

**Property  
Industry Ireland**

**ibec**

# **PII Pre-Budget 2024 Submission**

**July 2023**

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## A. Introduction

The dramatic increase in energy prices brought on by the Russian invasion of Ukraine has had serious impacts on the cost of living, inflation and consequentially interest rates. It has also had serious implications for the viability of development. This has resulted in a global reassessment of investment options including the property sector. Related to this and as a consequence of global tech lay-offs and the move towards working from home spurred on by the Covid crisis, there has been a cooling in the commercial property market.

Analysis by PII suggests that it will require, on average, €15 billion per annum in State, equity and debt development funding to deliver the homes needed each year to 2030. The briefing paper prepared by Government in advance of the National Economic Dialogue, while identifying that “annual development financing of €13.5 billion is required to produce 33,000 units”, also acknowledges that “should the national target increase, as expected, that funding requirement will grow”. It is important that Government recognises the range of factors that influence the decision to invest in property development and takes action to support **investment in new property development.**

There is a serious lack of international development capital willing to bring sites forward and take them through the planning system with the current risks in planning, the length of time it takes and the significant amount of policy change. While some Irish investors have been interested in this space, recently appetite has waned as risk has increased and returns have reduced. Given the need to increase our delivery of new homes, Ireland needs to attract significantly more capital invested into residential zoned land.

While the planning system is not a budget related matter, the reform of the planning system which is currently ongoing is a once in a generation opportunity to provide a functional and balanced planning system. It is important to note that a significant majority of the non-State capital will only invest into Irish residential development at pre-planning stage if the planning system is predictable and functional. This is a matter that must be resolved comprehensively to attract the capital to deliver the housing numbers required in the next 10 years.

The delivery of housing should remain a priority for Ireland. At the core of this challenge is viability of new housing delivery. On the demand side affordability is a challenge for many home buyers given interest rate increases, cost of living and supply constraints in both the owner and rental markets.

Government has made a number of significant interventions including Help-to-Buy and the First Home Equity Scheme. Government's recent decision to abolish for one year development levies and infrastructure connection fees imposed on new homes will improve viability of new homes in certain locations and result in new homes being delivered.

Too much of the final price of homes remains from state-imposed charges and levies. This has been shown in successive SCSi reports on the cost of construction. As identified in the recent cost of construction report undertaken as part of Housing for All, differences in costs between Ireland and other countries are primarily a result of scope and standard. **PII call for a review of how the full range of property taxes are levied on the homebuilder and homebuyer.**

PII support the intention behind the introduction of new policies such as the Residential Zoned Land Tax (RZLT) and Land Value Sharing charge (LVS). Unfortunately, as currently proposed, these measures will not have the intended impact and will have a negative impact on the viability of new home delivery and increase the cost of housing for prospective buyers and renters of new homes. In particular, the application of LVS to land already purchased is of particular concern and will lead to higher housing costs for first-time buyers of these units.

In addition to the challenges to viability, Ireland's **rental market** is in urgent need of action. Successive reports by the Residential Tenancies Board (RTB) have shown a serious decline in the number of landlords in the market and an intention of more to leave. Rental is for many the only tenure option and Government's own social housing policy, through rental support and housing assistance payment, relies heavily on a functioning and sufficient private rental market. Urgent action is required in this Budget to stem the outflow of private domestic landlords. Without decisive action, the State will become the key player in providing housing to those unable to purchase their own home.

PII makes the following recommendations that we believe, in concert with other initiatives being undertaken by Government, will deliver more homes and a sustainable property market.

## **B. Viability and tax**

### **a. Residential Zoned Land Tax**

Property Industry Ireland have separately engaged with the Department of Finance on the challenges posed by the Residential Zoned Land Tax (RZLT). While welcoming this measure in its aims to bring down the cost of land and encourage the development of housing, certain operational aspects of RZLT, as it is currently structured, will pose challenges for many developments, thereby undermining the tax's policy objectives.

RZLT as currently constituted will result in the tax being applied in many areas where a developer is doing everything in their power, and is incurring significant expenditure, in bringing sites forward for housing development. This is not the intent of the tax and is counterproductive, in that it adds to costs and risk to anyone investing or activating land for housing development. For this reason, PII principally recommends that the RZLT should allow for a deferral from the moment of bona fide entry into the planning system.

While we recognise Government's intention to reform the planning system, we do not believe that sufficient change will come about fast enough to remove these deficiencies in the tax.

### **b. Land Value Sharing**

PII have made a submission to the Joint Oireachtas Committee on Housing on Land Value Sharing (LVS) as part of the Pre-Legislative Scrutiny of the Land Value Sharing and Urban Development Zones Bill 2022. Our primary concern is the effect the introduction of the proposed LVS contribution would have on the availability of land and the viability of home building and urban regeneration. PII members are convinced that the intervention will either increase the cost, or frustrate the delivery, of new homes. The direct and very substantial impact of the charge on viability will greatly exacerbate the shortfall in delivery of housing units compared with Government targets and national need. For Government to disincentivise new homes would be inconsistent with every other expressed Government policy.

