SOCIETY OF CHARTERED SURVEYORS IRELAND

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PRE-BUDGET SUBMISSION 2021

PRIORITIES FOR DELIVERING A SUSTAINABLE PROPERTY AND CONSTRUCTION SECTOR

PRE-BUDGET SUBMISSION

Mr Paschal Donohoe, TD
Minister for Finance
Department of Finance
Merrion Street
Dublin 2

Mr Michael McGrath, TD
Minister for Public Expenditure and Reform
Department of Public Expenditure and Reform
Merrion Street
Dublin 2

Dear Minister

On behalf of the Society of Chartered Surveyors Ireland (SCSI), I would like to submit our pre-Budget submission 2021 for your perusal and consideration ahead of October's Budget Day.

The Society is the largest professional body in the property, land and construction sector with over 5,000 members nationwide. Our members are employed in private and public practice, in both large and small firms. Our representation of 12 professional disciplines allows us to gather independent, real-time, relevant information impacting on the construction and property markets and share this with policymakers to ensure that decisions are made to support the public interest, and the built and natural environment.

Our pre-Budget submission this year follows a similar theme to previous SCSI submissions, as the issues are still prevalent and require continued attention. These are: delivering affordable homes; sustaining vibrant communities; and, investment and planning for future generations.

New housing

The housing supply shortage in our urban centres remains a critical concern for us, as it does for broader society. We have assessed that if new housing output is maintained at current levels, it will be approximately 2031 before new housing and projected demand reach equilibrium. In recent times, we have seen year-on-year house price growth. This brings confidence to funders to invest in new schemes, which ultimately delivers new homes to the market. However, as we enter a period of stagnating house price growth and possible house price deflation, intensified efforts are required to tackle the high costs of delivering new homes to ensure that new product is fit for the market in which it is being sold. We call on the Government not to introduce measures that will exacerbate the already high costs of delivering new homes to the private market.

Ensuring an adequate supply of social and affordable housing is now more critical than ever and, within our submission, we have outlined how this should be considered and addressed, not just for the immediate term, but for the long term. A 10-year strategy is required so that a roadmap of delivery can be supported by all stakeholders. We believe that the Commission for Housing as set out in the Programme for Government should be established to facilitate a comprehensive consultative process to help deliver change.

Climate

Within the Programme for Government, the retrofitting plan for residential housing sets a challenging target but one that the construction sector is keen to deliver upon. It will require significant leadership and funding to commence this retrofitting plan. Within our submission we include practical advice and suggestions to help with the roll-out of this national plan so that, ultimately, we have sustainable second-hand housing stock fit for generations to come, and that evolves in an environmentally friendly manner.

The year 2020 will be remembered for the arrival of Covid-19 and most likely will also be remembered for the significant change it has brought to many businesses and sectors. Retail has been particularly impacted as a result of Covid-19 as many consumers now opt to buy online to avoid community transmission of the virus. It's expected that in some locations, retail units may be repurposed to residential use where appropriate. Within our submission, we have set out some considerations to support this in areas struggling to cope with declining populations, especially more regional areas where residential is more popular in suburbs. The promotion of more residential living in our urban centres should be promoted and encouraged as much as possible to breathe new life into declining town centres and help in a transition to a more sustainable compact living model.

In previous SCSI pre-Budget submissions we recommended a move away from transactional taxes as a source of income for the Exchequer as this can be a volatile source of income, susceptible as they are to economic downturns. We note incremental increases in Stamp Duty over recent years and suggest that this is reviewed in light of current economic challenges at a time when investment in construction and property is so important.

Capital investment

Brexit and Covid-19 have impacted widely on all economic activity and this has been particularly evident in the construction sector. Our members have already reported to us that more competitive tendering is evidenced in recent projects and that this trend is likely to continue well into 2021. We call on Government to take advantage of more competitive tendering to deliver key projects for the State. We have already noticed a growing trend of procurement consultants providing a greater proportion of their services to the public sector, which is positive to see and testament to the great work by the Office of Government Procurement and others to ensure that public procurement is not just about attracting the right people from larger firms, but from smaller firms also. Within our submission, we have outlined where improvements can be made to further support activity in this sector.

Professional indemnity insurance has been identified as becoming increasingly difficult to obtain and maintain. As an essential element of construction costs it is vital that this matter is addressed urgently. We urge the Government to meet with the Construction Industry Council to discuss this matter further.

Finally, I would like to take this opportunity to thank you, the Department of Finance and the Department of Public Expenditure and Reform in particular for your strong engagement with industry over the past 12 months. We hope that this continues well into 2021 so that together we can, as much as possible, ensure that all that can be done is being delivered for the health of society and businesses into the future.

Should you require any further elaboration on our recommendations, we will be delighted to meet with you.

We hope that you will find the content of our 2021 Budget submission helpful. If you require any further information, please do not hesitate in contacting me.

Yours sincerely,

Micheál Mahon MSCSI MRICS
President

KEY RECOMMENDATIONS

DELIVERY OF AFFORDABLE HOMES

Delivering affordable and sustainable housing

- Establish a forum within the Commission for Housing (as per the Programme for Government) to consider the longer-term strategy for new housing delivery including:
  - taxation treatment on housing and land;
  - longer-term commitments for home purchase initiative schemes; and,
  - the impact of regulatory changes on overall housing and apartment delivery costs.
- Leverage the Land Development Agency and local authorities to deliver new alternative models of delivery for social housing by utilising private sector developer involvement.
- Commence a large-scale public sector house building programme via local authorities to take advantage of a likely softening in construction costs in the coming two years.
- Conduct a root and branch review of all landlord and tenant supports to ensure adequate support for this important sector.

SUSTAINING VIBRANT COMMUNITIES

Revitalising, repurposing, and retrofitting existing stock to sustain vibrant communities

- Develop a strategy for the rolling out of the National Retrofits Plan (as per the Programme for Government), which ensures that the target numbers can be achieved while ensuring a quality service, provided by an educated and equipped industry.
- Proactively address vacant buildings in towns to revitalise town centres. Introduce tax reliefs and grants that can be used to improve buildings and shopfronts with a collaborative local authority-led approach.
- Remove rates exceptions for long-term vacant properties.
- Utilise compulsory purchase order (CPO) powers to acquire strategically located vacant property for town renewal projects.

INVESTING FOR FUTURE GENERATIONS

Investing and constructing for future generations

- Develop a construction tech sector in Ireland to foster innovation and increase the resilience of industry to challenges such as Brexit and a changing world of work.
- Escalate the review programme (included within the Capital Works Management Framework) to investigate issues pertaining to the provision of adequate professional indemnity insurance.
- Continue to support and equip industry through programmes and workshops designed to ensure continuity of a highly skilled and trained workforce.
- Remove exclusionary criteria limiting some consultant types from tendering for public projects.
- Carry out full digitisation of the eTenders website.

CONTENTS

VALUE OF PROPERTY, LAND AND CONSTRUCTION SECTORS

CONSTRUCTION

148,000

CONSTRUCTION EMPLOYMENT:
148,000 PEOPLE – 2% INCREASE IN 12 MONTHS
SOURCE – CSO

€25BN

VALUE OF CONSTRUCTION OUTPUT:
€25BN – REPRESENTS 9% OF GNP
SOURCE – LINESIGHT

4.2%

AN INCREASE OF 4.2%
CONSTRUCTION OUTPUT
OVER THE SAME PERIOD
SOURCE – CSO

21,000

21,000 NEW RESIDENTIAL UNITS IN 2019
SOURCE – CSO

6%

TENDER PRICE INFLATION AT 6%
SOURCE – SCSI

PROPERTY

6,000

6,000 LICENSED AUCTIONEERS,
ESTATE AGENTS AND PROPERTY MANAGERS
SOURCE – PSRA

50,000

TOTAL NUMBER OF RESIDENTIAL SALES ANNUALLY: 50,000
SOURCE – PROPERTY PRICE REGISTER

40,000

C.40,000 ACRES OF LAND SOLD EACH YEAR
SOURCE – IRISH FARMERS JOURNAL

€20BN

€20BN IN RESIDENTIAL PROPERTY VALUE SOLD IN 2019
SOURCE – PROPERTY PRICE REGISTER

7%

REAL ESTATE ACTIVITIES REPRESENT
7% OF ECONOMIC OUTPUT
SOURCE – EY

SECTION 1:

BUDGETARY MEASURES TO SUPPORT OUR COMMUNITY

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1.1 Supporting delivery of housing

The supply of new housing to the market to meet demand remains more challenging now compared with the previous eight years, where it was becoming apparent that demand was quickly outstripping supply. More new housing is coming to the market, but numbers are still well behind what is required.

