Institute of Professional Auctioneers & Valuers

2021

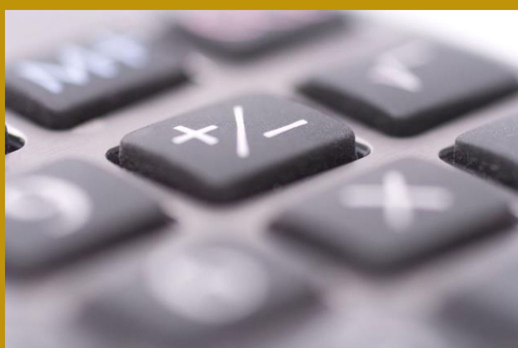
Pre-Budget Submission

The Future Property Market
Thinking Outside The Box

September 2020





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1. About IPAV

IPAV was established in 1971 as a representative professional body for qualified, Licensed Auctioneers, Valuers and Estate Agents. It is the only Irish representative body catering solely for the professional and educational requirements of Auctioneers and Valuers. IPAV currently has in excess of 1,400 members nationwide and one of its primary objectives is to uphold, advance and promote professional standards and competence among its members. In 2021 the institute will celebrate its 50th anniversary, a major milestone.

IPAV operates a comprehensive system of professional education and development for existing members and for those wishing to enter the profession. IPAV introduced the international 'Blue Book' European valuation standards to Ireland in 2013. This is the standard recognised by the Irish Central Bank and the European Central Bank for which it holds default status over all other valuation standards in the event of any valuation conflict arising.

IPAV works 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.

2. COVID-19 Stimulus Package

COVID-19 brought the country to halt in a way that could not have been foreseen. The Irish economy is facing nothing like we have ever faced before and that is why the Government brought forward a special €7.4 billion stimulus package in July. In all, some 50 separate measures were included to boost the economy, but it will be some time yet before the success of these measures can be gauged in any meaningful way.

The extension and refining of the temporary wage subsidy scheme is to be welcomed. Currently, some 62,000 employers nationally are availing of it in respect of some 400,000 employees. From September companies operating at 70% capacity or less will get a straight cash grant of €203 per week per employee or €151 for those on lower earnings. When employers' PRSI at a rate of 0.5% is added rather than the normal 11%, there is a cash gain of €250 per week for most employers.

The restart grant which had already been taken up by 40,000 businesses has been expanded from a maximum of €10,000 to €25,000 with the floor of the scheme expanded from €2,000 to €4,000. In addition, some €200 million is aimed at retraining and supporting apprenticeships which is very welcome.

The six-month waiver on commercial rates is also to be welcomed.

However, the real problem is the route back to viability for many companies, particularly in the tourism and hospitality sector, is not clear. Businesses which depend on people coming together continue to be under threat and their future is very uncertain.

The Government will launch a new national economic plan in October along with Budget 2021 and these must contain carefully targeted measures to save many thousands of businesses from total collapse. For now, the provision of subsidising companies to keep people at work is the right thing to do along with the giving of cash grants to help many others to re-open.

3. Vaccine

In the current economic climate, it seems that rather than turning to economists for economic advice on future trends, we are now very much depending on the medical profession and in particular on the research scientists to come up with a vaccine for Covid-19. The early indications are that such a vaccine may be available by the end of 2020. If a vaccine is developed – and the attendant problems of manufacture and distribution are sorted – then the future is reasonably bright. However, if the country and our trading partners are faced with recurring bouts of the pandemic, then the picture is very bleak.

The country is currently flying blind in the face of the pandemic. While the first wave looks to have passed, experts warn that a second wave is likely and perhaps inevitable as we see in the recent emergence of clusters in meat factories and elsewhere. This may be worse than the first wave as it will coincide with winter flu and other ailments later this winter. The return to normality will occur only when the public feels it is safe to return to the streets.

Therefore, at this juncture it is impossible to predict economic conditions into the future and all we can do is hope. Our immediate focus can only be on the short-term but clearly there are some very nervous days ahead.

