Property Industry Ireland
Ibec

PII Pre-Budget 2025 Submission

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I. Introduction and Key Recommendations

Policy certainty and state investment in infrastructure remain the key measures in supporting a sustainable property and construction sector in Ireland. Delivering a built environment that delivers for communities requires many arms of the State to work in tandem alongside the private market. While Ireland is facing an ongoing housing crisis, delivery of more homes alone is not the answer to the problem – a delivery plan is needed to provide the necessary social and civil infrastructure to support those homes, as well as a strategy for commercial and industrial property to support job creation.

In addition, it is imperative that government address issues in key measures intended to increase housing supply, but which in reality will have a negative impact. For example, while our members welcome the Residential Zoned Land Tax in principle, the method in which it will come into effect will add to risk and the cost of construction if there is not a deferral for the full planning application process and delays in activation due to phasing. Similarly, measures such as Croí Cónaithe (Cities) and STAR can be revised to improve private market engagement.

To achieve these aims, our key recommendations relate to:

a. Policy Certainty

b. Infrastructure

c. Residential Zoned Land Tax

d. Rent Pressure Zones

a. Policy certainty

Uncertainty around Government policy has serious implications for the property sector, both from funding and delivery perspectives. Private funding, often international money, plays an important role in financing new home and apartment construction. Recent reports by agents Hooke and McDonald[1] into market transactions demonstrates that the investor profile is overwhelmingly international capital. Without such investors in the market, developers are much less likely to commence new apartment construction, as the demand of purchasers becomes very limited.

[1] The Residential Investment Bulletin Greater Dublin Area 2022 & Q1 2023

Such purchasers are in addition to the international investors who have invested in and capitalised a number of the largest housebuilders in Ireland. PII expects that increased utilisation of international capital will be essential for maintaining and growing the recent momentum in construction. From an investment perspective housing is regarded as a long-run asset so while ownership of the asset may change, the housing unit (asset) remains in place. The Report of the Housing Commission highlights the impact fiscal changes, including proposals for fiscal changes, can have on "risk and perceptions of impending risk". Any perception that Ireland does not have a stable regulatory policy, including stable tax policy, will undermine confidence in Ireland as a place to invest for the longer term.

PII recommends that Government implement the proposed actions of Project Emerald in relation to taxation and policy environment.

b. Infrastructure

The introduction of the Future Island Infrastructure Fund established as part of Budget 2024 was a welcome development. The fund of €100bn over the next decade will help address the risk of future infrastructure gaps forming and the €14bn increase to 2030 is just over €2bn extra per annum for investment in climate related projects. Continued State investment in infrastructure is vital in order to drive competitiveness and to ensure the delivery of housing.

It is critical to housing and broader construction delivery that utility capacity is regularly reviewed by ESB Networks and Uisce Éireann. These semi-state utilities must be properly resourced to engage with housebuilders to allow for commencements and most importantly connections to facility early post-completion survey/Building Control Management System so as not to delay delivery and sale closings. The Report of the Housing Commission repeatedly highlights the importance of greater centralisation and coordination of infrastructure as being key to housing delivery.

Uisce Éireann has appointed a dedicated housing programme Delivery Director contact. ESB Networks should appoint a similar role which would allow homebuilders to highlight issues and prepare plans to unblock bottlenecks. Utility connection delays are significantly adding to costs of delivery as an extended programme leads to extra preliminaries, significant additional monthly interest cost and reduced equity returns.

Resourcing and enabling Uisce Éireann and ESB Networks to deliver is essential in supporting housing delivery. Government should ensure that these essential state actors have sufficient financial and capacity resources to deliver on the ambitions of the National Planning Framework, as well as sufficient extra capacity should these projections be exceeded.

c. Residential Zoned Land Tax

The Residential Zoned Land Tax (RZLT) aims to encourage the development of housing and assist in meeting Housing for All targets. While PII welcomes the aim of this measure 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 annual tax being applied in many areas where a developer is doing everything in their power, and is incurring significant expenditure, to bring sites forward for housing development. This can be a lengthy multi-year planning process, including where the developer is required to defend challenges raised to planning permission proposed or granted, the developer is attempting to secure funding or is developing on a phased basis (as is common in the market for larger scale developments). RZLT will increase the cost of delivery, challenge viability and result in higher prices for the home buyer. The additional obligations and 'clawback' of deferrals in a sale of the site could also be a significant deferral to a developer unlocking land. In its report, the Housing Commission highlights many of the same concerns (p58) identified by PII.

PII continues to believe that the best approach to avoiding any unintended consequences would be to amend the Finance Acts in-line with our recommendations of our May 2023 submission.