As illustrated in **Figure 1**, when considering the impact of Covid-19 on the economy and Ernst & Young's projection that the construction sector will not return to 2019 levels of growth until 2024,[1] SCSI predict that housing supply and demand equilibrium will be achieved in 2031. This shortfall needs to be urgently addressed to ensure sufficient housing stock for the population over the coming years.

The SCSI's Real Cost of New Apartment Delivery report, soon to be updated, focused on the more traditional build-to-sell model, which is no longer a major feature of the apartment delivery market. Our updated report will consider the changed landscape of the build-to-rent market, which has made the viability of new apartment construction possible.

In an era where the delivery of new houses (rather than apartments) has been the predominant source of new homes, more needs to be done to facilitate an environment where compact living is made available to consumers.

Challenges such as climate change and provision of infrastructure are obvious reasons why more compact growth is needed, but the solutions are not so obvious.

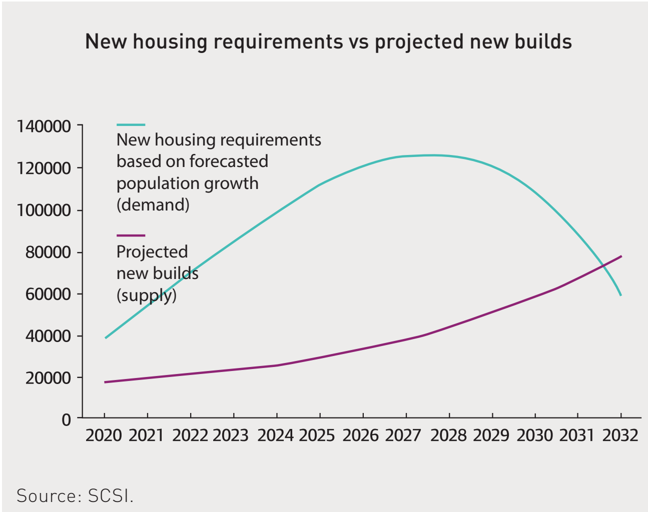


FIGURE 1: New housing requirements until 2032 vs projected new builds during same period.[2] Source: SCSI.

New housing

Houses

The supply of housing and related affordability issues remains one of the biggest challenges facing Ireland leading into 2021. In our 2020 report 'The Real Cost of New Housing Delivery', the SCSI identified that the cost of delivering a three-bedroom semi-detached house in the Greater Dublin Area[3] increased on average by €41,000 or 12% over the last four years, which equates to a 3% increase per annum.

The report identified that there is a significant affordability gap for first-time buyers seeking to purchase a home. The average viability gap, i.e., the financial gap between the cost to deliver a home and the average mortgage (including deposit) available to first-time buyers[4] is €25,000, meaning that couples earning an average salary will need to find at least an additional €25,000 beyond deposit requirements to pay for a new three-bedroom semi-detached home in the Greater Dublin Area.

The analysis of the costs in delivering housing identified that 48% of these costs were 'hard costs' (i.e., the cost of building the house), including labour and material costs.

1 Ernst & Young – Item Club Summer Forecast (UK Forecast).
2 Assumptions: 1. Construction sector growth will not reach 2019 levels until 2024 (see footnote 1); 2. The annual inflationary rate applied from 2024 is 17% which has been calculated based on output over a 10 year period from 2014 (including estimates for 2020-2023 as per above).
3 Co. Dublin, Co. Wicklow, Co. Meath and Co. Kildare.
4 Example is based on a couple earning the average salary in Dublin of €44,000 per annum.

The remaining 52% of the costs derive from the cost of land, VAT, sales, marketing and legal fees, and developers' margin, among other factors (**Figures 2** and **3**).

New completions are likely to be around 16,000-18,000 new units this year, well below where it needs to be to meet demand, which is set at between 30,000 and 35,000 new units per year as per the ESRI's estimate.[5] The SCSI believes that there is no one single solution to Ireland's housing supply and affordability issues. A multi-faceted approach is required to drive down the costs of delivering housing where solutions derive from a collaboration between Government and industry to ensure that this is achieved.

The SCSI recognises the importance of the Help-to-Buy scheme as a mechanism in assisting first-time buyers to get onto the property ladder.

It is important to recognise that such initiatives are led by

Gross Internal Floor Area Average		1,227 sq. ft.	114 sq. m.	
Element	**€**	**€psf**	**€psm**	**% of Total**
Construction costs (per house)				
(A) House Building Cost	138,835	113	1,218	37
(B) Siteworks Within Site Curtilage	12,241	10	107	3
(C) Site Development	27,826	23	244	8
Construction cost (A) + (B) + (C)	**178,902**	**146**	**1,569**	**48**
Other costs (per house)				
Professional Fees	5,650	5	50	2
Levies	13,984	11	123	4
Land & Acquisition Costs	60,823	50	534	16
Sales, Marketing & Legal Fees	8,400	7	74	2
Finance Cost	16,716	14	147	5
Margin	42,671	35	374	11
VAT	44,165	36	387	12
Total Soft Costs	**192,409**	**158**	**1,689**	**52**
TOTAL HOUSE COST	371,311	303	3,25700	

**Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.*

FIGURE 2: SCSI Real Cost of New House Delivery Report 2020. Elemental cost analysis of the average cost of delivery for a three-bedroom semi-detached house in the Greater Dublin Area (private development).[6]

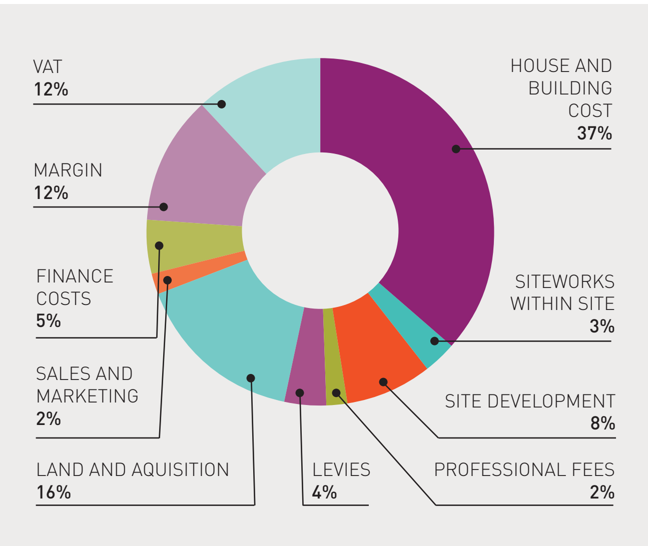


FIGURE 3: SCSI Real Cost of New House Delivery report 2020. Elemental costs as a percentage of overall cost of delivery.

FIGURE 4: Viability of two-bedroom apartment delivery, 2017.

5 https://www.esri.ie/system/files?file=media/file-uploads/2017-11/QEC2017WIN_SA_McQuinn.pdf.
6 Source: SCSI's Real Cost of New Housing Delivery Report 2020.

demand and do not act as a vehicle to address the high costs of construction. Furthermore, by having a scheme which assists those who otherwise would not be buying their first property, Help-to-Buy helps to bridge the viability and affordability gap still present in the new home delivery market. It is welcome to see a review of the Help-to-Buy scheme, including the increased provisions from €20,000 to €30,000 for certain properties, as this recognises the affordability gap that is explained in our cost report.
While the SCSI believes that this scheme is important to support first-time buyers in stepping onto the property ladder, this must be done in conjunction with assessing and addressing the drivers of house delivery costs. The main recommendation of our 'Real Cost of New Housing Delivery' report 2020 calls for the establishment of the Commission for Housing where all initiatives can be accessed within the framework of achieving affordable and viable housing delivery.

