

Achieving a Sustainable Property Market in the Economic Upturn



Pre-Budget Submission 2016 by the Institute of Professional Auctioneers & Valuers (IPAV)

To:

Mr Michael Noonan TD Minister for Finance

Mr Brendan Howlin TD Minister for Public Expenditure & Reform

Mr Simon Harris TD Minister of State at the Departments of Finance and Public Expenditure & Reform

Established in 1971, IPAV is the only representative body solely catering for the professional and educational requirements of close to 1,000 Auctioneers and Valuers practising throughout Ireland.

Contents

1. Economic Growth	pg 3
2. Housing Market	pg 4-5
3. Creation of a Property Council	pg 6
4. Construction Costs	pg 7
5. The Planning Process	pg 8
6. Housing Turnover	pg 9
7. Mortgage Lending Value	pg 10-11
8. Rural Regeneration	pg 12-14
8.1. IPAV Survey Results	pg 15-17
9. Vacant Land Levy	pg 18
10. Inheritance Tax	pg 19-20
11. Broadband & Mobile Network Infrastructure	pg 21-22
12. Social Housing Policy	pg 23-25
13. eConveyancing	pg 26-27

1. Economic Growth

The Irish economy has entered a period of growth. All recent economic indicators suggest that while the recovery is robust, it is two-tier in nature with the Greater Dublin area moving ahead while rural areas are feeling little, if any, of the benefits of the economic upturn. Exports are doing well, the labour market is continuing to improve, manufacturing output is strong and car sales in particular are making a significant contribution to the recovery in retail sales.

However, consumer demand is coming from a very low base and growth rates are somewhat exaggerated with the recovery, again concentrated mostly in and around the Greater Dublin Area. To date all the indications are that GDP this year looks set to expand by at least 4.8%.

2. Housing Market

The Irish housing market is recovering but slowly and unevenly. Construction and housing activity is strengthening but largely in the Dublin area. With the supply of credit set to gradually increase, along with the growing population, it is likely to fuel stronger demand for housing. If the demand for housing is not addressed, the cost of buying and renting, most notably in Dublin and the larger cities, will rise in a very undesirable manner. It is essential that growth in demand be matched with an adequate supply of suitable housing stock.

The market forces at play in supply and demand currently have resulted in a strong and continual growth in rent levels. The most recent figures available from the Private Residential Tenancies Board (PRTB) show that rents for private sector accommodation across the country rose by 6.9% in the year from the first quarter (Q1) of 2014 and Q1 of this year. Rents for houses were 6.5% higher, while apartment rents were 7.8% higher.

Annual growth in the Dublin market was considerably stronger, up by 9.6%, with house rents in the capital up 9% in the year, and apartment rents up 10.8%. Annual growth in rents for the market outside Dublin remained more subdued, recording growth of 5.3% compared to Q1, 2014.

At this point IPAV believes it is important that demand and supply measures are urgently addressed early in the current recovery cycle in order to prevent undesirable, unsustainable and irregular price trends from developing. The Central Bank has introduced lending restrictions, which IPAV believes are unnecessarily restrictive while a strong supply side response is absent to date. IPAV believes the new Central Bank measures will have negative side effects, such as pushing some first-time buyers out of the market and in to a rental market that is already under considerable strain. There will also be pressure on first-time buyers to move to the extended commuter belt. Socially and economically, this is not a positive trend.

2. Housing Market cont.

With the supply of credit set to gradually increase, this is likely to combine with economic and demographic factors to fuel stronger demand for housing. If the lack of supply is not addressed, house prices and the cost of renting will rise unsustainably. The bottlenecks that are restricting housing supply need to be identified and addressed before it is too late.

Recent figures from the Construction Industry Federation indicate that only about 12,000 houses will be built in 2015 which is about one third of what is needed.

3. Creation of a Property Council

The supervision and operation of the various elements of the property industry in Ireland are very uncoordinated and diversified across a number of Government Departments, State and non-State bodies and organisations.

IPAV advocates the creation of a dedicated Property Council to pool the divergent elements and garner its collective expertise to help inform the future of the industry in Ireland.

