3 months of 2014. Transactions in the investment market, which tripled in 2013 to over €2bn, grew to around €1bn in the first quarter of 2014. A shortage of supply of modern offices has now been cited as a key concern to attracting Foreign Direct Investment given that there has been very little office construction over the past 5 years and many international companies may not be willing to wait for a 24-36 month timeframe for new builds.

Construction Sector

Total output in the past six years has plummeted to an unsustainable level of just €8.7 billion in 2013 or 6% of GNP, compared with an equally unsustainable level of almost €40 billion or one-quarter of economic activity in 2006. A comparison with European norms would suggest a ratio of c12% of GNP is a more sustainable level for an economy the size of Ireland.

SCSI's forecasts for the volume of growth in building and construction output comprise a modest increase of around 5% in 2014 and an annual average of 5.6% growth in output in the years to 2018 compared with an estimated volume growth of 4% for 2013, which is dependent on the barriers to development of residential and commercial property, outlined in this document, being overcome.

In terms of the public sector, the total Exchequer capital funding has been significantly constricted in recent years compared to the c.€9bn that was invested in 2008. €3.4bn was provided in Exchequer capital funding in 2013, and this level is expected to fall slightly to €3.3bn per annum to 2016. This reduced level of Exchequer provision equated to 2.6% of GNP in 2013, considerably below the level of 6% of GNP witnessed near the peak.

The Society of Chartered Surveyors Ireland made a comprehensive submission to the Department of Public Expenditure & Reform at the end of May 2014 under the Review of the Public Capital Programme Priorities to 2020 which was prepared in conjunction with DKM Economic Consultants. The full submission is available from www.scsi.ie and a summary of some of the recommendations are included in the section of this document dealing with construction.

While knowledge of the annual Public Capital Programme provisions in the multi-annual capital investment framework are important for the construction industry, the industry also needs to be confident in the knowledge that the full Exchequer capital allocations to the individual departments are fully expended in the year in which they are allocated. **Based on the Expenditure estimates to April 2014 , the total gross capital expenditure in the first four months of 2014 was behind its planned expenditure profile by 10%.**

A review of the total public capital investment level to date show reductions in the following areas over the period 2008-2014:

- Social Housing down 26.3%
- Roads down 21.2%
- Public Transport down 17.6%
- 3rd level colleges down 19.1%
- Hospitals down 7.2%
- Government construction down 13.8%

The provisions for Housing, for example, which peaked in 2008 (€2.21 billion) have fallen back sharply since, reflecting a much reduced allocation for local authority and social housing by 2014 (€271m.). **Given the serious housing supply challenge which exists, predominantly in the Dublin area, the recent Construction Strategy 2020 must be implemented with regard to focusing on these immediate housing supply related issues and ensuring that any undue planning or other delays are addressed as quickly as possible**. This will require public capital investment which may also have a role in kick starting the delivery of housing in the private sector. The pressures for an increase in infrastructure come from a number of areas, not least of which is the growing population, which is expected to be 6.6% higher in 2021 compared with 2011.

Five key priority areas of national strategic importance were selected in the SCSI PCP Priorities to 2020 submission in regard to where public capital investment should focus in the period to 2020. These are as follows:

1) Housing
2) Education
3) Health
4) Road Infrastructure and Transport Priorities
5) Commercial Office and Enterprise Facilities

From a regional perspective five separate areas were also prioritised under the following headings:

1) Broadband
2) Education (mainly Primary Schools)
3) Environment, Flood Defence and Remediation
4) Infrastructure Linkages
5) Tourism

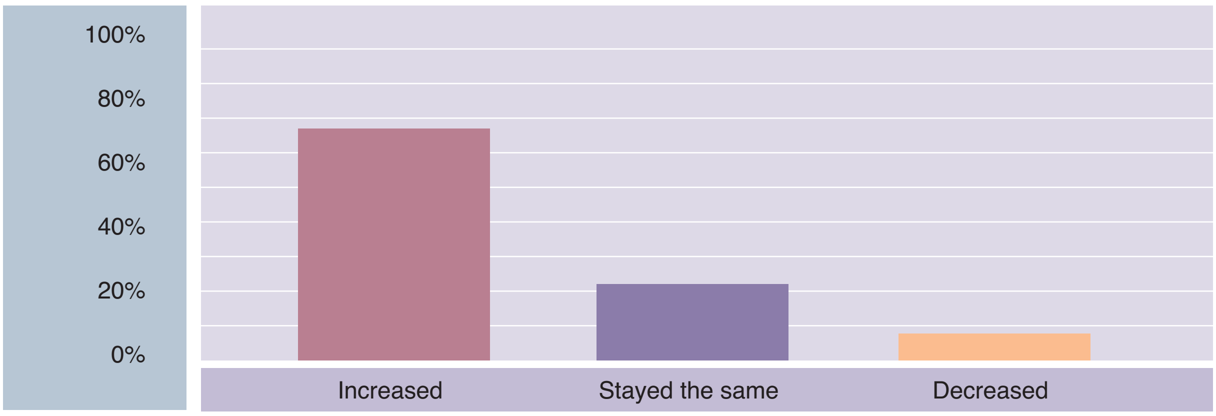
Being mindful of the fiscal retrenchment period which has been underway since 2008, the industry requires a consistently steady level of public capital investment over the next five years. While 6.5% of GDP (8% of GNP) is recommended as being the sustainable level for an economy the size of Ireland, it is recognised that this level may not be achievable given that the fiscal situation is likely to remain a constraint into the medium-term. Accordingly the recommended projected ratio in 2020 is less than would be desirable in recognition of the fiscal situation. **This submission acknowledges the fiscal constraints which exist and projects a PCP level which corresponds to 5% of GDP (6.1% of GNP) in 2020. Moreover there is a need to front-end the investment as the industry needs the stimulus now.**

SCSI Member Activity Levels

The SCSI surveyed its members and approximately 70% have witnessed an increase in activity levels in the first half of 2014.

Graph 1: SCSI Member Activity Levels

Compared to the last 6 months of 2013, have activity levels in your business in the first 6 months of 2014



Some of the main reasons included:

- **"Increased market transactions"**
- **"More confidence by purchasers in the market increasing demand and sales"**
- **"Increase in valuation instructions, connected to activity in the investment market"**
- **"Far more valuation reports and portfolio valuations are being carried out"**
- **"Increase in lending and confidence"**
- **"Increase in companies expanding"**
- **"Perception of improved economic outlook"**
- **"More Multinational companies setting up in Dublin"**

This improvement in activity levels and sentiment is very welcome but is coming from a low base and is still tentative. The SCSI's Budget recommendations intention is to support the development of a more sustainable and normally functioning property and construction sector to ensure that this activity can be sustained and job creation, economic growth and competitiveness can be sustained over the longer-term.

Section 1: Residential Property

There is a serious shortage of supply of residential property in Dublin at present which is leading to house price inflation of 22% year-on-year according to the Central Statistics Office.

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%.

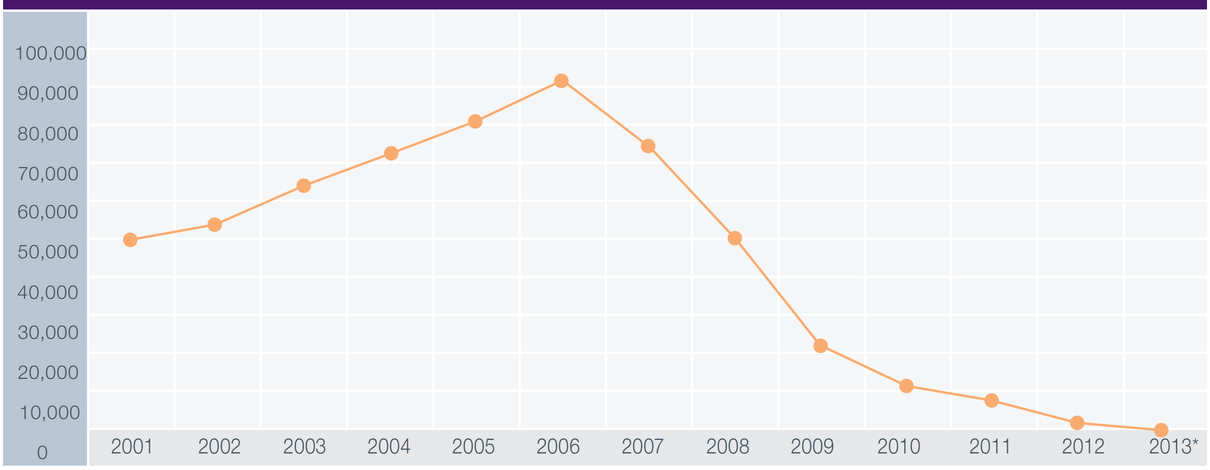
Research by the ESRI suggests that in the coming years, increases in population and changes in Ireland's demographics will result in the formation of at least 20,000 new households per year, each requiring a separate dwelling. The results suggest an ongoing need for approximately 25,000 dwellings a year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

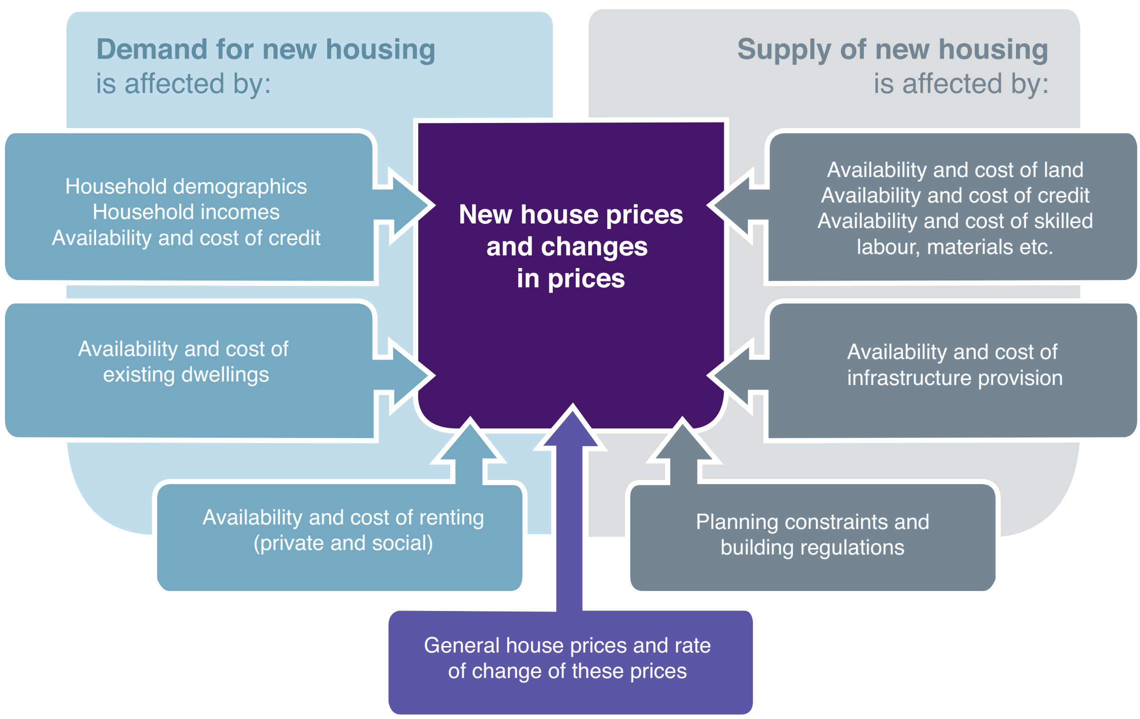
It is imperative that action is taken to mitigate the effects of this unsustainable level of price inflation as a consequence of a critical lack of supply of homes coming onto the market.

