



Pre-Budget 2018 Submission

July 2017

Introduction

It is now a year since the Action Plan for Housing and Homelessness was launched. Significant progress has been made in tackling many of the issues facing the housing market. However we remain in a situation where the demand for accommodation remains significantly higher than the available supply.

PII reiterates its call that budgetary policy should have a primary focus of ensuring that accommodation which is affordable is available across the income distribution. The need remains to remove the barriers to the supply of high-quality new homes. The National Competitiveness Council *Costs of Doing Business in Ireland* report highlights the link between housing availability, affordability and competitiveness. As Ireland prepares for Brexit and possible changes in US policy, maintaining competitiveness for a small open economy like Ireland is crucial. It is important for Government to recognise the role of the housing market in our competitiveness and continue to look to address the crisis of undersupply with urgency.

PII believes the real challenge which remains to be addressed is bringing down the cost of delivering homes. PII has made a number of recommendations to improve the planning system and other regulatory delays to bring this cost down. However, budgetary measures can help bring these costs down further. The effectiveness of these measures in moderating the rate of increase in property values would be improved through further liberalisation of the provision of land for residential development. This would include increasing allowable development heights where suitable, increased densities and a further liberalisation of the amount of zoned land for residential development.

The Help to Buy scheme for first time buyers announced in Budget 2017 was welcomed by PII. There is anecdotal evidence from our members that it has led to an increase in starter home development to meet this reinforced demand and it is our view that the scheme should be retained. Furthermore, analysis has shown that the number of properties purchased using the help to buy scheme accounts for only 2-3% of the market and it is a lack of supply, rather than the scheme, that is leading to house price increases. PII therefore believes that the scheme should be maintained to its original deadline of 2019 to maintain certainty in this segment of the market.

The challenge of accessing homeownership has pushed many into the rental market either temporarily as they save their deposit or as owning a home at their income level has become impossible. While some will require support to either pay their rent or a more permanent solution in social housing, rental has also become a tenure choice for many. It remains important that there continues to be a supply of new rental properties to the market and that the benefit of providing housing in this tenure form is recognised. While it is welcome that new supply is not affected by the rent predictability restrictions, Government should be cognisant that it is important to keep existing rental properties in the market, most of which are owned by landlords owning one or two properties.

Investment in and supply of new rental stock will be encouraged by treating residential property as similar to commercial property in respect to taxation.

To this end, Property Industry Ireland submits the following recommendations to the Minister for Finance by way of a pre-Budget 2018 submission. We identify key actions that, coupled with those in the Action Plan, would ensure a return to viability and a functioning housing market able to deliver homes for all. The recommendations that we make are in line with the national priority of ensuring a well functioning housing market.

When evaluating policies for the current housing market Property Industry Ireland would suggest that interventions should be assessed against the following objectives:

1. Improve the viability of building new homes and consequently increase the supply
2. Increase the supply of dwellings to the Private Rented Sector
3. Retain existing landlords in the Private Rented Sector
4. Increase the supply of new social housing being built
5. Increase supply from buy-to-let investors

It is the view of PII that meeting the above objectives will help to make residential property more accessible and affordable for home seekers.

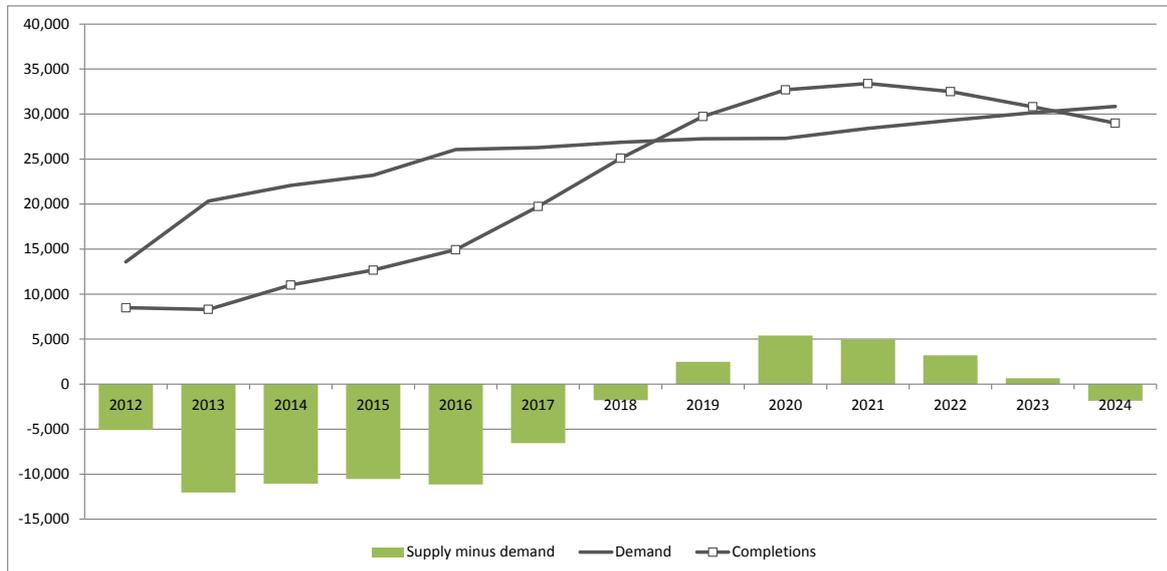
One overarching point that PII would like to stress is that certainty in taxation policy and overall policy initiatives is important, especially for the next couple of years.