The Council which would be Government led would comprise experts from a variety of different fields across the sector. It would seek to formalise a plan to address issues such as planning, density levels, building standards, demand / supply and the rental market.

This would facilitate informed analysis and the taking of realistic, market appropriate, properly costed and timely decisions to address the current housing crisis. Crucially it would have a strong propensity to guard against solo runs or knee jerk reactions that while addressing some consequences of the crisis fail to address the medium and long-term sustainability issues of the Irish property market.

4. Construction Costs

The cost of construction presents a major impediment to increasing the supply of housing. With current costs for residential units estimated at €140 per sq ft, it is not economic for builders/developers to build houses which are currently being sold for well below the cost of construction. IPAV is urging that the Government set up an immediate investigation into the cost of construction with a view to reducing costs. Issues that should and need to be considered in this review are a VAT-free holiday for at least 2 years for construction (there is no VAT on construction in the UK or Northern Ireland) and labour and material costs.

IPAV is concerned by reports that local authorities are continuing to impose extremely high levies on new house construction at a time when such construction is needed to meet housing demand and rents are rising to record levels. A recent report from the National Asset Management Agency (NAMA) showed that there was a €60,000 levy on each new house and a levy on construction of €351,774 per hectare for sites within 1 km of the Luas line. Questions are being asked as to why our building costs are so high but these figures mean that before a builder/developer attempts to build a house massive bills for levies etc. of some €80,000 are incurred. This issues needs to be addressed urgently.

In addition, there have been complaints at the Banking Inquiry that there is an over reliance taxes such as development levies, property taxes, water charges and so on. The Government has committed to changing the financing base for local authorities, but these charges are still being imposed and represent a huge barrier impeding the achievement of meeting urgent housing needs.

IPAV urges a complete review of these charges in Budget 2016 and that local authorities be issued with new guidance notes whereby such levies would be drastically curtailed and reduced.

5. The Planning Process

Another major hindrance to building is third party objections to planning applications which are very common in Ireland. We are virtually unique in Europe in allowing a system of third party objections to planning. As a result, it now takes an average of 79 weeks from the initial planning application to the commencement of construction which is an inordinate amount of time and is perverse, given current and projected demand for housing. IPAV is urging Government and, in particular the Minister for the Environment, Community & Local Government, to undertake an immediate review of third party planning objections with a view to a speeding up of the process.

The planning regime should become more flexible in order to fast track the process of converting usage to a family home or changing the planning from apartments to family homes.

Local authorities and other service providers also need to be compelled to fast-track the connection of vital services. The residential market needs to become as flexible as possible in order to satisfy the immediate demands of the market.

6. Housing Turnover

IPAV is also concerned at the slow turnover of local authority properties, with waiting times of up to 40 weeks in some cases. There is also a slow acceptance by local authorities when they receive offers from NAMA in so-called ghost estates. To ease the homelessness problem, there should be a faster transfer of the ghost estate dwellings to people who need housing.

7. Mortgage Lending Value

IPAV Members play a key role in the valuation of property for all financial institutions. Part of the reason for the property collapse was the large speculative factor contained in valuations, particularly in key locations. The other factor was the property price increases over the years 2002 to 2006. This price inflation can be attributed to two factors primarily - the credit bubble and genuine house price increases, where those with funds can pay whatever price they feel their desired property is worth.

As IPAV outlined to the Banking Inquiry in May 2015, there are no national valuation standards for valuers in Ireland. Our Institute has undertaken the role as self-regulator for its own members.

In the absence of national valuation standards we adopted the European Valuation Standards (EVS) of the 'Blue Book'. And the Institute now acts as the Irish administrator for these standards and educates our valuers through our specifically tailored valuation courses. The Blue Book standards are recognised international valuation standards by the Central Bank of Ireland, the European Central Bank and the European Parliament.

'Market Value' has been the standard required by Irish banks. The value is internationally recognised as the assessment of the value of a property at a given moment in time. It estimates the price that could be obtained for a property at the valuation date, notwithstanding that this value could alter over time, sometimes very rapidly. However, it is only one of a number of valuation standards and not the only valuation methodology.