Apartments

The National Development Plan sets out objectives for more compact growth, meaning that densification of our urban environment is likely to be a focus in zoning and planning grants. This is positive from a sustainability point of view, and it is hoped will focus capital investment in infrastructure to service a more compact environment.
In 2017, the SCSI published its 'Real Cost of New Apartment Delivery' report, which highlighted the affordability and viability gap with new apartment delivery (**Figure 4**). This report, soon to be updated, focused on the more traditional build-to-sell model, which is no longer a major feature of the apartment delivery market. Our updated report will consider the changed landscape of the build-to-rent market, which has made the viability of new apartment construction possible.
Similarly, with the recommendations from our 'Real Cost of New Housing Delivery' report, regulation changes generally impact on the overall costs of construction. While regulatory changes can be very positive, such as the introduction of nZEB and new fire regulations to protect life, understanding the impact on cost should remain a key focus for all stakeholders to ensure a vibrant market and the delivery of affordable units to the average worker.

RECOMMENDATIONS

- Establish the Commission for Housing as per the Programme for Government.
- Within the Commission for Housing, establish a forum for all stakeholders to participate in discussions regarding the future of housing delivery. The forum should consider the longer-term strategy for new home delivery, including taxation treatment on housing and land, longer-term commitments on schemes such as Help-to-Buy, and considerations of the introduction of a Shared Ownership Scheme or similar to assist those looking to attain property ownership.
- Regulatory and compliance costs have been identified in our 'Cost of Housing Delivery 2020' report as a significant contributory factor in increasing the 'hard costs' associated with housing delivery over the last number of years. A framework to analyse the introduction of new measures and their impact on housing delivery costs should be considered. A full, independent cost–benefit analysis should be carried out ahead of any new regulatory and statutory measures that will impact on the overall delivery costs of new housing.
- The Commission should have broad scope to examine and make recommendations to improve social and private housing delivery to achieve an affordable and sustainable housing model.

RECOMMENDATION

To ensure that best policy decisions are agreed, access to reliable data and trends is key for policy makers.
A lack of land price data is an issue that was identified during the analysis of data inputs for our 'Cost of Housing Delivery Report'.
Land prices are a significant component of overall house delivery costs (16%) and, as such, data should be available to inform stakeholders and policy makers in shaping public policy.

- Develop a public development land sales register of all development land transactions.

Delivery of new public housing

Our 2020 'Cost of Housing Delivery' report identified that social housing can be delivered for, on average, between €140,000 and €160,000 less per unit when compared with private housing. This is because certain cost components such as the cost of land, development levies, marketing costs, and developer's margin are not included in local authority-led social housing delivery projects. Local authorities are therefore in a position to deliver social housing for between €210,000 and €230,000 per unit (three-bedroom semi-detached), as they are not subject to the same market forces and business case studies as the private market.

For example, approximately half of the target of 33,500 new social homes, as noted in Rebuilding Ireland (12,976 homes), were delivered during this period.

The SCSI believes that providing sufficient social housing is a key component in ensuring housing supply and affordability. As illustrated in **Figure 5**, Government targets of delivering 33,500 new build social housing units by 2021 are unlikely to be achieved. The recent Covid-19 lockdown will further delay new build delivery in 2020. The delivery of social housing over the past four years has increased year on year; however, targets as set out in the Rebuilding Ireland plan were not achieved during this period.

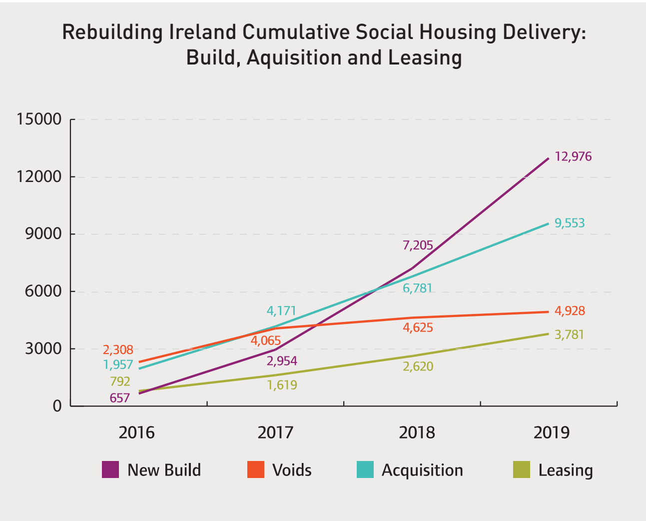


FIGURE 5: Rebuilding Ireland Cumulative Social Housing (Actual) Delivery. Source: housing.gov.ie.

Local authorities are therefore in a position to deliver social housing for between €210,000 and €230,000 per unit (three-bedroom semi-detached), as they are not subject to the same market forces and business case studies as the private market.

For example, approximately half of the target of 33,500 new social homes, as noted in Rebuilding Ireland (12,976 homes), were delivered during this period.

The number of acquisitions exceeded targets by 3,000, while leasing targets (10,000) were almost 7,200 below target.

RECOMMENDATIONS

To deliver the volume of social housing required, the Government should:

- leverage the Land Development Agency and local authorities to deliver new, alternative models of delivery for social housing by utilising private sector developer involvement;
- commence a large-scale public sector house building programme via local authorities to take advantage of a likely softening in construction costs in the coming two years; and,
- review public procurement of housing procedures to allow more efficiency in preparation for increased activity in social housing delivery – significant procurement delays are a common feature, including additional design and related costs often encountered when delivering public works.

Use of existing vacant residential stock

The 2016 Census recorded that over 183,000 residential properties were vacant. While it has been acknowledged that methods of collection of this data during the Census may have led to an overestimation of the figure, the estimated figures demonstrate that Ireland has a disproportional amount of vacant residential properties.

In 2016, the CSO identified the top five reasons for vacancy as follows:

1. **Property was for sale.**
2. **Property was previously a rental property.**
3. **Long-term vacancy.**
4. **Owner deceased.**
5. **Owner had moved to a nursing home.**

In Dublin City and suburbs, the most common reason was 'rental', while in rural areas the most common reasons were 'deceased' and 'vacant long term'.

In recent years, the Government has implemented a number of schemes such as the Buy and Renew and Repair and Lease schemes, aimed at owners of vacant properties to encourage such owners to sell or lease their property for social housing purposes.

More recently, the Minister for Housing issued an appeal via the Call to Housing 2020 as a national call for property owners and developers with vacant properties to make them available to others in the context of the Covid-19 crisis.

Overall, the take-up and success rates for regenerating vacant and underutilised properties has been low. The schemes have not been able to deliver the results that were originally intended.

A number of reasons have been identified as to why owners are reluctant to provide vacant property to local authorities. Anecdotally,

Chartered Surveyors around the country report that complexity with application procedures and lack of awareness of the scheme resulted in low take-up, while others report that statutory compliance and costs associated with fire regulations and disability access discouraged owners from progressing.

RECOMMENDATION

Use incentives and disincentives:

- compulsory purchase orders (CPOs) have, in some towns, been a useful instrument in enabling acquisition of key sites and this approach should be considered by more local authorities to effect positive change – the use of CPOs and guidance around same should be made available to local authorities.

Conveyancing

Anyone who has recently bought or sold a property will know the length of time it takes to conclude a sale, which can lead to frustrations and costs. Many of the unnecessary delays in closing sales can be avoided. On average, it takes 5.5 months to market and close the sale of a residential property, nationally.[7] The use of online bidding and other sales platforms are helping to drive efficiencies within the sector but more needs to be done to encourage sellers to have contracts available before a property goes to the market. If contracts were available ahead of the negotiation process, this would help to reduce timeframes.

Conveyancing delays also play a part in the housing challenge as delays in moving from one property to another impact all those seeking accommodation within the chain.