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

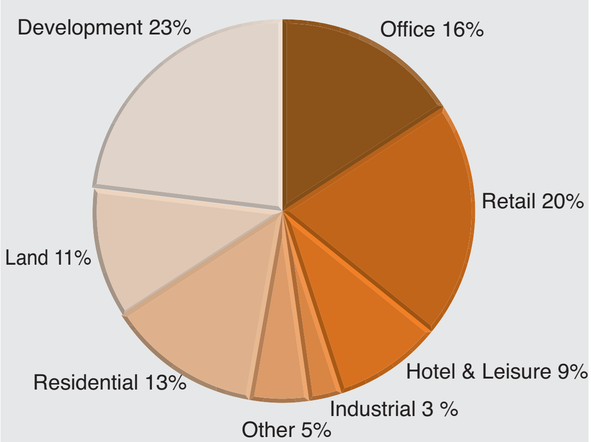
Green Belt Swaps

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.

SCSI Recommendations to increase the supply of housing

- Encourage Financial Institutions to provide Development Finance in a measured manner
- Introduce a Builders Finance Fund to support SME builders completing developments
- Reduce development contributions for a period of 2 years
- Streamline planning process to speed up decisions and reduce delays
- Reduce VAT on new home construction to 5% for 2 years
- Reduce windfall tax on land from 80% to 33% to bring it in line with Capital Gains Tax
- Introduce Vacant Site Levy on sites of strategic importance in a targeted way and in a fair and transparent manner
- Encourage NAMA to license developers to build out sites in strategic areas in its portfolio
- Consider other areas of economic importance and with development potential for SDZ's to fast track development
- Introduce a Local Property Tax exemption for people 'trading-down' to smaller units
- Ensure Financial Viability in Planning
- Extend Living Cities Initiative
- Introduce a standard mortgage application form and extend approval to 6 months
- Introduce a Revolving Infrastructure Fund (RIF) to finance infrastructure provision upfront before development
- Home Renovation Incentive Scheme threshold should be increased
- Greater action needed on reducing the number of mortgages in arrears, particularly in the Buy to Let sector

[6] Mechanisms to increase housing land supply in England and Wales

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.

Local Property Tax (LPT)

Local Authorities will be able to vote as to increasing or decreasing the local property tax rate in their area by 15% in 2015. From next year onwards, they will be able to keep 80 per cent of the property tax revenue collected in their area. Until now, councils have got 35 per cent of their income from general funding, which is due to be replaced in large part by property tax revenue. Another 35 per cent comes from the commercial rates charged on businesses, 20 per cent comes from government grants for roads and housing and 10 per cent from council charges such as parking fees, planning fees and council house rents.

As the LPT is based on the value of the property, there is considerable variation throughout the country. For example, the average property tax per house in Dun Laoghaire Rathdown for example is €372 compared to €100 in Cavan[7]. The SCSI recognises the importance of LPT as a means of broadening the tax base but recommends that there needs to be more transparency in relation to the local services delivered.

It will be up to each Council to make a decision on whether to change its LPT rate and the SCSI recommends that any changes are done in a transparent manner and based on economic rationale.

Furthermore, the SCSI recommends that if Councils do reduce the LPT by 15%, they should ensure that they are adequately resourced and not require local businesses to make up any shortfall. Commercial rates already provide 35% of the Council's income and it is imperative that job creation, particularly at a regional level is prioritised.

[7] Sunday Business Post 'Vast Majority of council's can't cut property tax' June 15th 2014

Section 2: Private Rented Sector

The private rented sector almost doubled in size between 2006 and 2011 and approximately 1 in 5 households in the country are now renting privately. This tenure mix is likely to remain a significant part of the housing landscape into the future. According to Daft.ie, the average rent nationwide is now 9% higher than it was at the same stage last year. Rents rose in every county outside Connacht & Ulster, with the biggest annual increase of 14% occurring in Dublin city centre. The average rent nationwide is now €888.

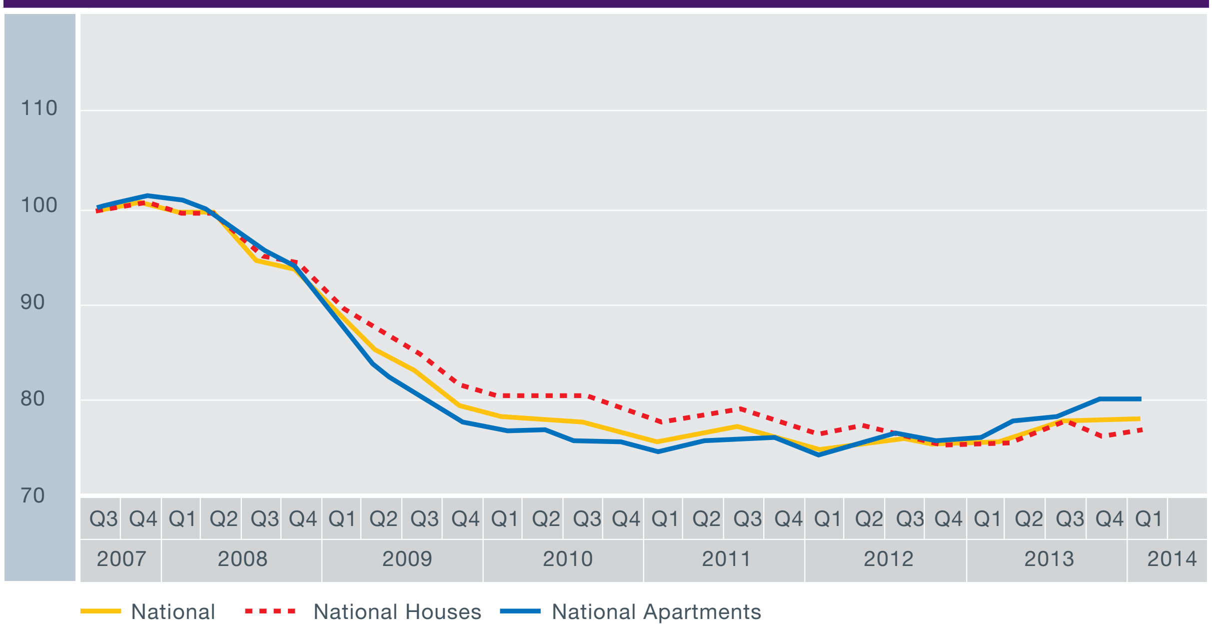
According to the PRTB/ESRI Rent Index, in the first quarter of 2014, monthly rents were close to 23 per cent lower than their peak in late 2007, with Dublin rents down 16.4 per cent from peak. The SCSI believes it is important that we do not return to peak levels for rents.

According to a RED C Poll carried out on behalf of the SCSI, 36% of renters 'strongly agree' that they are happy renting and could see themselves renting long-term, rather than purchasing a home.

It is important that a sustainable rental market is developed and maintained as it is a key element of our economic competitiveness.

The SCSI has concerns around the pace of rent inflation and in particular, there is anecdotal evidence suggesting that employees of large multinational companies located in Ireland are having difficulties sourcing accommodation which may have implications for our economic competitiveness.

» Graph 4: The PRTB Rent Index - National



Source: ESRI /PRTB Rent Index Q1 2014

One area that has been discussed publicly is in relation to a cap on rents. The SCSI believes that this should not be introduced in any format as it will only disincentivise investment in the private rental sector.

The introduction of the Custodial Deposit Protection Scheme (CDPS) is positive and if correctly implemented, should provide both tenants and landlords with an independent scheme to hold and resolve deposit disputes and reduce the volume of disputes being referred to the PRTB. The SCSI has engaged with the Department of Environment, Community & Local Government in relation to the CDPS. That said, according to the Indecon report for the PRTB, disputes affect just 0.32% of tenancies and members would question the need for such a scheme.

A shortage of supply is a serious issue in the private rented sector and this is being exacerbated by the lack of supply in the residential housing sector. Over the past 2 years, there has been a trend towards more international investors purchasing Multi Family schemes in Dublin and other major cities which brings a high level of professionalism to what has been a highly fragmented sector. Some of the measures to boost housing supply outlined in Section 1, would also improve supply in the Private Residential Rental sector.

The economic model to build private rental accommodation is different to that of building homes for sale. The price of land is a key factor in the viability of developing rented accommodation, in particular because the demand for rental accommodation is high in urban areas and city centres close to employment and transport links. This is also where land prices are at a premium. This has been recognised in the UK by the introduction of the 'Build to Rent' scheme aimed at increasing the supply of private rented accommodation.

UK Case Study: Build to Rent

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 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.

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.

Social Housing

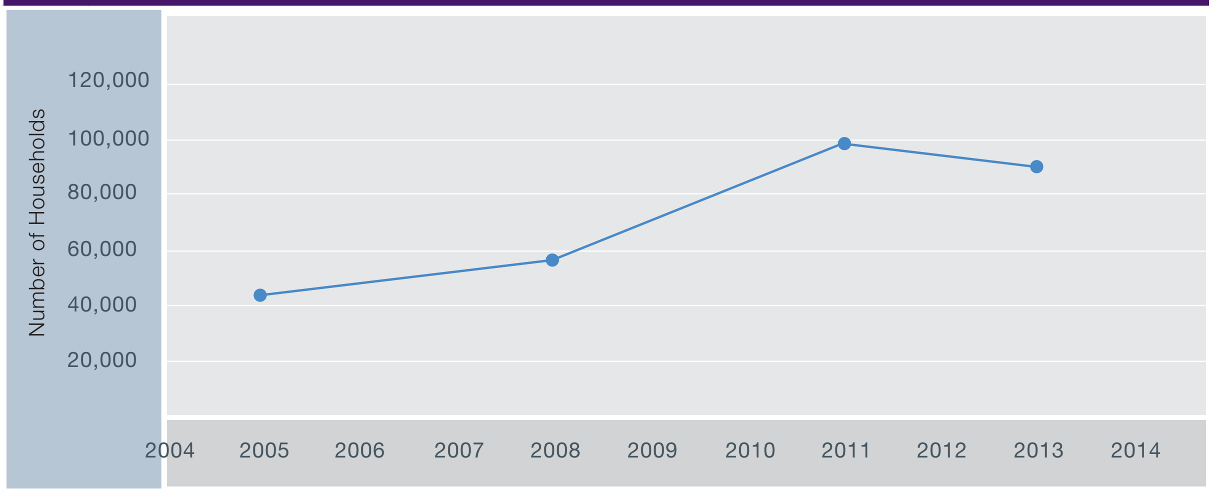
According to the Housing Agency's 'Summary of Social Housing Assessments 2013' 89,872 households were assessed as qualified for housing support as of the 7th of May 2013. While this represents a reduction of 8,446 households (or 9%) on the 2011 assessment total, Graph 5 indicates that this figure is significantly above the 2008 figure. Indeed Graph 5 also indicates that the number of households qualifying for social support has risen significantly since 2008 as a result of the economic crisis.