IPAV is hosting a Valuation Summit on 4th November to facilitate a debate on Mortgage Lending Value and the pros and cons of including it as another valuation standard along side Market Value.

7. Mortgage Lending Value cont.

Under the Mortgage Lending concept, the value of a property is determined by a prudent assessment of its future marketability taking into account long-term sustainable aspects of the property, such as the local market conditions, the current use and possible alternative uses. Speculative elements are not taken into account under this method. The Mortgage Lending Value concept already operates successfully in some European countries, like the Czech Republic, Germany, Spain, and Poland.

8. Rural Regeneration

IPAV has long had a major concern about the decaying condition of many rural towns and large villages which contain many boarded up former retail outlets and old houses. The right kind of radical intervention could breathe new life into these decimated towns and villages.

In Budget 2016 IPAV believes the Government should introduce a tax incentive scheme for non-viable commercial premises to be converted to residential use for owner occupiers. The nature and scope of the scheme is a matter for the Government to decide but IPAV believes that a generous and broad-based scheme is needed.

IPAV believes the process of putting the lights back on in the centre of towns and villages would reverberate out into the local economy and community. This would firstly benefit local tradesmen followed by retail outlets, schools, etc.

IPAV welcomes the *Living City* initiative launched recently by the Government but believes it is too limited focusing only on the regeneration of the historic centres of six cities - Dublin, Cork, Limerick, Galway, Waterford and Kilkenny. We believe there is a clear need for a nationwide scheme which would be open to all our rural towns. Otherwise such towns will continue to languish and disintegrate before our eyes.

We believe such an initiative would be a win win for every member of the community – socially, economically and politically. Parts of South Wales, for example, have been struggling with the issue of regeneration more than a century after the first pits closed. They desperately want to reverse the chronic legacy of de-industrialisation but much promised regeneration has had little success with the region topping league tables for poverty, ill-health and education inequality.

8. Rural Regeneration cont.

A Government initiative in conjunction with the European Commission, which has promised an €80 million fund for urban renewal projects, is currently being finalised by the Department of the Environment, Community & Local Government and IPAV eagerly awaits its outcome.

Our Institute is not alone in recognising the threat to our towns and villages. Indeed many have written cogently on the topic, among them architect and joint author of *Buildings of Irish Towns: Treasury of Everyday Architecture*, Patrick Shaffrey. Writing in *The Irish Times* on 25th August, 2013 he says:

“Towns have, above all else, been places in which to live. The physical proximity to social, community and economic facilities has throughout history been an important factor in the growth of cultural life generally. The informal and unexpected face-to-face meetings that take place regularly in towns add tremendously to their social character and are among the great delights of urban living.” He further states:

“This is the time for Government, planning authorities and local communities to recognise and emphasise the potential for greater residential use within the historic cores of our towns and villages. Local development plans and Government initiatives should include clear objectives encouraging and stimulating such uses.”

Our proposal is but one element of what we believe should be a comprehensive drawing together of all relevant interests – government departments, local authorities, architectural and planning interests and community representatives. Auctioneers are part of the fabric of community life and we see first-hand the dereliction and crucially, the opportunities. We would be very willing to play our part.

Indeed over recent weeks our members, spurred on by the announcement of the proposal at our national conference on June 20th and the positive reception to consideration of the idea by Minister of State, Simon Harris, have already identified a range of specific sites we believe would be suitable for such an initiative. We shall return to this in a moment.

8. Rural Regeneration cont.

Given that the decline of rural towns and villages has been going on for some time we would caution against delay in addressing the issue in a comprehensive way.

IPAV would encourage the Government in Budget 2016 to designate responsibility for such an initiative to a Minister who would lead the various interests in an overview study of:

- **All existing incentives**
- **How these could best be co-ordinated**
- **Identify gaps and how these could be filled with relatively small financial outlay**
- **Set out specific achievable objectives especially including targets for local authorities and an implementation plan, including timeframes.**

We would urge that strict achievable deadlines would be set for implementation of the measures.

