Institute of Professional Auctioneers & Valuers

2019 Pre-Budget Submission

A housing market in need of supply - a costly burden

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Foreword

Despite significant economic progress in recent years, many of the scars of the major 2007 – 2013 economic crisis remains in the Irish economy, including a high level of public debt. Tough, decisive and often very difficult policy action in the intervening period has put the Irish public finances on a more sustainable footing. Economic recovery from the crisis has been underway since around 2013 with the economic cycle now entering a more mature phase.

To this end, the Government is set to 'balance the books' next year as well as maintain the debt ratio on a downward path. The general forecast is for solid growth in the short-term, with GDP projected to increase by 3.5 per cent in 2019, following growth of 4.3 per cent this year.

One of the best indicators of economic growth, is the unemployment rate. This continues to fall, and the Irish economy is fast approaching virtual full-employment.

As already pointed out by the Department of Finance in its Summer Statement, the lesson is clear: policy and policy makers must ensure that the mistakes of the past are not repeated. In these circumstances, it is crucial that budgetary policy is not used in a manner that over-heats the economy.

In Budget 2019 the Government should implement sensible budgetary policies designed to address key priority areas such as housing and health while, at the same time, ensuring that the economy can absorb the increased outlays without adding to inflationary pressures.

Critically, measures announced in Budget 2019 designed to support the provision of finance to the residential construction sector will help to address housing supply shortages and, in doing so, support further competitiveness improvements.

However, as the UK's departure date from the EU on 29 March 2019 looms, Brexit continues to pose an ongoing and substantial risk for the economy. The uncertainty it has created, and the related Euro/Sterling exchange rate is already negatively impacting the property market in border counties.

In IPAV's Residential Property Price Barometer, measuring property values for Q1 & Q2 of 2018, the national average price has very marginally increased. However, when you examine this further, the Dublin residential market is revaluating and topping out, while throughout the rest of Ireland, property prices with the exception of most of the border region, are still increasing and closing the gap between second-hand property prices and those of new properties. The first-time buyer's grant plays such a key role here, facilitating first-time buyers to enter the new house market. IPAV recommends the continuation of this scheme into the future.

Pat Davitt FIPAV REV MMCEPI
IPAV Chief Executive

About IPAV

IPAV was established in 1971 as a representative professional body for qualified, Licensed Auctioneers, Valuers, Estate Agents, and Property Service Providers. It is the only Irish representative body catering solely for the professional and educational requirements of Auctioneers and Valuers. IPAV currently has 1,300 registered members and one of our primary objectives is to protect, advance and promote professional standards and competence among its members.

IPAV operates a comprehensive system of professional education and development for existing members and for those wishing to enter the profession, including a Level 6 Higher Certificate in Real Estate (120 ECTS) and newly introduced in 2018 Level 7 Batchelor of Business in Real Estate Management (180 ECTS). IPAV introduced the international 'Blue Book' European valuation standards to Ireland in 2013. This is the valuation standard recognised by the Irish Central Bank and the European Central Bank. This European Valuation Standard holds default status over all other valuation standards in the event of any valuation conflict arising. IPAV valuers must complete 20 hours CPD on an annual basis and auctioneers & estate agents must complete 5 hours PSRA CPD, both of which are available through IPAV's CPD programme.

One of IPAV's aims is to work with other stakeholders and with policymakers to try and influence the development of a sustainable property market where people can buy, sell or rent properties according to their needs.

Housing Market

The current housing crisis is primarily a supply-side problem and is not likely to be alleviated until enough houses are built to meet demand. Ultimately, the only solution to the housing crisis is to build more houses at prices that people on average wages can afford to buy.

Estimates of the number of houses built in 2017 vary, depending on the source. The Central Statistics Office, for example, has confirmed that more than 18,000 new homes were made available for use last year, of which 2,500 were vacant homes brought back in to use, 1,000 were unfinished homes and 14,500 were newly built homes occupied for the first time.

