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'The Voice of Auctioneers and Valuers in Ireland'

2023 Pre-Budget Submission

By

The Institute of Professional Auctioneers and Valuers

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Contents

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 more than 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 celebrated 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 '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.

This pre-budget submission is intended to help Government implement policies that will help create a sustainable property market and provide some solutions for what is the most economically and socially challenging issue facing Ireland now.

Housing represents the most fundamental political challenge facing Government, and the outcome of the next General Election will be heavily influenced by the success or otherwise achieved by the incumbent Government in addressing the housing problem. The problem is being manifested by data on rents and house prices showing that both are still rising even if the rate has slowed recently.

IPAV is determined to help Government address the housing market challenge. It is in the interests of all stakeholders to ensure that a properly functioning housing market is enabled. Such a market should be characterised by sufficient supply of suitable housing that is affordable; a moderation of house price inflation; social mobility that is not constrained by housing and a high quality and sustainable housing stock that enhances the overall competitiveness of the Irish economy.

2. The Housing Market

In Budget 2023, housing will have to be given significant priority. Housing has been clearly and correctly identified as one of the most significant economic and social challenges facing Ireland at the moment. The housing market challenge is manifested in high and rising prices for prospective buyers, the difficulty for first-time buyers in particular to get on the housing ladder, a high level of homelessness and the cost and availability of rental properties. Since the Russian invasion of Ukraine on 24 February 2022 and the subsequent refugee crisis, the crisis has worsened.

The Irish housing market experienced a very sharp correction from 2007 onwards, in terms of both prices and delivery of housing stock as the economy experienced a very sharp decline in activity levels.

Average house prices recovered strongly between 2013 and 2018, but they moderated during 2019. However, house price inflation started to accelerate again later in 2020 and into 2021 and 2022, despite the COVID-19 crisis.

The strong recovery in house prices from 2013 onwards was driven by pent-up demand coming back into the market after the economic crash; supportive economic fundamentals, particularly the strong recovery in employment; a greater level of confidence about the future; and strong population growth. This rebound in demand came up against a lack of supply following the collapse in house building and the net result was a significant recovery in prices.

Looking forward, it is clear that economic and demographic factors will continue to drive strong demand for housing. On the supply side, capacity constraints in the construction sector, the soaring costs of materials, the impact of COVID-19 and legal challenges to planning are ensuring that supply, although increasing, is significantly lower than required.

This demand/supply imbalance will continue to pressurise the market dynamics in the medium-term. There is no single solution to the housing challenge. A holistic view will have to be taken, with more broad-based consideration given to owner-occupier housing, social and affordable housing, and the rental market.

3. IPAV Proposals for Budget 2023

Housing is the most significant economic, social and political challenge facing Ireland at the moment. The housing problem is due to a combination of strong demand and limited supply. There is no single or simple solution to the housing crisis, and any solution will require a range of different measures that will need to reinforce each other.

Alongside the various housing policy measures in Ireland's current housing strategy, notably *Housing for All*, it is essential that Budget 2023 includes further measures that will help tackle the crisis.

4. Extension of Enhanced Help to Buy Scheme

One of the key issues in the housing market is the relationship between affordability and viability. Affordability is what a potential house buyer can afford to pay for a house, particularly in the context of the Central Bank's mortgage lending rules. Viability relates to the price that a developer would need to obtain to make it viable to deliver that house.

Figures released by the Central Statistics Office in April 2022 showed that house price inflation has slowed for the first time in almost two years, a sign perhaps that the cost-of- living squeeze and the prospect of Interest Rate hikes may be dampening demand. According to the Residential Property Price Index, property prices nationally rose by 14.2 per cent over the year to April, down from a rate of 15.1 per cent in March.

However, the figures showed that the average price paid in Dublin was €512,502 compared to a national average price of €334,722.

A First-Time Buyer (FTB) couple, earning a combined salary of €80,000 would require a deposit of at least 10 per cent of the price of the average house, €33,400, and would be able to borrow a maximum of 3 ½ times salary, which is €280,000.

A FTB who either buys, or self-builds a new residential property between 19 July 2016 and 31 December 2022 may be able to claim a refund of income tax and Deposit Interest Retention Tax (DIRT) paid over the previous 4 tax years.