4. Brexit

The most recent indications are that a mutually agreed deal between the EU and the UK is very uncertain. The €5 billion Brexit Adjustment Reserve agreed at the EU July Summit, will not go anywhere near protecting the Irish economy from a worst-case scenario.

There have been several estimates of the impact of a No-Deal on Ireland, but these are all very uncertain and imprecise. There could be major disruption at ports and airports, with Irish exports hit by a weak UK economy and a potentially large fall in the value of sterling. As the Minister of Foreign Affairs has warned, Ireland because of Covid-19 is now "facing into Brexit from a fundamentally different economic starting point than for a no-deal Brexit in 2019". Protecting Ireland's €85 billion trade link with Britain will be vital to our overall economic recovery. The gap between the EU and UK positions remains wide on a whole range of areas, including issues such as the level playing field, fisheries, police and judicial co-operation and governance. For progress to be achieved, it will be necessary for the UK position to move considerably in the direction of what they had agreed to under the original Political Declaration. Continuous engagement between both sides to protect Irish interests will be vital throughout the autumn.

Housing

5. Housing Market

It will be some time yet before the full impact of Covid-19 on the housing market can be assessed. There was no great surprise at the CSO figures released in July which showed a large drop in the number of dwelling purchases, 46.2% year-on-year, arising from the pandemic. Figures from the P.P.R. up to end of August 2020 shows 24,430 sales compared to end of August 2019 sales of 36,077, a loss of 11,647 to date and an expected loss of 18,000 by year end. The major worry now is what the pandemic, and the reaction to it by stakeholders, will do to the supply of properties, which is already well behind demand.

It now looks like delivery of new homes could drop to 16,000, or fewer, in 2020 at a time when estimated demand is running at about twice that. According to a recent report by property economist Ronan Lyons for Irish Institutional Property (IIP), as many as 47,000 units will have to be built each year for the next five years. This differs from the Central Bank estimate of 30,000 just to meet demand. Regardless, demand is much greater than the 25,000 target set out in the Government's Project Ireland 2040 plan.

IPAV's own Residential Property Price Barometer charts prices actually achieved by auctioneers and is published every six months. The report to the end of June 2020 found there was a small drop in prices of 0.7% on average over the six months. On that basis, and as the evidence on the ground would suggest at this stage, that apart from very high-end properties, primarily in Dublin, house prices are unlikely to drop as predicted by some sources. It should also be noted that house prices are still 22.7% (CSO August 2020) below prices at the peak in 2007. Here the financial institutions have a key role to play. If they continue to operate in an extreme risk averse way, issuing mortgages only to those in the most secure of jobs, then, sadly, that will have an adverse impact on the supply of new homes. Builders are not going to build if they cannot be confident there will be a market for their homes.

There are many other issues now impacting housing arising from the ongoing Covid-19 pandemic. The availability of Broadband is as important to Ireland now as rural electrification was in the forties and fifties, or indeed entry to the then EEC in the seventies. Connectivity is often the first question a potential purchaser will ask. The issue is so crucial the new broadband plan must deliver workable speeds country wide. The money being expended on the project will be worth it if it achieves the target.

6. Change in Purchaser Outlook and Move to Rural Ireland

(A) The combined effect of positive net migration and natural increase resulted in an overall increase in the population of 55,900 (1.1%) in the year to April 2020, according to the CSO. Auctioneers report an increased demand from both single people and couples moving back to rural Ireland from major cities. Living through Covid-19 has given a new insight into the quality and value of a country way of life. People can easily work from home and their employers are happy to facilitate it. Many are on good salaries and have small children which will add a new vibrancy to local communities.

We believe the Government needs to seriously consider this new trend in the 2021 budget and make the transition more workable, comfortable, and simpler to accomplish.

Recommendation: *Move as fast as possible with the Broadband project, regardless of cost and make it available to every household in every part of Ireland.*

7. Stamp Duty Rates

(A) The task of providing housing for this new influx of people is now a bigger challenge than ever. However, in rural Ireland there is greater availability at lower prices. It is a matter of looking holistically and making it easier for such people to purchase to their requirements.