Looking to the immediate future, it is estimated that more than 40,000 new homes are needed in 2018, or 34,000 annually until 2020 with surplus demand across all regions of Ireland.

One of the major factors preventing people from buying houses and of builders from building them continues to be the issue of building costs. For example, between 2005 and 2008 building costs grew by 12% but this was offset by rising prices which increased by 30% over the same period. Since then, house prices have fallen and are now on average 33% nationally lower than they were in 2007. Outside of Dublin, house prices in some areas are still as much as 60% plus lower than they were in 2007. In many of these areas it is still very difficult to sell or rent properties, while in urban areas it is very difficult to find a property to purchase or rent.

However, Irish construction costs are mysteriously high. Trinity College economist Ronan Lyons estimates the costs in Ireland at 40% higher than Amsterdam, for example. We don't even have to go out of Ireland, we hear from members in Donegal town for instance, new 3-bedroom semi-detached housing price is below 200,000 Euro when in Mullingar some 150 km away the price of the same house is over 250,000 Euro. The costs are at the same level, or even higher, as they were during the boom.

This is even though building site prices in some areas are only a fraction of what they were in 2007 and in most areas less than half of what they were in 2007. Red tape, planning issues, local authority charges and suspected cartels among materials suppliers could be partly to blame. This disparity between costs and prices explains to a great extent why supply is not growing to meet the increasing demand. While there is a small number of new houses under constructed in some of our larger country towns, without the First-time buyer's grant scheme of €20,000 helping bridge the gap between second-hand prices and new home prices, it is difficult to see how first-time buyers could purchase any of these new houses.

A number of recent reports have shown that the skills shortage in the construction sector as a leading cause of wage inflation, which is driving up costs for construction companies.

In addition, access to and the high cost of finance for residential schemes remains a significant challenge and is a substantial factor increasing development costs.

Recent reports have found it is still extremely challenging for builders to construct apartments in urban centres, while suburban housing developments or housing estates were found to be marginally viable.

Rebuilding Ireland, published by the Government in July 2016, outlines ambitious targets to address the problems that have arisen in delivering social, affordable and private housing. In the past there has often been a tendency to exclude those who are centrally involved in the property industry such as builders, developers, surveyors, auctioneers and estate agents, as their views may be perceived to be conflicted. It is IPAV's view that some official consultations were not in fact genuinely open to hearing industry voices. It appeared to us as though some policy makers came to such fora with a pathway already set out.

However, the hearings by the Oireachtas Committee on Housing and Homelessness in 2016 made a genuine effort to embrace all sectors of the industry and their contributions are noted and reflected in the Committee's report in June of that year. As a result, the Committee's report and *Rebuilding Ireland* has led to a far broader-based approach than heretofore and identifies in a far clearer way areas where obstacles lie and attempts to put in place a foundation on which to tackle them. The report, when published, was broadly welcomed by most organisations but with some qualifications and some disappointment that it did not go further in providing specific additional building steps in achieving the targets mentioned.

Indeed, the Governments rebuilding Ireland April 2018 'Review of Delivery Costs and Viability for Affordable Residential Developments' belatedly, and following years of highlighting the issue by the industry, acknowledges 'access to and the cost of finance for residential schemes remains a significant challenge, and is a substantial factor in development costs.' It further states: 'market lenders are generally supportive of limited number of strong "bankable" developers and builders, which has the effect of limiting the number of housing providers with delivery capability at scale.'

In Dublin there needs to be a ramping up of apartment developments if the government is to get on top of the housing crisis. In a bid to increase apartment building in the capital, and reduce costs, the Minister for Housing, Planning & Local Government, Eoghan Murphy TD, last December announced a raft of new guidelines around apartment developments and these are to be welcomed. These included getting rid of mandatory car parking spaces in apartment blocks, an increase in high-rise building, fast-track planning permission for large-scale developments, as well as more apartments per floor.