Due to the rapid and severe deterioration in the public finances since 2007, the capital budget for constructing (or acquiring) units has been significantly reduced from €980m in 2008 to €189 million in 2012. According to the

Infrastructure and Capital Investment Programme 2012-2016, this figure will be further reduced as it is estimated that approximately €92 million will be spent on the construction of social housing units in 2016. Unsurprisingly, the reduction in the capital budget for social housing has resulted in a dramatic decline in the provision of social housing units by local authorities.

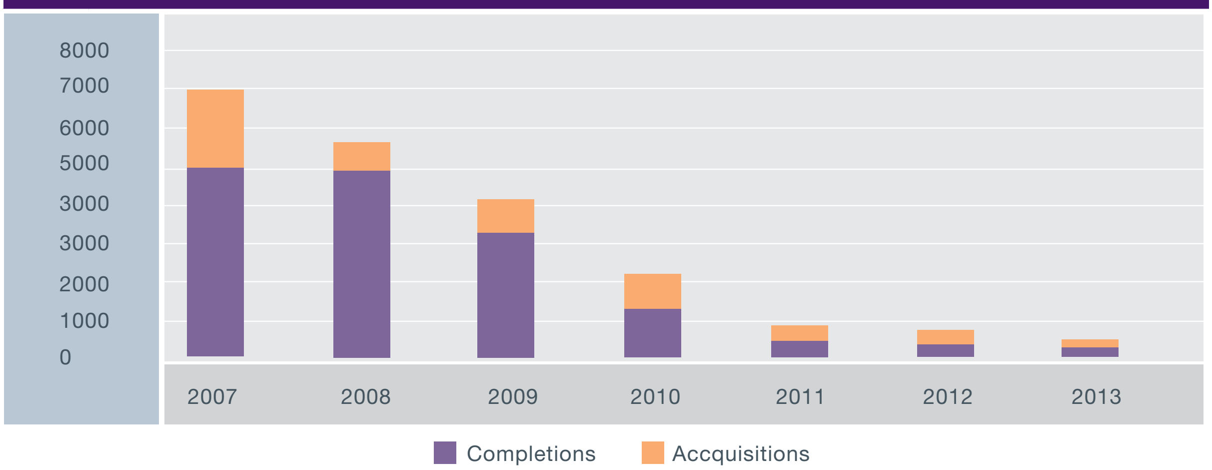
The Public Capital Programme, which funds local authority and social housing has been reduced significantly in the past six years. The provisions for Housing, which peaked in 2008 (€2.21 billion) have fallen back sharply since, reflecting a much reduced allocation for local authority and social housing by 2014 (€271m.) which represents a 26% decrease in allocation as part of the programme.

» Graph 5: Number of Households accessed as qualified for Social Housing Support 2005-2013



Source: Housing Agency

» Graph 6: Provision of Local Authority Housing 2007-2013



Source: Department of the Environment, Community and Local Government

The SCSI recommends that the delivery of social housing is prioritised as part of the Public Capital Programme over the next 5 years and has made this recommendation to the Department of Public Expenditure & Reform in its consultation around the Public Capital Programme 2015-2020. The SCSI has recommended that the delivery of social housing be the first strategic priority as part of the new PCP. In terms of delivery, Government should support Public Private Partnerships (PPP's) with private developers to build Social Housing schemes on lands owned by the Local Authorities.

Table 2: Public Capital Programme (PCP) Expenditure

	2004	2008	2012	2013	2014	Average 2004-'14
Housing	€m	€m	€m	€m	€m	€m
Social Housing	1,204	1,696	387	273	271	766
Housing Loans	518	627	86	184	201	323
Housing Grants	73	78	53	35	39	56
Housing Sub-Total	**1,795**	**2,400**	**526**	**492**	**511**	**1,145**

SCSI Recommendations on the Private Rental Sector

- Do not introduce a cap on rent as this will disincentivise investment in the private rented sector
- Review proposed Custodial Deposit Protection Scheme in a careful manner
- Explore the possibility of introducing a 'Build to Rent' scheme
- Increase the provision for investment in the Public Capital Programme for social housing
- Support PPPs with private developers to build social housing schemes on land owned by local authorities

Section 3:
Commercial Property

According to the SCSI Commercial Property Outlook, the vacancy rate for prime office space in parts of Dublin City Centre is around 9%, with 7-8% considered a shortage. 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 rents in the CBD are now on average €40.84 per sq. ft.

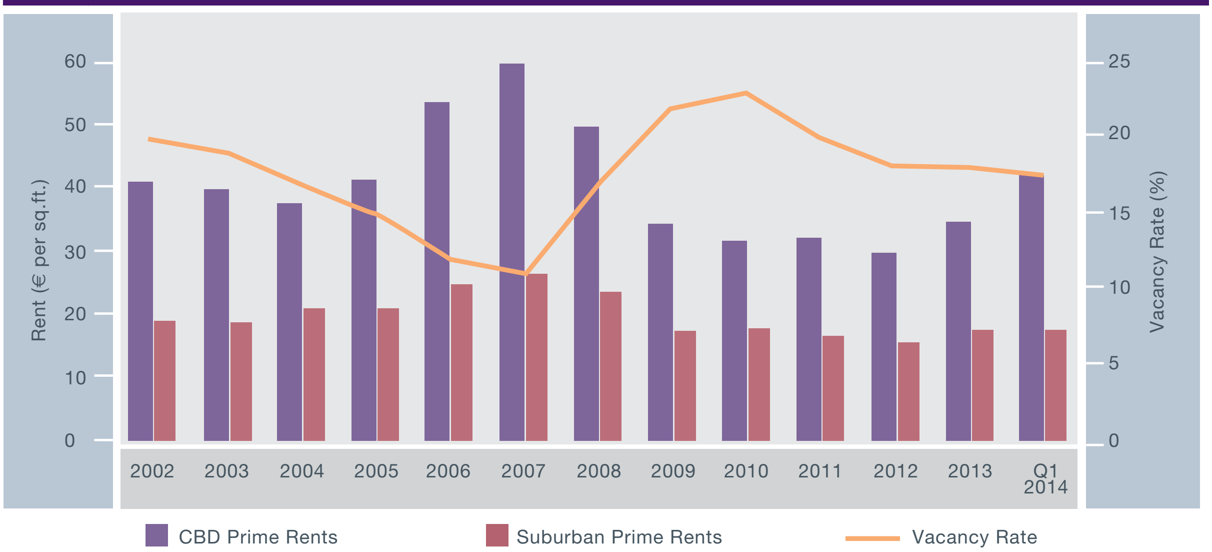
Shortage of Supply

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 to Ireland. Members of the SCSI believe that there is a need for greater speed in relation to planning applications and the process to support targeted high potential commercial development for Foreign Direct Investment purposes. The current turnaround time of up to three years may be too lengthy for FDI demand.

"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

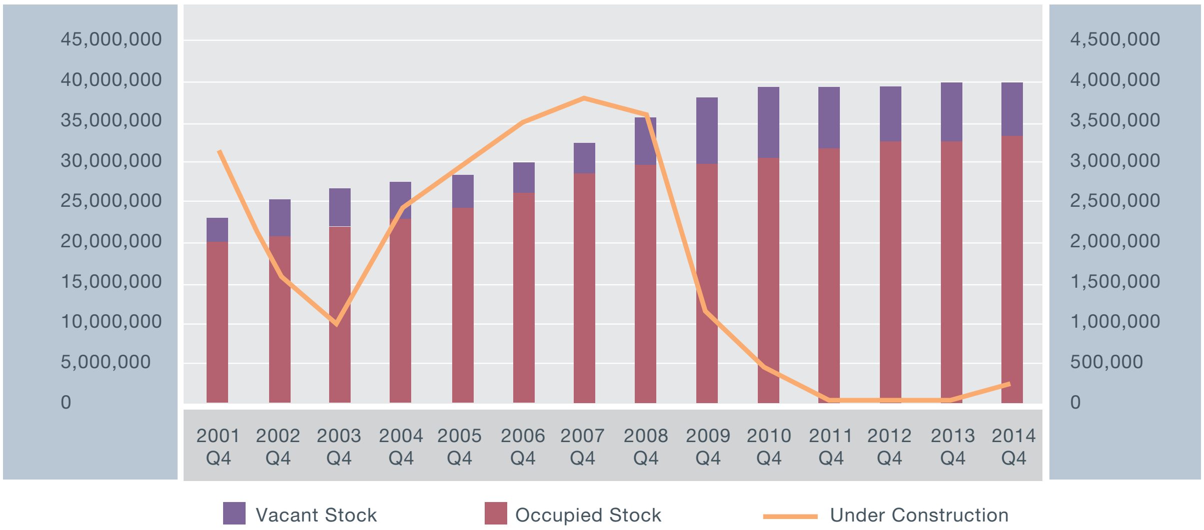
The planning process can take a year and this is felt to be too protracted. There is a view that greater flexibility and innovation is needed at government and local authority level to ensure that planning for, say, combined office/residential developments are prioritised.

» Graph 7: CBD Primes Series Average



Source: JLL

» Graph 8: Total Stock and Vacant Stock Levels



Source: JLL

As Graph 8 shows, there has been very little commencement of new office developments since 2008 and there is a demand for approximately 2 million sq. ft. per annum. This is putting pressure on our economic competitiveness and ability to attract Multinationals and FDI.

Development Finance

The availability of development finance for new construction remains a challenge facing the commercial property sector. The SCSI recommends that a Builders Finance Fund as outlined in section 1 would support developers/building commencing development.

The SCSI also 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 in certain locations until they are let.

Infrastructure

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 the Revolving Infrastructure Fund (RIF), outlined in section 1 could support the upfront financing of infrastructure and services for commercial property development.

Planning

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.

Capital Gains Tax Relief

The extension of the Capital Gains Tax Relief to the end of 2014 was a welcome initiative to support investment in the commercial sector and this has worked well. Investment in the Commercial Sector tripled to €1.93bn in 2013 and €943m so far in 2014.

In the context of increases in investment levels in Dublin and other cities, the SCSI recommends that the CGT relief is extended in a manner that will continue to support investment in commercial property in regional areas. This is of particular importance to ensure that investment is made in buildings suitable to meet the needs of future FDI demands.

3.1 Land Transfer

3.1.1 Increasing Land Mobility

The SCSI recently made a submission to the Department of Agriculture, Food and Marine and presented its recommendations to the Department as part of the Agri-Tax Review announced by Minister for Agriculture, Food and the Marine, Simon Coveney.