The government has put together many rural renewal schemes with grants for those prepared to live in towns and villages either above or in former shop units. There are many properties which were operated as shops in every small town in the country, but which are now closed up and available for sale. Now is the time to do all we can to make sure these buildings are utilised as homes once again. Minister for

Enterprise, Catherine Martin, spoke recently about the Government "thinking outside the box" That is exactly what is needed here.

The properties mentioned attract a Stamp Duty rate of 7.5%. This is exorbitant and needs to be reduced immediately. We believe we have a real opportunity now to bring new life back to rural Ireland by withdrawing such impediments, and thereby, improving affordability. There are many other grants already set up which will encourage the renovation of these properties.

Recommendation: *To immediately change the Stamp Duty rate on these small commercial properties of up to a value of €500,000 bringing it in line with the residential rate of 1% for at least 12 months and reviewing it again in the 2022 budget.*

(B) Some who wish to move to the country prefer to build their own new homes and need to purchase building sites. These 'one off' building site sales attract a 7.5% rate of Stamp Duty. This again is exorbitant and needs to be brought in line with the residential rate of 1%.

Recommendation: *Stamp Duty rates on 'one off' building sites be reduced from 7.5% to 1% for 12 months and review it again in Budget 2022.*

8. Help-To-Buy Scheme

It was very disappointing that the July Stimulus Package did not extend the Help-To-Buy scheme to second-hand homes. There is a good supply of such properties for prices much lower than new homes, typically at prices of between €170k and €250k, especially in rural areas. First-time buyers could be incentivised to purchase these second-hand properties in Budget 2021. Such an initiative would have the positive consequence of freeing up properties in the cities for rent or for sale.

The recent IIP report suggests that the bulk of new homes are needed for smaller households in locations that are in and near the main cities.

CSO data shows the number of owner-occupied households fell between 2011 and 2016 (from 1,149,924 to 1,147,552) causing the overall home ownership rate to drop from 69.7pc to 67.6pc, a rate last seen in 1971. This is of major concern in a country where homeownership remains an aim for a huge majority of citizens and where our social security system is based on the presumption that people will own their own homes by retirement age.

New homes, even in rural Ireland, priced between €250,000 and €300,000 are already too expensive for young people on an average wage of €40/50k. They cannot qualify for a mortgage at the prices currently being asked for new homes. If they were allowed to borrow more money their mortgage repayments would still be cheaper than paying rent. In many areas second-hand property prices are still well behind the peak in 2007. Many of these properties are being sold well below the cost of construction of a new one.

If the price of new homes does not drop, either by builders building smaller ones or simply lowering the cost of these new homes, many young people will never get to own a home.

Recommendation: *The Help-to-Buy scheme for First Time Buyers should be extended to second-hand homes.*

9. Stamp Duty on Commercial Property and Land Sales

The rate of Stamp Duty on commercial property transactions and land sales increased from 6% to 7.5% from 8th October 2019. IPAV believes this high level of Stamp Duty is crippling the sale of small commercial premises and farmland in Ireland's town and villages. Google pulling out of a large office rent in the Docklands in Dublin could impact confidence not alone in individual investors but Institutional ones as well. We feel now is the time for the introduction in Budget 2021 of a tiered rate of Stamp Duty for 12 months and review it again in Budget 2022 as follows:

€0 - €500,000	1%
€500,000 - €1mill	3%
€1m - €2mill	5%
Over €2mill	7.5%

IPAV believes such a tiered rate is essential to create movement in the sales of commercial premises and bring more land to the market.

Recommendation: *Introduce a tiered rate of Stamp Duty on commercial property and land sales.*

10. Housing Commission

The final paragraph of the Programme for Government (p66) states the Government "will establish a Commission on Housing to examine issues such as tenure, standards, sustainability and equality of life issues in the provision of housing." IPAV has long advocated for the creation of a National Property Advisory Council and believes there is an urgent need to put a broad spectrum National Advisory Council on a formal footing. This could supplement the work of the existing Housing Agency in helping to pool the divergent elements and garner its collective expertise. 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. IPAV are ready and available to sit on such a body. Crucially such a Council could monitor the progress of the work of the Land Development Agency and would guard against solo runs or knee-jerk reactions that may address one or two urgent problems but fail to address the medium and long-term sustainability issues of the Irish property market.

