SCSI

Chartered property, land and construction surveyors

AFFORDABLE, VIABLE AND ACCESSIBLE

DELIVERING HOUSING FOR OUR GROWING POPULATION

PRE-BUDGET SUBMISSION 2022

ABOUT THE SCSI

As the leading membership body for chartered surveying professionals in the property, construction and land sectors, we provide high-quality research on a wide range of economic, industry and practice-related issues in the public interest.

The SCSI also produces and disseminates surveys to members on the key market issues at regular intervals and provides authoritative commentary and analysis on the implications for business, individuals and the economy.

Providing independent, impartial professional advice to Government departments, policymakers, State agencies, businesses and other key stakeholders, for the public advantage, is a key function of the Society of Chartered Surveyors Ireland.

EXECUTIVE SUMMARY

Society and businesses have had a testing time in the past 18 months with the onset of the global pandemic. The impact on the health of our people and economy continues as we emerge from restrictions and adjust to living with the Covid-19 virus into the future.

The impact of Covid-19 on our housing sector, especially as a result of restrictions on construction, has been profound, and the increasing imbalance between housing supply and demand is now more acute than ever.

The housing supply shortage remains a critical concern. Despite last year's budget allocation of €5.3bn to the Department of Housing, Local Government and Heritage (the highest budget allocation received), the level of new housing supply during this period was slightly over half of what is required each year. The SCSI has carried out several studies on the viability and affordability of new housing for purchase and rent. Our most recent research, a joint survey from the SCSI and the Central Bank of Ireland, highlighted that property prices nationally are set to rise by 4-6% in the next 12 months. This is on top of continuous property price growth over the past seven years, where property prices are now close to 90% of pre-recession levels in 2012/13. The SCSI has assessed that if new housing output is maintained at current levels, it will be approximately 2031 before new housing supply and forecast demand will reach equilibrium.

Due to this critical societal challenge, our 2022 pre-Budget submission focuses on a single theme: affordable and viable housing delivery. Our submission is divided into two sections:

1. Increasing the supply of homes.
2. Affordability of residential property.

Increasing the supply of homes

There is no one single solution to address the challenges to delivering viable and affordable housing to meet demand. Equally, there is no fast solution; housing takes time and money to deliver. Therefore, our pre-Budget submission focusses on a number of key recommendations across the supply of new homes and existing properties to identify ways to deliver efficient, sustainable housing to the market.

Ultimately, supply challenges must be addressed to meet the demand for housing for Ireland's growing and ageing population. This spans identifying barriers and delays to achieving viable developments, to ensure that the construction industry is equipped to innovate and ultimately increase productivity in the sector. Our submission recommends a defined-period rebate for Capital Gains Tax aimed specifically at zoned and serviced residential development land.

Ireland has a significant level of vacant properties, which could be repurposed or renovated for alternative use. This is of course of benefit from both a supply and sustainability perspective. The SCSI recommends that a proactive approach is taken to retrofitting existing properties to increase the supply of housing, rejuvenate town centres, and assist in the Government's objectives under the proposed circular economy strategy. It is important that all works are guided by appropriate standards and address any existing barriers to ensure that developments can be delivered in a timely manner and to a high standard.

In relation to planning to meet demand, the SCSI welcomes initiatives such as the Housing Need and Demand Assessment, which assists local authorities in quantifying current and projected housing needs for their areas, to assist in meeting demand with supply.

Affordability of residential property

Housing affordability for purchasers is the key objective of housing policy in Ireland. Chartered Surveyors have reported that the supply of new and existing housing is what ultimately underpins their current expectations of house price increases in Ireland over the next 12 months. Addressing barriers to supply is thus a key aspect of affordability. The second section of our report considers initiatives to support purchasers. The SCSI continues to recognise the importance of schemes such as Help to Buy to assist first-time buyers, and the proposed Shared Equity loan, the details of which are awaited. In addition to purchasing initiatives, renters need enhanced protections, while not detracting from the sustainability of residential as an 'investment class' for institutional and private owners.

The SCSI welcomes the Affordable Housing Bill and its ambitions to deliver additional levels of housing to the market, which require collaboration between the public and private sectors. This submission seeks to progress these issues in the public interest.

The SCSI's recommendations for taxation and expenditure priorities for 2022 are as follows:

RECOMMENDATIONS

- **Double the allocation of funding for housing to €7bn** to bring more supply to the market. Based on current production levels, this would have the potential to deliver approximately 18,000 units per annum (page 13).

- To incentivise the development of affordable homes, make more development land attractive for sale. **Introduce a rebate on the residential development land Capital Gains Tax rate from 33% to 8% for a defined period** but aimed at the delivery of affordable homes within a specific timeframe (page 11).

- Allocate funding for the **introduction of a Development Land Register** (page 8).

- **Allocate separate and dedicated funding streams** in line with the establishment of the circular economy protocol to address material quality, material appropriateness for reuse, and regulations and guidance for the sector to embrace a reuse policy for new constructions and renovations (page 10).

- Continue to **monitor the administration of tendering for public works**, to ensure that the process of tendering is rigorous but not so administratively burdensome that it excludes small businesses or new entrants into the Irish construction sector (page 13).