There is already serious doubt about the legality of this intervention, particularly given the changes in the revised scheme and the limited transitional provisions.

The Government should not enact this scheme as proposed. It should take appropriate time to consider the impact this charge will have on housing supply, including further engagement with industry and citizens prior to the introduction of LVS.

### **c. Croí Cónaithe (Cities)**

Property Industry Ireland have separately engaged with the Department of Finance in relation to improving the Croí Cónaithe (Cities) initiative and introducing a new element for Croí Cónaithe (cities) to be supported by the LDA. While Croí Cónaithe (Cities) is welcome, certain elements of how the scheme has been structured make it particularly challenging to deliver on its aims, both from a homebuilder and owner occupier perspective.

PII members have identified a number of these challenges and made suggestions on how the scheme could be amended to improve viability.

### **d. Supporting delivery through investment in the state**

Resourcing the key state bodies responsible for the delivery of housing is key to meeting Ireland's housing needs. While the temporary cut to development levies and connection charges announced by Government is welcome, Government should increase funding to Uisce Eireann, ESB, and the planning system at An Bord Pleanála and Local Authority level.

All these arms of the State have a key role in the delivery of housing and infrastructure key to the development of sustainable communities.

## **C. Rental Market**

### **a. Supporting smaller landlords in the rental market**

A functioning private rental market is key to providing housing and to Ireland's competitiveness. Government should take urgent action to ensure smaller landlords remain in the market and providing apartments and houses for rental is an attractive investment option.

### Specific recommendations:

1. Introduce a two-tiered system of taxation for landlords where the net rental income in Band 1 is taxed at the reduced rate with the balance being taxed at the marginal rate, similar to the income tax regime.
2. Case V deductibility rules should be brought into line with Case I deductibility rules to avoid situations where genuine letting activity costs are not viewed as deductible for tax purposes thereby increasing the effective tax rate in some cases above 60%.
3. Consideration should be given to introducing an allowance similar to an Industrial Building Allowance (“IBA”) in respect of the part of the capital expenditure on residential property which does not currently qualify for capital allowances (e.g. The total acquisition cost less the site element less the element which qualifies for plant or machinery allowances). Similar incentive schemes currently exist in Germany, USA, Canada and Australia
4. Introduce targeted amendments to capital allowances on plant or machinery to reduce the writing down period and potentially become refundable (subject to certain restrictions) where no profits available to offset such allowances against.
5. Case V capital allowances should be deductible for USC purposes up to and including the 8% threshold.
6. At present, the treatment of rental losses in a personal capacity is very restricted and should be reviewed. For example
  - A landlord cannot offset rental losses against other income or carry them back to a previous year.
  - Rental losses made by one spouse or civil partner cannot be offset against the rental profits of another.
7. The CGT rate of 33% is high by international comparison and consideration should be given to reducing same. In particular, given the lack of available rental accommodation, consideration should be given to whether CGT can be used as a mechanism to (1) incentivise new landlords into the market and (2) provide those landlords who are currently supplying rental property with an incentive to continue to do so.
8. To make corporate residential lettings more attractive consideration should be given to removing profits on residential lettings from the scope of the close company surcharge.

9. Introduce capital allowance for residential investments to encourage the individual rental investor back into the market to promote apartment building. In the past investors typically made up 50% of apartment buyers, but they have exited the market as after-tax income from residential investment is too low to justify the risk of investing. This has forced house builders to seek bulk exits to pension funds.

These reforms can be introduced as part of a broader reform of the Irish rental system for smaller landlords, including ensuring greater security for tenants, a multiannual rollout of greater resourcing for local authorities and the Residential Tenancies Board (RTB) to meet a 25% annual rental inspection target, and a deposit protection scheme.

A rental system with certainty at its core will be advantageous and fair to both landlords and tenants.

### **b. Facilitating professional landlords in the rental market**

While we have seen a serious loss of smaller landlords in the rental market in recent years due to the many challenges being faced, we should not be ignorant of the fact that the majority of new tenancies in recent years have been created by professional landlords. This is particularly true when considering the provision of new, high energy efficiency apartments in urban locations. A stable and predictable regulatory environment is essential for long term investment in housing, particularly in context of review of the ICAV and REIT regimes. In addition, adequate resourcing of the Residential Tenancies Board is essential for a well-functioning rental market, for both larger and smaller landlords and tenants. Some stimulation of pension funds and other "patient capital" may be required to support the Private Rented Sector, wither through participation in variations of existing schemes such as Croí Cónaithe or a widening of the Cost Rental Scheme.