Recommendation: *Establish a broad-based Housing Commission as a matter of urgency*

11. Referendum on Housing

On page 135 of the Programme for Government under the section on Political and Public Service Reform, there is a commitment to hold a referendum on housing. (No details or timeframe are given).
While the scope and detail of the referendum are very unclear, IPAV believes that this referendum could provide an opportunity for a very full debate on a long-term strategy for housing, something that has evaded successive governments since the 1960s.

Recommendation: *Use the proposed referendum on housing as an opportunity for a wide debate on a future strategy on housing.*

12. Reduction in VAT

IPAV has long supported 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, it is the cost price rather than tax rebates that determines whether a person can qualify for a mortgage. There is currently no VAT on housing in the UK and Northern Ireland. The recent IIP report stated that a two-bedroom apartment in Dublin now costs up to €460,000 to build when land, VAT and levies are added to the traditional bricks and mortar construction costs.

IPAV believes that such is the seriousness and longevity of the housing crisis that it carries potentially deep and prolonged social consequences unless the Government can put in place policies to reduce housing costs so that housing becomes affordable for those on average incomes.

In the meantime, VAT should be reduced to the lower 9% rate in Budget 2021 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, upfront by the homebuyer who ends up paying interest on the money borrowed to pay these costs. It is seriously impacting affordability.

Recommendation: *VAT on construction should be reduced to 9%.*

13. Seller's Legal Pack

IPAV is spearheading a campaign for the introduction of a Seller's Legal Pack (SLP), which is a collection of legal documents to be provided to aspiring purchasers when a property is placed on the market for sale, thereby front-loading the current process.

Former Labour Senator turned lobbyist Lorraine Higgins is leading the campaign to enlist the support of other stakeholders and politicians. In IPAV's recent Conveyancing Survey almost 80% of auctioneers said they were experiencing conveyancing delays from the time a property is deemed 'sale agreed' to when the sale eventually closes.

It found:

- The average time it takes from when a property is 'sale agreed' to when contracts are signed is 10 weeks, and
- The time it takes from the signing of the sales' contracts to date the sale closes is 6 weeks.

As the representative body responsible for driving standards for the property sales industry, it is IPAV's ambition to work with all stakeholders to streamline the conveyancing process and make it more efficient.

The documents contained in the Seller's Legal Pack are:

- Law Society Conditions/Contracts for Sale
- Certified copy of file & file plan or root of unregistered title
- Architect's Certificate of Compliance with planning permission
- Architect's Certificate of Compliance with building regulations and building regulation documents
- Receipts for financial conditions
- Letter confirming roads and services or evidence of rights of way and wayleaves
- Local property history details
- A BER Certificate and Advisory Report of discharge or exemption from Non-Private Residence Charge
- Law Society Objections and Requisitions on Title and associated replies

IPAV has listed the advantages of the Pack as follows:

- It will speed up conveyancing time by up to 50%
- Consumers would be fully informed and would be better protected
- It will allow the filtering of properties prior to sale to confirm saleability
- It would ensure transparency and speed in the sales process
- It would reduce potential liability for the vendor
- It would make the conveyancing process more efficient and would streamline it with public and online property auctions
- It would reduce the number of property sales which fall through due to gazumping or gazundering

It is IPAV's contention that the introduction of the pack would have unquestionable benefits for the property industry as a whole.

Recommendation: *That the State should immediately introduce a mandatory Seller's Legal Pack for all residential sales.*

14. Rates Remission

Currently landlords become liable for unpaid rates when a commercial tenant vacates a property. This often places an intolerable burden on landlords as frequently it is virtually impossible to locate the former tenant. IPAV is proposing that landlords should not be liable for any overdue rates in such situations.