The Enhanced Help to Buy Scheme gives a refund of the income tax and DIRT a FTB has paid in Ireland over the previous 4 tax years and applies to properties that cost €500,000 or less. It does not apply to PRSI or USC.

A FTB can claim relief on the lesser of:

- 10% of the purchase price of the property
- 10% of the completion value of a self-build property
- The amount of income tax and DIRT paid for the previous 4 years.

The maximum payment is €30,000 per qualifying property under the enhanced relief, and this cap applies regardless of how many people enter a contract to purchase the property.

- **IPAV advocates that the FTB HTB relief be kept for a further three years and that the scheme should have an income limit for qualification so that high income households, such as those earning over €250,000, no longer qualify for the scheme.**
- **This could help fund a grant of €20,000 to enable first time buyers to purchase second-hand homes.**

5. Reduction in VAT Rate for New Houses

Experts agree the average cost of building a new three-bed semi-detached in Dublin is approx. €350k and a further 50 per cent is needed for the estate roads and drains etc. This means that 52 per cent of the cost of providing a new home comes from other soft costs. The total VAT element is also approx. €45/50k, or about 12 per cent of the delivery cost. All new homes include a VAT charge of 13.5 per cent.

A reduction in the VAT rate on new housing to 5 per cent for owner-occupiers, would reduce the cost of delivery of the house by €27,808. This measure would significantly narrow the gap between the amount that could be borrowed and the cost of delivery. It is worth noting that new house sales in Northern Ireland and the UK attract Zero VAT rates.

Under current EU VAT rules a zero per cent VAT rate is not possible, but the second reduced VAT rate of 9 per cent should be reduced to 5 per cent for a period of at least five years.

The objective of the proposed reduction in the VAT rate from 13.5 per cent to 5 per cent is to reduce the cost of delivery and pass the reduction in full on to the purchaser. In the midst of a housing crisis where affordability is under considerable pressure, it does not make sense to force new house buyers to borrow to pay an upfront VAT bill to Government and to pay interest charges on that borrowed money over the lifetime of the mortgage.

Some accompanying measures would need to be introduced to ensure that the saving in the cost of delivery is passed on to the owner-occupier purchaser and is not used to enhance builder/developer margins.

Such measures could include the following:

- The developer is required to sign a Certificate of Reasonable Value for the delivery of the house, which would oblige the developer to deliver at that cost and therefore avoid the VAT liability.
- If the sale closes in the normal way, the developer will receive a credit note from the Revenue Commissioners for the amount of the VAT, that could be offset against future tax payments.
- If the sale closes in the normal way, the Revenue Commissioners could make a once-off payment to the buyer's mortgage, equivalent to the amount of VAT paid.

Various tax schemes have been used in the past in many different areas of the economy to encourage certain activities. It should not be beyond the capability of the Revenue Commissioners and the Government to devise a scheme that would see a reduction in the VAT rate on new housing and ensuring that this reduction is reflected in the price that the buyer has to pay.

Recently, and in particular since the start of the Ukrainian war, the costs of building materials have increased dramatically, which puts viability of delivery under further pressure. Inflation rates of around 10 per cent to 30 per cent within new developments are now commonplace and further increases are certain. Measures that could reduce site enabling costs should be considered to ensure the delivery of sufficient housing in a viable way for developers, while at the same time addressing affordability issues for house buyers.

- **IPAV advocates a reduction in VAT rate on new houses from 13.5 per cent to 5 per cent for a five- year period.**

6. Central Bank of Ireland Mortgage Lending Regulations

Although not directly related to fiscal policy or the budgetary process, the Government must take cognisance of the social and economic impact that the mortgage lending rules are having on the housing market. In 2015, the Central Bank of Ireland introduced mortgage lending rules for mortgage lenders in the Irish market. The new measures set limits on the size of mortgages that consumers can borrow, using loan-to-value (LTV) and loan-to-income (LTI) limits.

The key mortgage lending rules are:

6.1 First-Time Buyers

- The mortgage is capped at 3.5 times income, but 20 per cent of mortgages can be above this limit and known as exemptions.
- A deposit of 10 per cent is required, but 5 per cent of mortgages can have a lower deposit.