Conveyancing delays are also slowing the house movement process and delaying new purchasers from moving into their new home and freeing up the rental or owner-occupied property that they are coming from. These delays also play a part in the housing challenge as delays in moving from one property to another impact all those seeking accommodation within the chain. During the Covid-19 crisis, many businesses have now embraced technology to move activity forward. Those that have not invested in tech are now struggling to maintain business continuity during this pandemic. E-conveyancing will help to reduce conveyance timeframes and we call on all stakeholders, including Government, to look again at the introduction of e-conveyancing and move away from paper-based practice to help speed up processes of property purchasing.

RECOMMENDATIONS

- Introduce e-conveyancing for all property purchases.
- Allocate funding to conduct research into the delays regarding conveyancing/selling property. Within the proposed Commission for Housing, include conveyancing delay challenges for group focus.

1.2 Residential rental sector

The impact of Covid-19 has been far reaching in 2020 as witnessed by the shutdown of the economy and society from March to June 2020. Emergency legislation was introduced in the rental sector aimed at protecting those that are temporarily out of work due to Covid-19-related issues such as a loss of employment, reduced hours, or Covid-19-related sickness.

The SCSI's 2020 Residential Markets report noted that residential tenants have largely been protected from the worst impact of the Covid-19 crisis with the availability of rental supports put in place by Government. As these supports are reduced and as the full economic impact is revealed, it is likely that the figures for rent arrears will grow considerably and more landlords may exit the market, leading to a supply crisis in rental properties.

Rental data

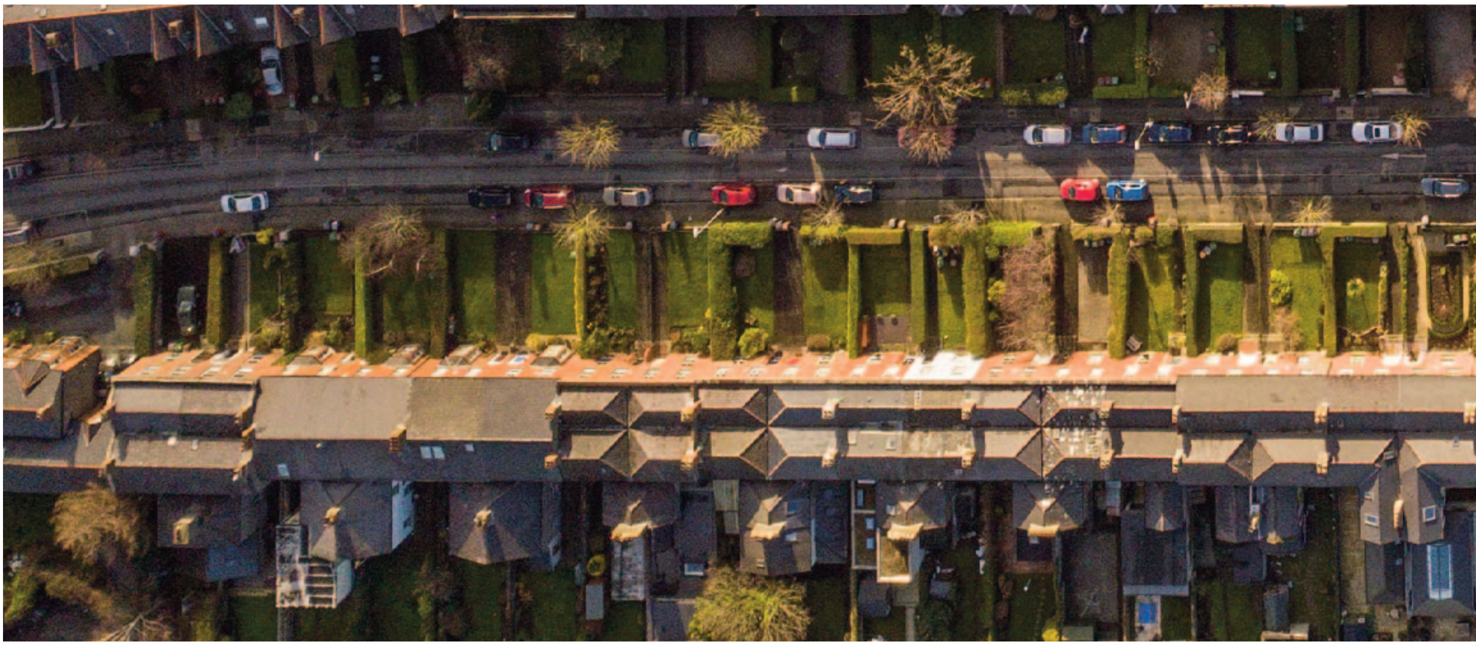
As reported in our Annual Residential Review and Outlook report 2020 earlier this year, there is a consistent outflow of landlords leaving the market compared to new investors. For every two landlords that leave the residential rental market, only one landlord enters the market.[8] When compared with data from the Residential Tenancies Board (RTB), in the last 12 months, there was a 2.4% decrease (reduction of 4,000 landlords) in the number of landlords registered with the RTB. The data does not come from annual registrations, but rather the number of registrations, which could be more than one registration per unit per year.

The RTB awaits commencement of annual registrations, which will make the accounting of the number of actual registrations yearly more accurate. It is clear from previous amendments to rental legislation that additional uncertainty for landlords in a delicate rental market can have further negative consequences for the supply of new rental stock for tenants.

RECOMMENDATION

- Introduce yearly tenancy registration through the Residential Tenancies Board (at same cost) to improve data flow of information.

7 SCSI Annual Residential Property Review and Outlook report 2020.
8 SCSI Annual Residential Market Review and Outlook report 2020.



Security in the rental sector

The impact of Covid-19 has been far reaching in 2020 as witnessed by the shutdown of the economy and society from March to June 2020. Emergency legislation was introduced in the rental sector aimed at protecting those that are temporarily out of work due to Covid-19-related issues such as a loss of employment, reduced hours, or Covid-19-related sickness.

New legislation on August 2, 2020, introduced protections where a tenant has fallen into rent arrears, and as a result, is at risk of losing their tenancy.

The purpose of this legislation was to react to the rising levels of unemployment among those living in the residential rental sector because of Covid-19. For all other tenancies that fall outside of this, normal residential tenancies legislation is now in operation.

While the emergency legislation served as an important tool to protect those who experienced a reduction in income due to the impacts of Covid-19, it provided challenges for landlords. In a recent survey conducted by the SCSI among its residential agency members, it was reported that 8% of tenants did not meet their monthly rent (**Figure 6**).

Of the 8% who failed to cover their rent obligations, one-third provided satisfactory evidence to back their claim for non-payment, i.e., loss of job, reduced hours, etc.

It is clear from previous amendments to rental legislation that additional uncertainty for landlords in a delicate rental market can have further negative consequences for supply of new rental stock for tenants.

As reported in our Annual Residential Review and Outlook report 2020 earlier this year, there is a consistent outflow of landlords leaving the market compared to new investors. For every two landlords that leave the residential rental market, only one landlord enters the market.

It is clear from previous amendments to rental legislation that additional uncertainty for landlords in a delicate rental market can have further negative consequences for supply of new rental stock for tenants.

Government supports – landlord and tenant

The purpose of the rental legislation was to react to the rising levels of unemployment among those living in the residential rental sector because of Covid-19. For all other tenancies that fall outside of this, normal residential tenancies legislation is now in operation.

However, when income and rental supports reduce over the coming months, it is likely that there will be an increase in rent arrears as the full economic impact of Covid-19 unfolds.

Market sectors that are vulnerable include the young professional and student sectors, which will be individually impacted by the reduced economic supports, reduced employment opportunities, and online education, which will see many students studying from home.

Demand for rental properties for young families, elders and singles will remain high due to well-documented supply issues.

While the emergency legislation served as an important tool to protect those who experienced a reduction in income due to the impacts of Covid-19, it provided challenges for landlords.

In a recent survey conducted by the SCSI among its residential agency members, it was reported that 8% of tenants did not meet their monthly rent. Of the 8% who failed to cover their rent obligations, one-third provided satisfactory evidence to back their claim for non-payment, i.e., loss of job, reduced hours, etc.

