Property Industry Ireland
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Viability for homebuilding

The Importance of Stability and Certainty

PII Pre Budget Submission
Budget 2023

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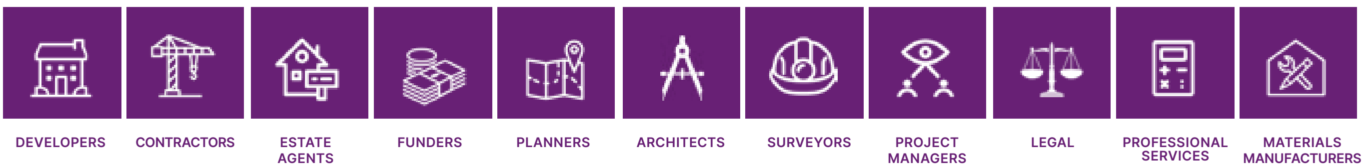
PII Sectors



Summary

The main challenge in delivering on Ireland's housing need is viability of homebuilding. For homebuilding to be viable, the costs of delivery, including the cost of land, taxation, social housing provision, and cost of finance, must be less than the price a homebuilder will get for the sale of the home.

The recent Census population estimates for the country show a higher level of housing need than had been anticipated. Ireland's population is estimated to be 5.1m, an increase of over 361k when compared with 2016. The average increase of 60k per year since the last census in 2016 is at a faster rate than the 50k per annum provided for in the National Planning Framework.

Housing for All has set ambitious targets for the delivery of new homes across a range of tenures. The private sector is fully committed to working with Government to deliver these targets. However, the viability to deliver new homes is challenged by many factors, most especially planning and the cost of construction.

Property Industry Ireland make the following recommendations for Budget 2023. All our recommendations are aimed at bridging the gap between what industry is currently able to build and what is needed by society.

1. **Government deliver policy certainty**
2. **Fund infrastructure and services for housing development sites through the establishment of a National Infrastructure**
3. **Assess impact of property taxes on viability and home buyers**
4. **Importance of sustainability and retrofitting**
5. **Support the Private Rented Sector**
6. **Extend Help-to-Buy**
7. **Reduce VAT in line with VAT reductions in other sectors**

Viability of new home delivery a challenge

For homebuilding to be viable, the costs of delivery, including the cost of land, taxation, social housing provision, and cost of finance, must be less than the price a homebuilder will get for the sale of the home

The recent Census population estimates for the country show a higher level of housing need than had been anticipated. Ireland's population is estimated to be 5.1m, an increase of over 361k on 2016. The average increase of 60k per year since the last census in 2016 is at a faster rate than the 50k per annum provided for in the National Planning Framework (NPF). At this rate, the NPF forecast of around 5.7m people will be reached in 2032 - 8 years early. This housing need calls for an urgent review of the National Planning Framework and City and County Development Plans.

The main challenge in delivering on Ireland's housing need is viability of homebuilding. For homebuilding to be viable, the costs of delivery, including the cost of land, taxation, social housing provision, and cost of finance, must be less than the price a homebuilder will get for the sale of the home. In our submission we do not specifically talk about affordability, because affordability is very subjective – what one household can afford and needs for housing is different from another. Therefore, while we see some, but too few, new homes being built – only those with sufficient income or deposit to do so can buy a home. Those who cannot afford to buy a new home must find alternative accommodation, many paying too much in rent, or left homeless.

Housing for All has set ambitious targets for the delivery of new homes across a range of tenures. The private sector is fully committed to working with Government to deliver these targets. However, the viability to deliver new homes is challenged by many factors, most especially planning and the cost of construction.

Reports from the SCSI show the cost of delivery for a new 3 bed semi-detached house in the Greater Dublin Area in 2020 was over €370,000, while the delivery costs for a new apartment (January 2021) ranged from €314,000 to €551,000.

The report on housing delivery shows that the overall construction cost (cost of building the house from foundation to roof and completing the estate roads and drains etc.) is €178,902 which represents 48% of the overall cost of providing the house. Thus, 52% of the cost of providing a home comes from other costs, including taxation.

Since these reports were prepared, we have witnessed a significant increase in the cost of raw materials which further challenges the viability of delivering new homes into the system. Unless viability can be restored the pipeline of new homes into the Irish housing system will shrink.