6.2 Second and Subsequent Buyers

- The mortgage is capped at 3.5 times income, but 10 per cent of mortgages can be above this limit and known as exemptions.
- A deposit of 20 per cent is required, but 20 per cent of mortgages can have a lower deposit.

Some banks are not availing of the exemptions.

6.3 Buy-to-Let

- A deposit of 30 per cent is required, but 10 per cent of mortgages can have a lower deposit.
- Buy-to-Let mortgages are exempt from Loan to Income (LTI) limits.

The mortgage measures are intended to increase the resilience of banks and borrowers to negative economic and financial shocks and dampen the pro-cyclicality of credit and house prices, so a damaging credit-house price spiral does not emerge. The Central Bank is committed to annually reviewing the calibration of the mortgage measures in the context of wider housing and mortgage market developments to ensure that they continue to meet their objectives.

Mortgage regulations are sensible and prudent, but adjustments are required when the rules are having negative unintended consequences. It is now clear that the regulations as currently constituted are effectively locking those on average incomes out of the home-ownership market. In an environment of historically low mortgage interest rates, prospective buyers on average incomes, and even those on relatively high incomes in some parts of the country, cannot aspire to home ownership and are being forced into a rental market that is not functioning properly.

In many cases, average monthly rents are higher than monthly mortgage repayments. This was demonstrated clearly in recent Daft.ie Rental Price Reports. In effect, this means that many young people are not able to aspire to what is a cultural norm in Ireland, home ownership. As such, they cannot build up equity in an asset, and given that many younger people have poor or no pension arrangements, the financial implications later in life are very significant.

From the perspective of equity and fairness, limiting home ownership in many parts of the country to those on high incomes is not acceptable or sustainable. Facilitating home ownership for younger people who aspire to home ownership would take pressure off the rental market by freeing up rental properties, ease rents and alleviate the growing pressure on the Housing Assistance Payment (HAP).

Enabling those earning up to €60,000 to borrow up to 4 ½ times income would bring some equity to the situation and give hope to a large cohort of the younger generation. In addition, long-term fixed rate mortgages should become the norm, and would protect borrowers from short-term interest rate volatility.

- **IPAV strongly advocates allowing those earning up to €60,000 to borrow up to 4½ times their income.**
- **IPAV also strongly advocates as people are living much longer, that the option to extend the mortgage term should be exercised by banks up to 40 and 50 years.**

7. Rent Pressure Zones

Rent Pressure Zones (RPZs) were introduced in December 2016 to help control rapidly rising rents. The legislation was due to expire at the end of 2021 but has been extended to the end of 2024. It is now quite clear that the effect of the system is to vastly distort the market and to cause rents to rise.

Initially, rent increases of no more than 4 per cent were allowed in RPZs, but this favours landlords with higher rents. Since 16th July 2021, the 4 per cent formula was replaced by the Harmonised Index of the Consumer Price (HICP) and later still this was restricted to 2 per cent.

A recently published study by economist Jim Power and commissioned jointly by IPAV and the Irish Property Owners' Association (IPOA) has concluded the rental market is in a state of crisis exacerbated with the exit of non-institutional landlords in significant numbers, reducing supply and putting upward pressure on rents.

Among the study's findings were:

- The constantly changing and very challenging regulatory and taxation environment that treats private landlords very differently from institutional landlords, is largely responsible for private non-institutional landlords leaving the market.
- RPZs (Rent Pressure Zones) are creating a two-tier rental market and leading to a situation where maintenance of quality accommodation is not economically justifiable and negatively impacting on capital values where the property is the subject of the RPZ rules.
- It is likely that landlords that historically charged rents under market rate and are confined to minimal increases arising from RPZ regulation are exiting the market in greatest numbers.
- These landlords are replaced in the market in part by new properties at much higher rents and owned by institutional landlords with no evidence available to confirm if any net additional new properties have come onto the rental system.
- Rent Pressure Zone regulation has prevented rents from falling as well as rising beyond the limits set.