Recommendation: *Commercial landlords should not be liable for unpaid rates by former tenants.*

15. Commercial Rent Subsidy Scheme

As business activity has reduced and cash-flow stopped in many sectors as a result of the COVID-19 restrictions, tenants' inability to pay rent is an inevitability in many cases. In order to survive the economic impact, Landlords and Tenants are doing their best to work through this time in a way that protects their investments and businesses and without resorting to potentially expensive litigation with no realistic prospect of achieving the desired result. Open communication between both parties at an early stage is critical and it is important that all concessions, variations of lease agreements and guarantees are documented in writing.

As the pandemic has now lasted more than six months, it is clear that many tenants will not be able to pay all or even part of their rent. IPAV is calling for the introduction of a scheme whereby such tenants can qualify for a rent subsidy scheme, particularly in cases where landlords have mortgage commitments.

Recommendation: *The introduction of a rent subsidy scheme for commercial tenants.*

16. Rental Sector

(A) General

The rental sector has been affected by Covid-19 and this will likely continue for some time into the winter of 2020 and beyond. The fall in annual rent growth and a drop of 3.3pc year- on-year by June recorded by the CSO was hardly surprising given the extent of the lockdown and the drop off in short-term lets, particularly in Dublin, arising from the halt in tourism.

What happens in terms of rents into the future will be dictated by a number of factors including the shape of the recovery, how long the pandemic will continue without a vaccine and the extent to which new work practices will emerge as a result.

The downward pressure on rents currently evident is likely to be sustained for a period, particularly in the capital. Factors such as employment levels and any new work patterns to emerge as well as third-level students staying off campus will impact also.

Rents in cities and larger towns had reached unsustainable and froth levels in many instances. Among the factors that contributed to this was the shape of the Rent Pressure Zone regulations introduced in December 2016, which attempted to curb rents but had the unintended consequence of driving them up. New properties were left outside of the RPZ legislation until July 2019 which meant that vulture funds buying new properties were able to charge exorbitant rents. The State's largest Landlord, IRES, recently recorded a 30% rise in rental income in Ireland. At the same time, many landlords who did not even charge market rents were caught by the RPZ regulations and kept at that low benchmark by the regulations, leading to a very unfair situation.

IPAV is calling for a fresh look to be taken at the whole rental market, and the voice of professionals in the market to be taken into consideration. Many landlords, for example, are prepared to provide long leases, provided the same protection is afforded to them as is to commercial landlords. The government should facilitate this by enabling these landlords to charge market rent if they provide a long lease in excess of 10 years.

Meanwhile, there is a continuing exodus of private landlords from the market. The RTB in its 2018 annual report identified the number of tenancies registered by private landlords fell by nearly 6,000, or 1.8pc, to 307,348. Further research is to be undertaken but IPAV's own research indicates that the three most influential factors motivating this trend are high taxes, onerous regulation, and irresponsible tenants. The recent Residential Tenancy and Valuation Bill 2020 was a missed opportunity to address these concerns.

Recommendation: *A Government review of the entire rental market to be undertaken with the input of the proposed Property Council*.

(B) Long-term leasing initiative

Currently Local Authorities and Approved Housing Bodies (AHBs) may lease suitable properties for periods of between 10 to 25 years. Standard leasing arrangements can cater for new builds or second-hand homes. Under the arrangement, the local authority acts as the landlord to the tenants. This means maintaining the interior of the property for the duration of the agreement and ensuring the property will be returned to the owner in good condition at the end of the lease term. Rent of up to 80-85% of the open market rent applies throughout the term.

Rent is reviewed on the third anniversary of the commencement date of the lease by reference to the Harmonised Index of Consumer Prices (HICP) and every third year thereafter. To provide certainty to both parties to the lease, a standard agreement for lease can be used. Houses leased by local authorities are outside of the remit of the RTB and therefore the Rent Pressure Zone legislation does not apply.