What can be done to improve viability?

Property Industry Ireland make the following recommendations for Budget 2023. All our recommendations are aimed at bridging the gap between what industry is currently able to build and what is needed by society.

Recommendation 1:

Government deliver policy certainty

Uncertainty around Government policy can have serious implications for the property sector, both from a funding and a delivery perspective. Private funding plays an important role in financing new home and apartment construction. The challenging nature of apartment development funding means most of these new apartments would not be built without this finance. Strip out active investor demand for completed apartments and most new apartment developments would not be built. There is plenty of evidence of their importance across a range of European countries. Housing is regarded as a long-run asset so while ownership may change the apartment (asset) remains in place.

Professional investment is facilitating the delivery of much needed apartment accommodation into the Irish housing system by providing certainty of end-purchaser demand. Without such certainty builders, developers and their lenders will not engage in large-scale, capital-intensive apartment development, the consequence of which will be lower supply. While there has been criticism from some quarters about the amount of professional build to rent development taking place, particularly in Dublin, it is incorrect and overly simplistic to believe that disincentivising this type of development through taxation and other measures will increase the supply of homes for owner-occupancy.

Housing for All has provided the sector with a degree of welcome certainty about the direction of policy. However, there is still uncertainty as to the detail of and how policies will be implemented. This causes uncertainty and can lead to a pause in supply.

Property Industry Ireland call on Government to provide certainty for businesses operating in the property market to ensure that investment continues and Ireland benefits with an increased supply of homes from this investment. This certainty is particularly important for investment decisions given the long lead-in time for development. Developing a site for the delivery of homes is a time consuming, expensive and lengthy process, involving significant risk for the developer or homebuilder.

The upcoming Commission of Taxation and Welfare report should clearly set out the property sector taxation regime for the next five years. Policy certainty is vital to ensure that Ireland gets the necessary overseas equity funding to underpin the development and delivery of new homes.

Government needs to give clarity over its taxation model for property, including the retention of existing stamp duty rates and tax treatment of businesses investing in property, while at the same time providing incentives to develop more affordable housing. This is well understood by Government in respect to Ireland’s corporate tax rate and the same approach is needed for property.

Property Industry Ireland calls on Government to ensure that there is certainty for the market in its property taxation policy. Government should announce a long-term commitment to policies which support housing delivery and among those policies is that of certainty in relation to property taxation.

Recommendation 2:

Fund infrastructure and services for housing development sites through the establishment of a National Infrastructure Savings Scheme or Bond

A National Infrastructure Savings Bond should be established to fund the provision of infrastructure for housing developments. Investment funded by such a Bond should be targeted at increasing the supply of housing in Ireland, while also working to return value created through such investment to Irish communities.

Many homebuilders provide the required infrastructure and services as part of their delivery of new homes on a site. SCSI analysis shows that site works, and site development add approximately €40,000 to the cost of a new home. In addition, development levies of €8,800 are paid on average per home. The rationale behind development levies is to pay for the provision of the infrastructure that is required for the new development. In practice, however, the monies raised through development levies is used for the maintenance and provision of infrastructure that does not directly benefit the new development. This means that in effect, infrastructure is being paid for twice. This cost is being borne by the purchaser of a new home – generally a first-time buyer but even in rental properties the cost will always fall on residents.

Preferably, the scheme would be open to all individuals and would operate akin to a saving scheme operated through participating retail banks, credit unions and other financial services providers. Irish individuals could be incentivised to contribute savings towards investments aimed at increasing the country's housing stock. Investment in the scheme could be incentivised by means of an exemption from DIRT for returns earned on participants' investments.

Recommendation 3:

Assess impact of property taxes on viability and home buyers

Charges on property have been a feature of national taxation systems for centuries. While these taxes were originally used as a revenue raising measure, now the role that these taxes play is more often as an incentive, or indeed, a disincentive to development.

The interaction between taxation and the development process needs to be fully understood. Otherwise, taxes intended to incentivise development may be ineffective and result in higher costs for the ultimate homebuyer.

