

Review of Rebuilding Ireland: Action Plan for Housing and Homelessness

IPAV Submission

August 2017

Established in 1971, IPAV is the only Irish representative body solely catering for the professional and educational requirements of over 1,100 Auctioneers and Valuers practising throughout Ireland

“The Voice of Auctioneers and Valuers in Ireland”

Contents

1. About IPAV	3
2. Review of Rebuilding Ireland	4
3. Tackling Supply.....	5
4. Building Initiative Scheme.....	6
5. Planning Issues.....	6
6. Development Contribution Rebate Scheme	7
7. Vacant Site Levy	8
8. VAT Reduction.....	8
9. Affordability - Mortgages.....	9
10. Property Council	9
11. Conclusion.....	10

1. About IPAV

IPAV was established in 1971 as a representative professional body for qualified, Licensed Auctioneers, Valuers, Estate Agents and Valuers. We are the only Irish representative body catering solely for the professional and educational requirements of Auctioneers and Valuers. We have over 1,100 members nationwide and one of our primary objectives is to protect, advance and promote professional standards and competence among our members. We operate a comprehensive system of professional education and development for our 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 in the event of any valuation conflict arising.

Our aim in working with other stakeholders and with policymakers is to try and influence the development of a sustainable property market where people can buy, sell or rent properties according to their needs.

Previously we have raised concerns that there may have been something of a surreptitious movement in policy that favoured rental over buying. Such in our view would be a grave error since several international studies point to the importance of home ownership in terms of growing personal wealth over the longer term. A paper by researchers at the Harvard Joint Center for Housing Studies entitled '*Update on Homeownership Wealth Trajectories Through the Housing Boom and Bust*' found that "for most households, homeownership was associated with significant gains in household wealth, even when viewed across the tumultuous housing crisis period of 1999- 2013." In Ireland home ownership has been one of the primary and very valuable means of financial planning for old age.

Equally IPAV has raised concerns over the inability of young people to buy homes arising from the overzealous Central Bank mortgage lending rules. While the easing of the rules for First-Time Buyers was, we believe, a very positive step we would also recommend that similar adjustments be made for non-First-Time Buyers. Such would facilitate much needed movement especially in the second-hand property market.

A third issue on which IPAV has been very vocal over many years is the extent to which international funds, so-called Vulture Funds, have been facilitated in buying up properties at knock-down prices at very important times in the property cycle when prices were at their lowest, properties that were not available to purchase by aspiring home owners in Ireland. Such funds have also received very favourable tax treatment. Our view is that this not just

represents a loss of opportunity for individuals and families in Ireland, it represents a huge transfer of wealth from Ireland to international funds.

2. Review of Rebuilding Ireland

IPAV recognises the good intent of Rebuilding Ireland. And we very much welcome the current review.

We believe the interconnected nature of all aspects of the housing market remains unappreciated in housing policy to date:

- Homelessness;
- Shortage of homes in general but especially new homes;
- First-time buyers;
- Rental;
- Those still caught in negative equity and unable to move home arising from the still too onerous Central Bank lending rules for second-time buyers;
- The economic need for more urban accommodation, particularly in Dublin;
- To formulate a sustainable Property Market;

IPAV agrees with most but not all of the objectives of Rebuilding Ireland as set out on page 5 of the Information Document attached to the review. We disagree with some of the methods employed to achieve the objectives. In general, we would say far more dramatic measures are needed to address the lack of supply of residential homes. Tackling supply aggressively will address most of the issues.

We believe measures such as rent controls are having unintended consequences and will force more private landlords out of the market and also force as we are seeing already increases in rents in non-pressure zones before they take effect. We set out below what we believe the priorities should be.

We would also caution against too much interference in the market. Confidence is a very nebulous but a real factor in the market. Recent speculation about the possible ending of the Help-to-Buy scheme has had the effect of dampening confidence among builders at a time when many were considering entering the market once again.

3. Tackling Supply

Tackling the supply shortage is critical to all areas – from rental to purchase – and we believe a set of supply side issues should be prioritised by Government. If second-time buyers who may need to move home for work purposes, or other reasons were able to do so, more homes would be available for first-time buyers and so on.