IPAV Survey

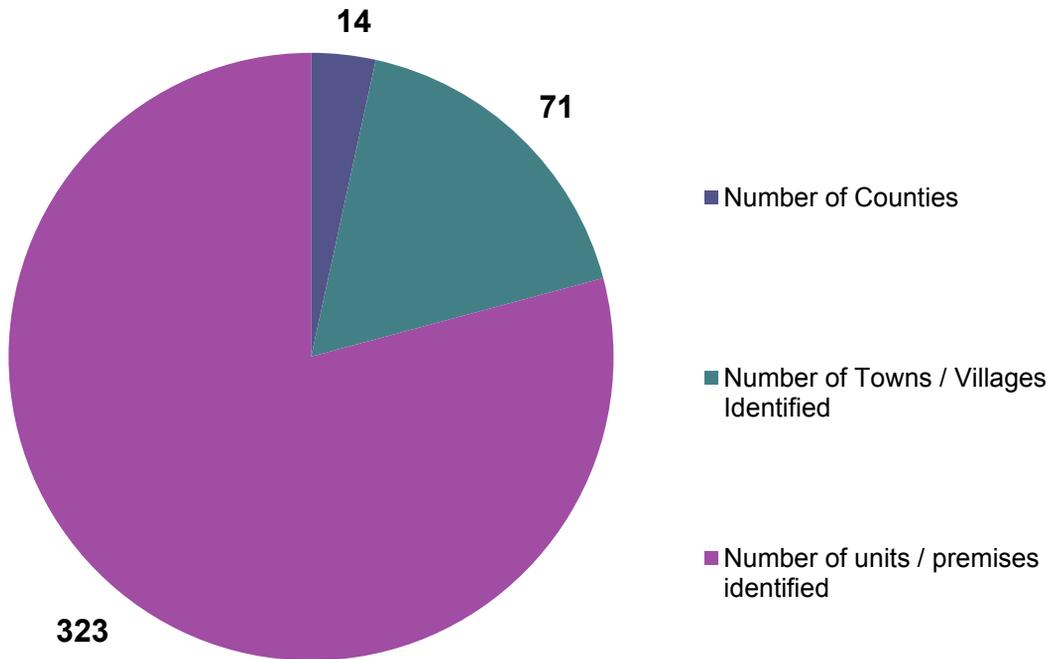
During July 2015 IPAV surveyed members in 14 counties in order to identify specific premises and locations that might be suitable for our proposed tax incentive scheme. Overleaf is a snapshot of the responses received. From 30 agents alone, over 300 units have been identified.

8.1. IPAV Survey Results

IPAV asked its Members:

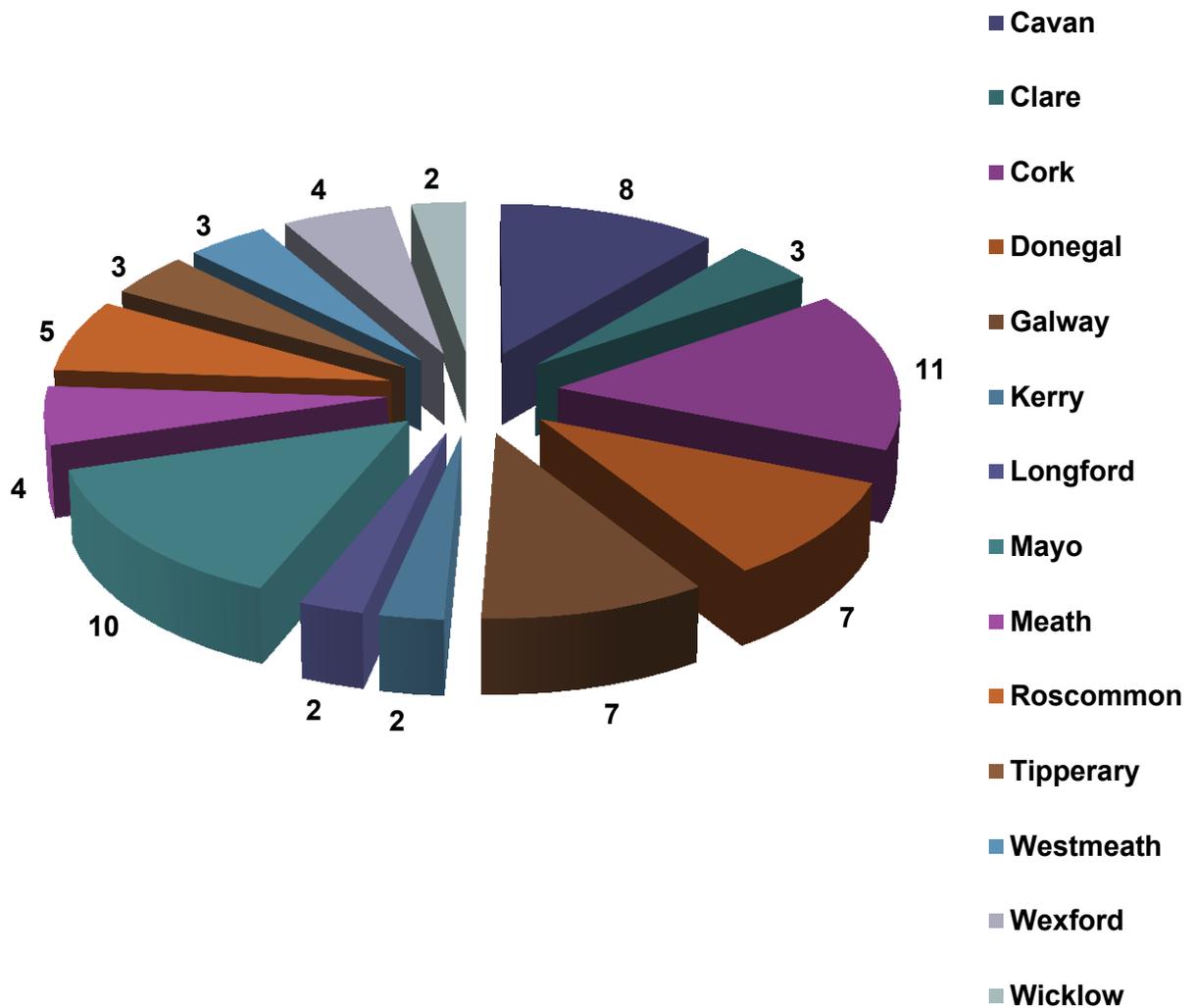
Please identify “non-viable” vacant commercial units/buildings currently on your books or in your area, that you believe would be immediately suitable for conversion to residential use if an attractive tax incentive scheme were available for such conversion:

Overall Number of Counties - Villages - Units Identified



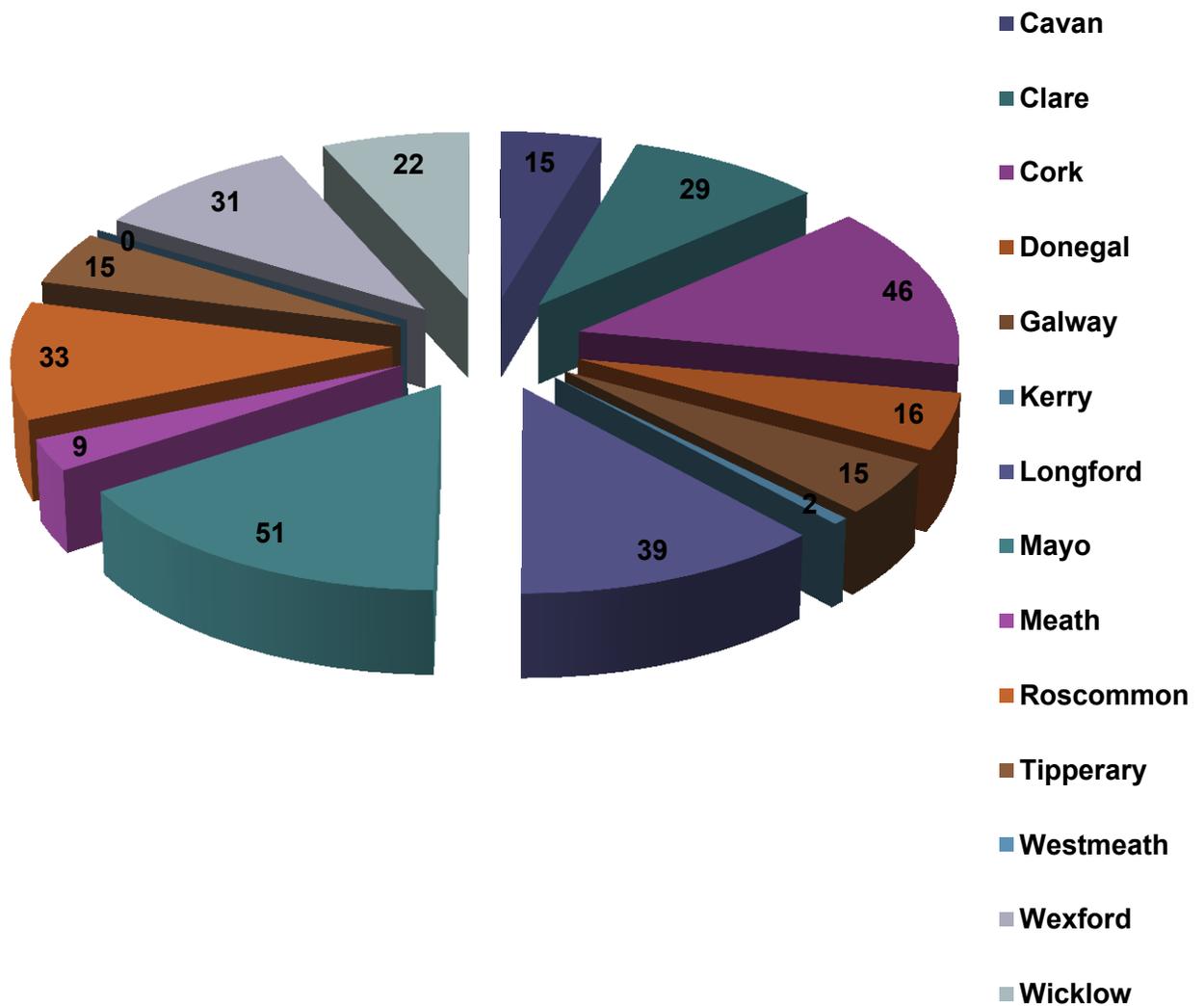
8.1. IPAV Survey Results

Number of individual Towns / Villages identified per county



8.1. IPAV Survey Results

Number of Units per County



9. Vacant Land Levy

In our 2015 Budget submission, IPAV strongly advocated the introduction of a vacant site levy. The objective of a vacant site levy is to create a disincentive for landowners to hoard sites and delay development in the expectation of values increasing. It is a particularly acute problem in Inner City Dublin.

Under the terms of the new *Urban Regeneration and Housing Bill 2015* introduced in the Dáil in June 2015, and now signed into law, from 1 January 2019, planning authorities will be empowered to apply an annual vacant site levy of 3% to the market value of vacant sites which a planning authority has determined were vacant or idle in the preceding year. Before 1 June 2018, it is envisaged that each planning authority will issue a notice to the owner of a vacant site included in its respective vacant sites register indicating that such site owner shall be charged a levy in respect of 2018 in January 2019, with such charge to be continued every year thereafter until the site is no longer vacant.

IPAV believes this incentive will bring down the cost of building land as the levy will discourage investors from purchasing these lands.

However, it is our view that the measure should only be introduced in specific bottle-neck areas, beginning with Inner City Dublin. Such bottlenecks are not yet evident in country towns and these should not be effected by this levy right now.

10. Inheritance Tax

IPAV is greatly concerned about the low levels of Inheritance Tax and the difficulties this is creating for many families. Since 2009, the applicable rate of taxation on inheritance has increased from 20% to 33%, while the threshold above which this rate has applied has dropped from €542,544 to €225,000.

Although reductions in the threshold were understandable in the climate of falling asset prices and falling property prices which followed the financial crash, the situation is now radically different. The threshold above which bereaved children are forced to pay tax on their inheritance is at its lowest level in Ireland since 1995. Many family homes, particularly in Dublin, have risen substantially in value over recent years. A consequence of these rises is that many people now face the prospect of liquidating the family home on the death of an elderly parent to meet the inheritance tax liability owed to the Revenue Commissioners.