Improving supply should be the primary focus

While there are many issues that need to be addressed in the housing market PII are of the view that the primary focus of any policy intervention must be to increase the supply of new builds into the market. An increased supply of more homes will ease demand pressures in the owner occupancy market but should also help alleviate such pressures in the rental market. Building new social housing should have a similar impact.

The ESRI's publication *Ireland's Economic Outlook* (December 2016) forecasts the level of housing demanded and the level of housing supplied out to 2024. Using this we can see that supply is substantially below demand until 2019. It is also evident that this undersupply is not offset by any oversupply post-2019.

Figure 1: Housing Demand and Supply levels



Source: Own analysis based on ESRI report

While the economy continues to recover from the Great Recession, resources remain limited and so in our Pre-Budget Submission, PII make the following recommendations, recognising that the viability of homebuilding remains a serious barrier to new supply. Taxation initiatives that may contribute to viability should not be shirked simply because they will contribute to developer profit which is a necessary element of any viability appraisal.

Taxation Initiatives

PII puts forward a number of taxation proposals aimed at achieving the objectives outlined above.

1. Reduce the VAT rate from 13.5% to 9% for all construction type services. Such a reduction would decrease the cost of construction that would lead directly to more sites becoming viable and increased building of new homes. A zero-rate of VAT would have a greater improvement of viability and would also be welcomed by the property industry. Such a crisis measure should be time limited to two years, after which point it would be reviewed. If the annual supply of new housing has met annual demand the measure could be phased out. These measures would be most effective in decreasing the cost of housing if they are coupled with liberalising the use of land including through increased heights, densities and a further liberalisation of the amount of serviced zoned land for residential development. A cut in VAT may be revenue positive through stimulating activity in housing construction.

2. Provide a tax credit to homebuilders for the construction of first-time buyer homes to improve the viability of starter homes.
3. Specific additional targeted VAT reductions for construction of social housing and those who engage in build-to rent activities by means of a tax credit.
4. Treat rented residential property as similar to commercial property in respect to taxation. Allow VAT recovery on acquisition or development of rental investment residential property. VAT is chargeable on the rent. The investor pays VAT over period of time, with a cut-off when VAT charged on rent equals VAT recovered. This would mean that there is no requirement to finance VAT up-front. This could be an alternative to income tax credit.
5. Consider introducing targeted "S23" relief to encourage taxpayers to stay and invest in the rental market for a defined period of time.
6. Exempt rental income from income tax for a number of years to incentivise investment/new supply. Properties rented out as part of the Fair Deal Scheme should be exempt from taxation to promote the provision of these properties to the rental market as quickly as possible.
7. Consider introducing rollover relief for Capital Gains Tax "CGT" for a residential investor who sells an investment residential property and reinvests the proceeds in residential property. The base cost of the new property to be reduced by the amount of the gain on the property disposed of. This relief would not apply to owner occupied property.
8. Reduce cost of funding for builders/developers by allowing a double tax credit for interest payments.
9. Double interest allowance for Part V supply
10. Recognise build-to-rent as a separate asset generally and for tax purposes.