CSO figures show that just 3,067 household dwelling purchases were filed with the Revenue Commissioners in May 2017. And of these 91.5% were for existing dwellings and just 8.5% for new dwellings.

While the skyline, particularly in Dublin, sees a large number of cranes and the hard hats of builders, the overwhelming majority belong to commercial sites. The building of residential homes is still at a critically low level at a time when demand is unprecedented.

As yet there is no official data on house building costs. We know that second hand homes are selling in many parts of the country for less than it would cost to build a new home.

IPAV believes the priority issues should be:

- Tackling the very high cost of building finance;
- Setting up a national builder's fund;
- Speeding up social housing provision;
- Reducing planning and development delays and costs;
- Addressing land hoarding.

Our concern is that the admirable intention of Rebuilding Ireland will not be realised quickly enough because implementation is spread across far too many issues and State bodies with not enough priority on these 'big ticket' issues.

Indeed it is our view that when everything is prioritised then effectively nothing is prioritised.

We also hold the view that while there has been much attention given to security of tenure for tenants, by contrast private landlords have not been assisted. For example, there is no Code of Conduct for Tenants, and private landlords receive far less favourable tax treatment than commercial landlords. Unless the situation changes we believe more private landlords will leave the market.

4. Building Initiative Scheme

The lack of availability of building finance at reasonable rates of interest is a particular impediment to house building. Mezzanine finance is currently available at exorbitant rates of 10% - 20%, more in some cases. It must be borne in mind that it is the house purchaser who ultimately bears these massive interest costs.

IPAV has already proposed a scheme to incentivise small and large builders by making building finance available at interest rates of between 1% and 3%, similar to the recent farming one. We proposed that finance to builders who wish to participate in an Agreed Price Building Scheme (APBS) would be made available through a separate fund. The Irish Government could readily borrow from the ECB at historically low interest rates. There would be no loss to the Exchequer as it would be repaid as the properties are sold.

We are aware that such a proposal opens itself up to the sometimes justified criticism that a reduction in the costs of construction may not be passed on to the buyer. To counteract this we suggest once again an agreed building cost, it would be strict and fair, and closely monitored. Not all builders will want or need to participate. Anecdotal evidence would seem to suggest that the price should be in the region of, and perhaps no more than, €100 per sq. ft. or €1,000 per sq. m. The site cost and site works, development levies and VAT would not be included in this figure. It would be a condition of the scheme that the houses would conform to energy efficiency quality A1, 2, or 3. We have estimated that such a finance package could typically cut €25,000 from the price a buyer pays for a home and guarantee the end cost of the house which is paramount going forward in the house build process and the sustainability of the market.

We would emphasise, that to succeed such a scheme would need to have widespread application and not be piecemeal or of a pilot nature.

5. Planning Issues

Another major hindrance to building already highlighted by IPAV in an earlier submission 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 would urge the Government to undertake

an immediate review of third party planning objections with a view to speeding up 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, without compromising standards, in order to satisfy the immediate demands of the market.

6. Development Contribution Rebate Scheme

IPAV believes that the Development Contribution Rebate Scheme intended to boost house construction by returning, subject to certain conditions, between 80% and 100% rebate on development levies paid, would more successfully serve its purpose with a number of amendments. We have proposed:

- Increasing the number of areas of operation beyond Dublin and Cork – to prevent the kind of acute shortages currently being experienced in these cities reaching regional centers in the next 18 months;
- Retroactively applying the scheme to properties currently under construction;
- Extending the scope of the scheme to include developments of less than 50 units;
- There is no solid rationale for excluding smaller builders.

The scheme should be extended to all cities in Ireland and for all builders who want to take part in the Agreed Price Building Scheme. We estimate that this would result in a saving of approximately €15,000 to house buyers.

I have included below a condition from a planning permission from a good country town to show the level of contributions required to build. This particular planning is for 29 houses, a planning contribution of €554,499 or €19,120 per house is demanded prior to commencement, this is in addition to a €145,000 bond which the builder is happy to source. However the actual planning contribution is huge.