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

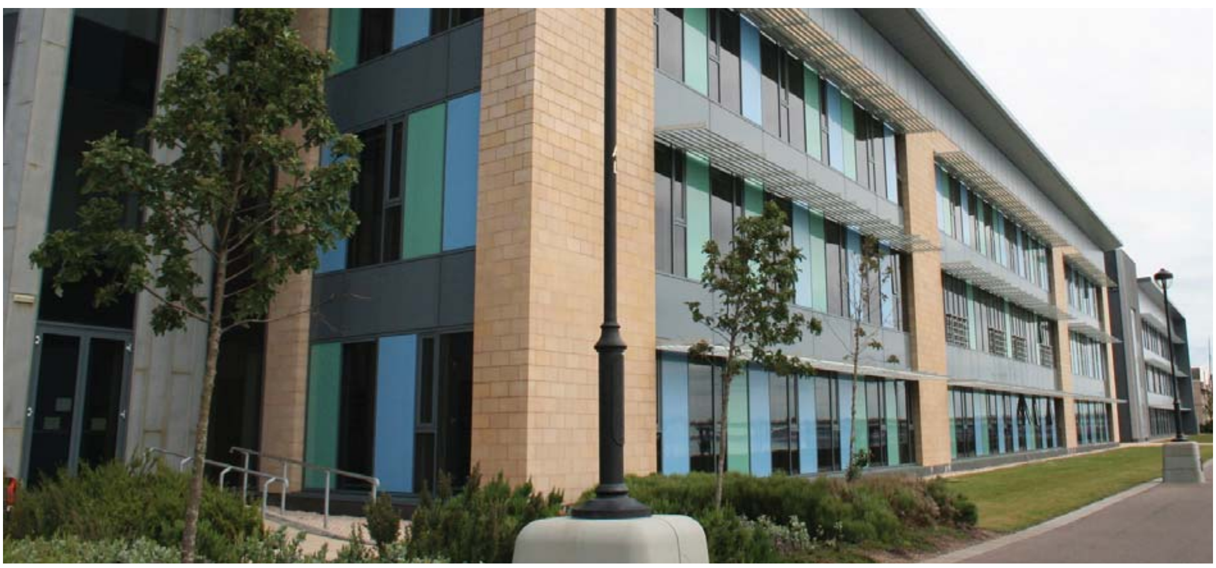
- Capital Gains Tax on farm restructuring - The SCSI recommends that the reintroduction of the old Capital Gains Tax roll over relief, where you sell lands to buy lands, should be reintroduced without restriction.
- Letting out lands - The SCSI would recommend that the 15 year restriction is extended so that once the land is used in commercial farming, Capital Gains tax relief would be available.
- Section 598 on retirement relief, where if land is leased for 5 years a person aged 66 years or over has their threshold reduced from €750,000 to €500,000, is now a disincentive to transfer. The limit to €500,000 should be phased in over a number of years and the upper age limit be increased to 75 years of age for those that are already over the current age threshold.

3.2: Availability of Data

What characterises the property and construction sector is the lack of coherent and consistent data. The SCSI produces a range of reports as outlined in Table 3.

Table 3: SCSI Reports

Property	Construction	Land
SCSI/ Central Bank of Ireland Survey of Property Professionals	SCSI Construction Tender Price Indices	SCSI / Teagasc Land Sector Annual Outlook
SCSI/RICS Commercial Property Survey	SCSI House Rebuilding Cost Guide	
SCSI Residential Property Annual Outlook	SCSI Construction Sector Annual Outlook	
SCSI Commercial Property Annual Outlook	SCSI Construction Cost Index	
SCSI / RED C Renters Poll		



The SCSI acknowledges the work of Government in introducing the Residential Property Price Register and the Commercial Lease Database which are two statutory sources of information that have significantly improved transparency in the property sector.

The SCSI recommends that these could be improved and have made submissions to the Property Services Regulatory Authority with suggested areas for improvement and usability in the interests of the public and international investors.

Residential Property Price Register

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

Commercial Lease Register

- 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.

Commercial Sales Database

A commercial property database that captures all transactions has the capability to deliver fundamental improvements to the commercial banking sector into the future and its importance in this regard cannot be overstated. Valuations which are an essential part of loan and banking decisions for transactions, big and small, will be more reliable because they will be founded on accurate up to date information with fewer assumptions being made. If all those involved in property transactions have access to better and more accurate information, then better quality projections can be made leading to improved decisions. This could be a major plank in developing key elements of a programme of economic recovery and planning.

- The SCSI recommends that a Commercial Sales Database is published detailing sales transactions of commercial property, which would improve transparency.

SCSI Recommendations on the Commercial Property Sector

- Support the availability of development finance for commercial office construction via the 'Builders Finance Fund'
- IDA to underwrite the rent for office buildings in certain strategic locations until they are let to support development planning in advance of demand
- Revolving Infrastructure Fund (RIF), outlined in section 1 could support the upfront financing of infrastructure and services for commercial property development
- Flexible planning system and consideration for other SDZ's with economic development potential
- CGT relief is extended for areas outside of the main urban areas to encourage investment in commercial property in regional locations
- Reintroduction of the old Capital Gains Tax roll over relief, where you sell lands to buy lands, should be reintroduced without restriction
- Promote energy retrofitting and modernisation of older commercial property stock
- Section 598 on retirement relief limit to €500,000 should be phased in over a number of years and the upper age limit be increased to 75 years of age
- Improve level of information available on the Residential Property Price Register and Commercial Lease Database
- Introduce Commercial Sales Database detailing sales transactions

Section 4: The Construction Sector

4.1 Macroeconomic Context

It has been shown how the challenging fiscal situation since 2008 necessitated a sharp cutback in the public capital provisions for infrastructure with the Public Capital Programme (PCP) shrinking to just 4.3% of GNP in 2013 from almost 9% at the peak. As a result of the lower level of economic activity which prevailed from 2008 onwards compared with the boom period, the demand for infrastructure was reduced. A number of projects were either postponed or deferred on the understanding that when the economy recovered, such projects might be re-evaluated. Clearly the next phase of public investment will need to reflect the improving economic prospects which can be expected to generate the opportunity to accelerate the provision of public capital investment in the next five years.

GDP, GNP and Investment

The preliminary outturn figures for 2013 show that GDP decreased by 0.3% in real terms when compared to 2012. GNP increased by 3.4% over the same period.

Despite the disappointing results for 2013 GDP, recent forecasts show that both GDP and GNP are expected to record positive growth over the medium term. Table 3.1 sets out the most recent GDP and GNP forecasts from the Central Bank, the Department of Finance and the ESRI. The Central Bank and the Department of Finance are expecting GNP growth of 2.7% and GDP growth of around 2% in 2014. The ESRI is more optimistic, predicting an increase of 3.5% for GNP and 2.6% for GDP.

Domestic demand is expected to make a positive contribution to this growth in 2014 for the first time since 2007. While improving employment figures are expected to result in increased consumer expenditure, the bulk of the growth in domestic demand is expected to come from gross capital formation. As displayed in Table 3.2, the Central Bank, Department of Finance and the ESRI all project double digit growth rates in 2014 and 2015. It is worth noting that these increases are from a low base and that the growth rate is likely to moderate over time. This is reflected in the Department of Finance's medium term projections as they see investment recording real growth of 7.5% in 2016 and 2017 before falling back to 6% in 2018.

Building and construction is an important aspect of the overall capital formation figures. As Table 3.3 shows, the Central Bank projects investment in this area to increase by 12% in 2014 and 10.3% in 2015. The ESRI is more optimistic, projecting growth of 15.2% in 2014 and 15.8% in 2015. As is the case with the overall capital formation figures, these growth rates are from a very low base and can be expected to moderate over time. Much of the growth may reflect the anticipated recovery in private residential construction, although the public

Table 4: GDP and GNP Forecasts 2014-2018

Annual % changes	2014		2015		2016		2017		2018	
	GNP	GDP	GNP	GDP	GNP	GDP	GNP	GDP	GNP	GDP
Central Bank	2.7	2.0	2.6	3.2	n/a	n/a	n/a	n/a	n/a	n/a
Dept. of Finance	2.7	2.1	2.3	2.7	2.5	3.0	2.7	3.5	2.7	3.5
ESRI	3.5	2.6	3.7	3.5	n/a	n/a	n/a	n/a	n/a	n/a

Table 5: Gross Fixed Capital Formation Projections 2014-2018

Annual % changes	2014	2015	2016	2017	2018
Central Bank	11.1	10.2	n/a	n/a	n/a
Department of Finance	15.4	12.4	7.5	7.5	6.0
ESRI	9.6	10.4	n/a	n/a	n/a

sector is likely to also play a role in the recovery of non-residential construction.

Table 6: Building and Construction Projections 2014-2015

Annual % changes	2014	2015
Central Bank	12.0	10.3
Department of Finance	n/a	n/a
ESRI	15.2	15.8

The above figures compare with the SCSI's own projections[8] for the volume of growth in building and construction output comprising a modest increase of around 5% in 2014, and an annual average increase of 5.6% growth in output in the years to 2018 compared with an estimated volume growth of 4% for 2013.

Demographics

Ireland's total population numbered 4.575 million at the time of the last census in 2011. According to the CSO's population projections, this is expected to increase to 4.69 million by 2016 and to 4.89 million by 2021. Therefore, the population is expected to be 6.6% greater than it was in 2011 and this will have an impact on the sustainability of our infrastructure.

Increases are expected across all regions, with the Mid-East expected to experience the greatest increase. Here, a 10.3% increase from 534,000 people to 589,000 people is expected over the 2011 – 2021 period. This is followed by the Midlands (+9.5%) and the Greater Dublin Area (+8.6%). Dublin, the largest region in terms of population is expected to experience an increase of 7.8% over the same time period, taking the population here from 1.26 million in 2011 to 1.36 million in 2021.

This growth in population will drive demand across a range of public sector areas, notably housing, education, schools, health, transport and the environment.

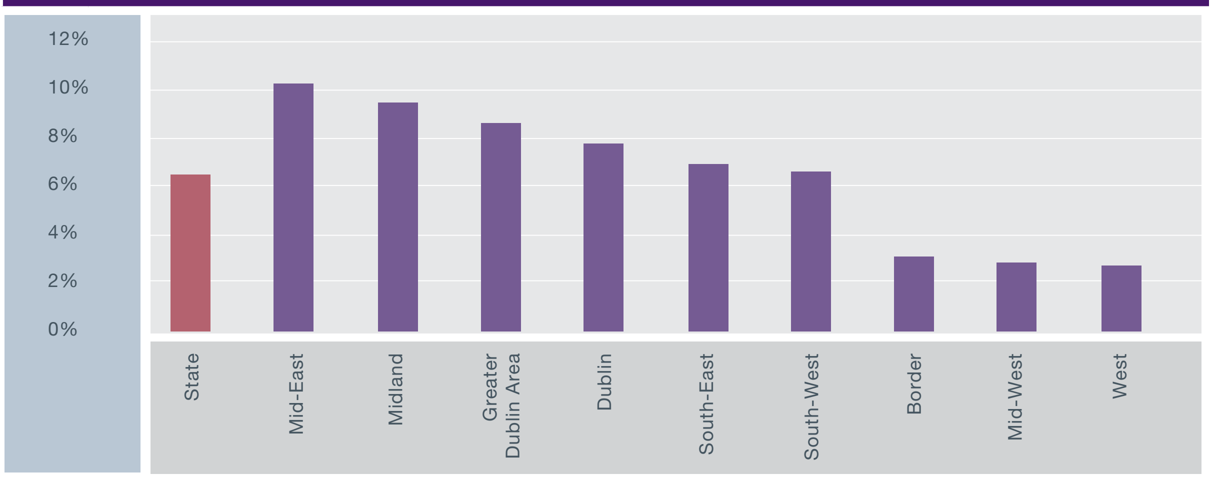
Investment in infrastructure during the boom years

In determining priorities for the next five years it is important to also acknowledge the unprecedented level of investment in infrastructure during the boom period. This investment can give rise to necessary renovation and refurbishment works which can create opportunities for SMEs in the construction sector.