It is vital that the Government ensures security of tenure for landlords to ensure that landlords do not exit the market and worsen the supply of rental properties, particularly in urban areas of high demand.

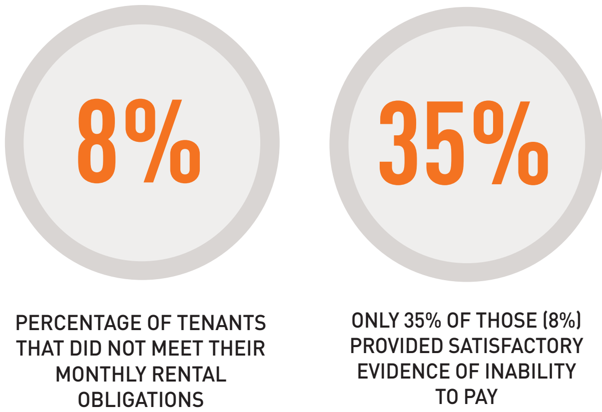


FIGURE 6: Impact of Covid-19 in the private rental sector.

RECOMMENDATION

- Root and branch review of all landlord and tenant supports to ensure adequate support for this important sector.

1.3 Commercial Property

Covid-19

The Q2 2020 Europe Commercial Property Monitor results point to a significant deterioration in sentiment over the quarter, as the market continues feel the effects of the economic fallout from the Covid-19 pandemic. Both headline Occupier and Investment Sentiment indices fell sharply, posting readings of -44 and -28, respectively, across Europe in aggregate.

For each series, the Q2 readings are the weakest since 2009 and the global financial crisis. Occupier fundamentals have taken a turn for the worse. Looking specifically at the occupier market, a net balance of -55% of respondents reported a decline in headline tenant demand over the quarter. As shown in **Figure 7**, all European nations covered displayed a significant deficit in demand compared to supply in Q2, with the widest discrepancies reported in Romania, Austria, and Italy.

Back at the pan-European level, the sector breakdown shows that demand for retail and office space fell at the sharpest rate (in net balance terms), while the decline was relatively more modest across industrial space. Remote working is expected to cause a lasting shift.

As many office-based roles have been forced into a period of remote working during the pandemic, businesses have had a chance to assess the impact on productivity. In instances where the move has seen efficiency maintained or improved, firms may be prompted to re-evaluate their office space needs.

The latest results from the SCSI Ireland Commercial Property Monitor Q2 report (**Figure 8**) show the Occupier Sentiment Index falling to -45, marking a further decline from the figure of -31 returned in Q1. Tenant demand plummeted across the retail sector, with a net balance of -92% of respondents reporting a decline. Alongside this, a steep decline was also cited across the office sector, while interest in industrial space was also seen falling over the quarter.

Availability continued to increase at the headline level, although this was predominately driven by a rise in vacancies across the retail sector. Conversely, vacant space edged down across the industrial segment. Although still firmly negative in most cases, respondents slightly reduced the rate of decline expected in rents over the next 12 months compared with Q1. Nevertheless, secondary retail rents are still seen posting near double-digit declines, while the outlook remains downbeat across the office sector.

RECOMMENDATION

- The impact of Covid-19 on the commercial sector, particularly retail and offices, has been quite severe. Previous Budgets increased stamp duty rates for commercial property transactions and any further increases should be avoided to allow the sector to recover and also to reduce reliance on transactional taxes in Exchequer funding.

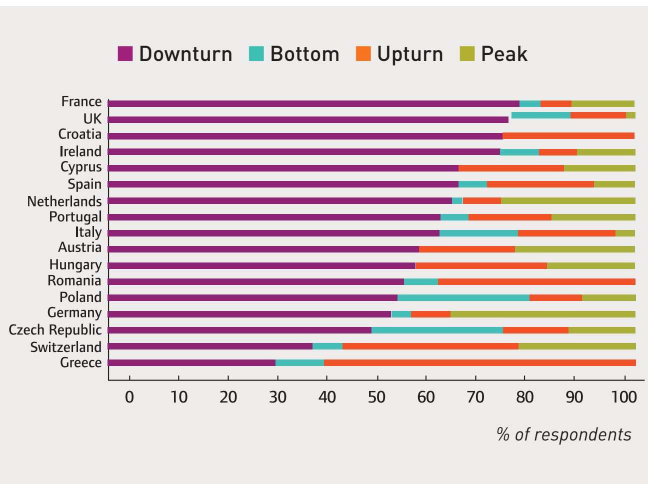


FIGURE 7: RICS Europe Commercial Property Monitor Q2 2020.

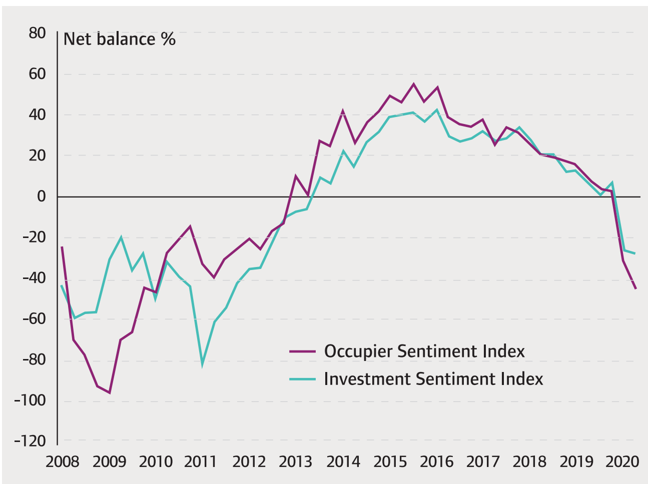


FIGURE 8: SCSI/RICS Commercial Property Monitor Report.

SECTION 2:

BUDGETARY MEASURES TO SUPPORT OUR COMMUNITY AND CLIMATE

2.1 Climate change and our built environment

The built environment is a significant contributor to greenhouse gas emissions and is a major consumer of power and water.

However, if correctly managed, sustainability-driven innovations in the built environment can lead to a significant reduction in contributions to CO_2 emissions by industry, and indeed can become a part of the wider sustainability solution.

It must be noted that new builds only account for a small percentage of overall housing and commercial stock.

It is thus vitally important that a sustainability strategy is developed and considered as a core planning element for both new builds and as part of bringing current stock in line with energy efficiency and output standards.

2.2 Retrofitting targets and roll-out

The key targets set out for the national retrofit plan as outlined in the Programme for Government are:

- developing a new area-based and one-stop shop approach to retrofitting, to upgrade at least 500,000 homes to a BER B2 by 2030 (as per the Climate Action Plan);
- grouping homes together to lower cost;
- leveraging smart finance (e.g., loan guarantee, European Investment Bank, Strategic Banking Corporation of Ireland (SBCI)); and,
- developing easy payback mechanisms (i.e., through utility bills).

To meet these objectives, a strategy should be identified to undertake the retrofitting work to meet the target numbers while ensuring a quality service provided by an educated and equipped industry.

However, it must be noted that the targets as outlined in the Programme for Government are quite ambitious. To meet the 500,000 target, 50,000 units would have to be retrofitted per year for the next ten years.

Chartered Surveyors have considered the key areas that should be incorporated into the national residential retrofitting strategy, and these are further outlined across the following sections.

According to the CSO, 148,000 people were employed in the construction sector as of Q1 2020[9] (any effects of Covid-19 on the labour market are not accounted for in this figure). To reach both the retrofitting and new build targets (as outlined in Rebuilding Ireland), the Government must be cognisant of ensuring that the industry is sufficiently supported and equipped to proceed with both new builds and retrofitting works. Chartered Surveyors have considered the key areas that should be incorporated into the national residential retrofitting strategy, and these are further outlined across the following sections.

RECOMMENDATION

- Develop a strategy for rolling out the national retrofits plan, which ensures that the target numbers can be achieved while ensuring a quality service provided by an educated and equipped industry.

Industry – capacity, upskilling and incentivisation

Careful consideration should be given to the levels of workforce required to commit to undertaking retrofitting projects in favour of new builds to meet the ambitious targets as outlined in the Programme for Government.