IPAV is now calling for the extension of this scheme to private landlords whereby any landlord can enter long-term leases of a minimum of 10 years with a tenant at a rent of 80-85% of market rent to be reviewed as above. IPAV feels this would give greater security to both tenants and landlords, instead of the landlord having to make the tenant vacate the property to give vacant procession.

Many tenant groups and politicians are calling for long term leases in the private sector. They are asking that long term leased properties be sold tenanted as happens in other European countries. This will give a lot more certainty of tenure. However, where landlords within a RPZ has a property rented below market rent they cannot offer this option as it will reduce the property value and yield for the owner if the property goes for sale.

For example:

If landlord (1) has a 3-bedroom property rented at a market rent of €2,000 per month in a RPZ, that property market value based on a 5% yield is €480,000.

If landlord (2) has exactly the same property rented below market rent at €1,000 per month in an RPZ that property market value based on a 5% yield is €240,000.

If the Government extended the scheme to Private Landlords, it would enable and encourage landlords to grant long term leases with a 15% to 20% reduction on the market rent and hence these properties could then be sold tenanted and remain rented as opposed to landlords having to secure vacant possession and the property being lost from the rental stock.

Recommendation: *The introduction of incentives for long-term residential leases for private landlords.*

General

17. Mortgage and business loans breaks

In early autumn, the six-month payment breaks given by banks to mortgage and business loan customers will start to run out. Inevitably some businesses will close even with the supports provided. A virtual tsunami of job losses is likely to emerge in certain sectors, for example, the aviation industry. The Government should set up an expert group representing all relevant stakeholders with a view to identifying businesses that can be saved and the measures necessary to secure them.

Recommendation: *Establish an expert group to identify businesses that can be saved post-COVID-19*

18. Front-load infrastructural projects

Supporting individuals and businesses during the early months of the Covid-19 crisis was extremely helpful and the right thing to do. While such schemes need to be continued, there is now a need for a big commitment to sustained capital expenditure into 2021 and beyond. There is a commitment to a €1 billion package of capital spending in the July stimulus package, but such expenditure should be front-loaded on infrastructure we need, and priority given to job-intensive elements, such as housing, hospitals and ports.

Recommendation: *Front-load infrastructural projects with job creation potential.*

19. Wage subsidies

Wages continue to be the single largest expenditure item for retailers. There is an ongoing need for wage subsidies to be continued well into 2021 if jobs are to be maintained. It would be very helpful if the Minister for Finance clarified that the first wage subsidy did not only apply to the turnover of Q2 of this year. Auctioneers typically would not experience a problem with cash flow until the 3rd Quarter as sales undertaken in Q1 would not materialise until Q2.

Recommendation: *Confirm first wage subsidy dates, extend wage subsidy scheme on an ongoing basis in the case of certain targeted sectors.*

20. Insurance Costs

Insurance costs on Irish businesses are prohibitively high and given the numbers of bogus claims and pay-outs by insurance companies, as opposed to going to court to fight such claims, the costs incurred on businesses continues to increase at an alarming rate. The very next renewal after a claim is made, whether there is a pay-out or not, the insurance premium rises and, as in most cases, when no claim happens, the premium very seldom reduces. The capping of claims for injuries would be very helpful to businesses.

It is also essential that insurance companies should not be allowed to raise their premiums based on when a claim is made, but only when a claim is paid.

Recommendation: *Cap insurance claims and ensure that premiums are only allowed to be increased when payments are made to claimants.*

21. Enhancing the Environment

Today there is an onus on all sectors of society to play a part in protecting the environment. IPAV is keen to play its part. Increasing emphasis is being placed on the BER ratings of properties both for sale and for rent. As part of raising public awareness of BER ratings, IPAV is proposing that when property sale prices are published on the website of the Property Services Regulatory Authority, they should also show the BER rating of the property so that people can see the difference in price when a higher rating is achieved. This would be a simple step which would make a significant contribution to enhancing the environment.

Recommendation: *All sold properties published on the website of the Property Services Regulatory Authority should display their BER rating to raise public awareness of the advantages of high ratings.*

IPAV

'The Voice of Auctioneers and Valuers In Ireland'

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