While the projected level of public capital expenditure over the next five years is generally set as a proportion of GNP, the quantum of expenditure should be determined with reference to a number of criteria which are set out below.

The Government is committed to restoring a vibrant construction sector that can contribute its full potential to sustainable economic growth and recovery and to job creation, including helping the significant number

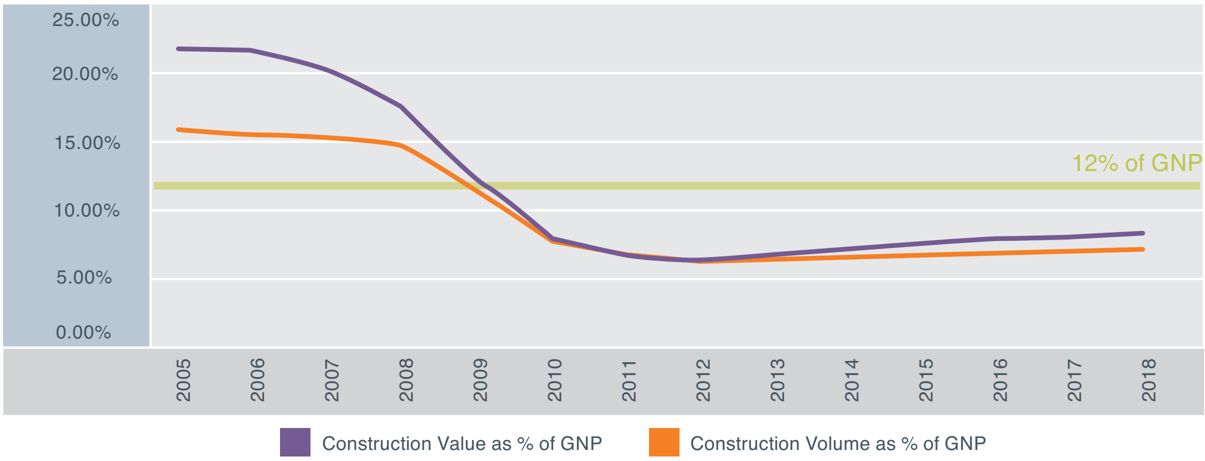
» Graph 9: Projected Regional Population Growth 2011-2021



Source: CSO Regional Population Projections to 2031

[8] http://www.scsi.ie/construction_sector_outlook_2014

» Graph 10: Construction Share of GNP –Value & Volume Measures 2005-2018



Source: Source: SCSI Construction Sector Outlook 2014

of those unemployed who previously worked in construction back into employment.

This renewed focus on construction is very positive given where the industry has come from. Total output in the past six years has plummeted to an unsustainable level of just €8.7 billion in 2013 or 6% of GNP, compared with an equally unsustainable level of almost €40 billion or one-quarter of economic activity in 2006. A comparison with European norms would suggest a ratio of c12% of GNP is a more sustainable level for an economy the size of Ireland.

There has been a sustained improvement in sentiment in the construction industry since the middle of 2013. Following an extreme contraction in the volume of activity over the past six years, it would appear that this somewhat upbeat mood can be attributed to a number of factors, not least of which has been the number of positive announcements since July 2012.

The recent Construction Strategy to 2020 is intended to deliver on this commitment. The Strategy contains 75 individual measures across a range of issues covering the housing and commercial property sectors, planning issues, access to finance, education and training for the sector, competitiveness, innovation and internationalisation.

The Strategy builds on previous measures set out in the 2013 Forfás Strategy which acknowledged that:

"Continued investment in productive infrastructure and appropriate reprioritisation of deferred projects not only deliver broad economy benefits, they also provide much needed employment in construction, retain and develop construction expertise and capacity…"

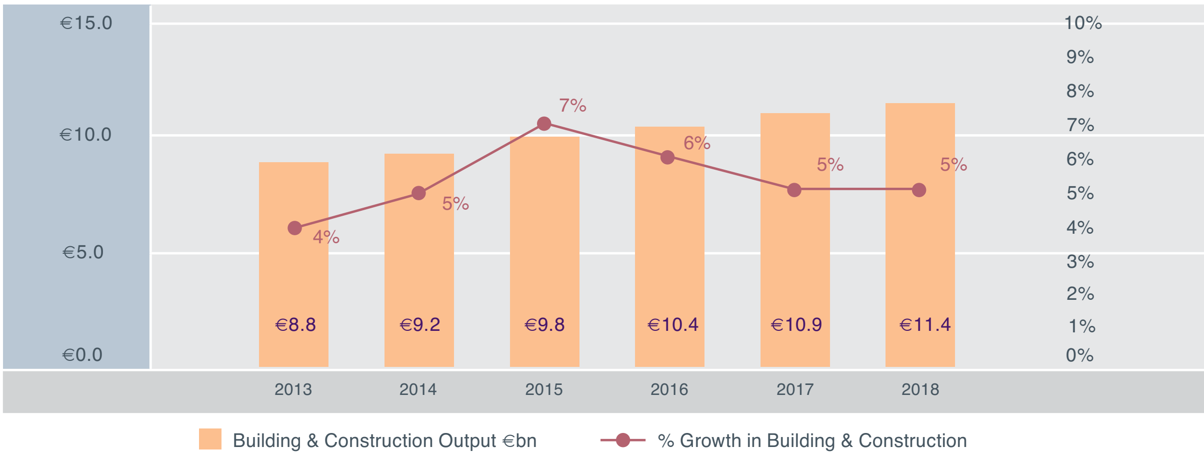
Similarly the 2014 Budget and the 2014 Action Plan for Jobs also contained a range of encouraging initiatives for the construction sector. The Minister for Public Expenditure and Reform has also stated that a further programme of capital investment is to be announced in 2014, following a review of the State assets sales programme. The reality is that the public sector has a key role to play in kick starting the construction recovery and restoring a vibrant construction sector.

The SCSI Construction Sector Outlook 2014 projects that construction sector output could grow by 30% over the next 4 years, if barriers to development are overcome albeit coming from very low levels. A modest increase in output of around 5% in 2014 and an annual average of 5.6% growth in output in the years to 2018 is expected compared with an estimated volume growth of 4% for 2013.

According to the SCSI Construction Sector Outlook 2014, the growth in output is likely to be driven primarily by construction in the private sector i.e. residential and commercial property building due to fiscal constraints in Government Capital expenditure. The SCSI recommendations to overcome these barriers include access to development finance, reducing high construction

[10] http://www.forfas.ie/media/19072013-Irelands_Construction_Sector-Publication.pdf
[11] http://www.djei.ie/publications/2014APJ.pdf

» Graph 11: Building and Construction Output -€bn Constant 2011 Prices 2013-2018



Source: SCSI Construction Sector Outlook 2014

input costs and local infrastructure requirements are dealt with in section 1.

The Society of Chartered Surveyors Ireland made a comprehensive submission to the Department of Public Expenditure & Reform at the end of May 2014 under the Review of the Public Capital Programme Priorities to 2020 which was prepared in conjunction with DKM Economic Consultants. The full submission is available from www.scsi.ie

4.2 Construction Tender Prices

Tender Prices - 30% below peak

According to the latest SCSI / Tender Price Index, tender prices are approximately 30% below peak. Tender Prices have bottomed out and have begun to increase due to a rise in input costs and commodity prices (oil etc).

Construction tender prices grew by 2.2% in the second half of 2013, up from 0.9% in the first half of the year. The annual increase for 2013 was 3.1% and there is an increasing awareness amongst contractors and sub-contractors of the true cost of carrying out work and a reluctance to price below this, which ensures that projects are priced at viable levels.

- The SCSI recommends that in the context of low but increasing tender prices inflation, it is likely that undertaking major infrastructural projects now will ensure value for money for the tax payer.

Trends In Public Capital Expenditure

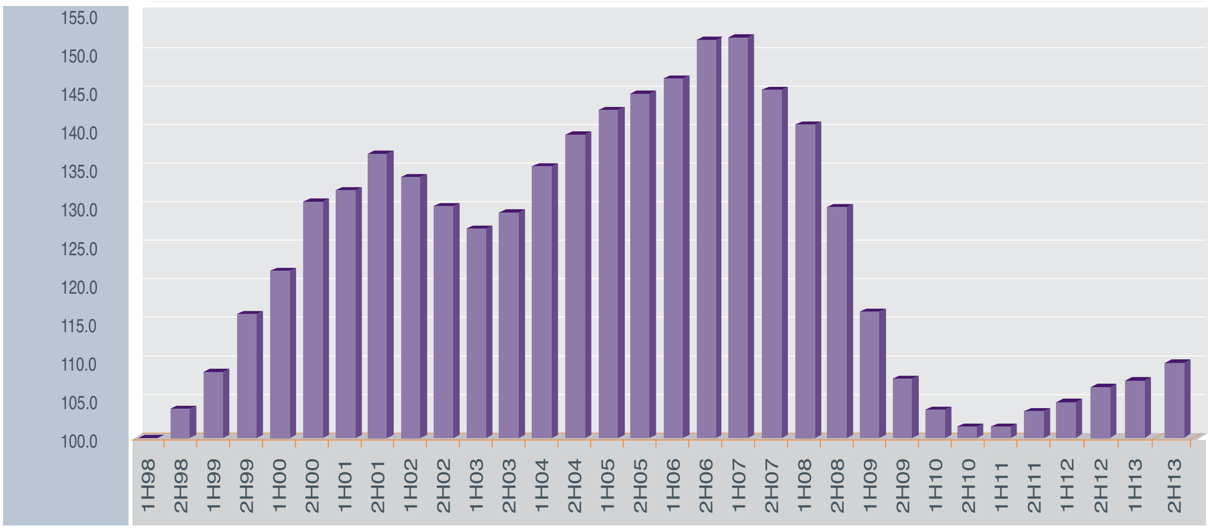
Public Capital Expenditure, which consists of both Exchequer and non- Exchequer based investment, is the main driver of funding for infrastructure in Ireland. Over the period 2004-2014, the level of Irish capital investment experienced a strong increase before declining significantly with the onset of the financial and economic crises. As demonstrated by Graph 13, the level of Public Capital Expenditure relative to both GNP and GDP was quite steady between 2004 and 2006, but then expanded rapidly up to a peak in 2009. This expansion had very positive consequences for the construction sector in Ireland with total output in the sector accounting for 23.8% of total economic activity (GNP) in 2006. The corresponding exceptional demand for residential and non-residential buildings from the private sector meant the economy overheated with adverse consequences for construction capacity and inflation.