- Further extend the **Living City Initiative/Bringing Back Homes**. The Living City Initiative is due to run until December 31, 2022. Given the percentage of vacant buildings in Ireland, significant consideration should be given to further extending this scheme and to resourcing local authorities accordingly (page 14).

- Establish a **longer-term strategy with targets for the Help to Buy scheme**, so that commitment regarding the lifetime of the scheme is clear to both consumers and developers when planning new housing schemes. Continued support of the Help to Buy scheme to assist first-time buyers is important and should remain in place. The introduction of initiatives to assist those looking to become homeowners, such as the Shared Equity Loan, are to be welcomed, subject to their details (page 18).

- Implement **changes to the Fair Deal scheme** to incentivise the renting or sale of assets of the nursing home resident, to assist with providing additional supply of homes to the rental market (page 12).

- Avoid a lending-only approach to retrofits and **seek to adopt a tax-back option** for applicants (page 15).

- Develop a panel of experts for both consultancy and trades for retrofitting **to protect our built heritage** and ensure that works are carried out to a high standard guided by technical guidance (page 16).

- Invest in funding and training initiatives to assist in creating optimal entry into the construction sector and the necessary upskilling of the sector to meet Ireland's sustainability objectives (page 9).

SECTION 1: INCREASING THE SUPPLY OF HOMES

Introduction

The lack of supply of homes to the market has been a feature of much debate as far back as 2013, when Ireland began its journey out of recession and into economic growth. The SCSI pre-Budget submission 2014 highlighted the increasing need for delivery of additional housing to the market to keep pace with expected future demand. Our pre-Budget submission stated:

> "Ireland will soon experience a shortage of urban properties, and efforts should be made now to reform the planning and development regulations to facilitate urban renewal and brown-field developments, to maximise urban densities and supply well-located property types which are most needed".

Our informed predictions eight years ago were based on sentiment reported to us by residential agents involved in the sale, valuation and rental of residential property across Ireland. Prior to 2013, property prices had been declining for six years. Yet, as reported by the SCSI at the time, the supply of housing was short of meeting demand. This supply and demand imbalance has continued to be of concern from 2013 until the present day. As a result, this challenge has remained a feature of much discourse and concern for policymakers and the wider public.

The delivery of new housing has had significant viability and affordability challenges for many years now, and recent SCSI studies on the delivery of apartments and houses is covered within the following reports, which examined average delivery costs for a multitude of apartment types and three-bedroom semi-detached homes in the Dublin region:

- Real Cost of New House Delivery, 2020; and,
- Real Cost of New Apartment Delivery, 2021.

The challenges facing the delivery of new housing to the market for both the public and private sectors are vast and require a complex array of changes to bring about a more sustainable and affordable product. For the purposes of this pre-Budget submission, we will be expanding on some of the recommendations of our recent delivery cost reports that we believe are priority and should be given serious consideration ahead of Budget 2022 to ensure that there are adequate supports and funding in place to effect change in these areas.

A. REGULATORY OBSERVATIONS AND RECOMMENDATIONS TO IMPROVE DELIVERY

PLANNING PERMISSION APPROVAL PROCESS – AN OVERHAUL TO IMPROVE EFFICIENCY

Approximately 500 units were affected by judicial reviews taken in 2019, which increased elevenfold a year later to approximately 5,800.

Collaboration is key to progress

Planning and development legislation has come under recent scrutiny, with changes to make the delivery of new homes more accessible to owner occupiers. Changes to Stamp Duty rates were also introduced to disincentivise the bulk-buying of over 10 units by institutional investors. The urgency and speed of implementation of these new measures highlighted that policy changes can react in an efficient manner when needed by the political process and this gives much hope that other important policy changes that are needed may also receive a combined effort to be delivered, particularly those as highlighted in our delivery cost reports.

The Government has approved the termination and replacement of Strategic Housing Development (SHD) planning arrangements. The SHDs are to be replaced with new streamlined arrangements for large-scale residential developments (LSRDs), which restore decision-making to local authorities.

The General Scheme of Planning and Development (Amendment) (LSRD) Bill 2021 has recently been put forward as the proposed bill to provide for transitional arrangements for the termination of the SHD planning arrangement and for the introduction of the proposed new arrangements for LSRDs and other related matters.

The SCSI welcomes an overhaul of the process to improve community participation as early as possible in the process; however, an overhaul of the planning process will not remove all delays to planning, as judicial review cases are likely to remain a feature of and concern for new development. Nonetheless, we welcome a review and any opportunities to participate in the process, as it will be very important that the 'societal contract' between local authority, An Bord Pleanála and the community is strengthened, so that planning grants align with local area plans and any master plans. This may help to address 'last-minute concerns' from residents potentially impacted by development.

Judicial reviews provide an opportunity for the public to seek a hearing through the Irish courts to halt development taking place if they are of the view and concern that development affects them and their community unfairly or if due process was not followed. Legal challenges halting development can stop development for a short period of time, a long period of time, or render a development no longer viable, depending on the circumstances. While it is important that the right to legal redress for all is maintained, the impact of judicial reviews on housing must be fully understood.