A recent study undertaken by the Tax Foundation in the US found that Ireland had the seventh highest rate of inheritance tax in the OECD. The global average is estimated at just 7.7%, in contrast with our 33%, while many countries, including developed, modern Western economies such as New Zealand and Australia, have no inheritance tax whatsoever. A threshold as low as €225,000 means the majority of properties in the greater Dublin region face a significant inheritance tax liability upon the gift of that property by a deceased family member.

While IPAV acknowledges that the fiscal situation in which the State found itself necessitated some form of taxation on large inheritances, the current punitive regime serves to widen further the growing divide between urban and rural taxpayers.

10. Inheritance Tax

Both the inheritance tax and the deeply unfair property tax are driven primarily by the value of residential property, which is growing much more quickly in cities than in rural Ireland.

In Budget 2016, IPAV strongly advocates a widening of the threshold and then linking it to the Consumer Price Index going forward.

11. Broadband & Mobile Network Infrastructure

People who wish to live outside the capital and in rural areas should be facilitated rather than dis-incentivised. The provision of broadband is crucial for rural areas to create and maintain jobs - a key component to addressing the housing shortage in the capital.

The availability of quality high-speed broadband service and mobile phone connectivity is vital for job retention, job creation and the social and economic development of rural areas. It is particularly important in terms of rural isolation and the need to facilitate social non-commercial as well as entrepreneurial endeavour at individual, family and community levels. Job creation here is all about small industries such as home industries or individuals working from home.

The Government's statement of priorities for the period 2014 to 2016 reaffirmed its commitment to delivering State-led broadband intervention in rural areas. Its national broadband plan aims to change radically the broadband landscape in Ireland by ensuring high-speed broadband is available to all citizens and businesses. This is to be achieved through measures designed to accelerate commercial investment and the development of State-led intervention for non-commercial areas.

However, the improvements in both the broadband service and mobile phone network are far too slow and piecemeal. Auctioneers in all parts of the country report they are not sure of any mobile telephone reception when they leave their offices and in many cases even within their offices. They also report poor office broadband, with it being slow and hard to come by in far too many instances.

We believe auctioneers are a weathervane of what is happening in rural Ireland. Business is being lost and opportunity is being lost.

11. Broadband & Mobile Network Infrastructure cont.

IPAV believes that a full co-ordinated approach to both utilities needs to be initiated by the Government as a matter of urgency and we would encourage the Government to give absolute priority to the issue in Budget 2016.

We appreciate that the connectivity challenges that exist are not, and realistically cannot be, addressed by the commercial sector, therefore they must be addressed through State intervention.

Frequently telecom companies offer 4G broadband reception but when the consumer attempts to use it, it does not meet expectation or promise. There are many divergent experiences. Consumers are often asked to pay for an agreed level of Broadband, which is not available. They need to be assisted in knowing how to measure the level of broadband available at any one time and, crucially, payment should be linked to availability and the measurement of broadband levels.

It is understood from comments made by the Minister for Communications, Energy and Natural Resources, Alex White, that a comprehensive mapping exercise is under way in his Department to identify areas that require State intervention.

IPAV believes it is vital that there should be every opportunity for citizens, public representatives and businesses to have an input into the process, in order that we get it right. The key element of any intervention strategy should be to ensure that all citizens and businesses can access high speed broadband and mobile phone services, regardless of location.

Future coverage surveys of services should be area-based and not population-based as it is at the moment.

IPAV recommends that Budget 2016 prioritises this issue as a key economic and social deliverable.

12. Social Housing Policy

Social housing is regarded as a support for people who need housing but cannot afford to rent or buy their own homes. The two main providers of social housing in Ireland are the local authorities who are by far the largest provider and the voluntary and co-operative housing sector who have a much smaller housing stock.

Local authorities decide who to allocate housing to on the basis of an analysis of a household's need which is conducted by the local authority itself. If a household is assessed as in need of housing and eligible for support from the local authority they are placed on the local authority's housing waiting list. While awaiting a house from the local authority, households may be able to avail of a rent supplement from the Department of Social Protection to live in private rented accommodation.