Although in absolute terms total public capital expenditure peaked in 2008, the peak in investment relative to national output was in 2009 (8.8% of GNP), due to downturns in GNP (-9.1% in 2009) and GDP (-6.4% in 2009). Capital expenditure levels remained at a relatively high level in 2009 and 2010 but fiscal consolidation led to a severe cut back in the level of capital expenditure from 2010 onwards which resulted in a reduction relative to both GNP and GDP between 2011 and 2013. As with the initial expansion in expenditure, this contraction also had substantial side- effects for the domestic construction sector.

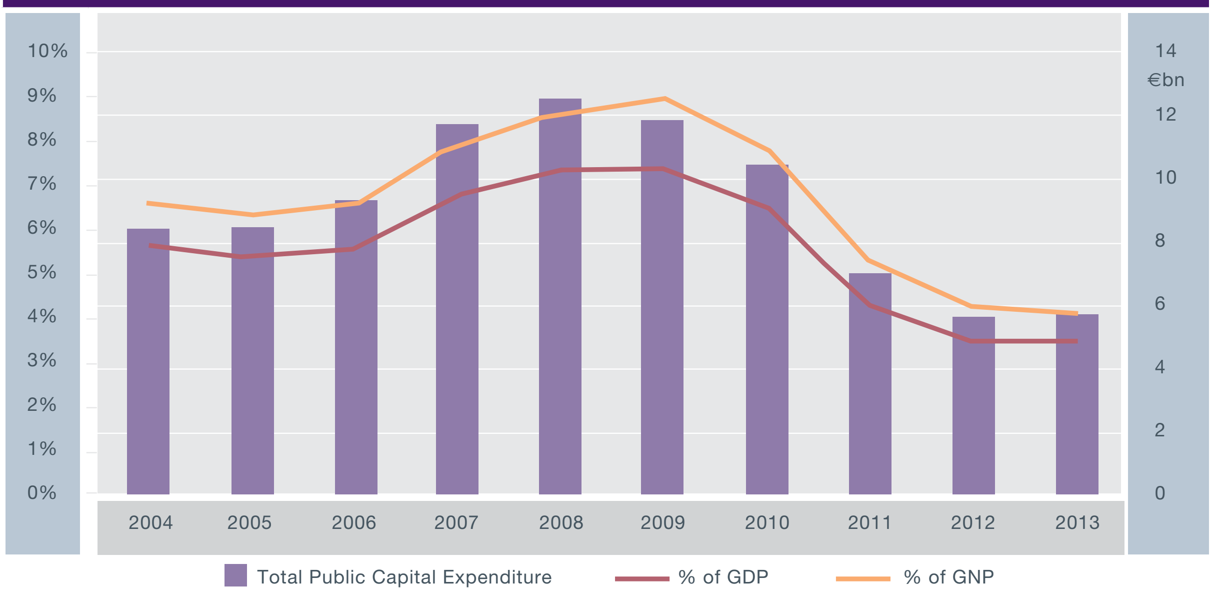
When combined with the severe contraction in private sector investment over this period, both led to an unprecedented decline in the volume of construction output of 50% between 2009 and 2013[12]. Thus by 2013 total public capital expenditure relative to GNP (and GPD) had fallen to 4.1% (3.5% of GDP) compared with almost 9% (7.3% of GDP) at the peak. A more 'normal' equilibrium ratio of public capital investment relative to GNP (and GDP) is likely to be somewhere in between these two extremes. Taking the mid-point would suggest a ratio of public capital expenditure to GNP of 6.5% (5.4% of GDP).

Substantial funds were allocated to the public capital programme during the Celtic Tiger years. The level of public capital expenditure had steadily increased in nominal terms from €8.4bn to €12.5bn in the four years between 2004 and 2008, albeit the economy expanded

» Graph 12: SCSI tender Prices



» Graph 13: Total Irish Public Capital Expenditure in Nominal Terms and Relative to GDP and GNP 2004-2013



Source: CSO and Multi- Annual Capital Investment Frameworks, 2013-2016 & 2014-2016

[12] Notwithstanding the fact that the total PCP relative to economic output peaked in 2009, the volume of total output in the construction industry declined by 65.3% between 2007 and 2013 (DKM estimate).

until 2007 but contracted by 2.2% (real GDP) in 2008. However, as demonstrated in graph 13, this nominal figure has since fallen by 54.5% to €5.7bn in 2013 as the economy subsequently suffered a deep recession.

Recommendation

The industry requires a consistent steady level of public capital investment over the next five years which is considered to be above these levels. Thus while a ratio above 6.6% of GNP is recommended 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.

4.3 The Main Infrastructure Sectors in the PCP

The Public Capital Programme (PCP) outlines the planned capital investments of the State, local authorities and semi-state bodies across various sectors of the economy. It encompasses investments by both Exchequer and non-Exchequer sources, including the European Union (EU), and includes spending on social and productive infrastructure.

The main areas of public capital investment in the PCP are broadly defined under three main headings:

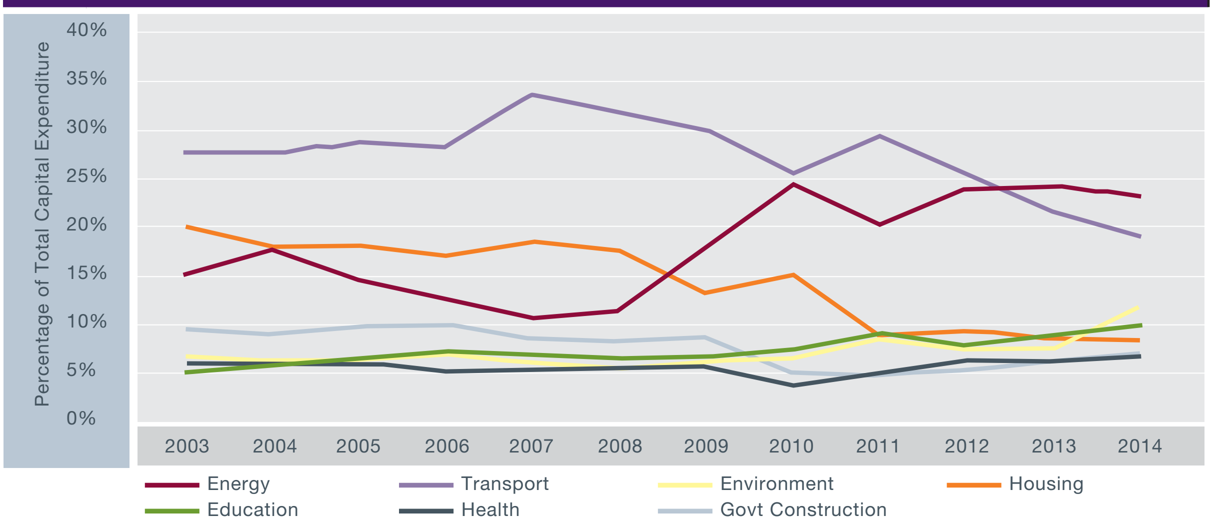
1) **Sectoral Economic Investment**: Agriculture, Food, Forestry, Fisheries, Industry and Tourism;
2) **Productive Infrastructure**: Energy, Transport, Environmental Services and Postal Services; and
3) **Social Infrastructure**: Housing, Education and Skills, Health and Children and Government Construction.

The seven sectors highlighted in Graph 14 have accounted for an average of 87.8% of total public capital investment between 2003 and 2014. The total public capital expenditure fell by more than a half in nominal terms between 2008 and 2012. Based on a DKM analysis of the construction impact of this investment, it is estimated that approximately 75% goes into the construction sector.

4.4 National Strategic Priorities

There are a number of areas of infrastructural investment which the SCSI believes need to be prioritised in the interests of economic recovery, social cohesion and environmental sustainability.

» Graph 14 Percentage of Total Provisions Designated to Specific Sectors Under the Public Capital Programme 2003-2014



Sources: Multi- Annual Capital Investment Frameworks, 2013-2016 & 2014-2016

The recommendations which follow also have the added impact that they support the protection and creation of jobs. Having lost almost 250,000 construction jobs throughout the economic crisis, the public capital investment framework is fundamental to Ireland's economic recovery as it can generate much needed employment opportunities while also contributing to the productive potential of the economy. The sectors which are prioritised have the capacity to deliver jobs, albeit at varying levels of employment intensity.

According to SCSI members, the five key priority areas for the country as a whole are as follows:
(i) Housing
(ii) Education
(iii) Health
(iv) Road Infrastructure and Transport Priorities
(v) Commercial Office and Enterprise Facilities

1) Housing (Department of Environment, Community & Local Government - DECLG)

The DECLG is due to spend €311m in 2014, €331m in 2015 and €334m in 2016.

The SCSI recommends that the delivery of social housing is prioritised as part of the Public Capital Programme over the next 5 years. Several mechanisms are considered to support this:

- Ring-fencing a portion of the Local Property Tax (LPT) for the provision of Social Housing or allocating a percentage of the LPT when the local authority assumes responsibility for varying the LPT in 2015.
- Local Authorities should be required to free up land banks or vacant sites they own for development of social housing schemes.
- Funding/incentive schemes for Repairs, Maintenance, Improvement and upgrading of derelict housing.
- PPP's with private developers to build Social Housing schemes on lands owned by the Local Authorities.
- Reduction of development contributions, local infrastructure costs and other Local Authority costs for developers of Social Housing schemes.
- Seek partnerships between Local Authorities, Housing Associations and Private Developers to build social housing as is happening in the UK.
- Separately the issue of regeneration in inner cities which was a very live issue before the property crash, in regard to Limerick, for example, should be revisited and funding mechanism should be explored to address this critical housing requirement.

2) Schools and Colleges (Department of Education & Skills - DES)

The Exchequer capital provision for the DES is €540m in 2014, €475m in 2015 and €415m in 2016 which represents a 23% decline in the annual budget between 2014 and 2016.

One of the main demographic challenges facing the country's infrastructure stock is in regard to our educational building stock. Education has been a core feature of Ireland's economic competitiveness and the SCSI recommends continued investment in primary, second level and crucially 3rd and 4th level R&D facilities.

According to the 2011 Census of Population, Ireland's population grew by 341,000 since 2006, an average annual growth rate of approximately 1.6%. Ireland also has the highest birth rate in the EU at over 17 births per 1,000 population.

Between 2010 and 2020, approximately 104,000 additional students will enter primary schools with 37,000 of these coming in the period 2015-2020 and an additional 14,000 students at secondary level.

The SCSI acknowledges the DES school building programme 2012-17 and the progress made with the schools PPP bundles. It recommends:

- Continued and sustained Exchequer and non-Exchequer investment to improve our educational infrastructure stock.
- All primary and post-primary schools are built to a modern high quality standard and are fit for purpose in line with national policy objectives regarding the importance of investment in education.
- Significantly increasing investment in 3rd level projects supporting the knowledge based economy and in particular investment in DIT Grangegorman to expedite the process as this has the potential to free up 50 additional sites which could be used for housing, health or commercial enterprise purposes. Where such investment takes places in the regions it can be a pull factor for FDI.