WHAT IS THE COST OF JUDICIAL REVIEW ON DEVELOPMENT DELAYED BY ONE YEAR?

Let's take the least-negative and least time-impactful scenario, whereby a development that received planning permission has now been halted following a successful judicial review. Depending on the outcome of the judicial review, it could take a developer 12 months to address the issues raised, reapply for permission, and achieve a successful outcome. Project delays cost time and money. If in this scenario, for example, a developer is delayed for a 12-month period, additional costs in financing development land and additional costs associated with tender price inflation could result in the delivery of new accommodation being more expensive.

The overall construction cost impact could range from €8,000 to €12,000 per unit (houses and apartments) for every year that a development is delayed. Applying a land holding cost using a blended finance rate of 8%, tender price inflation rates (SCSI Tender Price Inflation Rates) and increased rates associated with statutory contributions, this informed our assessment of overall costs associated with judicial review, excluding legal costs incurred by the development.

This is a sizable cost associated with the delivery of new housing, which when combined with other price increases, such as significant material price increases, further constrains the delivery of affordable housing to the market.

A STATE REGISTER OF DEVELOPMENT LAND TO INFORM POLICY

In the SCSI's reports on the Real Cost of New Housing Delivery for apartments and houses, data was gathered from Chartered Quantity Surveyors on the costs of materials and labour for new builds. However, when our study gathered information on development land prices, there was no formal register of this information and therefore we relied on our Chartered Valuation Surveyors to provide us with this information. We believe that a State register, like the Residential Property Price Register, should be funded and established in the interest of transparency to help build a more informed view of the housing delivery sector. This should assist many stakeholders and policymakers when assessing legislation and regulations affecting new housing delivery.

As shown in **Figure 1**, land costs associated with overall delivery costs are around 16%. This is an average value based on data from Chartered Valuation Surveyors and one that can vary depending on location, site access, and typography. It is also a considerable cost to new development, as it could account for up to €50,000 per site for a three-bedroom semi. A State register would provide factual data on land costs and therefore help public policy to address issues such as affordability and viability.

The Land Development Agency (LDA) is a good example of the digital mapping of State assets to help improve transparency and information gathering for all stakeholders, including the public – see www.lda.ie.

Such a register should also consider the inclusion of the following to expand the number of uses it could facilitate, and could connect with a digital planning platform:

- parcel area;
- land use type;
- vegetation/land cover;
- planning zoning;
- commercial value;
- sale and purchase dates and prices;
- taxation liability;
- vacant site;
- soil type/productivity; and,
- restrictions on use on heritage, ecological, environmental or conservation grounds.

The introduction of a cadastral system/map could be used to enable all stakeholders to contribute their own data – planning, legal, zoning, etc.

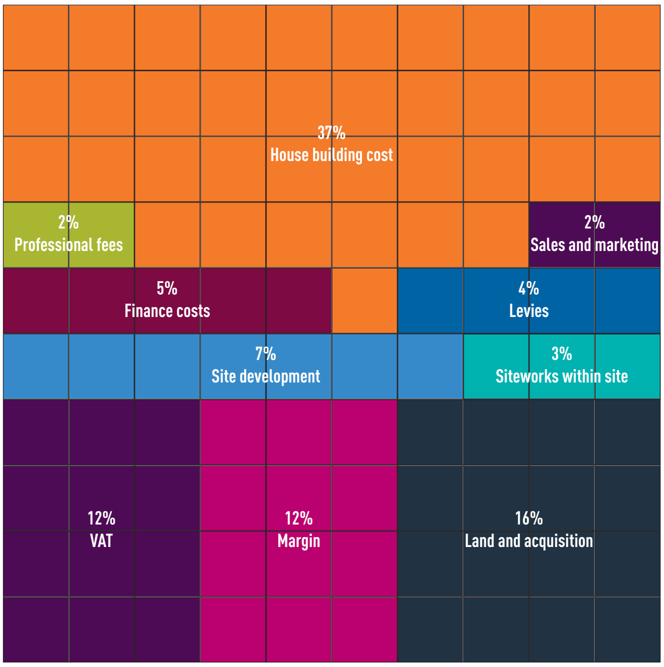

FIGURE 1: Breakdown of costs in the delivery of a new three-bedroom semi in the Greater Dublin Area.

Source: SCSI Real Cost of New Housing Delivery, 2020.

RECOMMENDATION

Funding for the introduction of a Development Land Register.

BENEFIT

A statutory register would provide important information on land costs to inform housing policy.

MODERN METHODS OF CONSTRUCTION AND SUSTAINABILITY – FOSTERING AN ENVIRONMENT FOR CHANGE

The Construction Industry Council (CIC), which is represented by constituent bodies such as the SCSI, the Royal Institute of the Architects of Ireland (RIAI), Engineers Ireland, the Construction Industry Federation (CIF) and the Building Materials Federation (BMF), through its involvement with the Construction Sector Group, is making steady progress in the development of an Innovation Centre of Excellence for the construction industry. The construction sector in Ireland is a major employer with approximately 150,000 employed, and activity output in the range of €25bn in 2020. Improvements in efficiency through innovation continue and will remain a feature of this industry, as delivering more for less and in a sustainable manner is a priority for Government and stakeholders.

