Ditching the Dirt – Sunday Business Post

03:55, 19 October 2014 by Emma Kennedy

Michael and Karen, a couple in their 30s, have been saving hard for the last year and a half, and were hoping to buy their first home this year.

After months of scrimping and saving, the couple have had their loan approved, but are starting to panic that they won't be able to find a suitable property before new Central Bank proposals on stricter mortgage lending kick in next year.

The couple are not alone. According to Michael Dowling, spokesman for the Independent Mortgage Advisors Federation (IMAF), a lot of first-time buyers have been panicking in the past week as the dust settles on the Central Bank's new plan to curb irresponsible lending and borrowing.

So-called 'macro-prudential' proposals published by the bank earlier this month will mean that, in the majority of cases, borrowers will require a 20 per cent deposit to buy a home. The proposals will also restrict new lending based on income, meaning that most borrowers will be able to borrow no more than 3.5 times their income.

In Dowling's view, the announcement has given rise to a lot of uncertainty for would-be borrowers. "Those with loan approval are panicking. There's an expectation that loan approval is valid for six months but no one is sure what will happen from January 1," he said. "Will the loan application be reviewed in light of the new rules?"

"People are generally frustrated. They are exasperated," Dowling said. "First-time buyers have done what was asked of them, they've saved, they've met stringent criteria. And now a bolt out of the blue is saying they need to save more."

While there's panic among first-time buyers and many are rushing to finalise property purchases before the year is out, despite facing an uphill battle given the tight supply conditions in the market at the moment, Dowling cautioned against making a snap decision. "To buy just because of the deadline, to buy for that reason alone, you need to be careful. It's a huge decision buying a property and you don't want to rush in and buy the wrong

one," he said. "It's a Catch-22 though, because if you don't buy now and the rules change, then you might be caught."

Last week's budget attempted to make a concession to first-time buyers who are panicking about the Central Bank's proposals, with the Minister for Finance Michael Noonan announcing a Deposit Interest Retention Tax (Dirt) refund for first-time buyers who are saving for their first home.

The detail is sketchy as yet, with Noonan saying the Dirt refund scheme will run until the end of 2017. It's likely that savers will have to claim Dirt back after paying it, meaning the benefit of the new measure will not be immediate.
Dirt doubled between 2008 and 2014, rising from 20 per cent to 41 per cent. This, coupled with a low interest rate environment, has resulted in a significant decline in real returns for savers.

The Dirt refund scheme will realistically do little to help first-time buyers who face an uphill savings battle in light of the recent Central Bank proposals. According to EY's tax partner John Heffernan, the Dirt rebate scheme "is unlikely to have a major impact, particularly when interest rates are so low".

The chief executive of the Institute of Professional Auctioneers and Valuers, Pat Davitt, echoed Heffernan's view, saying the move would have "very limited impact".

"If this is intended to offset some of the pressure that will come on first-time buyers as a result of proposed borrowing restrictions by the Central Bank, it will have very limited effect," Davitt said. "First-time buyers are going to struggle to get onto the housing ladder, particularly in Dublin, if the Central Bank insists on implementing a 20 per cent deposit requirement."

Noonan indicated last week that banks would probably launch specific savings products for first-time buyers who want to avail of the Dirt refund scheme. However, as yet there's little detail emerging on new products. As one banker put it, the budget announcement on Dirt was "underwhelming".

The official line from banks was that their savings products remain under review. "We regularly review our range of savings and investments products to ensure relevance and competitiveness in the marketplace and in that context we note the minister's announcement in this regard last Tuesday," a spokeswoman for Bank of Ireland said.

AIB's spokeswoman said: "We currently have many first-time buyers saving in our existing suite of products who will be entitled to a refund of Dirt paid on all or part of their savings in the last four years, should they purchase a property between budget day and December 31, 2017. We await detail on how the Dirt refund process will be operated by the Revenue Commissioners."

For first-time buyers, the move is a small gesture and unlikely to make a big dent in the tens of thousands of euro required for a house deposit.

Dublin gets its development ducks in a row Sunday Business Post

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Project Cherry, a major 400 acre development site in Cherrywood, south Dublin, which has a €220 million price tag.

The budget's reduction of the profits tax from 80 per cent to 33 per cent on land rezonings is expected to help increase sales of development land in the Dublin area and remove one of the inhibitors to residential development at a time when the capital is suffering from a shortage of homes.

However, even before the tax cut, there had already been an upsurge in both the volume and the value of development land sales with more than €700 million worth of development site sales in the pipeline this year. "That's a seven-fold increase on the €100 million sales in 2013," David Cantwell, director of Hooke and MacDonald, told the recent Sunday Business Post Property Summit.

Days before last Tuesday's budget, he forecast that prices for Dublin development sites could increase by 50 per cent this year on top of the 25 per cent rise seen last year.