Lessons from programmes such as Energiesprong have shown that such a programme requires a considerable shift in the way that industry works. To reduce costs and increase quality, industry should be encouraged to start developing and producing integrated solutions that are industrially produced.

These innovations will only happen if they can be produced at scale. To catalyse the innovation process, a large demand volume that collectively asks for different types of offering needs to be made.

Only such a demand will convince construction companies to put in the substantial investment needed. Since the contractors give an energy guarantee, they will always optimise between costs for extra insulation, smarter installation, and extra generation, which drives the integration of solutions.

Furthermore, having a reasonable volume of skilled contractors who are able to undertake the work is also important to prevent price inflation for this service. There are several considerations here as to how to best incentivise industry to branch into this area, which offers good opportunity over the coming years.

Only such a demand will convince construction companies to put in the substantial investment needed.

RECOMMENDATIONS

Some possibilities for incentivising industry are outlined below:

- a. using the Irish Green Building Council's Renovation Advisor Register as a means of identifying retrofitting experts to undertake projects;
- b. offer support and/or incentivisation to contractors to upskill employees and branch out to include retrofitting in their firm's areas of expertise; and,
- c. offer R&D grants to innovate in this sector.

Grants and funding for retrofitting works

To meet the retrofitting targets, it is important that appropriate funding mechanisms are identified to ensure consumer demand and incentivisation to have their home retrofitted.

RECOMMENDATION

- A combination of funding mechanisms should be made available to meet the ambitious targets, including the use of direct grants, tax incentives and low-cost/0% finance options.

9 https://www.cso.ie/en/releasesandpublications/er/lfs/labourforcesurveylfsquarter12020/.

Examples of potential funding incentives

Ecobonus 110 - Italy

The Ecobonus 110 is a tax reduction for domestic renovation works in Italy. This 110% ecobonus or 110% renovation bonus is a tax deduction of 110% of the expenses incurred for energy efficiency in Italy. The tax deduction can be recovered in five equal instalments; however, credit transfers and invoice discounts are also available options. For work to qualify for the ecobonus, the building must be improved by at least two energy classes.

SEAI – direct grant

Direct grants can be a beneficial funding mechanism, particularly for community-level schemes as an incentive for mass retrofit instalments. The Sustainable Energy Authority of Ireland's (SEAI) Community Energy Grant 2020 was a national retrofit initiative aimed at upgrading building stock and facilities to high standards of energy efficiency and renewable energy usage, thereby reducing fossil fuel usage, energy costs and greenhouse gas emissions.

Low cost or 0% finance made available to households

The availability of low-cost finance would provide a good incentive for homeowners to undertake retrofitting works. A Strategic Banking Corporation of Ireland (SBCI)-like model of eligibility assessment to receive a discount on bank finance could be one way to structure such a process.

Viability, regulations and standards for retrofitting

It is vital that retrofitting works are carried out by competent professionals to the highest possible standard. There also needs to be recognition that there cannot be a 'one size fits all' approach to retrofitting works. Different buildings will have varying requirements and suitability levels for such work. An understanding and assessment of what encompasses project viability should be a key consideration for policy makers.

1. Viability

Some of the most difficult buildings to upgrade are those that are considered historic or protected structures. Ensuring that appropriate measures are undertaken towards sustainable goals involves a complex set of assessments so that expensive or unforeseen outcomes are avoided. However, in some cases it will be inevitable that retrofitting proves to be unviable for complex reasons and this must be understood within policy development.

RECOMMENDATION

- Develop and implement an assessment mechanism to identify the viability of a project for retrofitting works using tools such as a cost–benefit analysis.

2. High-quality standards, assessment and managing pricing

It is important to ensure that all retrofits are carried out to the highest possible standards and by competent professionals.

RECOMMENDATION

- A register of approved contractors and professionals should be established and maintained

3. Risks for traditional/period buildings

With modern building methods and materials, there is a considerable risk associated with using the wrong type of products or incorrect installation of products on more sensitive building types. For instance, there are examples where thermal upgrades of older buildings have been completed, which resulted in trapped moisture and therefore high levels of mould growth, leading to unhabitable dwellings.

RECOMMENDATION

- A list of approved professionals, e.g. conservation surveyors, should be compiled who are approved to work on certain classes of property to avoid risk to older building fabrics.

2.3 Commercial property – re-purposing for residential use

Commercial property, particularly in the retail sector, has in recent times faced challenges due to consumer demand shifting in favour of shopping online and the transition to a more 'experiential' shopping model. This trend has been further compounded in 2020. Due to the closure for a prolonged period of many retail and services outlets, the impact of Covid-19 will be felt strongly on the high street and in town centres. Covid-19 compliance measures and the lockdown period meant that for a period in 2020, all sales were online transactions. Businesses have had to adapt and, in some cases, have had to downsize or indeed have seen closures. It is believed that at least in the short term, future commercial investments may be geared towards necessity-based shopping outlets such as supermarket-anchored retail parks.

In terms of office space, the impact of Covid-19 could lead to a rethinking of the traditional office-based working model that was the norm up to very recently, at least in the short term where social distancing measures must be complied with. It is likely that many larger companies (tenants) may decide (with appropriate permission) to sublet office space which will provide smaller firms with the opportunity to secure office accommodation more suited to their needs. According to GeoView's latest Commercial Vacancy Report[10] (pre Covid-19), commercial vacancies were up to a national average of 13.3% as of Q2 2019, which amounts to over 28,000 vacant commercial properties.

This begs the question as to how this will impact the face of the high street, particularly in rural settings, which in the recent past have seen higher rates of vacancy than their urban counterparts.[11]

The SCSI believes that in line with Ireland's overall sustainability agenda, and to ensure the future prosperity of town centres, an active approach should be taken by the Government in examining barriers and opportunities to repurpose or adapt vacant commercial properties for social, economic and cultural benefits.

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10 https://www.geodirectory.ie/getattachment/Knowledge-Centre/Reports-Blogs/GeoView-Commercial-Vacancy-Report-Q2 2019/Geoview_Commercial_Q2_2019_FINAL.pdf?lang=en-IE.
11 https://www.geodirectory.ie/getattachment/Knowledge-Centre/Reports-Blogs/GeoView-Commercial-Vacancy-Report-Q2-2019/Geoview_Commercial_Q2_2019_FINAL.pdf?lang=en-IE.

RECOMMENDATIONS

Simplify planning and adapt to the changing commercial landscape:

- Local authorities must proactively address vacant buildings in towns to revitalise town centres. Vacant buildings impact on the vitality and image of Irish towns, discouraging future investment. It is imperative that local authorities work with owners and overcome issues of fragmented ownership to find new uses using a targeted and co-ordinated approach. The one-stop shop offering by local authorities is a welcome support for building owners and should be resourced to ensure successful renovation of property. It is important that all stakeholders accept that town centres need to be repopulated as community hubs with a mixture of uses including housing, health and leisure, entertainment, and arts to enliven town centres and bring buildings back into use. New measures to simplify the process of conversion of commercial use to residential use must be communicated to building owners and other stakeholders to ensure awareness.
- Local authorities should use compulsory purchase orders (CPOs) more often where this will be of benefit to the wider plan for the high street or town – the wider benefit for the local community should be of consideration. Encouraging anchor tenants such as supermarkets back into the town can provide a focus for high streets, increasing footfall and encouraging further investment.

2.4 Commercial rates

Commercial rates are a financial contribution by property owners towards the maintenance and upkeep of the local community and are used to support initiatives such as street cleaning, environmental protection works, and roads and footpath upkeep. Many local authorities, however, offer a rate relief/refund scheme for those with commercial properties who are renovating the property or have demonstrated that they were unable to let/occupy the building due to poor demand. The SCSI believes that rates relief for properties that have not been let/occupied for a significant period of time is concerning, as this has a knock-on effect on the face of the community and on tourism rates, particularly in rural Ireland where town fronts are marred by poorly managed and ill-maintained properties on the high street.