No.	Proposal	Objective					Number of objectives impacted	Likely impact on housing delivery	Expected Initial Exchequer Cost
		Improve viability of new home building	Increase supply to PRS	Retain existing PRS landlords	Increase supply of social housing	Increase supply from buy to let investors			
1.	VAT rate to reduce from 13.5% to 9% for all construction type services.	✓	✓			✓	3	High	Medium
2.	Tax credit to homebuilders for the construction of starter homes.	✓	✓		✓		3	High	Medium
3.	Specific additional targeted VAT reductions for construction of social housing and those who engage in build-to rent activities.		✓		✓		2	Medium	Low
4.	Rented residential property be treated as similar to commercial property in respect to taxation	✓	✓			✓	3	Medium	Medium
5.	Consider introducing targeted "S23" relief to encourage taxpayers to stay and invest in the rental market for a defined period of time	✓	✓	✓		✓	4	Low	Low
6.	Exempt rental income from income tax for a number of years to incentives investment/new supply. Permanently exempt "fair-deal" properties from income tax.		✓			✓	2	Medium	Medium
7.	Introduce rollover relief for CGT for a residential investor who sells a residential property and reinvests the proceeds in residential property. Base cost of the new property to be reduced by the amount of the gain on the property disposed of.			✓		✓	2	Medium	Low
8.	Reduce cost of funding for builders/developers by allowing a double tax credit for interest payments.	✓	✓		✓		3	Medium	Low
9.	Double interest allowance for Part V supply.	✓			✓		2	Low	Low
10.	Recognise Build-to-rent as a separate asset class.		✓			✓	2	Medium	Nil
Number of times objectives ticked by proposals above		6	8	2	4	6			

Note: PRS=Private Rented Sector

Policy Recommendations:

- Retain the Help-to-Buy scheme introduced in Budget 2017 until its expiry on 31 December 2019. It is important that a clear message be sent by Government that the scheme will be retained to this date as certainty is required to ensure the scheme continues to have a positive impact on supply.
- Compare the structure of Help to Buy Schemes internationally to inform the establishment of a permanent scheme to help affordability for key workers and first time buyers.
- Establish an independent National Infrastructure Authority to identify and prioritise spend on infrastructure projects.
- Establish a rolling fund for the provision of local Infrastructure to un/under-serviced zoned land that has the potential to deliver housing or commercial development.
- The National Infrastructure Authority should be responsible for the calculation of Section 49 supplemental development contributions. The charge to be paid per unit should be directly proportional to the benefit that will be derived by the specific development unit.
- Government should identify and sell any state/semi-state property holdings identified as part of Rebuilding Ireland *Housing Land Map* which are currently not fully utilised and which Government/semi-state bodies would not purchase at their existing open market value. Consideration should be given to selling such properties subject to a covenant to develop the property within a period to be agreed in each case subject to the circumstances specific to each property. This will ensure both a source of revenue for the provision of social housing and provide property to the market to deliver much-needed commercial and residential property.
- Optimise a commercial structure that enables the State to access private capital to build social houses at scale.
- Review local authority financing to ensure that local infrastructure and services are adequately financed.
- Establish a Rent Guarantee Scheme to ensure regional commercial property availability

Help to Buy (HTB) Scheme

A review of the Help to Buy (HTB) Scheme is being undertaken by the Department of Finance. PII has made a submission to this review. It is the view of PII that it is too early to assess the full impact of the scheme. Notwithstanding this, the scheme is already helping to stimulate supply. Supply is the key issue that needs to be resolved in the housing market. The scheme has delivered certainty to home builders, funders and first-time buyers.

Given the small proportion of first-time buyers in the new homes market at present the HTB scheme is not contributing in any significant way to house price inflation. CSO data shows that first time buyers of new homes are a small component of the total market. Based on CSO statistics, first-time buyers account for less than 3% of all transactions. Thus, the HTB scheme can only be having, at most, a small impact on new house price inflation.

The current scheme is in place until 2019. PII recommend that a comparison of Help to Buy Schemes internationally should be undertaken to inform the establishment of a permanent scheme to help affordability for key workers and first time buyers. For example, in the UK Help-to-Buy operates via an equity loan scheme. Under the Equity Loan scheme, Government lends first-time buyers up to 20% of the cost of a newly built home, requiring only a 5% cash deposit and a 75% mortgage to make up the rest. Loan fees are not charged on the 20% loan for the first five years of home ownership.

Infrastructure

Although we have seen economic recovery general national debt remains high and EU spending rules mean that it is important that the benefit from any expenditure decisions is maximised. The *National Planning Framework – Ireland 2040* is currently being developed. It is important that Ireland invests in infrastructure to ensure that lack of infrastructure does not act as a constraint on economic activity.

PII recommends the establishment of an independent National Infrastructure Authority along the lines of Infrastructure Australia or the National Infrastructure Commission in the UK to identify and prioritise spend on infrastructure projects.