The study said there has been a collapse in private investor participation in the market, dropping from 19.9 per cent of total mortgage lending in 2006 or €7.9 billion to 1.4 per cent in 2021 or €143 million. It concluded there has to be a move away from policies that discriminate against private landlords, and which give them little incentive to participate in the rental market. "If private landlords continue to exit the market, the situation is going to get worse," it warns.

The RPZ legislation has created serious distortions in the rental market. A key problem is that the Residential Tenancies Board (RTB) publishes quarterly data that includes new rentals in RPZs that are not subject to the restrictions, together with those that are subject to the rules, with no distinction being recorded, although this is now being addressed. A proper data set and evidence base is required before the legislation expires and before any decisions are taken on what might replace it.

Unfortunately, for some landlords there has been so much intervention with the legislation that they are holding properties out of the rental market fearing what the Government may do next. New legislation passed through the Houses of the Oireachtas in June 2022 which increases the notice periods for termination notices from landlords will hasten yet again the exit of small landlords from the market. Certainty is required here from Government to the rental sector to gain long lost trust. The Government needs to go back to the drawing board and bring back equity to rents which now run on what is effectively a two-tier system. We need to lower the high rents and increase the low rents to bring them to open market rent levels. As long as properties are rented below market rent, it disincentivises such landlords from entering into long term leases. For long term leases, landlords would need far more confidence about their long-term prospects than they have currently.

- **IPAV strongly advocates introducing a tax regime that is relative to both small and large investors of a common income tax rate of 25 per cent.**

- **IPAV further advocates rental income should not be treated as passive income only and allow landlords to fund a pension from such income and claim a tax allowance for same.**

- **IPAV also believes landlords in an RPZ, on re- renting their property when a tenant leaves, should be allowed to charge market rent on that property. This could also be done by giving a tax voucher to the landlord *in lieu* of the increased rent if the Government prefers the new tenant should not pay the increased rent.**

- **IPAV also proposes that a Certificate of Fitness for every rented home covering up-to-date fire and building standards should be available before a property is offered for lease in the rental market. A panel of inspectors should be set up by Government or through County Councils. Estate agents cannot provide these Certificates of Fitness as not all properties are rented through estate agents and estate agents do not have the relevant skills to do this job.**

8. Vacant Homes and Shops

According to Census 2016, there were 183,000 vacant dwellings in the country on the night of the Census, not including holiday homes. Of this figure, 140,000 were houses and 43,000 were apartments. The census captures vacant homes once every five years on a single night. Preliminary figures released from Census 2022 which took place on the night of 3 April show there were 166,752 vacant homes, a drop of 9 per cent on the 2016 Census figures.

The reality is that Ireland has a shortage of housing, both for owner-occupier and rental purposes and there are a substantial number of vacant houses, derelict sites, and closed shops and other business premises around the country. The issue of vacant shops and business premises was exacerbated by COVID-19.

A strategy that would bring those vacant properties and business premises into the housing stock would make a significant contribution to the housing crisis but would also make a significant contribution to making towns, villages and cities living organisms again.

A ‘National Vacant Housing Reuse Strategy’ was published in 2018, which included objectives around having consistent data on vacancies and bringing forward workable measures to tackle the issue.

In England there are approx. 25 million homes and a 0. 9 per cent vacancy rate. In Ireland we have an 8 per cent vacancy rate and a huge opportunity to get some of these properties back into a livable condition that will have an immediate effect on our housing stock.

The reality is that to bring those vacant premises back into the housing stock, realistic tax incentives will be required. The creation of an annual register of all vacant homes and shops should become mandatory for all County Councils, and they should be obliged to bring 10 per cent of the vacant properties in the council area back into production each year.

- **IPAV strongly advocates the introduction of realistic tax incentives to bring vacant homes and shops back into use. This must include a free, or amnesty period, for Capital Gains Tax (CGT). If owners are not encouraged to sell and given incentives, they simply will not sell vacant homes.**

- **IPAV advocates the introduction of a Government fund administered at low interest rates made available to purchasers wishing to purchase derelict, or vacant homes until they get their new home into a livable state and able to re-mortgage it and repay the loan. IPAV welcomes grants that are currently available, but grants cannot be taken advantage of if, initially, purchasers cannot draw down mortgages to purchase the property.**

- **IPAV advocates the introduction a non-repayable €50,000 purchase subsidy for First Time Buyers of derelict homes to be administered as per the Help-to-Buy Scheme.**

- **IPAV advocates the introduction of a non-repayable €20,000 purchase subsidy to First Time Buyers of vacant homes of more than 3 years to be administered as per the Help-to-Buy Scheme.**

9. Sustainability

Ireland is now subject to significant climate change obligations and will be subject to significant fines if it does not attain its international targets. Housing will have to contribute significantly to Ireland’s climate change agenda. The reality is that for householders to contribute to the agenda, incentives such as tax allowances and grants will be necessary.