IPAV is continuing to urge that the Government set up an immediate investigation into the cost of construction with a view to reducing costs. The reliable data available indicates that Ireland has sufficient zoned land to meet its needs with the last annual Housing Land Availability Survey showing there is enough zoned land to provide for a population of over six million people, well in excess of the country's current needs. The sourcing of land is, therefore, not the issue but its preparation for house construction is. IPAV is concerned at reports that local authorities continue 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. One 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. *Rebuilding Ireland* outlines many proposals (P. 67) in this regard and these should be acted upon without delay.

Creation of a National Property Advisory Council

The research conducted by the Oireachtas Committee on Housing and Homelessness in 2016 provided an ideal opportunity to listen to all sectors of the property industry and to ensure that their views are listened to and noted in planning any future strategy. Up to now, the operation and of the various elements involved in property policy in Ireland were un-coordinated and diversified across a number of Government Departments, State and non-State bodies and organisations.

For the past 5 years, IPAV has requested a Property Council be established and we believe now, more strongly than ever, that there is a need to put a broad-spectrum National Property Advisory Council on a formal setting. This would supplement the work of the existing Housing Agency in helping to pool the divergent elements and garner its collective expertise to help inform the future of the industry in Ireland. This Advisory Council which would be Government-led, would comprise experts from a variety of different fields across the sector. It would provide regular reports and advice on issues such as planning, density levels, building standards, supply/demand issues, building costs, property prices and the rental market.

Crucially, it would have a strong propensity to guard against solo runs or knee-jerk reactions that may address one or more urgent problems but fail to address the medium and long-term sustainability issues of the Irish property market.

Reduction in VAT

IPAV again supports the view put forward by many in the construction sector that a reduction in VAT is another essential ingredient in helping to reduce the price of new homes. In the context of the current mortgage lending rules, the cost price rather than tax rebates determines whether a person can qualify for a mortgage. There is currently no VAT on housing in the UK and Northern Ireland.

IPAV believes that such is the seriousness of the housing crisis that the Irish Government should aspire towards this objective too, if housing is to be made affordable while adhering to mortgage lending rules but with some adjustments. In the meantime, IPAV are strongly of the belief VAT should be reduced to the lower 9% rate in Budget 2019 to be reviewed after a two-year period. The total tax take on a new house is estimated to be somewhere in the region of 40-45% of the cost of the property. All such charges are paid in full by the house-buyer and are impacting affordability.

The Planning Process

IPAV welcomed the signing into law on 27 July 2017, by Housing Minister Eoghan Murphy TD of two statutory instruments, arising from the emergency Planning and Development (Amendment) Act 2017. These brought into operation new planning legislation providing, in specified circumstances, for further extensions of duration of planning permissions for certain developments of 20 houses or more. This should ensure that a number of projects can be brought to completion. However, we await evidence of this on the ground.

The decision by Apple to abandon its planning application for a new €850 million data centre in Athenry in early 2018 highlighted the catastrophic effects of the current planning system. As pointed out by Dr Neil Walker, IBEC's head of infrastructure, energy and environment: "Ireland has set out its stall as a globalised economy that is open for business and investment. As the Apple Athenry case demonstrates, our planning system as presently constituted does not support this vision."

By any measure, the Irish planning regime needs to radically change including becoming more flexible in order to fast track the process of converting usage to a family home or changing the planning permission from apartments to family homes. There is a housing crisis and the planning system need to radically change to help resolve that crisis.

Special Builders' Fund

The ongoing non-availability of appropriate development finance for commercially viable residential projects has been identified as a key contributory factor in the ongoing shortfall in residential supply. While traditional banks are returning to providing senior debt finance for residential development, the number of active lenders in Ireland has reduced from 12 a decade ago to 3 today. It is clear that the risk appetite among the remaining banks in funding residential development is more conservative and significantly reduced from the unsustainable and reckless levels seen in the period leading up to 2008. While a few alternative lenders have entered the Irish market to satisfy some of the excess demand, it is estimated that the scale of provision by both the banks and these lenders continues to be well below that required to fund the estimated 25,000 to 35,000 annual shortfall.