The Government has offered property owners additional supports to bring their properties back to use. Consideration should be given to only allow rates exemptions for unique hardship cases and remove exemptions for those that are long-term vacant.

At a time when the high street is being hit with consumer trends moving towards online shopping and the impact of Covid-19 on businesses, it is vital that every measure is addressed to promote a pro-business and pro-accommodation strategy for bringing more life back to our urban centres.

RECOMMENDATION

- Removal of rates exceptions for long-term vacant properties.

2019 Values € per acre for agricultural land without a residence	
Connaught/Ulster	
<50 Acres	7,480
50-100 Acres	6,376
> 100 Acres	5,721
Munster	
<50 Acres	10,000
50-100 Acres	9,832
> 100 Acres	9,325
Leinster (Excl Dublin)	
<50 Acres	10,734
50-100 Acres	10,113
>100 Aces	9,826

Rental values € per acre in 2019	
Connaught/Ulster	
Grazing/Silage	176
Grazing only	144
Cereal Crops	203
Potato Crops	273
Other Crops	186
Munster	
Grazing/Silage	207
Grazing only	200
Cereal Crops	227
Potato Crops	268
Other Crops	273
Leinster (Excl Dublin)	
Grazing/Silage	183
Grazing only	170
Cereal Crops	210
Potato Crops	378
Other Crops	256

FIGURE 9: SCSI/Teagasc Land Review and Outlook 2020.

2.5 Access to a viable agricultural model

As businesses and society reopen to the new normal of Covid-19, the extent of its impact is yet to be fully assessed. The agricultural sector and its property market are not immune to a dampening of consumer confidence. However, since the reopening of the property sector on the June 8, activity remains brisk, with good demand for well-located, quality farmland.

Values remain buoyant and good levels of bidding activity are evident in most parts of the country.

Agricultural land sales market

In 2019, the average per-acre price for agricultural land without a residential holding was €8,823. For land with a residential holding, the average price was €9,638. Taken together, the average per-acre price for agricultural land was €9,230.

In 2018, the equivalent prices were €9,346 (without a residential holding) and €9,579 (with a holding), with an overall average price of €9,463 per acre in 2018. These figures suggest only a very small headline change in prices over the last year and are largely dictated by the size of the parcel of land and the presence of a residential holding.

The results of our SCSI/Teagasc Land Review and Outlook Report (**Figure 9**) are pre Covid-19. It is positive to learn from our chartered agents across the country, who are reporting strong levels of activity in the land sales market post the Covid-19 reopening of the sector.

There are many peripheral reasons why land values remain steady with good demand from purchasers.

It must be noted, however, that this does not necessarily mean that the future looks bright for the farming sector and that the sector is performing well. There are many peripheral reasons why land values remain steady with good demand from purchasers. In many instances, it is non-farming

purchasers buying land for speculation purposes, i.e., to build a house, and this can push out the interest and purchasing capacity of the 'genuine farmer'.

Lease/rental market

The land rental market in Ireland in the past 12 months remains strong even though beef prices and near drought conditions last year and in 2018 increased costs for farmers. In 2018, across the farm sector, the average family farm income declined by 21%, dropping from €29,774 in 2017 to €23,483, and largely compounded by the extreme and adverse weather conditions experienced. However, average farm incomes increased by up to 7% in 2019, mainly due to increased subsidy payments made to farmers as a response to difficult weather conditions and poor beef prices. According to the joint report, subsidy payments now account for 59% of agricultural sector income, up from 48% in 2018. According to our report, the continued upward trajectory of land rental values is explained in the increase in farm incomes.

Land very rarely changes ownership in Ireland; on average land transacts every 400 years. Therefore, land is often rented out, as it can be a less expensive alternative and a safer option for farmers.

Another impact of Budget 2020 was stamp duty increases. In our report, agents were asked how the withdrawal of stamp duty relief on sales of land by farmers to non-family members had affected the volume of agricultural land offered for sale. Some 30% of agents believed that it had decreased the volume of land for sale. In Leinster and Munster, around half of agents said that it had had no impact in 2019, while in Connacht/Ulster, only 28% believed that it had had no impact and 36% believed that it decreased the volume of land for sale.

The land rental market in Ireland in the past 12 months remains strong even though beef prices and near drought conditions last year and in 2018 increased costs for farmers.

RECOMMENDATION

- Although taxation reliefs are in place for those involved in farming, farmers who cannot avail of reliefs are subject to the full tax liability. Stamp duty rates should be reviewed to remove overreliance of Exchequer funding on transactional taxes.

SECTION 3:

BUDGETARY MEASURES TO SUPPORT CAPITAL INVESTMENT AND MAINTAIN A HEALTHY CONSTRUCTION SECTOR

SECTION 3: BUDGETARY MEASURES TO SUPPORT CAPITAL INVESTMENT AND MAINTAIN A HEALTHY CONSTRUCTION SECTOR

3.1 Public procurement

The public capital expenditure programme is a significant proportion of annual output in the construction industry. Further capital investment of €500m was made available in the July stimulus package. Capital expenditure thus far in 2020 has largely been for healthcare, business, enterprise and innovation.[12] The Government has indicated that it is envisaged that investment under the public capital programme will increase to just over €9bn in 2021. Due to the impact of Covid-19, a fall in private sector investment in the sector is anticipated for 2021. It is important that the Government continues investment in the strategic objectives as outlined in Project Ireland 2040, such as ensuring enhanced regional accessibility, a strong economy supported by enterprise, innovation and skills, and strengthened rural economies and communities.

The public procurement rules operate under strict EU guidelines and public authorities have to manage tender processes in a particular way that is fair, transparent and value for money for the taxpayer.

Many quantity surveyor members also cited disproportionately high professional indemnity (PI) requirements for small projects as a significant deterrent.

Public procurement in Ireland has evolved and been amended over the years within the parameters of EU law to improve the efficiency, effectiveness and transparency of tendering and awards. The Office of Government Procurement (OGP) manages this process on behalf of the State, and the SCSI and others have been engaging in a stakeholder review process for some time to identify barriers and recommend improvements in the interest of the taxpayer and delivery of services. In terms of our current gross capital expenditure, we spend approximately 10% of the total State expenditure budget.

Following recent difficulties in relation to Brexit and Covid-19, the construction sector is likely to be less active in 2021 compared with 2020. Construction tender inflation is therefore likely to decrease and value for money on construction projects should follow. It is within this context that the Government should take a strategic approach to capitalise on a more competitive market and continue with capital investment plans over the coming year.

Value for money in capital projects

A recent SCSI survey of quantity surveyors (QS) (pre Covid-19) revealed that there was a 30% decrease in the number of small QS firms (fewer than five employees) providing consultancy services to the public sector. This is a concerning trend and one that will hopefully be reversed following the review and implementation of improvements to the tendering process. While many may argue that this is simply a symptom of increased activity in the private construction market, the top ranked reason why QS members are withdrawing their interest in tendering for public work was that the tendering and decision-making process, and the onerous paperwork involved in tendering, was a deterrent. Many QS members also cited disproportionately high professional indemnity (PI) requirements for small projects as a significant deterrent.

With regular feedback with the Construction Sector Group facilitated through the Department of Public Expenditure and Reform, and discussions with the Office of Government Procurement, we await the outcome of the review of public procurement policy.

Inclusion of appropriate professionals within tendering opportunities

School extensions/renovations

The Summer School Works projects provide much-needed employment to trades and professionals across the country when schools are closed for summer periods. The works range from smaller renovation projects to larger-scale extension/renovation work. The criteria for those professionals who can tender for the construction consultancy is quite restricting and limits our profession (building surveyors) during the tendering process. While building surveyors can tender for straightforward and repair/remedial works to schools, they are excluded from works where the project value exceeds €500,000. This threshold has been in place for the past six years and needs to be reviewed, as tender price inflation has increased by as much as 35-40% during this period. The practice of excluding this profession is not acceptable as building surveyors operate within much larger projects in the private sector but are restricted in the public sector. This practice further limits the number of consultants who can tender for projects and therefore limits the competitive nature of procurement.

The SCSI's Tender Price Index illustrates that yearly growth for

[12] Source: BUILD 2020.

