



IPAV Submission to Indecon

Independent Impact Assessment for the Minister
of Finance of the Help To Buy Tax Incentive

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“The Voice of Auctioneers & Valuers in Ireland”

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The Help-to-Buy Tax Incentive

Introduction

The Institute of Professional Auctioneers & Valuers (IPAV) is the only representative body in Ireland solely representing and catering for the professional, disciplinary and educational requirements of auctioneers and valuers practising throughout Ireland. Established in 1971, we have over 1,100 members nationwide.

IPAV's view is that a lack of supply of properties, particularly in Dublin and other major urban areas, is the most fundamental issue currently impacting the housing market, indeed our society. We need more builders, especially SME builders, to be actively involved in the construction of more houses. Practically no new housing construction took place from 2008 through to 2014 and 10 years on from the recession, we still have an unsustainable property market.

Home ownership has been proven to contribute hugely to growth in 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."

The economy demands a much greater supply of homes - for both rental and purchase. That demand is growing in intensity with supply continuing to fall well short of the figure the Minister for Housing now acknowledges is needed, 35,000 new homes every year. Daft.ie estimates that it could be as high as 50,000 units a year.

Supply is running probably at about 12,000 new homes in 2016. Official figures show 14,932 units were built based on connections to the ESB grid, but this does not reflect actual new builds accurately. Some commentators believe the actual figure for units built in 2016 is closer to 8,000.

To understand the impact of the Help-to-Buy scheme on the market one needs to understand what's happening in the wider housing and rental market - the reality of the market along with the psychological factors that are so deeply associated with housing and buying homes.

IPAV have actively been trying to assist to formulate a stable and sustainable property market where people who want to buy, sell or rent can do so. When we get to that stable market we also have further proposals on the valuation of property that will cement such a market into the future.

It is important to understand, the more builders building, creates more stock, creating more choice for First Time Buyers (FTB), creating a decrease not increase in price; simple supply and demand.

First we will give a snapshot of some of the main developments in housing between 2007 and 2017. We will then relate these to the Help-to-Buy scheme and comment upon its impact and potential impact.

Housing Market through the past 10 years

2007 to 2013

- Property prices drop 54.4% according to the CSO. This is a national figure, there were steeper falls in some areas up to 80%.
- During this period of devastation, policymakers and consumers generally found it hard to see any recovery.
- The general view was that the market was still over supplied.
- Mortgages were practically impossible to get.
- Ghost estates came to the fore and some incomplete estates were in fact demolished.
- No new building occurred throughout this period.
- Building land fell in price by as much as 95% in some areas.
- IPAV attended a Dail hearing on housing, we predicted housing prices would have to rise to the price of new builds or new build would have to fall to second hand prices before any new builds would materialise.
- We proposed a national property council and a builder fund financed by the Government through Europe to get builders and building started.
- **December 2009:** NAMA is set up

2013 to 2014

- Property prices are in recovery, starting in the cities, particularly Dublin.
- Cash buyers and foreign investors who have experience of the market understand value, they dominate the buying market at this point.
- Minister for Finance introduces a CGT holiday for 7 years for property purchased by end of 2013 and then extend the scheme to the end of 2014.
- A common view among consumers/first-time buyers at this time was “we’re never going to get caught like our parents/others did” in negative equity.
- Auctioneers report a lack of supply of properties for sale.
- The first public indications of a supply shortage, in the Dublin area particularly, emerge.

- Media publish stories of rapidly rising house prices and a possibility of another property bubble.
- Prices rise substantially over 20%, they fell average of 54% they must go back up 108% to get to the 2007 levels.
- Prices outside the main urban centres remain subdued.
- Policy makers and regulators are largely focusing on preventing another property crash.
- **September 2014:** NAMA announces plans to deal with the housing shortage.
- **October 2014:** The Central Bank announces it is considering mortgage lending restrictions.
- **6th October 2014:** IPAV issues statement saying; “Stringent curbs on lending being suggested by today’s daft.ie report at a time when lending is by no means exuberant and is in fact very subdued, are not just premature, they would militate against first time buyers whose parents are less well-off and not in a position to assist with large deposits required under such a system.”
- **14th October 2014:** IPAV quoted in The Irish Times Budget reaction saying the effort to help first time buyers with DIRT relief would have “very limited impact since interest rates are extremely low in any event”.
- **1st December 2014:** Homeless man Jonathan Corrie dies in tragic circumstances close to Dail Éireann prompting a political storm over the lack of housing.
- **8th December 2014:** IPAV issues submission to the Central Bank on its proposed mortgage rules and issues press statement saying the following: “Limiting LTV to 80pc at this very early stage in the life of the resurgent property market is misguided and likely to have severe unintended consequences. Highlighting the lack of suitable properties and construction finance in Dublin in particular as the main issues that need to be addressed, IPAV calls for NAMA to stop the practice of selling blocks of properties to foreign investors and offer them instead for sale individually and openly on the Irish property market. It also says banks and financial institutions should be prevented from ramping up property portfolios for sale and encouraged to sell their repossessed property individually on the open market. IPAV has warned the sale of blocks of apartments will only give their owners, typically vulture funds, the opportunity to increase rents as they have done in the past two months by at least 20pc.”
- No sooner did one arm of Government who was trying to help get the market moving withdraw the CGT scheme in the end of 2014, did another arm of Government introduced a dampening scheme in February 2015. The merry-go-around had started.