In summary and in order of priority, we would suggest that the changes include:

1. A deferral from the moment of bona fide entry into the planning system

2. A deferral from the date of grant of planning permission until development commences to account for normal pre-commencement timelines
3. Align lead-in time with industry norms
4. Allow a deferral in exceptional circumstances
5. Remove clawback on quashing of permission following judicial review
6. Place on obligation on local authorities to amend maps if a decision has been made by them to limit local development
7. Remove clawback on change of ownership during development

d. Private Rental Market: Rent Pressure Zones

PII acknowledges the challenges in finding accommodation across all tenures and the hardships suffered by families. The insufficient availability of appropriate housing has affected too many families in the state. While many policy makers show an admirable desire to tackle this head-on, those good intentions facing a hard decision can unfortunately lead to the introduction of the wrong policies. We believe that this is the case for Rent Pressure Zones and misguided suggestions that rents should be frozen and no-fault eviction bans be introduced. We have already recommended the importance of policy stability for the attractiveness of investment in supply, but the same is true for the largely domestic supply of private rental accommodation. International literature has shown that rent controls are not only ineffective, but that they dissuade new private landlords from entering the market as well as encouraging those currently providing rental properties to leave the market.

II. Government supports for housing and commercial development: Croí Cónaithe and STAR

Government efforts to support the supply of new homes is welcome, including the initiatives of Croí Cónaithe and Secure Tenancy Affordable Rental investment scheme (STAR) to support owner occupied apartment and affordable rental housing. As previously submitted by PII, there are a number of conditions in the structure of these schemes that are challenging for private investors. With small changes, these initiatives can be more effective in supporting housing delivery.

PII recommends that:

i. Any measure introduced by Government to support the supply of property should be provided at the construction stage with a clawback provision. Providing incentives at this stage, rather than post construction, reduces risk and funding costs. This would be a more efficient way of using state funds and would be much more attractive to the investor market.

ii. Reform STAR and Croí Cónaithe to make them more attractive to the private market. PII made recommendations on Croí Cónaithe (cities) (June 2023) and on STAR (December 2023).

iii. Engage in extensive stakeholder engagement during the design of a scheme to ensure that any new scheme will work from a private market perspective.

III. Resourcing of Government Bodies that interface development

The ESRI report 'The National Development Plan in 2023: Priorities and Capacity', notes Government's ambitious infrastructure and housing targets will put a strain on the existing capacity of the construction and property sector to deliver. While we believe that the private market will rise to the challenge of meeting these objectives, additional investment by the state in its own capacity to support delivery will be required. Increasing the scale of delivery will require a planning system, building regulatory and compliance, and even judicial system up for the task. In addition, we expect the National Planning Framework review to show a much higher demand on facilitating infrastructure including water and electricity supply.

IV. Scale of Funding

Analysis by PII suggests that it will require, on average, €15 billion per annum in State, equity and debt funding to deliver the homes needed each year to 2030. 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. International capital will be the long-term source of the majority of this funding. It is important that Ireland and industry be as attractive as possible to this type of capital.

V. Real Estate Investment Trusts

At a time where attracting foreign direct investment is becoming more competitive internationally, a well-functioning Real Estate Investment Trust (REIT) regime should serve to attract investors and capital which may otherwise go to jurisdictions other than Ireland. In this way, REITs can fulfil a key funding role in the Irish residential market. Ireland has seen significant changes to the tax regimes governing real estate structures in recent years, and these changes have negatively impacted investor confidence in the sector.

Stability of regime is of the utmost importance in attracting foreign investment into the Irish real estate sector. Restoring this stability in the eyes of potential investors is an imperative in ensuring the Irish REIT regime is perceived to be at least as attractive as its European equivalents.

The following proposed tax amendments should make the REIT regime more attractive going forward:

- Amending the leverage condition, such that a REIT's leverage is restricted to 50% of the <u>cost</u> of its assets, rather than its market value. This should satisfy the policy intention of preventing a REIT from becoming over-leveraged while preventing a REIT from having to dispose of properties to meet the 50% condition.
- An extension of the period for reinvestment or returning disposal proceeds to shareholders from 24 months to 48 months.

VI. Family Business CGT on Succession

While the homebuilder sector has seen a number of large public companies enter the market in recent years, a large proportion of the housing and construction sector is made up of small to medium family businesses. PII would therefore like to express concern about the changes made in the last Finance Act which would mean that from 1 January 2025 transfers of family businesses valued in excess of €10m will become fully subject to CGT. We believe that this puts family businesses at an unfair disadvantage compared to other actors in the market, and puts the longer term growth of the sector and delivery of homes at risk. PII therefore recommends that these changes be reversed in the next Finance Bill, and full CGT Retirement Relief be re-instated.