## **D. Commercial market supporting housing**

While there has been a noticeable cooling in the commercial market, Government can take action to ensure that the benefit commercial properties have can be captured for the provision of housing:



1. Introduce a full refund from stamp duty where sites or developed property designated for non-residential use are subsequently repurposed and made available for residential use.
2. Create incentives to repurpose unused commercial property to residential such as accelerated capital allowances for capital expenditure on the repurpose.

## E. Attracting skills into industry

The continued development of the necessary skills to increase the capacity to deliver on Ireland's property needs should remain a key focus of Government, including increasing investment in Further Education and Training Centres to address waiting lists as quickly as possible, building out digital and other relevant skills in modern methods and introduce accelerated capital allowances for investments in advanced automation, Building Information Modelling (BIM), robotics and digital technologies in the construction sector.

Government has recently taken important steps in supporting modern (MMC) and offsite construction. MMC facilities provide employment in regional locations and offer an opportunity to upskill local jobseekers and generating positive economics in communities. In addition, the construction industry workforce is aging, and offsite construction offers the opportunity for older construction workers to continue to earn a livelihood in a safer environment, as well as being a more attractive career option for school leavers and will be more attractive to potential new entrants and attract a greater diversity of recruit.

## F. Other

1. Tax Warehousing Scheme: A tax warehousing scheme could be introduced for developer's PAYE and VAT liabilities whereby tax liabilities would fall due when the housing development is fully completed and sold. Such a scheme would provide much needed cash flow to the developer.
2. Accelerated capital allowances: The existing regime for certain energy efficient equipment should be extended and the scope of technologies eligible reviewed and widened to incentivise investment in low carbon and carbon reduction technologies in construction.

This will help support in meeting Ireland's carbon reduction targets and promote sustainability in construction.

3. There should be new incentives to encourage developers and asset owners to upgrade older, high-carbon emitting office buildings in Dublin's Central Business District (CBD) and Georgian Core. With the EU Taxonomy and SFDR rules now in place, these buildings are likely to fall into disrepair and obsolescence as tenants will have to find new buildings to occupy if the planning regulations do not change to allow these buildings to be upgraded to A rated and low-carbon standards. In parallel, tax incentives should be introduced to encourage owners and developers to refurbish and upgrade these buildings to low carbon high performance buildings so that the CBD remains vibrant with leading office occupiers.
4. Emergency accommodation: Request for a VAT concession whereby businesses would not suffer an adjustment under the capital goods scheme for the period in time in which taxable assets have been diverted to provide temporary emergency accommodation.
5. Lower the cost of social housing delivery: standardising nationally the specification of products and finishes for social housing would reduce costs considerably. This should include a standardised approach to assessing whole life cycle costs/maintenance costs.
6. Productivity: Productivity improvements could be supported by utilising fast track framework structures to procure public housing projects, in a manner that allows earlier industry involvement to drive down cost and achieve better programmes, but also done in a manner that prioritises collaboration from the supply chain in that framework. It has shown that there is the need for 30 to 40% less trades and labour on site. Recent procurement experience, the Ukrainian modular housing projects, has also shown how a contractor lead "programme manager" role approach, using an NEC form of contract, and an open/transparent method of procuring the specialist modular providers, facilitated a collaborative working approach for all where designs were standardised and shared amongst all.

Prioritising the efforts to arrive at a cost effective design for social homes that can be produced in factories, and creating the capacity for a sustainable offsite industry in Ireland, will greatly improve productivity.

## About Property Industry Ireland

Property Industry Ireland (PII) is the trade association within Ibec which represents the property and construction sector, including contractors, developers and builders; property professional service providers including, architects, surveyors, engineers and planners; as well as banks, financial institutions, asset and property managers.

### **Our vision:**

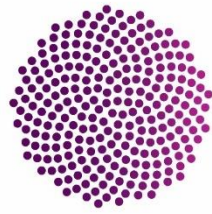
A sustainable Irish Property Industry which is creative, responsive, competitive and well integrated in meeting the socio-economic needs of all the stakeholders in the built environment

### **Our mission:**

To be the trusted partner and provider of “evidence based” information, policies and strategies for the property industry at National level, to the Oireachtas, Government, Local Authorities and Agencies, and for the benefit of the people of Ireland.

### **Our objectives are to:**

1. Be the Leadership Forum in the Industry for the discussion on National Property Issues
2. Develop, propose and support a National Property Strategy, policies and solutions to issues for the benefit of the nation as a whole
3. Be a research led organisation, which collates and commissions relevant and innovative research on Ireland's construction sector in order to promote & sustain a competitive economy
4. Be the go-to organisation for Government and the Oireachtas on all aspects of property
5. Work with all stakeholders in the industry to restore it to a sustainable position in the economy
6. Increase membership through demonstrating the achievements and outcomes in relation to national strategy and policy



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