A key message is that taxes should not be levied if the delay to delivery of units is caused by the State.

a) Residential Zoned Land Tax

At present, the rules do not provide relief where project delivery is substantially delayed as a result of delays in the planning process, or indeed where planning is overturned on judicial review as a result of a failure in the planning process by the planning authority. It is inequitable and distortive if the developer is required to fund the tax cost of this delay, despite it arises through no fault of their own. The time spent going through planning (which is at least a year) should not be subject to Residential Zoned Land Tax.

b) Stamp Duty Refund

Presently, construction must be commenced on the land pursuant to a commencement notice within 30 months of the date of the instrument of transfer. Additionally, the development must be completed within 30 months of the date of acknowledgement of the commencement notice. In practical terms, 30 months can be a very short timeline within which to complete construction of a site. This is particularly so when the site is to be completed in phases, the builder encounters issues on the ground which require time to resolve, or the various Local Authorities may have differing approaches to issuing site commencement notices.

For example, if the builder gets one commencement notice for a site, the entire site must be completed within 30 months from the date of acknowledgement of that commencement notice, regardless of the number of phases in which the site is actually being developed. Yet, if a builder gets a commencement notice per phase, each phase must be completed within 30 months of the date of acknowledgement of that particular commencement notice for that phase. Further, if a particular phase won't be completed within the 30 months or if construction operations begin after 31 December 2022 - the refund is not available in respect of that phase yet if there is one commencement notice and the construction is completed in phases, if the final phase is not completed with the required 30 months, the entire site will lose out on the refund, with no apportionment for the completed phases. It is understood that some county councils will issue one commencement notice for the entire site, while some will issue a commencement notice on a phased basis. The builder is at the mercy of the particular local authority issuing the notice. This section should be amended to acknowledge the practical reality where a builder has to take a phased approach to completion of a development, regardless of the number of commencement notices issued.

In addition, the percentage test requirements under the Residential Development Stamp Duty Refund Scheme can be challenging to fulfil in certain schemes. The effect of this is leading to increased cost for developers and ultimately the first purchaser of the property. This appears to us to be counter to the intention of the relief to promote activation of sites for residential housing.

We note that the 75% test was introduced with the intention of increasing density. However, due to the need for a minimum of 10% public open space in many Local Authorities, this allows only 15% for circulation (roads, pathways) in higher density housing schemes. While for some sites it would be possible to meet this requirement in principle by building fewer homes on a specific site, this would appear to us to be counterproductive and in opposition to the intention of Government policy as set out in the National Development Plan and National Planning Framework for greater density housing in urban locations. For example, a scheme currently under construction of 116 houses, 48 apartments and a creche, with a density of 35uph in line with national policy. This is almost double the general density in the local area. This site of 4.73ha is effectively an infilling of land within existing estates and we believe that this is exactly the type of site that the rebate scheme was intended to incentivise. However, the footprint test is 61%. The same issue of provision of open space at >10% apply here in addition to the provision of a large town circulation road to serve the wider area (this is an objective in the county development plan). Another issue that has been raised by our members are the challenges in meeting the 30-month deadline to commence construction because of Judicial Review of planning permissions. A large number of prospective homes are now subject to judicial review proceedings. Analysis by a PII member showed that as of 17 February more than 11,715 residential units were delayed by pending legal challenges with over half of all SHD permissions granted by An Bord Pleanála in 2021 subject to a judicial review challenge. Because of the delay now being faced by many schemes because of this legal process, it will not be possible for them to commence on site in time to avail of the scheme. It seems counter to the objective of the rebate to deliver homes quickly that the time a project is held up in judicial review initiated by a third-party is not discounted for in the 30-month limit. We believe that there should be pause in the timeline whenever a scheme is subject to judicial review in this way.

PII understand the policy objective to bring forward residential development quickly. However, in the current environment, the 30-month requirement is in many cases counter-productive.

PII request that the requirement be extended to 42 months, with a mechanism to extend this on a case-by-case basis where further delays arise as a result of the issues noted.

Land Value Sharing

PII are concerned that Land Value Sharing (LVS) could adversely distort the Irish property market, significantly impede the supply of new housing, and inequitably impact persons who acquired land prior to the implementation of the LVS measures.