2015

- **27th January 2015:** The Central Bank announces the mortgage lending restrictions and IPAV issues statement saying: ““As it was, the proposals had dented confidence in the property market. Now that they are going to be as severe as was feared, except for the 90pc LTV for first-time buyers up to a limit of €220,000, this major intervention in the market will lock many out of property for several years.”
- Cash buyers and investors continue to dominate the market.
- Many younger people who want to buy are pushed out into a widening commuter belt, expanding further and further from Dublin by the month.
- As house prices continue to rise typical first-time buyers miss out on best values as a result of not being able to meet the requirements of the new mortgage rules.
- In a growing economy large numbers who had bought during the boom and now needed to move because of family or work situations, and could afford the required mortgage repayments now and into the future, were also caught. They simply could not meet the onerous deposit requirement of 20pc of the purchase price of a new home up front. They too were consequently forced out of being able to achieve best value on buying their second home, selling their first, and over a reasonable time period being able to negate the consequences of having acquired their first properties at the height of the market. This resulted in a loss of financial opportunity at individual family level, and at market level, a loss of movement that would facilitate other buyers, FTB's or those wishing to trade down.
- These developments exacerbate the supply problem because there isn't sufficient flexibility to enable either FTB's to acquire their first home or those wishing to leave behind their first home and replace it with a new more appropriate home to their changing circumstances.
- Builders and developers read the signs quickly, and judge given these constraints in the market, together with the onerous cost of finance, that the risk was not worth taking.
- Builders and developers at all levels continue to experience the 'pariah' syndrome – a phenomenon arising from a combination of public perceptions, media bias/sensationalism, policy inadequacy informed to a worrying degree by media headlines over industry knowledge.
- Other market analysts have pointed to additional factors such as land and development costs, these are detailed in other published studies.

2016

- Severe supply constraints lead to growing rent inflation.
- **October 2016 Budget:** The Government announces the introduction from January 2017 a Help-to-Buy scheme for first-time buyers of new properties or self-builds only. Non first-time buyers or second hand houses are not included in the scheme.
- **November 2016:** The Central Bank announces a change to the Central Bank rules for first-time buyers only. From January 2017, the ceiling on the loan-to-value (LTV) ratio for all first-time buyers was to be set at 90 per cent. No such change would take place for non-first time buyers, many of whom had bought their homes at the height of the market.
- Supply of homes on the market contracts. Sales comes in at 44,000 or 2% of available housing stock and a dispute over the number of actual new homes, figures ranging from 3,000 to 15,000.
- **6th May 2016:** Simon Coveney TD appointed Minister for Housing.
- **19th July 2016:** Rebuilding Ireland, the Government housing plan is launched.
- **December 2016:** Government announce new Rental Strategy and introduce Rent pressure Zones.

2017

- **January 2017:** New Rent Pressure Zones introduced.
- **January 2017:** Revised Central Bank mortgage rules and Government's Help-to-Buy scheme take effect.
- **February 2017:** Additional new Rent Pressure Zones introduced.
- **March 6th 2017:** The Irish Times reports that a new study from the Central Bank has found the introduction of mortgage lending rules leads to a decrease in housing investment and the stock of housing in the long run. Apart from this story the report receives little further coverage or commentary.
- Cash buyers still recording 50% of sales.
- **March-May:** Media stories emerge saying the Help-to-Buy scheme is proving popular and is increasing pressure on house prices. More commentators think there is no risk of another housing bubble.

Conclusions on the Help-to-Buy Tax Incentive:

Here IPAV sets out its conclusions:

- The Help-to-Buy scheme should not be looked at in isolation to all other aspects of housing policy. The first question we must ask is if the scheme was not available would we see higher prices anyway, the answer in my opinion is a definite yes.
- We believe external factors such as: constricted supply, few builders building, very little housing built in the past 10 years, the shortage of building products, the shortage of labour, new building projects in certain areas, extension of the Luas, higher wages, more employment, high interest costs of builders finance, building site hoarding, lower interest rate to borrowers, lead to an increase in house prices. These factors are capable of acting independently or collectively towards an increase in house price.
- If the claim is the Help-to-Buy scheme is causing house inflation, we must first strip out the influences of the above and many more factors, before we can actually see the effects of the scheme on price inflation. At any time in the property market there are a myriad of factors both local and national affecting end house prices. When analysing geographical house price growth, it is difficult to see the correlation between price increase and the number of Help-to-Buy scheme applications in place.
- The Help-to-Buy scheme is essentially a political response to a serious market problem, and to that extent it's very welcome. It is available to tax payers only in the format of a return of tax paid by a FTB.
- The scheme has not increased demand, it is helping to satisfy existing demand from FTB's who wanted to buy but couldn't do so because of regulation and had been pushed into the rental market.
- There are only a certain few of the larger builders building in Dublin and other cities at the moment, the ones that have the finance to fund projects themselves.
- While these builders are helping the new build process, with little competition in the market place, prices will automatically increase (supply and demand), this is confused by some commentators with price increases levelled at the Help-to-Buy scheme. The same commentators don't seem to understand a shortage in houses for sale will automatically increase prices.
- The scheme is certainly helping aspiring FTB's to buy homes they may not otherwise have been in a position to buy arising from Central Bank Macro Prudential Mortgage Rules and the fact that they were unable to compete in a tight supply market with cash buyers to get the necessary deposit together.
- Price inflation will encourage other builders to get into the market, the more builders building the more availability of stock and choice for purchasers, which will lead to lower prices not higher prices, again supply and demand.

- While the scheme enables FTB's to compete better, it will put pressure on prices in certain areas. However, the 2017 market is a whole lot different to that which prevailed previously. House buyers now are far more risk averse arising from the financial crisis, and are generally far more price savvy.
- The scheme has somewhat increased the confidence among builders that there will be enough demand for their product in the marketplace and in that, it is achieving its goal of stimulating the building of new homes.
- Alone the scheme is not capable of dealing with the supply shortage or the major impediments that still exist for builders and developers, such as levies, VAT, building regulations, and the cost and scarcity of finance, especially for SME builders.
- It is a positive intervention for FTB's. While it addresses a particular segment in isolation, FTB's of new homes, including new self-builds – it fails utterly to recognise the interconnected nature of the housing market, particularly the positive impact of extending the scheme in some format to non-first time buyers and second hand homes. Such would have a very positive effect in terms of movement in the market – improving the supply of homes and creating greater confidence among builders and developers.
- Policy makers and regulators are failing in their duty to properly evaluate housing market dynamics and the significant part played by behavioural economics. We believe they are unduly influenced by media headlines and predictions from particular academics/economists as opposed to the actual results of the studies/surveys that such are producing.
- For example, some commentators warned of another property bubble in 2014, in 2017 some of the same commentators are telling us today 'there is little risk of another property bubble'. It's too late now, the CBI acted on their commentary in 2014, what happened is history.
- At the same time the policy makers and regulators are failing to listen to or take on board the expertise of the industry. In this regard we believe they generally hold an attitude of 'unhealthy scepticism' as opposed to one of 'healthy scepticism,' which would better serve the public good.
- The level of uptake by first time buyers in new schemes which qualify for the incentive have been strong in major centres like Dublin, Cork, Wicklow, Meath, Galway and Kildare where new houses can be built by builders at a profit. Even in Dublin where there are less than 800 applicants it is not clear what amount of tax rebate these applicants will qualify for.
- If we look at the most recent March 2017 CSO housing report, MyHome.ie and daft.ie property reports with the exception of Dublin, Kildare, Meath, Wicklow, Cork City and Galway City there are no other Counties that the price of second hand homes are any way close (at best 25% and at worst 50% below) to the building price and cost of a new house.

- In this regard there are very few applications countrywide because there are very few new houses been built. In these counties, the scheme needs to be extended in some format to second hand houses and second hand buyers to create inflation, that will increase second hand house prices to the price of new houses, and encourage builders to restart building.
- Again looking at the March 2017 CSO housing report the price of homes increased in the Midland and West region by 13.2% and 15.3% as opposed to Dublin by 8.2%. The below is an excerpt from the MyHome.ie Q1 Property Report on Leinster: 'Across Leinster asking prices continue to show solid gains. Prices in Kilkenny are up 9.1% on the year to €180,000. In Laois prices are up by 3.4% on the year to €150,000 and by 10% in Longford to €99,000. Offaly prices are up 7.9% on the year to €150,000. In Westmeath the median price was €150,000 up 11.1% on the year. Carlow prices were broadly flat on the year, up just 0.7% to €150,000. Louth prices saw a very sharp rise of 12.4% to €190,000'. In all of these mentioned counties there are not 130 applications to the Help-to-Buy scheme, In Westmeath the price increase was 11.1% there are only 22 applications for the scheme yet prices are still increasing.
- According to IPAV members in Dublin there is no significant evidence of the scheme increasing house prices when one examines a whole range of developments in Dublin that are geared towards the FTB'S market.
- We need to be very careful and sure if we are to withdraw or reduce this tax incentive in the months ahead, as it will cause considerable damage and loss of confidence in the housing market, both sale and rental sectors, as it will lead to a contraction in construction again, a detrimental deterioration of supply and it will impact negatively and directly on the rental sector and again throw the prospects of a sustainable property market further into the future.

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