The provision of infrastructure can be a key blockage to the viability of sites for the provision of housing. The Local Infrastructure Housing Activation Fund (LIHAF) has been established to address infrastructure barriers on sites that are successful in applying for funding. LIHAF received €800m of applications for a funding pool of €200m. PII is of the view that this points to the extent that a lack of infrastructure is a barrier to housing development.

Although a fund for infrastructure is a welcome initiative PII are concerned about the ability of some of the LIHAF projects selected to deliver substantial amounts of new housing quickly. To overcome infrastructure constraints on new housing development PII recommend that a rolling fund be established for the provision of local Infrastructure to un/under-serviced zoned land that has the potential to deliver housing or commercial

development. To ensure that the distribution of limited resources maximise the number of new homes delivered PII recommend that the allocation of the fund be on the basis of cost/benefit and delivery timeframe analysis overseen by the new National Infrastructure Authority.

PII are also of the view that a review of infrastructure funding mechanisms be undertaken. The aim of this review should be to ensure that infrastructure and services are adequately financed and any taxation on new home building is proportionate and transparent.

Stimulating the supply of regional commercial property

Brexit and balanced regional development require that there be available commercial space in which businesses can locate. A key stumbling block in this regard is the availability and cost of finance. PII recommend that a Rent Guarantee Scheme for strategically relevant properties, for which there is viable demand, be established. By providing a level of income such a guarantee improves the viability of providing commercial property. The availability of commercial space should help attract activity to the key regional centres.

About Property Industry Ireland

Our vision:

A sustainable Irish Property Industry which is creative, responsive, competitive and well integrated in meeting the socio-economic needs of all the stakeholders in the built environment

Our mission:

To be the trusted partner and provider of “evidence based” information, policies and strategies for the property industry at National level, to the Oireachtas, Government, Local Authorities and Agencies, and for the benefit of the people of Ireland.

Our objectives are to:

1. Be the Leadership Forum in the Industry for the discussion on National Property Issues
2. Develop, propose and support a National Property Strategy, policies and solutions to issues for the benefit of the nation as a whole
3. Be a research led organisation, which collates and commissions relevant and innovative research on Ireland's construction sector in order to promote & sustain a competitive economy
4. Be the go-to organisation for Government and the Oireachtas on all aspects of property
5. Work with all stakeholders in the industry to restore it to a sustainable position in the economy
6. Increase membership through demonstrating the achievements and outcomes in relation to national strategy and policy

PII Council:

Tom Phillips, Tom Phillips + Associates (Chairman)
 Aidan O'Hogan, Property Byte Ltd.
 Patricia O'Brien, BHK Solicitors
 Tony Reddy, Reddy Architecture + Urbanism
 Padraic Whelan, Deloitte
 Michael O'Flynn, O'Flynn Group
 Jim Gallagher, Lafferty
 Cormac O'Rourke, Goodbody Stockbrokers
 Mark FitzGerald, Sherry FitzGerald
 Michele Connolly, KPMG Corporate Finance
 Ivan Gaine, Sherry FitzGerald
 Colin Hunt, AIB

Policy Committee Chairs:

Executive Committee –
 Michael O'Flynn, O'Flynn Group
 Technical and Construction Issues –
 Jim Gallagher, Lafferty
 Planning and Development –
 John Spain, John Spain Associates
 Funding Initiatives –
 Michele Connolly, KPMG Corporate Finance
 Market Supply and Demand –
 Ivan Gaine, Sherry FitzGerald

Executive:

David Duffy, Director
 David Howard, Policy Executive

Recent publications:

- The Property Industry – Rebuilding Ireland's Economy (2011)
- Development of infrastructure Bonds (2011)
- Real Estate Investment Trusts for Ireland (2012)
- Putting the Residential Property Market on a Sustainable Footing (2012)
- Planning a better future: a report on reform of the Irish Planning System (2012)
- Towards a National Property Strategy (2013)
- Delivering Ireland's Property Needs (2014)
- A National Spatial and Development Plan for Ireland (2014)
- The Cost of Construction in Ireland: A European comparison (2014)
- Investing in Social Housing (2014)
- Housing Manifesto (2015)
- Policy Reform to Increase the Delivery of New Housing (2016)
- Delivering Rebuilding Ireland: PII Pre-Budget 2017 Submission (2016)
- Tax Treatment of Rental Income (2017)
- Rental Strategy Response (2017)



Property Industry Ireland
84 - 86 Lower Baggot Street
Dublin 2 Ireland
info@propertyindustry.ie
01 605 1666
www.propertyindustry.ie