While a number of recently introduced Government-backed schemes including the Help-to -Buy grant and the Home Loan scheme have helped to get more people onto the property ladder, there is still a huge lack of housing finance at reasonable cost. On Thursday, 5 July 2018, a few days before the Dáil went into its summer recess, the Minister of State at the Department of Finance, Michael D'Arcy TD, finally introduced the First Stage of long-awaited new legislation in the Dáil for the establishment of Home Building Finance Ireland (HBFI). HBFI is expected to provide finance for viable projects where developers are in a position to put up equity of 20% or more for projects, thereby bridging the gap in bank finance and increasing the pool of finance available from other lenders. HBFI will be funded through the provision of debt and equity funding of up to €750 million that will be made available from the Ireland Strategic Investment Fund. A unique feature of HBFI will be its ability to fund smaller developments or those outside the major urban centres. While IPAV welcomes the HBFI, it is again another very modest initiative, expected to support the construction of around 2,000 homes per year, but way too little to resolve the ongoing housing crisis. IPAV is disappointed that this scheme is still not up and running and supporting small builders, the backbone of the Irish building fraternity.

IPAV urges the Minister to immediately get this legislation through both Houses of the Oireachtas as a matter of urgency when the Dáil resumes in September and to triple the size of the fund. IPAV is also proposing an amendment which would see builders agree the final cost of the finished house when the loans are originally being drawn down.

Mortgage Lending Value (MLV)

IPAV has long advocated the promotion of the concept of Mortgage Lending Value or MLV as a method of introducing stability to the Irish property market. MLV is a property valuation based on a range of factors that attempts to determine value over the longer term rather than Open Market Value (OMV) or 'spot' value, the only method currently operated in Ireland and based solely on current market conditions at the time of sale.

MLVs have been used in Germany for decades and are credited with being a key factor underpinning the greater stability of the German property market. The method is also applied in other countries including Poland and the Czech Republic while a variation of it is used in Spain. As pointed out by the European Central Bank, the use of Market Value when determining the value of the collateral, accompanied by a high LTV, could constitute a very high risk to mortgage lenders in the face of a downward trend in prices. As a result of the 2008 property crash in Ireland, loan-to-value ratios in Ireland went from 80% at the peak of the market in 2007 to 160% in 2013. However, in countries such as Spain which also experienced a property crisis, the rise in the loan to value ratio was much less severe and this may have been due to the use of MLVs. According to German law, MLV of a property "must not exceed the value resulting from a prudent valuation of the future saleability of a property… Speculative elements or special purchasers must not be taken into consideration."

Consequently, MLV is always well below OMV. While during recessive market phases there may be a small gap between MLV and OMV, in boom phases, especially in foreign sub-markets, MLV may be more than 40% below the OMV. IPAV are happy to meet and advise on MLV and believes the Government should now give consideration to the phasing in of MLV in Budget 2019. This gives the Government or a fiscal committee the power to positively influence control on the property market.

eConveyancing

IPAV's 2015 survey of its members found the average time for conveyancing, the legal work involved in buying and selling properties in Ireland, is 22 weeks. Home buyers and sellers in Ireland continue to face inordinate delays, frustrations with added costs, especially where they may be gazumped or indeed gazundered.

The current conveyancing system is an old, traditional, cumbersome and paper-based process, which does not serve Ireland or its citizens well. Electronic conveyancing or eConveyancing, is a long-accepted practice in other countries and a far more efficient means of legally transacting property. The Law Society of Ireland has stated that a new e-conveyancing system could reduce the total transaction time to as little as five days.