- Exploring alternative private finance sources to ensure a more rapid response to the provision of first class third level education and research facilities.

3) Hospitals & Care Facilities (Department of Healthcare & Children - DHC)

The capital provision for the DHC is €397m in 2014 and €390m each year in 2015 and 2016.

Economic rates of return for health infrastructure projects can vary depending on the nature of the project. Based on a number of separate cost benefit analyses carried out by DKM over the past decade, the rate of return for hospital projects can be any figure in excess of 13%, with those projects returning the highest net present value being the most worthwhile. The need for new hospital and care facilities was highlighted in the SCSI member survey as well as the need to upgrade older buildings which are increasingly becoming unfit for purpose.

Hospitals

The National Children's hospital was repeatedly highlighted as a project in need of prioritisation as part of the Public Capital Programme. There is also a need for the development of primary care facilities. SCSI members surveyed mentioned the need for more beds in hospitals and the upgrading of older hospital buildings.

Long term care facilities

According to BDO's report 'Health's Ageing Crisis: Time for Action'[13] there will be a shortfall of 4,200 nursing home beds by 2016 and 8,000 by 2021. The report pointed to population projections which indicate that the number of over-85s is due to grow by 352% by 2046 and more than a fifth of people in this age category will require long-term residential care.

The SCSI recommends:

- An increased capital provision for the Department of Health & Children to fast-track the delivery of essential health care facilities.
- A zero rate of VAT should be applied to construction of health care facilities to encourage private financing.

4) Road Infrastructure (Department of Transport, Tourism and Sport - DTTS)

The DTTS is due to spend €899m in 2014, €818m in 2015 and €818m in 2016.

The SCSI acknowledges the considerable PCP investment in the national road network especially in the period since 1999 and more recently in the main national routes: Dublin-Cork, Dublin- Galway and Dublin-Limerick. It further recommends:

- A prioritisation of the next stage in developing the road network, i.e. investment in infrastructure linkages between major and secondary network routes to improve the overall infrastructure including access as well as to support enterprise development and FDI.
- That the existing metropolitan area networks (MAN's) are extended to Cork and Waterford to meet existing enterprise needs of key IDA sites not currently connected.
- It is also recommended that connectivity between the major cities continues to be enhanced and that scheduled PPP projects are initiated and completed.

5) Commercial Office and Enterprise Facilities (Department of Jobs, Enterprise and Innovation - DJEI)

The DJEI is due to spend €442 in 2014, €454 in 2015 and €451m in 2016.

While over 50% of this Exchequer capital provision is for the Science and Technology Programme, the remainder is allocated to the Enterprise Development Agencies, including Enterprise Ireland and IDA Ireland to deliver a competitive business environment for industry and to support new FDI investment projects.

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[13] http://www.bdo.ie/sites/default/files/Exec%20Summary%20BDO%20Report%20Health's%20Ageing%20Crisis%20-%20Time%20for%20Action%20February%20201

The Government's Construction 2020 Strategy notes that

'the availability of a good supply of commercial premises is a key requirement for economic progress. Lack of sufficient supply has the potential to damage our competitiveness, drive up rents and could persuade internationally mobile companies to locate to other countries" (Page 28)

The SCSI Annual Commercial Property Review & Outlook highlights the vacancy rate for prime office space in Dublin at around 9% and emerging shortages in Cork City and Galway City for large floorplate modern office space. It also highlights the urgent need for further investment in office space suitable for FDI requirements in these cities and in other regional cities to support FDI. As the construction of a new commercial building can take between 18-24 months from planning to completion, there is a serious concern the lack of available space is a threat to our economic competitiveness from an FDI perspective.

The SCSI recommends that development is undertaken by the agencies such as IDA to begin measured speculative development of commercial space in key strategic regions. The SCSI acknowledges that IDA has announced its intention to resume building in regional locations including Athlone and Waterford and recommends the prioritisation of more building in strategic areas, particularly on a regional level with job creation potential.

The SCSI welcomes measures in Construction Strategy 2020 for IDA to work with the Ireland Strategic Investment Fund (ISIF) and agrees that the solutions to the shortage of office space requires "public and private sector co-operation and initiatives."

While the SCSI acknowledges the considerable efforts made by Government in addressing the access to finance issue for SMEs in successive Action Plans for Jobs, it considers that there should be a capital provision for the development of more incubator units for start-up companies, especially in the regions, to support job creation.

4.5 Regional Priorities

From a regional perspective five separate areas were also prioritised under the following headings:

(i) Broadband
(ii) Education (mainly Primary Schools)
(iii) Environment, Flood Defence and Remediation
(iv) Infrastructure Linkages
(v) Tourism

1) Provision of Broadband (Department of Communications, Energy and Natural Resourced - DENR)

The DCENR is due to spend €80m in 2014, €79m in 2015 and €77m in 2016.

The SCSI considers the lack of fast 3G/4G broadband to be a real threat to sustainability and economic growth. The timely delivery of broadband services across the country is a key priority in terms of enterprise development and is essential to realising future growth potential in existing and emerging sectors. It is also essential from an FDI perspective in supporting multinational firms considering Ireland as a location.

The EU digital agenda targets specify that by 2020 all EU citizens should have access to broadband speeds of 30 Mbps and that 50% of households should be subscribed to services of 100 Mbps or higher. Therefore SCSI recommends that ensuring Ireland can meet the targets set out in the EU Digital Agenda should be a key priority in terms of Public Capital investment.

There is a role, however, for private players to support the roll out of broadband services nationwide and there should be a supportive policy to ensure Ireland can provide advanced broadband networks and services on a par with competitor countries.

2) Primary Schools (Department of Education and Science)

Between 2010 and 2020, approximately 104,000 additional students will enter primary schools with 37,000 of these coming in the period 2015-2020 and the importance of continuing to build adequate primary education facilities cannot be underestimated.

In this regard, the SCSI feels strongly that where temporary pre-fabricated accommodation exists in primary schools these should be replaced with proper structures. More generally the SCSI remains of the opinion that major improvements are still required to many schools around the country.

It has been pointed out that the existing Summer Works programme is of the order of €40 million this year. This programme is vital for construction SMEs providing them with the opportunity for undertaking vital small and medium scale improvement works during the summer months. The SCSI recommends a further increase in this provision which is likely to be a very labour intensive initiative.

3) Flood Defences & Remediation (Dept. of Environment, Community & Local Government)

It is estimated that between 40,000 and 50,000 properties are currently at risk of flooding in Ireland. The recent floods have provided evidence that Ireland's flood defences are not adequate and this should be prioritised under the Public Capital Programme.

SCSI acknowledges the €250m provision that Government has made over the next 5 years towards the OPW's Catchment Flood Risk Assessment and Management (CFRAM) programme and recommends the prioritisation of the detailed flood mapping of Ireland's main flooding systems. The SCSI also notes the €70m that was made available for repair and remediation works following the severe flooding that occurred between 13 December 2013 and 6 January 2014.

Furthermore, the SCSI recommends:

- That the level of funding should increase to ensure that adequate flooding defences in flood risk areas are rolled out around the country.
- The development of an effective flood management policy and operational programmes to manage existing risks.
- Remediation programmes should be fast tracked.
- The usage of strategic information monitoring and analysis programmes and 'early warning' technology such as that used in the UK to predict flooding.

4) Infrastructure linkages (Department of Transport)

In addition to national infrastructure road and transport linkages, there is a need to ensure that local transport infrastructure deficits are met through the Public Capital Programme 2015-2020.

The SCSI recommends that local transport infrastructure projects are prioritised to ensure that local enterprise facilities are supported by an integrated transport network to enhance the attractiveness of regions to FDI.

The SCSI also recommends:

- Planning delays should be reduced for local transport infrastructure projects.
- The Environmental Impact Statement process should be streamlined.
- Local construction SME's should have a role in these projects and some weighting should be given to local job creation and sustainability in procurement decisions for local infrastructure.

5) Tourism

Tourism Ireland reported a 7 per cent rise in visitor numbers during the year of the Gathering which was the highest since the global economic crisis began. Some eight million visitors came to Ireland in 2013 generating €3.64 billion in revenue. Some 6.8 million people visited the Republic, while 1.7 million visitors visited the North. Some 500,000 people visited both parts of the country.

- The SCSI recommends that initiatives to build on the success of the Gathering are prioritised, particularly at a regional level to support local economies and local employment.
- The SME sector has a vital contribution to make to the delivery of capital projects and infrastructure and the social clauses on the Grangegorman and Water Metering projects that require managing contractors to include a percentage of employees of small companies (companies with fewer than 50 employees and an annual turnover not exceeding €25m) are fundamental to sustaining the SME construction sector and should apply to all major projects. There is also a need to reform and streamline public procurement procedures to assist SMEs and also ensure that SMEs can participate in larger projects.

- The SCSI recommends that all potential alternative sources of finance should continue to be investigated with a view to supplementing the government expenditure provisions already provided for.
- The SCSI also recommends a streamlining of the procurement processes to focus on delivery and also the use of BIM on projects where appropriate.

4.6 Indicative PCP to 2020

It will be important to sustain the level of public capital investment over the period to avoid a start/stop approach which can result in stalled projects and longer delivery schedules. While it is not possible to cost individual projects in order to ascertain the full impact of the PCP, the purpose here is to set out what an indicative but sustainable PCP to GDP (and GNP) ratio might be in the period to 2020.

In determining priorities for the next five years it is important to acknowledge the unprecedented level of investment in infrastructure put in place during the boom period. Separately this investment is likely to give rise to necessary renovation and refurbishment works in the medium-term which can create opportunities for SMEs in the construction sector.

The SCSI recognises that the fiscal environment remains a challenge and has therefore taken a conservative approach in setting these ratios out to 2020. The hope would be that the return to a more ‘normal’ budgetary situation would return these ratios to more sustainable levels, which would recognise the important role of public capital investment in the delivery of infrastructure to serve a growing economy and population.

Table 7 sets out the historic PCP to GDP (and GNP) ratios from 2008-2014, based on the published PCP to date. The period 2015 and 2016 includes the Exchequer element only, based on the current multi-annual capital investment framework to 2016. There is no data in regard to the level of Non-Exchequer funding in 2015 and 2016 (and hence these years are not in the accompanying chart).