IPAV recommends that a BER rating should be made mandatory for every private home in the country. The cost should be borne by the houseowner but should be fully allowable against income tax liabilities. In the event of a non-taxpaying household, a grant equivalent to the tax allowance should be given.

To encourage the use of Solar Panels and Thermal Solar, IPAV is recommending that an allowance of 20 per cent should be given against the annual LPT liability.

It is not clear that the large retrofitting of some properties is the best way to look at housing requirements. It may well be seen after a national BER campaign that giving grants to those on a low rating to bring them to a higher rating may be a better pay off. There is no guarantee either that a higher BER rating will in fact increase the value of a property. It may, however, make some properties more saleable which, in its own way, is adding value to the property. This is where the Property Price Register could play an important role by including the BER rating to its general values. Then it can be clearly demonstrated which properties and at what BER level carry the highest increases.

- **IPAV strongly recommends that a BER rating should be mandatory for every private home, not just ones that are going on the market to enable the Department of Housing, Heritage & Local Government to investigate the current up-to-date national BER ratings for all homes.**

- **BERs should be included on the Property Price Register. If this is done, property owners can evaluate the price increase available by upgrading their BER rating.**

10. Increasing Supply by Correcting Planning Regulations and Other Distortions

10.1 Planning

This continues to be a major hold-up in relation to start-ups on zoned residential land. The consistent use by third parties of the judicial review process has had a severe and detrimental impact on the supply of planning permissions and therefore the supply of residential accommodation.

It would appear that up to 60 per cent of planning permissions which are granted by An Bord Pleanála are appealed by way of a judicial review. It has now created a new tier for planning which as well as creating considerable uncertainty, also adds considerable costs associated with seeking a planning permission.

10.2 Planning Consultation

This continues to be a major difficulty where developers consult with the local authority and agree a strategic plan to move forward with their application only to find that staff changes occur and the new staff do not agree with their predecessor and the whole process goes back to Stage 1, creating additional uncertainty and additional costs which again are eventually passed on to the purchaser.

10.3 Planning Regulator

Directions are given by the Planning Regulator to local authorities in the greater Dublin area and throughout the country in relation to zoning lands at a time when there is housing crisis. This exacerbates the supply of suitable sites, and the uncertainty with these instructions creates issues in relation to funding i.e., lenders will not lend on land unless it has a planning permission ready to go.

This also drives up the costs of sites for those with a ready to go planning permission. This additional cost is then added to the price of the property which means that the purchaser is paying more.

The unfettered power of the Regulator is creating huge economic difficulties and exacerbating the supply crisis.

10.4 Funding

This continues to be a major difficulty, especially for smaller developers and builders, and the issues mentioned above mitigate against the supply chain functioning efficiently. The funders are hardening their terms so that the costs for smaller developments nationwide are increasing to an uneconomic level.

10.5 Irish Water

The hold-ups in receiving consultation meetings and engagement on sites continues to be a major issue for developers. The hold-up from a time point of view exacerbates the funding costs of building which are then passed on to the eventual property purchaser.

10.6 Taxation

It often happens that families have land suitable for development but because of the taxation structure, where they are likely to be taxed twice through Capital Gains Tax and Inheritance Tax, the land is not released for development. Therefore, the landowners find it more prudent to wait for the demise of the landowner and the transfer of the assets into estate, to ensure there is only one taxation point i.e., Inheritance Tax payable.

A mechanism needs to be put in place whereby if the lands are transferred to the immediate family and the land disposed of for development within a specific period, then there would only be one level of taxation. This should free up additional assets for development especially in more urban areas.

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