

**Raising Standards Throughout
The Auctioneering and Valuation Profession**

**Tackling the Housing Crisis
IPAV Proposal to new Government 2016**

IPAV established in 1971 is the only representative body solely catering for the professional and educational requirements of close to 1,000 Auctioneers and Valuers practising throughout Ireland

Introduction

That Ireland is experiencing a housing crisis, particularly in urban areas, is beyond doubt. We are in an abnormal market in terms of value, production and house sales turnover. The Housing Agency has estimated that an additional 80,368 extra housing units will be needed between 2014 and 2018, an average of about 20,000 a year. These figures are informed by Central Statistics Office projections which estimate that the population of the Greater Dublin Area, combining Dublin and the Mid-East region, could see its population increase by over 400,000 by 2031.

There were 43,428 residential transactions in 2015 equating to a national turnover of 2.2%, considerably below the 4% - 5% that could be considered normal. Despite the population projections new builds this year, 2016, are on course to fall far short of the required 20,000 and are predicted to be of the order of 13,000. A large portion of these new builds will be comprised of one-off houses in the country, not in the cities where demand is greatest. Ten years ago in 2006 new builds were at 93,000, pointing to industry capability to build the quantity now required - 20,000 per annum.

In terms of the rental market a recent study by Daft.ie found that on 1st February 2016 just 3,600 homes were available nationwide to rent, by far the lowest total since the series began in 2006.

The housing crisis is impacting both socially and economically. In October 2015 the head of PayPal Ireland revealed that the multinational was asking its staff to offer rooms to new employees who could not find rental accommodation. She told a conference that the issue was at “crisis point”.

In a market functioning normally one should be able to rent, buy or sell a home. In the current market choice is diminishing and social change is being foisted upon people. Those who can't rent are falling into homelessness, are being temporarily housed by the State in hotels or are staying longer with their families. Those who can't buy are renting longer or are being pushed out into the suburbs. Cohorts who feature less frequently in the current public debate are those who build properties but who have become 'can't builds' as a result of non-viable building costs. House prices nationally are still 35% - 40% behind the peak of 2006. Second hand homes in many areas of the country are being sold for substantially less than the cost of new builds. And in the Greater Dublin area the majority of building is happening in areas which can command higher sale prices.

The kind of social change set out here is impacting most severely on younger age groups and those with fewer resources. But it is also hurting the economy. This is happening at a time when there are over 300 vacant sites in Dublin city alone, some 150 acres of vacant land that should and could be brought into production.

The current housing crisis displays, to a dramatic degree, how each cohort of society is interdependent. A policy change impacting one group has a downstream effect on another.

We would maintain that social change of the nature outlined in this document should not happen as a by-product of policy or lack of a policy direction or even undue influence of specific sectors but rather as a definitive policy formation arising from planning cohesively and thoroughly for a sustainable property market.

Unless we tackle the fundamental problems that remain at the root of the current housing crisis it will continue to throw up unintended consequences, exacerbating rather than solving many of the issues at play. The Government has the power to create the environment for the industry to ramp up to meet the current challenges.

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.

IPAV would question the continued policy of NAMA to sell large numbers of residential units to foreign investment funds. Such funds have the ability to increase rents by disproportionate amounts leading the rest of the market to then play catch-up. We acknowledge that NAMA must continue to sell down its stock but we believe, given the enormous housing challenges that exist currently, that the organisation should adapt, or be facilitated by Government in adapting, to face these unforeseen challenges. Consideration should be given to NAMA supporting Irish governmental institutions such as housing agencies in acquiring properties.

The prolonging of the housing crisis is not helped by the current administrative and political structure where Government departments focus on the issues from a perspective of individual departmental or ministerial responsibility. Housing policy is so critical to the social and economic wellbeing of any society, but particularly one such as Ireland with severe legacy effects from the financial collapse, that it needs a whole of Government approach. We would encourage the new Government, whatever form it takes, to appoint a full cabinet minister with responsibility for the housing sector.

And we recommend the setting up of a consultative Property Council, comprised of all stakeholders with varying and divergent views, to advise the new Minister.

We believe the process should be inclusive and rapid, not prolonged, with the Government arriving at a plan for long-term sustainability in the housing market with short, medium and long-term goals.

IPAV would be prepared to play its part in such a Council. We see some of the best solutions coming from tackling a series of issues in the supply side which we set out below for consideration by the new Government.

Building Initiative Scheme:

There is widespread acceptance that the cost of building is a major impediment to new house building. 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 15% - 20%, more in some cases. It must be borne in mind that it is the house purchaser who ultimately bears these massive interest costs.

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The new Government needs to incentivise small and large builders by making building finance available at interest rates of between 1% to 3%.

We propose that the Department of Environment, Community & Local Government be empowered to offer finance to builders who wish to participate in an Agreed Price Building Scheme (APBS). This would be made available through a separate fund. The Irish Government could readily borrow from the ECB at historically low interest rates, and it would be repaid to the Government as the properties are sold.

We are aware such a proposal opens itself 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 there should be 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 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 estimate that such a finance package could typically cut €25,000 from the price of a home.

Development Contribution Rebate Scheme:

IPAV believes that the new Development Contribution Rebate Scheme intended to boost house construction in 2016 and 2017 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:

- 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 centres 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.

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

Vacant Site Levy:

IPAV would encourage the new Government to review the recently introduced Vacant Site Levy of 3pc 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.

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.

Mortgages:

Ireland is out of line with many European and other countries where long-term mortgage interest rates can be fixed for up to 20 years at very keen interest rates, or in some cases for the lifetime of the mortgage. Only one Irish lender currently offers a 10-year fixed interest rate. There is a compelling case for Irish banks to be offering these products now. European Central Bank rates are at a historically low level and mortgages by their nature are long-term products for which banks can readily borrow long-term funds. They also have the flexibility to cover their exposure if borrowers want to move on. We believe the new Government must do all in its powers to ensure that this happens. It is essential so that young people, in particular first-time buyers, can borrow with a level of comfort and confidence about the future, just like our European counterparts.

Easing of Central Bank Lending Restrictions:

IPAV believes that while the mortgage lending restrictions introduced by the Central Bank in 2015 are well intended and in principle are important for long-term economic stability, they are excessive in some respects. They are disproportionately impacting first-time buyers in urban areas, especially in the capital, Dublin. We believe the Loan to Income ratio for first time buyers should be increased from the current 3.5 times income to 4 and possibly 4.5 times.

Conclusion:

To conclude, it is our belief that the series of measures outlined here would impact positively across the property sector, releasing the current stubborn impediments. They would benefit all interests and could be amended from time to time as the need arises:

- First Time Buyers would be able to buy a home at a price they could afford with certainty about repayments into the future;
- Affordability: Buyers would very likely be able to purchase a 1,200 sq. ft. or 120 sq. m. home for in the region of €150,000 to €250,000;
- A supply of properties would be available to Renters as first time buyers' move on to buy homes;
- It would ease the homeless crisis, ahead of the social housing policy implementation.

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