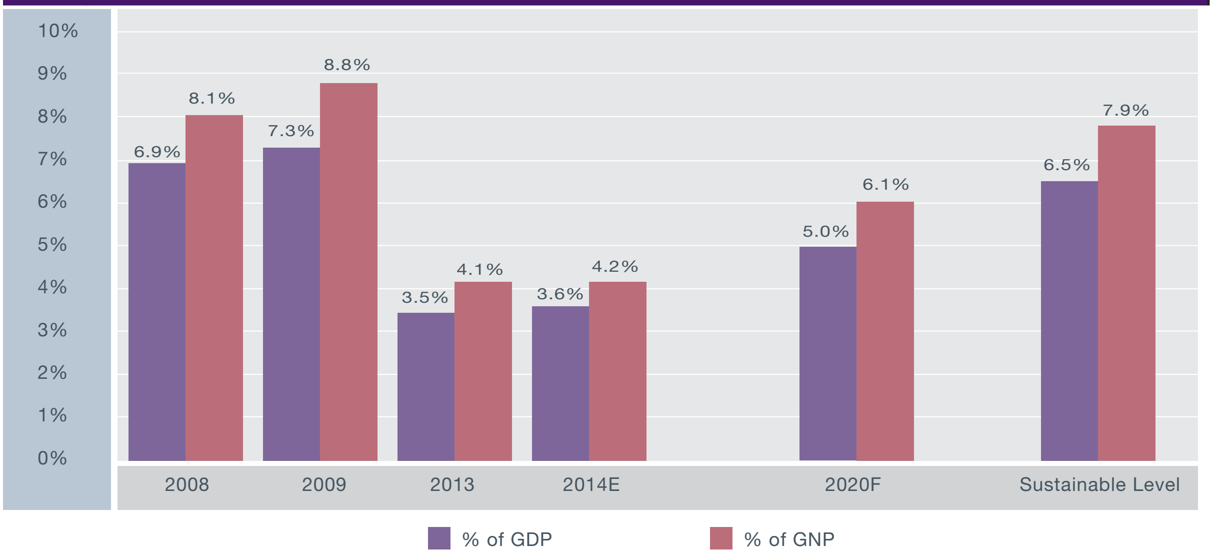
The PCP is determined in 2020 based on an assumption that it represents 5% of GDP (6.1% of GNP), using the GDP and GNP nominal values up to 2018 contained in the April 2014 update of Ireland’s Stability Programme (page 6). The corresponding values in 2019 and 2020 are DKM estimates. These assumed proportions and GDP (and GNP) are below what is considered to be a more normal sustainable level. The latter is set at 6.5% of GDP (8% of GDP).

Table 7: Projected PCP as a Proportion of GDP(and GNP) to 2020

€million	2008	2009	2013	2014E	2015F	2016F	2020F	PCP/GDP or GNP)
PCP	12,496	11,849	5,684	6,021	N/A	N/A	10,940	14,222
of which								
Exchequer	8,915	7,210	3,443	3,335	3,252	3,255	6,564	8,752
Non-Exchequer	3,581	4,639	2,241	2,686	N/A	N/A	4,376	5,470
GDP (Current Prices, €m.)	180,249	162,284	164,050	168,375	174,450	181,925	218,803	
% of GDP								
PCP	**6.9%**	**7.3%**	**3.5%**	**3.6%**	**N/A**	**N/A**	**5.0%**	**6.5%**
Exchequer	4.9%	4.4%	2.1%	2.0%	1.9%	1.8%	3.0%	4.0%
Non-Exchequer	2.0%	2.9%	1.4%	1.6%	N/A	N/A	2.0%	2.5%
GNP (current prices, €m.)	154,933	133,919	137,917	142,425	147,050	152,700	180,690	
% of GNP								
PCP	**8.1%**	**8.8%**	**4.1%**	**4.2%**	**N/A**	**N/A**	**6.1%**	**7.9%**
Exchequer	5.8%	5.4%	2.5%	2.3%	2.2%	2.1%	3.6%	4.8%
Non-Exchequer	2.3%	3.5%	1.6%	1.9%	N/A	N/A	2.4%	3.0%

GDP and GNP to 2018 from Stability Programme April 2014 Update
2020 GDP and GNP are DKM estimates.

» Graph 15: Projected PCP as a Proportion of GDP(AND GNP) to 202



Based on the figures in the Table the total PCP in 2020 is estimated at €10,940 million of which €6,564 million is Exchequer. The latter corresponds to 3% of GDP (3.6% of GNP) compared with 2% of GDP (2.3% of GNP) in 2014. The total PCP is projected at close to €11 billion, which is still below the level which prevailed in 2009, when the economy had contracted in real terms by 9.1%. The more sustainable PCP level is set at 6.5% of GDP (almost 8% of GNP).

4.8 Education & Skills

A critical component of the development of a sustainable property and construction sector will be to ensure that the industry has the capacity to meet the needs for the economy.

One legacy of the recession was the severe impact on employment levels which have fallen from approximately 376,000 employed at the peak to 150,000 last year. When one thinks of the impact of the recession and decline of the construction industry, the importance of the sector in employment terms is often overlooked. According to the Construction Industry Council (CIC), for every 10 direct jobs created, a further four indirect jobs are created and this has a positive impact on the wider economy.

The SCSI Employment Opportunities and Skills Requirements for Property & Construction Surveying report 2014-2018 highlighted that based on a conservative forecast of economic growth up to 2018 (2%growth p.a.), almost 1,110 new employment opportunities are expected to arise across the surveying professions over the next 4 years.

Employment generation is a central focus of all public policy at the moment, given the still crisis levels of unemployment. Having lost 326,000 jobs over a four and a half year period[14], it is clear that employment generation is fundamental to Ireland's economic recovery.

The recession had a substantial impact on unemployment which reached 15% in Q1 2012. Despite some moderation since to 12% in Q1 2014, the focus of Government has been on examining innovative ways to generate new

Note: Further to the SCSI submission to DPER on the PCP Priorities to 2020 (May 2014), the revisions to National Accounts have resulted in a number of changes to the figures presented in that submission. Firstly, the upward revisions to GDP (and GNP) have marginally reduced the historical percentages for the PCP/GDP (and GNP) ratios. For example, the PCP/GDP ratio in 2013 was previously 3.5% and is now 3.3%. The corresponding figure for the PCP/GNP ratio is revised downwards to 3.8% from 4.1% previously.

Based on DKM's forecast of 5% of GDP (6.1% of GNP) for the PCP in 2020, the total PCP in 2020 is forecast at EURO 11.7 billion now compared with close to EURO 11 billion previously. The second main impact of the revisions to the National Accounts is that the assumption for the sustainable PCP level, which was assumed to be 6.5% of GDP (almost 8% of GNP) produces a higher PCP amount in absolute terms, which is now equivalent to around EURO 15 billion compared to EURO 14.2 billion in the SCSI DPER submission."

[14] The total numbers employed declined from 2.16 million in 2008 Q1 to 1.83 in 2012 Q2 (seasonally adjusted data), according to the CSO's Quarterly National Household Survey.

employment opportunities and restore the pathway to sustainable job creation in successive Action Plans for Jobs over the period 2012-2014.

The relentless drive for job creation is continuing in 2014 with the 2014 *Action Plan for Jobs* targeting an increase in the number of people at work of 100,000 by 2016.

Specifically in regard to construction, the central aim of the recently published Construction Strategy 2020[15] is to add 60,000 jobs to the construction sector by 2020.

Ultimately, and most importantly, infrastructure investment leads to increased employment though cutting costs, increasing competitiveness and thus facilitating economic expansion.

Employment generation from infrastructure investment can also be more immediate – and visible - through delivering and then operating/maintaining the infrastructure itself. This employment falls into the following categories:

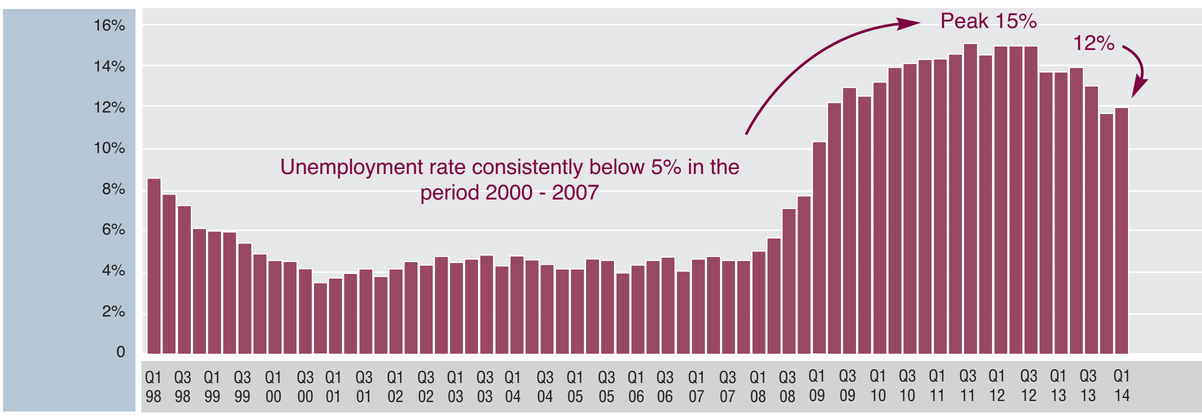
- **direct** – in the firms that build, operate and maintain infrastructure;
- **indirect** – in the Irish firms that supply these firms and so on back through the supply chain; and
- **Induced** – in the wider economy as the wages from the direct and indirect employment are spent on Irish goods and services in the wider economy.

Research conducted for the Construction Industry Council (2009) estimated that on average, every €1m spent on infrastructure projects generates approximately 10 direct and indirect man years on average. More labour intensive projects, such as house building, tend to generate a higher number of jobs.

Thus, for example, the target of 60,000 (direct and indirect) jobs set out in the Construction Strategy 2020 would require an investment in the region of €6 billion between now and 2020. This is equivalent to an average annual investment of €1 billion or 10,000 jobs each year.

This aspect of infrastructure investment can also contribute to Government aims as it forms part of countercyclical economic policy. In other words, in times of weak demand and lower employment in the wider economy, the State can intervene to generate demand in its own right, and in doing so "mop up" some of the underutilised resources (human and other forms of capital) in the economy. This has the added advantage that the taxpayer can get good value for money compared to undertaking the investment when the economy is stronger. There is of course a constraint in the form of the size of the national debt, which severely limits the capacity of the Government to adopt a countercyclical approach in its policy.

GRAPH 16: UNEMPLOYMENT RATE



Source: CSO QNHS (seasonally unadjusted)

[15] http://www.merrionstreet.ie/wp-content/uploads/2014/05/Construction-Strategy-14-May-20141.pdf

SCSI Recommendations on the Construction Sector

- Investing in an infrastructure programme and increasing the Public Capital Programme will create more direct and indirect employment in the construction sector and reduce the numbers on the live register.
- The Public Capital Programme to 2020 should be set at 5% of GDP (6.1% of GNP) to 2020
- There is a need to front-end the investment as the industry needs the stimulus now.
- The total capital expenditure in the first 4 months of 2014 is 10% behind profile – the planned expenditure should be fully expended
- (1) Housing, (2) Education, (3) Health, (4) Road Infrastructure/Transport and (5) Commercial Office/Enterprise Facilities should be the key national priorities in the Public Capital Programme to 2020
- (1) Broadband provision, (2) Education (mainly primary schools), (3) Flood defence & remediation, (4) Infrastructure linkages and (5) Tourism should be the key regional priorities in the Public Capital Programme to 2020
- Focus on job creation and skills development through the Public Capital Programme which accounts for 60% of the construction sector output.

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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.

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