While measures to improve the supply of land into the homes market are welcome there are issues with regard to the introduction of the proposed LVS:

- Need for a mechanism to account for land acquired prior to the implementation of LVS measures: At present, the LVS rules do not take account of scenarios where a planning permission applicant contracted to acquire land prior to the implementation of LVS, with the result that the impact of the measures could not be priced in when acquiring the land. Transitional measures should be introduced to account for such scenarios.
- Specific rules required with respect to “residential use to residential use” rezonings of land: It is likely that only a very small proportion of the difference between the current use value of a site and its market value would be attributable to the re-zoning of land where residential development of the land is permissible both before and after re-zoning. Measures should be introduced to collect a significantly reduced or nil LVS contribution in such scenarios.
- Mechanism required to account for increases in market value of a site not attributable to re-zoning: At present, LVS measures do not account for factors other than the rezoning of land that may cause appreciation in the market value of a site, for example cost inflation. A mechanism which accounts for the impact cost inflation has on a site’s value should be introduced.

Recommendation 4:

Importance of sustainability and retrofitting

Given the climate emergency we now face, the commitment to retrofitting existing properties is positive and necessary. In order to incentivise homeowners and landlords to retrofit properties, consideration could be given to a 'Help to Insulate' scheme. This could be an extension of 'help to buy' to apply to purchasers of second-hand homes with low BER (D-G). Other measures could include:

→ a property tax credit for retrofit costs

→ CGT relief on disposal of properties which have been retrofitted

→ reduced stamp duty costs on acquisition or a refund of stamp duty were retrofitted shortly after acquisition.

Recommendation 5:

Support the Private Rented Sector

The Rental Market plays a significant role in the economy and in the overall property market including open-market rental, social rental and the forthcoming affordable cost rental sector. Rental properties across all tenures are a cornerstone of a functioning and stable housing system. The growing private rented sector of professional institutional landlords is a welcomed addition to the Irish market but is not and should not be the panacea. A blend of all tenures of rental housing, combined with a broad tenure of homes in ownership is required.

Residential Tenancies Board data show that there has been an exodus of landlords from the market. This trajectory must be reversed to ensure that good rental stock is available through smaller landlords in regional Ireland beyond urban areas. Homes are needed across the full range of tenures to meet demand from across the full income distribution, both for home ownership and for rental. The retention and expansion of private investor remains a key necessity in terms of supply in the rental market for the next decade at least.

Rent control measures could mean under-renting will persist and landlords will continue to leave the market. Persistent changes to policy mean that this risk must be financed into any investment decisions. Failure to address the issue of under-renting will have a negative impact on a landlord's ability to continue to fund property maintenance and could result in a reduction in the quality of the rental housing stock.
Taxation measures that would help retain the number of landlords in the sector and support a stable rented sector include:

- Apply Case I principles to the calculation of rental income for large scale rental businesses.
- Eliminate the close company surcharge for active residential corporate landlords.
- Apply the 12.5% trading corporation tax rate to active rental businesses.
- Extend CAT BPR for active property rental businesses.
- Consider allowing a tax depreciation deduction for the cost of construction of Private Rented Sector and buy-to-let developments.
- Apply 2% stamp duty on transfers of residential zoned land, with a clawback if that land is not subsequently developed into residential property within 5 years from the date of purchase.

Recommendation 6:

Extend Help-to-Buy

The Help-to-Buy (HTB) scheme is now a crucial part of the viability of new build housing in the country. The scheme is due to expire in December 2022. Given the ongoing use of the scheme and demand certainty it provides, the scheme should be extended until at least December 2023. Announcing an extension to the scheme in Budget 2023 will help homebuilders plan and deliver more homes on the back of the certainty of this demand.

Recommendation 7:

Reduce VAT in line with VAT reductions in other sectors

The total VAT for an average house figure is €44,164. All new homes will include a VAT charge of 13.5%. The VAT take on an average 3-bedroom semi is 12% of the total delivery cost. By way of comparison, new house sales in Northern Ireland and the UK attract zero VAT rates. PII calculate that a reduction in the VAT rate from 13.5% to 9% would reduce the cost of delivering a new home by €14,700.

The impact that VAT has on the cost of delivery is now critically important given recent cost inflation. Consideration should be given to a temporary VAT reduction in order to incentivise the bringing forward of developments within a certain period. Such a holiday could make projects viable which would otherwise not have occurred due to cost inflation.

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