Advances in technology such as building information modelling (BIM), etc., have enabled the construction industry to improve efficiency; however, the cyclical nature of the sector impacts delivery of new homes and this can be witnessed in home completion figures post recession over a decade ago.

The consequential challenges that arise as a result of volatility in demand for both private and public capital works affect the economic viability of firms, employment security and capacity to invest in people and resources, which have a significant impact on productivity.

It is therefore a mutually important imperative to provide a secure pipeline of work for the construction sector, as every €1m spent on construction equates to approximately 12 jobs per year.[1] The lack of clarity on forthcoming public and private sector work impacts firms' confidence to invest in resources, technology, training and upskilling. This then impacts on firms' appetite for the development of specialised areas, such as off-site production.

Commitment of State construction projects

The SCSI raised concerns with officials within the Office of Government Procurement during consultant appointment reviews. The SCSI highlighted that there is an overly onerous procedure in place in respect of project tendering. The result of this can be that fewer contractors participate in tendering, thereby reducing competition in the market, which can in turn reduce value for money for the taxpayer. It is important that Government utilises private sector contractors to deliver important construction projects at a cost-effective rate.

1 Capital Review Labour Intensity of Public Investment, 2021.

The fragmented nature of the sector (which is not unique to Ireland) and the complexity of the supply chain, with dependency on subcontractors and agency workers, can greatly reduce productivity, with multiple parties working to different schedules and budgets. This can lead to poor decision-making at the initiation, planning and execution stages of a project and these are matters the Innovation Centre of Excellence will hopefully seek to address as construction evolves to the use of more off-site and modular builds.

Key consideration should be given to how public investment may be harnessed to drive innovation in the sector. The Innovation Centre of Excellence will foster confidence in the sector, which can deliver on key Government objectives, such as residential retrofitting and new housing, and may provide export opportunities for our country.

LABOUR FORCE

The SCSI is concerned that Ireland will remain with a significant housing demand/supply imbalance for at least another decade if the status quo remains. Tighter supply may result in higher accommodation prices, and this could have a detrimental effect on attracting new foreign direct investment (FDI) into Ireland.

The construction sector needs the support of Government, as it looks to meet significant demand for new housing and to have the necessary resources to do so. The sector is currently struggling to have sufficient tradespeople on site to complete projects. It is reported that many industry workers left the country during the Covid-19 period.

The SCSI welcomes Government initiatives such as the Apprenticeship Incentivisation Scheme to support employers to take on apprentices, and to encourage upskilling within and entry into the sector, as well as initiatives to make the sector more appealing to female applicants.

As well as meeting demand for new builds, the sector must also upskill in order to be able to achieve targets set out for retrofitting. All buildings are unique and have their individual challenges, so it is important that a proper evaluation is undertaken by appropriate professionals or teams to ensure that the correct decisions are made at the outset for every case.

RECOMMENDATION

Invest in funding and training initiatives to assist in creating optimal entry into the construction sector and the necessary upskilling of the sector to meet Ireland's sustainability objectives.

SUSTAINABILITY AND CIRCULAR ECONOMY

The drive for more efficiency with new project development is important to ensure that more development can be delivered in a timely manner to high standards. Reducing waste and improving the use of sustainable products is an important area and the SCSI supports Government's ambitions in relation to the development of a circular economy. It is important for these ambitions to be accompanied by clear, attainable deliverables, which are backed by Government financial initiatives, such as supports for firms or sectors to undertake appropriate research, development and innovation into recycled aggregates for example, or financial incentives for sectors to transition to a circular economy.

The SCSI believes that an ambition for the built environment should be to treat every existing building as a material bank. An assessment of a building before demolition should be considered to ensure that construction waste to landfill is minimised. There may also be an opportunity in the sector for the development of a market or central repository for second-hand building materials (e.g., windows, steel beams, partition systems) as an alternative way to reduce waste and to support the development of a circular economy.

The certification of materials for reuse must also be considered by authorities as it is important for design and ancillary certifiers, and the sector generally, to have the necessary clarity and technical guidance around the certification, particularly of recycled materials. One practical way to promote and address these concerns is to update technical guidance issued to professionals in the construction sector. It is also worth considering the introduction of a standard whereby all construction materials and products are sold with an informative scale similar to Building Energy Ratings (BERs), displaying their sustainability credentials.

The strategy could go further and carry out a 'root and branch' review of construction methods for new builds and the sustainable appropriateness of materials and, within this review, assess the life expectancy date of materials/products, which might influence manufacturers to provide longer-lasting products rather than the metric of a 'guarantee', which fails to adequately inform the expected lifespan under normal conditions.