VII. Forward Funding

In the context of increased interest rates, rental caps and inflationary conditions, apartment development remains for the most part unviable. Forward funding is a key solution for this in the short term i.e. using a redirection of/addition to the sizeable funding that is already being provided to the sector via Croi Cónaithe (cities) and STAR.

Government should ensure that the AHB sector and LDA are sufficiently funded and focused on improving viability through the development cycle, including forward funding and stage payments so that working capital requirements can be managed.

Currently, the accounting policy adopted by a vendor in a forward fund transaction can lead to a risk of the higher corporation tax rate of 25% applying to a sale of property, as opposed to the standard trading rate of 12.5%. Including a provision in the Taxes Consolidations Act 1997 that profits from a forward fund which will ultimately result in the transfer of fully developed property would reduce any uncertainty in the area and help to ensure prices do not rise in order to compensate vendors for increased taxes.

VIII. Supporting Owner Occupiers: Extend Help-to-Buy scheme

The Help-to-Buy scheme is due to expire on 31 December 2025. This is an important measure in supporting housing supply and should be retained to provide stability in the market and support new housing delivery to future homeowners. In addition to providing funded demand that supports increased supply, it has an important role in supporting affordability for families that may not be eligible for other housing supports. Government supports play a key role in the delivery of new energy efficient homes. In particular, there is a significant cost associated with delivering housing units to an A3 Building Energy Rating. Grants are available to retrofit second-hand homes but new home purchasers currently have to bear the cost of this in the sales price of the unit.

IX. Delivery of Social and Affordable Homes – Modern Methods of Construction

Modern Methods of Construction have increasingly been identified as a way to increase efficiency and increase delivery of new homes. Government initiatives to date are welcome. However, greater use of these methods should be made for the provision of social and affordable housing. The Report of the Housing Commission has noted that "significant investment together with a substantial shift in the procurement process, skillsets and project management are needed to allow the use of MMC at scale" (p9).

PII recommends that:

- The public sector needs to provide clarity of pipeline specific to sector/typology and potentially to a range of applicable MMC methodologies. For example, government need to give a firm commitment that a proportion of all social and affordable houses will use MMC so that the sector can plan ahead with more certainty. Publicly funded housing, either directly provided e.g., councils, LDA, or indirectly provided e.g. AHB's should mandate a proportion of MMC in their procurement.
- A commitment to continuity of programmes of work which is aligned with industry investment should deliver greater capacity (e.g. if the off-site sector scales factory capacity to support government works, how will government commit pipeline to said investors to avoid a pipeline gap and therefore risk of insolvency). A multi-annual plan for MMC demand would therefore be beneficial.
- Public procurement scoring criteria should be aligned with MMC benefits e.g. speed, lead-in times, reduced waste, measurement of whole life carbon, design for disassembly.
- Most of the housing (circa 80%) in Ireland is delivered by relatively small players whose balance sheets in many cases do not support large credit terms. Where credit terms are not on offer, MMC needs to be funded upfront. However, some development funders in the marketplace are not facilitating upfront payment for MMC, which is forcing the builder back to using non-MMC options. Government should ensure that in the case of government backed funders (e.g. HBFI, LDA, councils, AHB's) this is not presented as an obstacle and that their funding allows

upfront payment for MMC. Special funding/credit mechanisms for supporting MMC use should be developed.

- A guarantee of long-term supply using MMC that is aligned with growth targets for the delivery of homes is important for certainty. MMC is very capital intensive, and the current Enterprise Ireland supports are not enough to accelerate businesses in taking the leap which is why growth to date is largely organic and self-funded. Funding support should be provided for equipment to scale up and enhance automation, depending on the funding requirements of the different MMC categories. An increase in capex funding should result in capacity expansion. The use of grant-aid to support skills and innovation adoption and ready-made courses relevant to application should be explored.
- There is a need to support education and training across professional, practitioner (site) and academic levels. Construction organisations will need to change their training programs and workforce development plans to incorporate offsite construction–related skills. Factories will educate at the point of work bespoke to their methodologies – support for this training with grant aid is needed. Contractors will educate with internal programmes – Government can support this with expertise and grant aid/refundable innovation or as an R&D activity. Educators and government researchers will develop bespoke programmes and ask for substantial industry input – this can be supported with grant aid, so it is cost neutral for the greater industry good.