The introduction of e-conveyancing was called for in the Government's *Construction 2020* document, which noted that conveyancing remains "largely paper based" and takes a "disproportionate" amount of time to transfer title. IPAV is aware that the Department of Justice and Equality has embarked upon a review and consultation process on eConveyancing and that a report was to be issued at the end of 2016. However, this did not happen and the Departments plan in this regard is unclear. IPAV believes a new approach to eConveyancing is needed, which would be spearheaded and operated by the Property Registration Authority as a matter of urgency, with buy-in from the stakeholders including solicitors, conveyancers, the Government, the banks, estate agents, mortgage brokers etc. The

Property Registration Authority already operates very successful e-projects such as e-stamping and IPAV believes it could facilitate this project.

Rural Regeneration

IPAV believes Rural Regeneration is a necessary public project that needs to be better supported. We have proposed for the past four years that some form of grants be made available to encourage young people in particular to set up homes in rural towns and villages.

IPAV welcomes the publication of *Ireland 2040 National Framework Plan* which provides an opportunity to look ahead and shape long-term planning over the next twenty years or more. However, IPAV believes the current housing crisis and the continuing haemorrhaging of people to the east coast necessitates a far greater urgency for action than that outlined in the Plan's timeframe.

In April 2017, the then Minister for Arts, Heritage, Regional, Rural and Gaeltacht Affairs, Heather Humphreys TD and the then Minister of State for Regional Economic Development, Michael Ring, TD, announced €20 million in funding for rural towns and village and a Call for Proposals issued in July 2018. IPAV welcomes this scheme as going in some way to restore vibrancy to the rural towns and villages with a population of less than 10,000.

However, much more needs to be done. Attracting people and investment to town and village centres requires a comprehensive and cohesive policy focus. It should include everything from lighting and street furniture to traffic calming and the townscape. The long-term plan for rural Ireland should include a new city, possibly in Athlone as it's the centre of Ireland, with high speed trains and connectivity to Dublin and the airports. This is vital if we are to grow country and create a greater balance and not merely become a one city Ireland where 50% of everything, including the population, is located in Dublin.

Broadband

IPAV has major concerns with the repeated delays in supplying rural broadband connectivity. Members of the Institute know only too well the implications the lack of such a service has for business activity and development. The latest difficulty with the contract for supply of rural broadband to over 500,000 private houses gives further cause for concern. Unless the plan can be successfully executed residential properties will lose value and be down-graded and in some areas properties will become unsaleable.

Broadband is a necessary utility that is required today and not something that we should be aspiring to in the future. This project is already being discussed for 6 years, and now seems under huge threat. The recent withdrawal of the Scottish energy giant SSE from the sole consortium bidding for the contract has placed a major question marks over the entire project. While the Government insists the process can still be brought to a successful conclusion, many industry sources say it is now undeliverable without the involvement of a big industry player.

IPAV members have shared horrifying stories of having to stand or park outside other business premises to avail of their broadband to simply send a brochure to a would-be client.

IPAV urges the Minister to immediately get this project up and running and prioritise it to the necessary degree required in Budget 2019. This is an urgent matter for rural business and homes, and for the sustainability of rural communities It may be the State will have to fund the entire cost but one way or another, a solution has to be found.

Employers

Many IPAV members are concerned with several of the provisions of the new Employment (Miscellaneous Provisions) Bill, 2017, and believe some sections of the bill should be further amended.

Part-time workers play a very important role in auctioneering firms, where work is often not there for full-time employees. IPAV feels the requirement to offer extra hours to existing part-time employees needs further consideration, especially as to whether that part-time employee can carry out the required work or not. For instance, some employees may require part-time staff to cover property viewings and additional office work. IPAV believes it is vital that should extra hours be on offer, a small firm should be able to choose the employee best qualified for the job. IPAV also fees that some of the proposed sanctions in the Bill are excessive and unnecessary.

Stamp Duty

One-off Building Site Stamp Duty: In Budget 2018, stamp duty rose from 2% to 6% on commercial property sales, which includes one-off sites. This is an extra expense that is added on to the cost of a new house for first- time buyers.