Moreover, planning authorities and An Bord Pleanála have an important role to play in the circular economy. For various reasons, it can be a preferred solution to demolish a building and rebuild, rather than to keep a structure and extend it. The demolishing of a building should be considered within the planning process, as due recognition should be placed on the embodied carbon/energy within the existing structure. For buildings where demolition is a necessity, waste management plans should be consistently incorporated into the planning process for the demolition of buildings. As outlined in the Waste Action Plan for a Circular Economy 2020-2025, in 2017, excavated soil and stone was the largest element of construction and demolition waste at approximately 80%. The remainder includes concrete, brick, tiles, metal, glass, wood, plastic and metal. This represents a huge cost and loss of value to the construction sector, and results in significant volumes of avoidable waste. The construction waste regulations restrict recycling and focus on remanufacturing, which is not CBE friendly and often requires more energy than is saved. Greater emphasis is needed on increasing recycling of construction and demolition waste streams in urban areas. According to the Environmental Protection Agency (EPA), just over 6.2m tonnes of construction and development waste was generated in Ireland in 2018. Of the concrete, bricks, tiles and gypsum that received final treatment in Ireland, only 23% was recycled and 77% was backfilled.[2] Existing buildings, when being decommissioned, should be assessed in regard to waste management and opportunity for reuse of materials.

RECOMMENDATION

The establishment of a circular economy protocol will require separate and dedicated funding streams to address material quality, material appropriateness for reuse, regulations and guidance for the sector to embrace a reuse policy for new construction and renovations.

COST

Unquantifiable at present.

RETURN

Assist Ireland to meet sustainability/climate action goals as set out in the Climate Action Plan.

2 Environmental Protection Agency National Waste Statistics.

B. TAXATION, REGULATION AND INITIATIVES

INCREASING THE SUPPLY OF DEVELOPMENT LAND THROUGH A REBATE ON CAPITAL GAINS TAX

The availability of development land is a prerequisite to the construction of new housing. The SCSI has highlighted the importance of zoned, serviced development land as being of benefit to all stakeholders, as it minimises direct and indirect costs. As part of the SCSI Real Cost reports from 2020, the SCSI estimated that site purchase costs ranged from 16% for new housing, to between 8% and 14% for new apartments. Housing demand is expected to increase and, therefore, it is important that there is an adequate supply of development land for residential development.

The SCSI recommends the introduction of a rebate scheme on Capital Gains Tax (CGT) to increase the amount of available development land. The current rate of CGT is 33%, and the recommended rebate would bring this to 8% for development land used for the delivery of new housing.

An important element will be to make the rebate time bound to encourage a rapid flow of development land to the market. Based on 2019 figures from the Revenue Commissioners (see **Table 1**), the cost of this rebate would be €20m (calculated from 2019 figures in **Table 1**, an 8% rate would have yielded €6 million in place of the €26 million), without considering the likely increases in development land brought to the market. In the context of the housing crisis, this cost is relatively small compared to its ability to deliver more land for more homes. If this doubled the level of development land coming to market, it could provide land for 7,000 houses/apartments, for example.

As with any tax expenditure, the question will be raised of who will benefit from the reduction in tax paid? The likely answer will be all the stakeholders. The reduced rate will incentivise those with development land to bring it to market during a small window of opportunity. This gain is greater than any likely holding value for the medium term. The increase in supply of development land would address the supply–demand imbalance that has made development land so costly of late. It will increase the overall number of residential sites under development, which will benefit buyers.

Table 1: Development land CGT.

	Payment price (€m)	Net chargeable gain (€m)	CGT owing
2019	175	83	26
2018	155	110	35
2017	106	83	26
2016	103	47	15
2015	77	30	10

Source: Office of the Revenue Commissioners.

RECOMMENDATION

Increase supply of residential development land by creating a rebate on the development land CGT rate from 33% to 8% for a defined period, aimed at zoned and serviced residential development land.

SCENARIO

Landowner sells land and gets a rebate on CGT rate of 8%. Purchaser must commence building **affordable homes** within 30 months of the transfer of land. If the rebate must be paid back, the burden is placed on the current owner of the land – so that Revenue gets the loss of CGT plus interest when sold, or has the control to increase Part V responsibilities until the scheme is delivered.

COST

€20m based on 2019 development land CGT figures.

RETURN

Increase in supply of land to the development market.

FAIR DEAL

The Government's Nursing Homes Support (Fair Deal) Scheme was introduced in 2009 to provide financial support to people who need long-term nursing home care. A financial assessment is undertaken to determine how much of a contribution beneficiaries will make towards nursing home care and what balance the State will pay.

SCSI agents have reported that there currently appears to be a disincentive for asset owners to rent out their property while they are in a nursing home, as 80% of the rental income is included as a source of income during the financial assessment. The SCSI welcomes recent changes to the Scheme to cap the annual 7.5% contribution from farming families based on the value of their farm to three years.

The rental of vacant properties may be of key assistance in addressing vacancy rates in Ireland at a time when supply is very tight and property prices are increasing as a result.

The SCSI calls on Government to ensure that those entering the Fair Deal Schemes are not disincentivised to rent out or sell their assets, as is currently one of the issues facing the current Scheme.

RECOMMENDATION

Implement changes to the Fair Deal Scheme to incentivise the renting or sale of assets of the nursing home resident to assist with providing additional supply of homes to the rental market

C. PUBLIC CAPITAL SPENDING – PRIORITY INVESTMENT AREAS

CAPITAL INVESTMENT IN INFRASTRUCTURE

During the recession, Ireland's public capital investment programme was slashed, with investment in Ireland's physical, economic and social infrastructure falling from c. €6bn in 2010 to €3bn in 2013. In recent times, there has been a steady increase in capital investment with the National Development Plan (NDP) crystallising an investment of €116bn to 2027.