X. Development Contribution Waiver

In a joint survey of our members, Property Industry Ireland, Irish Institutional Property and Irish Home Builders Association, the response from the industry on the temporary development contribution waiver arrangements was overwhelmingly positive, with 95% of respondents scheme resulted in many residential developments becoming viable, where prior to the schemes they were not. Government's own figures on commencements over this period would point to a similar positive response. While PII welcomes the recent announcement of the extension of the scheme to the end of 2024 for development levies and the water connection charge waiver to 30 September, Government should consider extending this scheme and look to alternative funding sources for state infrastructure providers and local authorities that do not unfairly directly fall on new home purchasers.

XI. VAT

Government should consider a VAT reduction on new-build, A-rated homes that would result in accelerating supply, reducing costs to the house buyer, and driving sustainability.

XII. Critical Skills

Despite recent progress on housing completions, it is now broadly agreed by most policy makers that Ireland is still not building enough homes. While the industry will respond positively to this new challenge, there remains a skills gap challenge with strong competition for workers across the industry and an aging construction workforce. Government should be more ambitious in tackling this with tax incentives to be provided on relevant apprenticeships programmes to attract new talent into the industry.

XIII. Interest limitation rules

An interest limitation rule (IRL) exemption applies where a taxpayer constructs long-term public infrastructure projects, which includes a large-scale residential development, within the meaning of the Planning and Development Act 2000. Broadly speaking, this allows an exemption from ILR for taxpayers who construct at least 100 houses, or 200 student accommodation units. Given the practical difficulties involved with the construction of such a large number of units (and in particular the difficulties involved with making the construction of student accommodation commercially viable), PII recommend that these minimum thresholds be reduced to encourage more construction of this scale.

In addition, a specific exemption from ILR for companies engaged in an active trade of developing residential property should be introduced as a measure to unlock the housing market.

XIV. Commercial Renovation

Expenditure on energy efficient equipment (EEE) can be relieved for tax purposes through accelerated capital allowances (ACAs). ACAs provide a tax deduction equal to 100% of the costs incurred on qualifying EEE in the year the expenditure was incurred. The main advantage of this relief from a taxpayer's perspective is a positive cash flow impact as this equipment would usually be written-off over eight years.

Since its introduction, the relief has been under-utilised. A key measure that would improve uptake would be the removal of the condition that the equipment must not be leased, let or hired, which precludes landlords and lessors from availing of this relief. The removal of this condition would incentivise landlords, who are a major investor in real estate in Ireland, to invest in EEE while enabling tenants to get the benefit of this investment through reduced running costs.

The scheme could be improved further, as follows:

- Widening the scope of the relief beyond EEE to whole buildings that receive a recognised accreditation for overall energy performance: This would reward investments in buildings that have been constructed with energy performance central to the design. This could be based on existing certification schemes already widely used in the construction industry such as Leadership in Energy and Environmental Design (LEED), Building Research Establishment Environmental Assessment Method (BREEAM) and Nearly Zero-Energy Buildings (nZEB), or adaption of existing certification schemes operated by SEAI.
- Introducing an enhanced rate of relief above the current 100% first-year allowance: This would result in lower cost of installing EEE, which would encourage taxpayers to invest in EEE.
- Stamp duty on acquisition: Consideration could be given to introducing a stamp duty rebate for reinvestment in retrofit. The economic impact of refunding the stamp duty would be offset against the tax revenues derived from direct and indirect taxes derived from the retrofit activity.
- Tax credit for retrofit costs: The credit could be calculated based on a certain percentage of the costs incurred in carrying out the retrofit.
- CGT relief on disposal of properties which have been retrofitted: Consideration could be given to relief available on the disposal of properties which are held as

investment properties. This could be designed as a percentage reduction in the CGT rate or a credit in the calculation of the tax payable. This should neutralise the impact of an increase in value due to retrofit therefore making it very attractive to property investors. The cost incurred in retrofitting a property should form part of the property owner's base cost for CGT purposes. In addition to this, an additional relief for retrofit costs would either reduce the tax rate or allow for a credit in the CGT calculation.

XV. Stamp Duty

Consideration is needed of 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. An alternative to this would be up front stamp duty at residential rates for the acquisition of non-residential property where the property acquired is developed for residential use.

Clarity would be welcome that the stamp duty anti-avoidance under S31C SDCA 1999 (7.5% rate for companies deriving majority of value from Irish land and buildings) does not override certain relief provisions such as S79 and S80 SDCA 1999. Revenue currently takes a position that S31C has pre-eminence and though they give a concession for S79, you are required to make submissions for S80.

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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