Those increases were more a response to the resurgent demand for new homes and the prospect of benefiting from the CGT waiver, than the prospect of the change in the so-called 80 per cent windfall tax. It would be interesting to know if the tax cut is influencing the final stage of negotiations for the sale of Project Cherry, the major 400 acre development site in Cherrywood, south Dublin, which has a €220 million price tag.

It is sites like Cherrywood, with their planning permission and zonings, which have been most sought-after by developers.

In all there are reckoned to be as many as 5,518 acres of land in Dublin which is zoned and could accommodate 102,500 housing units and homes for 269,000 people, according to a recent report from the Society of Chartered Surveyors Ireland (SCSI).
The Dublin City Council area has about 800 acres of residential zoned land but only 2,444 units have planning permission for immediate development which is 82 per cent less than the minimum requirement of 13,751 homes that are needed between now and 2018.

A shortfall is also seen in the South Dublin County Council area where 1,366 acres are zoned residential, but only 2,483 units have planning permission which is 72 per cent below the 8,766 that are required.

In contrast, almost half of the residential zoned land is in Fingal. However, there are planning permissions for only 15,583 new homes in Fingal but that is 62 per cent more homes than this area needs to meet its project population growth, according to the SCSI.

In Dun Laoghaire Rathdown (DLR), where prices are among the strongest in Dublin, there is planning permission for as many as 6,070 new homes and this is 84 per cent more than the 3,299 that is the projected minimum requirement for the area between now and 2018.

One of the biggest developments in DLR is Cosgrave's Honeypark on the former Dun Laoghaire Golf Course site. A number of smaller developments have also got underway in places such as Shankill, Dun Laoghaire town centre and the Dundrum area.

Whoever buys Project Cherry is also expected to meet some of the demand for those 3,300 homes that are needed in this county council area. According to the council's Strategic Development Zone (SDZ), between 2,647 and 3,836 residential units could be built on this 400-acre section of Cherrywood, but the council needs to get its development agency established to expedite this supply.

Other land owners control a further 230 acres in Cherrywood, including the controversial Jackson Way Properties, Benreef/Johnny Ronan, Friends First, Pecan Properties, Kevin Smyth, William Neville and Tudor Homes, while the council itself also owns a portion of the SDZ land and office blocks.

Dublin City Council has been trying to use the carrot and stick approach to get sites developed in the inner city area between the canals where it estimates there are about 148 acres spread between 300 vacant sites. These include 65 sites on a combined 30 acres in the inner city north of the Liffey, and 61 acres spread over 100 sites in the inner city south of the Liffey. About a third of these are zoned residential and another third regeneration zones with a mix of residential and employment uses.

The council is also working with Nama on encouraging developments in the docklands, with the latter agency supporting the delivery of 2,600 homes in that area.

Nama has also announced that projects are in train for about 1,000 homes in 13 other areas of Dublin from Skerries – where 101 units are commencing – to Churchtown (78 units), and from Baldoyle (205 units), to Ashtown with 220 units.

Meanwhile on Dublin's northside major developers such as Gerry Gannon and McKeon's MKN have been building homes in the Swords area, most notably Gannon's Millers Glen. He has expressed hopes to build over 1,000 homes in that area and has also submitted a planning application for the former Smurfit mill site near Ashton's pub in Clonskeagh.

The SCSI survey, which was produced by Future Analytics Consulting, also shows that there are planning permissions for as many as 1,931 homes in Swords and 2,363 in Balbriggan. A further 880 have permission in Malahide, of which 411 are apartments.

The cut in the profits tax could also facilitate some developers to seek alterations to their existing planning permissions.

As Cantwell explained, many existing planning permissions are unsuited to changing market conditions and current and projected demand. “Consequently, existing owners and developers who are purchasing sites may need to undertake fresh appraisals to ensure that any development will suit market conditions,” he said.

Dr John McCartney of Savills said the tax change should lead to increased pressure from landowners for further re-zonings as they will stand to make greater net gains. Among the sites which might be rezoned to meet housing demand are commercial or residential sites, such as the RTE and Dublin Bus garage sites in Donnybrook, the Glasnevin industrial estates near the junction of the Broombridge and planned Luas Green Line stations, as well as lands currently in industrial use along the Naas Road which is also near the Luas Red Line and within the M50.

Pat Davitt, chief executive of the Institute of Professional Auctioneers and Valuers, believes that even with the reduction, the profits tax at 33 per cent is still too high. “It will form a disincentive for many who would otherwise develop,” he said.

While a spokesman for the Construction Industry Federation expressed the hope that the reduction could lead to more house building, he expressed concern that the Central Bank’s insistence on 20 per cent deposits for home loans will curtail both demand and supply.