While the SCSI anticipates a further increase in this allocation based on recent reports, it welcomes a potential increase in capital investment, as this provides clarity and certainty for businesses that intend to tender for public capital works.

RECOMMENDATION

The SCSI recommends that Government continues to monitor the administration of tendering for public works, to ensure that the process of tendering is rigorous but not so administratively burdensome that it excludes small businesses or new entrants into the Irish construction sector.

It is also important that public investment is targeted to remedy any existing bottlenecks to economic growth, and where demographic changes require increased investment. This is especially important in areas such as schools and hospitals where public investment may not have kept pace with population growth. As the economy continues to recover, the Exchequer position will become more favourable, with greater resources to invest in infrastructure to make up for the cuts seen during the recession.

LOW INTEREST RATES AND OPPORTUNITY FOR BORROWING

The National Treasury Management Agency (NTMA) raised over €1bn of debt, at a very low interest rate, to help Ireland continue investment in important social and infrastructural projects. Obviously, debt will need to be repaid; however, the current cheap rates on borrowed money create great opportunities for the country to continue to invest in areas where demand for State services (schools and hospitals, etc.) can be progressed in line with population growth.

Prioritisation of works is a crucial area and therefore housing, healthcare and climate are the main areas that the SCSI believes need focus within the National Development Plan (NDP), as per our submission to Government earlier this year. We await the outcome of the review, expected in September 2021.

It is the SCSI's position that once critical areas are improved, such as the full establishment of the Land Development Agency (LDA), planning review, and the drive to attract more construction workers to our sector, then a significant increase in State borrowing and spending for housing in line with Economic and Social Research Institute (ESRI) recommendations[3] is required. This suggests a doubling of the funding allocation for housing to €7bn.

3 ESRI special article with 'g' greater than 'r', should we be borrowing to increase Irish housing supply?

VACANT PROPERTIES – REJUVENATION AND REPURPOSING

According to the Central Statistics Office (CSO), the overall vacancy rate in Ireland in 2016 was 183,312 dwellings (excluding holiday homes and derelict houses). At a time when supply is tight, it is pertinent that vacant housing stock becomes available for lease/sale. Furthermore, from a sustainability perspective, the full use of existing building stock is imperative to control emissions and unnecessary pollution of the atmosphere. One way to do this is to utilise our vacant building stock and engage in a proactive and ambitious initiative to get these back to full use. The SCSI's 'Rejuvenation of our Small Town Centres' report highlights that the crisis facing our small town centres is a significant challenge for all. These centres struggle with high vacancy rates and in recent years have seen outward migration, as people relocated to more urban settings. Recent research from the SCSI shows that agents have noted some purchasers moving back to more rural settings following the increased facilitation of working from home during the Covid-19 period; however, the impact on longer-term migratory trends in this regard have yet to fully play out. The repurposing of vacant premises for commercial or residential use is a vital component in ensuring the future prosperity of town centres by revitalising these hubs and making them better places to live, work and visit. Town centres are a vital centre and hub for communities, particularly older communities.

Local authorities can play a key role in proactively addressing vacant buildings in towns to revitalise town centres. The one-stop shop offering by local authorities is a welcome support for building owners and should be resourced to ensure successful renovation of property. The SCSI has previously called for local authorities to utilise compulsory purchase orders (CPOs) for strategic reasons where the benefit is realisable to the wider plan for the high street or town – the wider benefit for the local community should be of consideration.

The Living City Initiative is a scheme of property tax incentives aimed at the regeneration of certain areas in the historic centres of Cork, Dublin, Galway, Kilkenny, Limerick and Waterford. Relief is available for refurbishment or conversion work that is carried out during the qualifying period (May 5, 2015, to December 31, 2022, for owner-occupier residential relief and commercial relief, and January 1, 2017 to December 31, 2022, for rented residential relief). **Table 2** illustrates data published by the Office of the Revenue Commissioners on the number of claimants and amount claimed between 2015 and 2018.

Table 2: Living City Initiative claimants.

Year	No. of claimants	Max tax cost (€m)*	Amount claimed (€m)
2018	27	0.2	0.5
2017	23	0.2	0.4
2016	15	0.2	0.5
2015	13	0.2	0.5

Source: Office of the Revenue Commissioners.
See: https://www.revenue.ie/en/corporate/documents/statistics/tax-expenditures/property-reliefs.pdf.

** Assumed at 40% for IT and 12.5% for CT.*

RECOMMENDATION

The SCSI continues to recommend that a proactive approach is taken to address vacant buildings in towns and cities to revitalise these areas.

The Living City Initiative/Bringing Back Homes – The Living City Initiative is due to run until December 31, 2022. Given the percentage of vacant buildings in Ireland, significant consideration should be given to further extending this scheme and resourcing local authorities accordingly.