By way of example, a building site valued at €40,000 now has a stamp duty rate of €2,400, as opposed to €800 prior to the 2018 Budget. IPAV believes the Minister should examine this and reduce the stamp duty to 2% for these sales in Budget 2019.

“What we’re saying is the Government needs to encourage young people in particular to live and work in rural Ireland. Our proposal is about sustainability, and it supports and underpins stated Government policy of encouraging rural enterprises,”

Farm Stamp Duty: In Budget 2018, farm sales were brought in under the new change in stamp duty and this resulted in an increase from 2% to 6%. This was a huge change that has made it more difficult to purchase land. IPAV asks the Minister for Finance to consider reducing the stamp duty on agricultural land to 4% in Budget 2019. “Many who may already be farming holdings which are not economically viable over the longer term because they are too small, generally people of a younger age cohort, highly qualified with hunger and ambition to grow and develop farms and other agriculture and food enterprises, exactly the kind of people national and EU agricultural policy seeks to encourage, are being discouraged by last year’s spike in Stamp Duty,”

Rental Sector

The 2017 Annual Report from the Residential Tenancies Board (RTB) showed there are now 714, 000 occupants and 174,000 landlords registered with the Board. Of these, 313,000 were private tenancies with the remainder made of up tenancies managed by Approved Housing Bodies. The data showed a contraction of the number of private rental tenancies from 319,000 in 2016 to 313,000 tenancies in

2017 indicating that some landlords are leaving the market. The overall landlord profile has remained relatively stable with the majority of the 174,000 landlords (86%) owning 1-2 properties.

The traditional Landlord as we all know them have been the backbone of the rental sector but a recent IPAV survey of members suggests that because of legislation, huge costs and taxes, many landlords are been forced into leaving the market. IPAV believes many more landlords will follow which will not be a good for tenants.

IPAV believes the crisis in the rental sector will worsen in 2019 unless a number of radical actions are taken: These should include:

- Fully coordinated Government action on housing, such as that suggested earlier in this submission. Housing Minister Eoghan Murphy TD has promised two further Amendment Acts under the Residential Tenancies Act 2004, as amended in 2009 and 2014, both of which have yet to be published, but these seem to largely concentrate on introducing new penalties for landlords who breach RPZ guidelines. The past year has seen a number of Private Members' Bills introduced in the Dáil and Seanad, many of which are driven purely by self-promotion and would cause chaos in the market, if implemented. However, the introduction of a plethora of such Bills points to an urgent need for coordinated Government action.

- The current interest rate allowance for private landlords of 80% as increased in the 2016 Budget IPAV believes it should now be increased to the full 100%.

- Measures to encourage new landlords into the market instead of having private landlords leaving. Private landlords should be treated like other commercial and farming landlords who can write off rent against tax for long term leases. This has proved very successful in the farming sector and encourages farmers to rent their lands longer term. IPAV believes this would be instrumental in encouraging more private landlords and bring vacant housing into the rental sector.

- The treatment of residential property lettings as a normal business for tax purposes in the same manner as the commercial property sector. For example, home owners who operate the Rent-A-Room scheme are allowed up to €14,000 rental income tax free per annum. A similar amount should be allowed to all residential landlords to encourage them to stay in the business or to expand.

- Tax incentives by way of Capital Gains Tax Relief for private landlords who sell properties with tenants *in situ*.

- The introduction of a legal and enforceable Code of Practice for Tenants which would clearly define their rights and obligations and decrease the number of disputes that arise and the number of referrals to the RTB. IPAV believes many landlords will not rent their property for fear of the immense difficulties encountered in getting bad tenants out of their properties. A legally binding Code of Conduct is badly needed.

- The introduction of permission from the management company in writing higher management fees and planning permission for owners who operate Airbnb within apartment blocks, due to the increased commercial activity and consequent wear and tear.

- Restrictions on the number of unit's vulture funds can purchase. Instead a requirement should be introduced that funds develop existing development sites for housing from the ground up.

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