When a local authority allocates a property to somebody on the waiting list that person will pay a proportion of his/her income to the local authority. It is called a differential rent. Local authorities also operate a social housing support scheme which is known as the Rental Accommodation Scheme (RAS). This scheme is for people who are receiving rent supplement on a long-term basis, usually for more than 18 months.

It is clear that there is a serious problem with the whole social housing situation. In May 2015 there were 96,971 households on local authority waiting lists. Existing schemes are clearly not effective enough to sort out the crisis and achieve the government's objective of creating a more sustainable housing system and promoting greater social solidarity.

While Government intervention in the housing market is sometimes risky, it is necessary to give it strong consideration when a market failure occurs. The number of people on the local authority housing list and the trend in the list is suggestive of market failure that warrants more proactive government intervention.

12. Social Housing Policy cont.

At the moment there are thousands of owners of non-primary residence housing who became landlords during the property boom and are not interested in being landlords or are not fulfilling their responsibilities fully as landlords. Figures from the Private Residential Tenancies Board (PRTB) show that around 67% of registered landlords have one property, almost 84% have one or two properties and around 90% have three properties or less. Many of these Landlords could be interested in exiting the market, if given the right opportunity/incentive.

IPAV is proposing a scheme called Rent-To-Buy Social Housing Scheme (RTBSHS).

Our proposal is that the Local Authority would purchase the property at open market value from a private owner on a Rent-To-Buy Scheme.

The Local Authority and the property owner would agree a selling price; the Local Authority would agree to pay the seller the equivalent of a mortgage, principal and interest on a monthly basis over a period of time to be agreed with the seller.

Over the same term as the mortgage agreement the Local Authority and the owner would both sign a rental agreement at market rent, minus 10%, with a CPI built in over the term. The rent would be paid monthly to the owner.

The seller of the property would be given full tax relief on the money received for rental purposes, along the lines of the forestry tax allowance. This would provide an incentive for the owner of the property to engage in the transaction.

The advantages of such a scheme are that it would increase the supply of social housing and reduce the waiting list; the Local Authorities would own the property at the end of the agreed term with the seller; reluctant and non-compliant landlords would be able to effectively exit the market and there would not be negative cash flow implications for the Local Authority, in the sense that they would not have to come up with the purchase price in the beginning.

12. Social Housing Policy cont.

With the property market in a recovery stage this is the ideal time for the Local Authorities to embark on such a scheme. This RTBSHS would be particularly attractive outside of Dublin where house prices and rents are low.

13. eConveyancing

Currently delays of up to 18 weeks and longer are not uncommon in conveyancing, the legal work involved in buying and selling properties, according to a recent survey of IPAV members throughout the country.

The current conveyancing system is an old, traditional, cumbersome and paper based process, which does not serve Ireland or its citizens well. Electronic conveyancing, eConveyancing, is a long accepted practice in other countries and a far more efficient means of legally transacting property.

Home buyers and sellers in Ireland continue to face inordinate delays, frustrations with added costs, especially where they may be gazumped.

IPAV is aware that the Department of Justice and Equality is about to embark on a review and consultation process on eConveyancing. This is a step forward and it is expected to identify who is best placed to build the new eConveyancing hub required to bring the project to fruition.

The Property Registration Authority has undertaken a great deal of related work with the Land Direct project digitising mapping and the development of the eRegistration system, the online channel for the electronic registration of transactions affecting the land register in Ireland.

Amid concerns that we could still be over two years away from implementation of eConveyancing IPAV believes it's time now for the Government to take control of the project and invest greater urgency in its implementation.

The Government has control of some of the most important, intricate and necessary components already. It's now time to complete the project and move Irish conveyancing into the 21st Century.

13. eConveyancing

IPAV believes the Department of Justice and Equality review is due to be finalised before the end of the year. We would urge the Government to not waste any time but move quickly to implement its findings.

We would also encourage the Government to appoint eConveyancers countrywide to ensure full and quick implementation across the country.

Achieving a Sustainable Property Market in the economic upturn

IPAV

129 Lower Baggot Street, Dublin 2

T: 00 353 1 6785685

F: 00 353 1 6762890

info@ipav.ie

www.ipav.ie