RETROFITTING

Retrofitting work should assist in providing quality and sustainable housing to improve overall quality of life. The Climate Action Plan sets out the Government's very ambitious target to achieve 500,000 energy efficiency retrofits by 2030 to B2 or equivalent.

As of January 4, 2021, 526 homes have completed a deep retrofit under the Sustainable Energy Authority of Ireland's (SEAI) pilot programme. The average total capital cost to upgrade a home from an average Building Energy Rating (BER) F rating to an average A3 rating is €60,229. The results from the SEAI's pilot programme are being used to inform an approach to a large-scale deep retrofit of our housing stock. Currently, the SEAI estimates that a sum of over €35bn will be required over 35 years to make the existing housing stock low carbon by 2050. This is a significant and important investment into Ireland's housing stock and climate objectives. It is important that there is adequate resourcing in place to meet these targets.

CASE STUDY – ECOBONUS 110

The Ecobonus 110 was introduced as a tax reduction for domestic renovation works in Italy. The measure was first introduced as part of a Covid-19 economic stimulus package in 2020 and applies to the whole building sector. This 110% ecobonus or 110% renovation bonus is a tax deduction of 110% of the expenses incurred for energy efficiency in Italy. The initial scheme was set up to run for an 18-month period.

The Government should consider tax incentives such as the above to a profile of homeowners unable to service loans for retrofitting – contributions to repay all or part of the tax incentive could be considered where utility savings are being realised by the homeowner.

There are various funding mechanisms available to homeowners along with SEAI grants to retrofit homes. However, during particularly difficult economic circumstances, such as the onset of Covid-19 and the overall cost to our economy, many homeowners may not wish to take on additional debt to upgrade their homes. It is important to consider a variety of mechanisms to assist homeowners in upgrading their homes to a B2 BER rating. The SCSI, in its residential retrofits position paper, proposed that Government consider additional funding options beyond 'lending only', such as looking at tax-back options for homeowners to avail of. See the paper at: https://scsi.ie/residential-retrofits/.

It is also important that homebuyers have access to expert advice as to what works should be undertaken, the relevant costs, etc. For example, in some instances, a 'shallow' retrofit may be sufficient for a household, as opposed to a 'deep' retrofit. This would eliminate the need to move out of a property while works are being undertaken.

The importance of incorporating the principles of a circular economy, and taking account of embodied carbon in the provision/account/upkeep of all elements of the built environment, cannot be underestimated. We recommend the mandatory provision of carbon accounting be applied immediately for all construction projects, whether they be new build or renovation, and for this to be applied on a 'cradle-to-cradle' basis.

In recognition of the Government's declaration of both a climate and biodiversity emergency, we also urgently recommend that all new housing be constructed in a holistic manner, respecting nature and the environment in all new construction.

From a standards perspective, all buildings are unique and have their individual challenges, so it is important that a proper evaluation is undertaken by appropriate professionals or teams to ensure that the correct decisions are made at the outset for every case.

EDUCATION AND INNOVATION

Innovation plays an important role in equipping the sector to identify appropriate solutions bolstered with Government support in this area, with which may in turn lead to export opportunities. Education is a further important component to equip workers in the sector to undertake works. Having a reasonable volume of skilled contractors who are able to undertake the work can prevent potential price inflation for construction services. Government should consider ways to incentivise industry to branch into and upskill in this area to support Ireland's ambitious targets under the Climate Action Plan.

RECOMMENDATION

Avoid a 'lending-only' approach to retrofits and seek to adopt a 'tax back' option for applicants.

Develop a panel of experts for both consultancy and trades for retrofitting to protect our built heritage and ensure works are carried out to a high standard guided by technical guidance.

SECTION 2: AFFORDABILITY OF RESIDENTIAL PROPERTY

The SCSI has undertaken several delivery cost studies over the last number of years, and it is clear from the findings of these reports that there is no panacea to address the affordability issues in delivering new apartments and houses. Affordability is required to ensure that homes, when made available, are at a price point that is achievable for aspiring homeowners in regular employment. It is well versed and acknowledged by many that access to affordable housing to purchase or rent in our cities, particularly Dublin, is a major challenge. Our 'Real Costs of New Apartment Delivery' report highlighted that new apartment purchase is either not available in the city or well beyond the price point of most aspiring purchasers. It is one of the biggest challenges facing the country and a solution must be multifaceted, requiring incremental changes in multiple areas to bring down delivery costs. The SCSI believes that, ultimately, while the Government can support buyers in owning their own homes through schemes such as Help to Buy, it is only through ensuring that overall delivery costs of new housing remain viable that supply will increase and affordability will be achieved.

STIMULUS PACKAGES – HELP TO BUY SCHEME AND PROPOSED SHARED EQUITY SCHEME

The property market has become more difficult for buyers seeking to purchase a first home following Covid-19. The supply of housing has been impacted by completion delays on site, with Central Statistics Office (CSO) figures illustrating that in Q2 2021 there were 20% fewer completions compared with the first quarter of 2020. Existing property availability is also down year on year, with myhome.ie reporting that the number of properties listed for sale on its website is down 36%.

This tightened supply is coupled with strong demand, with the Banking and Payments Federation Ireland reporting that mortgage approval volumes rose by 7.8% year on year in Q1 2021 to more than 11,300, the highest figure reported for Q1 since the data series began in 2011.