41. Prior to the commencement of development the developer shall pay a contribution of €554,499.50 in respect of public infrastructure and facilities benefiting the

development. The amount of this contribution is calculated in accordance with the Council's prevailing Development Contribution Scheme and will be increased from January 1st next and annually thereafter (unless previously discharged) in line with the Wholesale Price Index - Building and Construction (published by the Central Statistics Office) unless the scheme is superseded by a further Development Contribution Scheme adopted by the Council.

Reason: *It is considered appropriate that the developer should contribute towards the cost of public infrastructure and facilities benefiting the development, as provided for in the Councils prevailing Development Contribution Scheme, made in accordance with Section 48 of the 2000 Planning and Development Act 2000, and that the level of contribution payable should increase at a rate in the manner specified in that scheme.*

With reference to the above, and allowing that the average property price in this area is €210,000 - €300,000, the planning contribution referred to works out at between 6.5% - 9.1% of the value of the property. IPAV considers this is an exorbitant and burdensome contribution set down by the County Council. IPAV is aware that some County Councils apply a far lesser percentage of the value of the property, and it is our belief that 3% would be a fair figure to apply and implement across all County Councils, ensuring National uniformity.

7. Vacant Site Levy

IPAV would encourage the Government to review the Vacant Site Levy of 3% to ensure that it is sufficient to serve its intended purpose of preventing the hoarding of sites by speculators and bringing more land in city centres into production. This levy will take investors or site hoarders out of the market for these sites and should see them sold at viable prices to builders who will have to bring them into production in an agreed time scale.

8. VAT Reduction

It is estimated that the current rate of VAT of 13.5% adds an extra €15,000 to €17,000 to the price of each new property. We believe that a reduction to 9% would further incentivise builders to build. There would be no loss to the Exchequer, as building ramps up towards meeting demand. While a lesser amount is contributed from each house purchaser, the Exchequer benefits from the volume increase. Such a VAT reduction has already proven itself in the tourism sector and could deliver a saving of €7,000 per house.

9. Affordability - Mortgages

IPAV appreciates the concerns of the Central Bank in implementing lending restrictions that the regulator believes prevents potential buyers taking out mortgages without an income level to sustain them.

However, Ireland is seriously out of line with many European countries with interest rates much higher than the norm. In addition, elsewhere in Europe long-term mortgage interest rates at much lower rates can be fixed for up to 20 years or in some cases for the lifetime of the mortgage. If there was ever a time to bring in these 20 year fixed mortgages it is now.

While one Irish lender has a 10-year fixed interest rate, most others are for much shorter terms, typically 2-3 years. These terms cannot in any real sense be considered what is internationally understood as long-term fixed interest rates.

There is a compelling case for Irish lenders to be offering these products now. European Central Bank rates are at a historically low level and mortgages of their nature are long-term products for which banks can readily borrow long-term funds. There is talk now in European circles of Mortgage rate increases and now is exactly the right time for banks to introduce 20 year fixed products to protect our mortgage holders and First-Time buyers into the future. They also have the flexibility to cover their exposure if borrowers want to move on. We believe the Government should do all in its power to ensure that this happens. It is essential so that young people, first-time buyers, can borrow with a level of comfort and confidence about the future.

We further believe the method used of valuing residential property in Ireland on a spot or open market value should stop and a Mortgage Lending Value be introduced. Over time this gives far more flexibility, looks into previous trends and insight into the future on the actual long term value and yields of properties.

10. Property Council

IPAV has long recommended the setting up of a consultative Property Council, comprised of all stakeholders with varying and divergent views. We believe such a body, which would have a purely advisory role, would have the potential to play an enormous part in helping build a sustainable property market. The process should be inclusive and rapid, not prolonged. IPAV would be prepared to play its part in such a Council.

11. Conclusion

IPAV would propose a more hands-on whole -of-Government approach to the supply of homes. We would also encourage the Government to dispense with the series of isolated measures, such as rent controls, which are dealing with the symptoms of the problem and concentrate urgently on the supply side issues.

When there is land availability, planning that is not needlessly onerous, infrastructure and availability of finance at reasonable rates of interest, the market can be relied upon to respond to housing demand.

IPAV

“The Voice of Auctioneers and Valuers in Ireland”

129 Lower Baggot Street, Dublin 2, D02 HC84

+ 353 1 6785685

info@ipav.ie

www.ipav.ie