However, affordability challenges are significant, as evidenced by the SCSI's real cost of construction reports, which highlight that a new three-bedroom, semi-detached house costs €371,000 (2020, Dublin) to deliver, while the delivery of two-bedroom apartments in Dublin can range from €315,000 to €551,000 (ex. VAT) (report provides average costs across a number of apartment categories). The borrowing limit for an average-income-earning couple is €308,000. Even adding the 10% deposit requirement as per Central Bank of Ireland macroprudential rules for first-time buyers, a shortfall of approximately €25,000 exists (excluding the Help to Buy scheme). For new apartments (Greater Dublin Area), there is an affordability issue for those households earning less than €90,000 per year, and therefore new apartments being delivered are well outside of the purchasing capacity of first-time buyers.

Home ownership is at 67% (CSO, Census 2016) and has seen a drop from 69% since 2011. A wider policy conversation with stakeholders is required to establish objectives for a satisfactory longer-term housing tenure mix to work towards. Decisions must be taken as to the appropriate mix between home ownership, private rented and public rented. Utilising the Commission for Housing to establish an agreed objective such as adequate tenure mix (owner occupation and rented) is a good starting point to set objectives for the next 10 years.

FIRST-TIME BUYERS 2x €44,000 salaries – €88,000 x3.5 Available mortgage €308,000

	Category 1	Category 2	Category 3	Category 4
Price of two-bedroom apartment (lower range)	€375,000	€413,000	€485,000	€497,000
Deposit required 10%	€37,500	€41,300	€48,500	€49,700
Mortgage required	€337,500	€371,700	€436,500	€447,300
Mortgage available	€308,000	€308,000	€308,000	€308,000
SHORTFALL	**-€29,500**	**-€63,700**	**-€128,500**	**-€139,300**

Source: SCSI Real Cost of New Apartment Delivery 2020 Report.

The SCSI continues to recognise the importance of the Help to Buy scheme and Shared Equity scheme as mechanisms for assisting first-time buyers to purchase homes. Such schemes can assist those who otherwise would not be able to buy their first property by bridging the affordability and viability gaps. Furthermore, such schemes bring a level of certainty to the home-building market. The existence of these schemes and their availability to first-time buyers have ultimately made more new home building sites viable. However, it is important to recognise that such initiatives are led by demand and do not act as a vehicle to address the high costs of construction. Help to Buy was most recently extended to December 2021; however, there has not yet been clarity around the continuation of the Scheme into the future. It is important that certainty is provided to both purchasers and the property sector on the lifespan of the scheme.

The Help to Buy scheme supports first-time buyers who may find themselves unable to meet the purchase price of a home due to mortgage borrowing limitations. The Central Bank of Ireland lending rules have indirectly influenced national property price inflation by creating a purchase ceiling for those requiring a mortgage to purchase a home. Mortgaged buyers can often be disadvantaged when competing against non-mortgaged buyers for property for reasons such as additional bidding/purchase restraints placed on mortgage buyers. It is also important to remember that the property market is no longer a single market, but rather a series of micro-markets, and a 'one size fits all' approach may be inappropriate.

While the SCSI supports the principle of better regulation and prudent lending to protect households against indebtedness, the macroprudential rules are key to affordability of housing and we therefore welcome the Central Bank Mortgage Measures framework review, which it is hoped will result in more flexibility for certain buyer profiles.

RECOMMENDATION

Continued support of the Help to Buy scheme to assist first-time buyers is important and should remain in place. However, the SCSI calls for a longer-term strategy to be published with actual Help to Buy targets, so that more comfort and commitment regarding the lifetime of the scheme is clear to both consumers and to developers when planning for new housing schemes.

CONCLUSION

The past 18 months have been a testing time for businesses and society. The SCSI is aware of the Government's challenge to balance the increasing Exchequer deficit due to Covid-19 in line with tax revenue and budget expenditure.

Covid-19 restrictions have significantly impacted on the progress of housing completions, which has prevented the addressing of legacy imbalances between housing supply and demand. Due to this acute situation, the SCSI applied a single focus to this year's submission – viable and affordable housing delivery.

The housing supply shortage remains a critical concern for the SCSI, as it does for broader society. Unfortunately, there are many reasons why new housing is delayed and not meeting targets. A complex array of difficulties is impacting viability and affordability, which is slowing development. These issues include insufficient labour availability, viability issues, material costs, planning delays, increasing judicial reviews, and access to zoned and serviced land. This submission has addressed the SCSI's recommendations for addressing these in Budget 2022. The SCSI has also made a submission in relation to the 'Housing for All' plan, which should provide a detailed roadmap to solving the housing crisis. For an overall perspective on the SCSI's full policy recommendations in housing, both submissions should be read in tandem.

Ireland's growing population requires access to affordable housing, with an appropriate balance of tenure types in all locations. The SCSI believes that the property, land, and construction sectors are well prepared to meet this challenge, but Government must commit the required resources and address the key barriers to housing delivery, as outlined in this submission, in Budget 2022 and the awaited 'Housing for All' strategy.

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