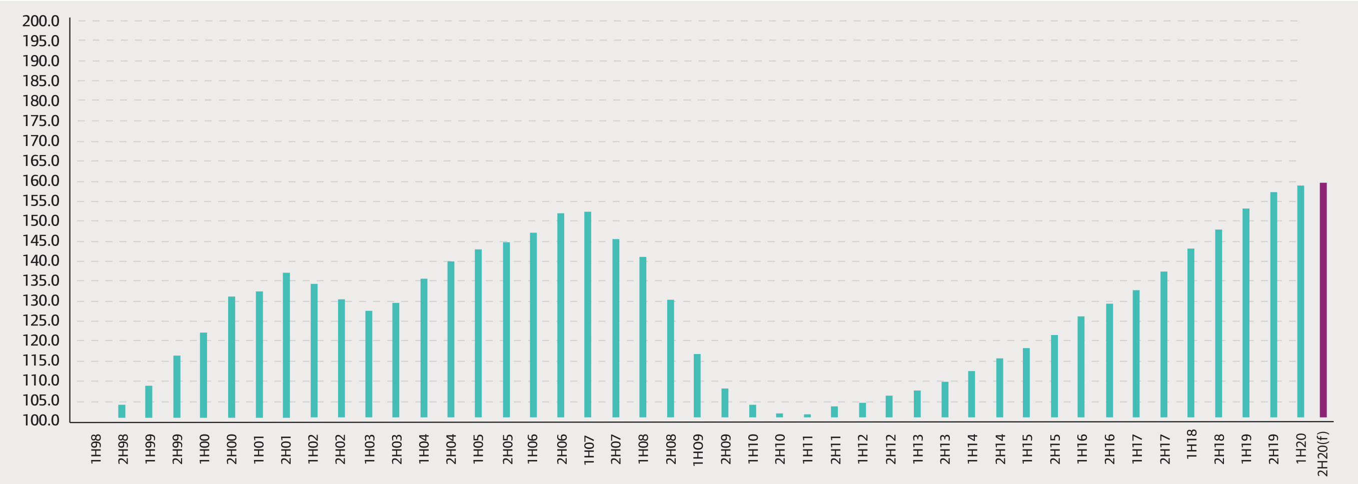

FIGURE 10: SCSI Tender Price Index.

tender prices for non-residential projects is at 6.2% (January to December 2019) (**Figure 10**).

eTenders website

Opportunities are available in any review of the Governments' eTenders website. The current ICT framework governing the tendering process is very much out of date and in need of immediate investment and digitisation. The eTenders website, when initially launched, was a significant step forward in addressing the onerous and paper-heavy approach to public tendering. We believe that it is now time to take this to the next level and build in easily available digital solutions to complete a fully digitised tendering process, from first interaction to award of service.

For example, the eTenders site seeks paper submissions or scanned versions to be uploaded for final submission, but this is not a digital solution. This is very much a paper process being copied into a digital file for electronic communication.

We believe that it is now essential to review the entire process to allow a fully digital experience to exist, in full compliance with the Capital Works Management Framework (CWMF), from pre-qualification submission through to and including the submission of tenders. As a further development to the above call to action on the digitisation of the eTenders portal, the SCSI has frequently advocated for the development of a 'Procurement Passport', which would allow companies to complete a one-off online application annually to provide the vast majority of information in relation to financial, economic and technical capabilities. Once completed, contracting authorities would only need to be provided with an applicant's unique reference number and all pre-validated data can be verified. This would deliver significant savings and allow both applicants and public sector tender evaluators to spend significantly less time on procurement validation. The time saved could be dedicated to valuable tender-specific responses and not to seeking and evaluating standard documentation.

When the scale of this potential impact is considered across the thousands of private sector entities in the construction sector and corresponding hundreds of public sector bodies involved in public procurement daily, the potential cost savings and productivity gains are very significant.

Project 2040 outlines ambitious plans and projects to cater for a growing population across the country. Obtaining value for money and delivering on key objectives in Project 2040 is a challenge, but current practice could compromise this by adding costs and time delays. We would urge the Government to initiate a full ICT review of the eTenders process to ensure that digitisation processes and procurement passport capabilities are included in the specification requirements of the upcoming tender process.

RECOMMENDATIONS

- Remove exclusionary criteria limiting the number of consultant types from tendering for public projects.
- Carry out full digitisation of the eTenders website.

3.2 Construction innovation

The construction sector in Ireland is a major employer with approximately 150,000 employed and activity output in the range of €25bn in 2020. Improvements in efficiency through innovation continue and will remain a feature of this industry for the medium term as further focus to deliver more for less is a priority for Government and stakeholders.

Advances in technology such as building information modelling (BIM), etc., have enabled the construction industry to improve efficiency in the sector. It is promising to see the Department of Public Expenditure and Reform taking a lead role to foster an environment within industry for further innovation to take place through the Construction Sector Forum.

The 'Economic analysis of productivity in the Irish construction sector' report published early this year sets out key tasks and areas of responsibility for the Department, and various professional bodies and representation groups. Moreover, it is important that we recognise the key issues and reasons why innovation in the sector can be slow, which were well documented in the report:

Cyclical nature of construction sector: The consequential challenges that arise as a result of volatility in demand for both private and public capital works affects the sustainability of firms, employment security and capacity to invest in people and resources, which has a significant impact on productivity.

Pipeline: Lack of clarity on forthcoming public and private sector work impacts firms' confidence to invest in resources, technology, training and upskilling. This then impacts on firms' appetite for the development of specialised areas such as off-site production.

Complex planning system: Current approval processes for planning in Ireland are lengthy and require a significant administrative effort with a resulting impact on time and resources and a consequent adverse impact on productivity.

Procurement and contracting: Issues raised as part of this review include the bureaucratic and onerous nature of Ireland's public procurement processes, exclusionary qualifying criteria, poorly defined project briefs, unrealistic budgets, a lack of understanding of the complexity of the construction stage on the part of clients, a lack of collaboration with all members of the supply chain, and suboptimal risk transfer mechanisms.

Fragmented nature of the sector: While not unique to Ireland, the complexity of the supply chain, with dependency on subcontractors and agency workers, can greatly reduce productivity, with multiple parties working to different schedules and budgets. This can lead to poor decision making at initiation, planning and execution stages of a project.

Source: Future Analytics Consulting/EY.

3.3 Brexit

Our small open economy is exposed to global shocks to the market and this includes Brexit. While Covid-19 has overtaken media attention given the seriousness of the crisis, the threat of a 'no-deal' Brexit seems to still be very likely as we progress towards the end of 2020. Brexit arrangements are undermining the growth of the all-Ireland economy, especially in border areas. It is likely that in the absence of clarity about the future direction of these policies, investment decisions will continue to be delayed and funding streams will be uncertain. This will have an impact on the Irish economy, and therefore the construction and property sectors. It is not yet clear, for example, if there will be further relocation of financial services firms and their employees from the City of London to Dublin, and it is unlikely that decisions on any such movement will be made until the final Brexit deal is completed. In recent times, the European Union has continued to educate and inform consumers and businesses regarding the changes that will occur in 2021. These include:

- customs controls and checks on regulatory standards conformity for goods imports from the EU;
- need for UK services companies to demonstrate compliance with services standards;
- an end to current air, road and rail transport licences currently held by UK operators;
- a need for UK media providers to obtain EU member state approvals to broadcast in the EU;
- the end of UK use of EU dedicated energy platforms; and,
- a need to UK nationals to obtain a visa for any stay over 90 days in any 180-day period (the Common Travel Area would result in a different treatment in Ireland).

RECOMMENDATION

We currently do not have a tech hub to co-ordinate the delivery of more innovation in construction. It is promising to learn that through the establishment of the Construction Sector Group led by the Department of Public Expenditure and Reform, this proposal for a centre for excellence could act as an influential catalyst for change, and a stronger and accelerated embrace of technology to provide both faster and more efficient delivery of product to the market place, at a time where demand is so high. The development of a construction tech sector in Ireland is one significant initiative that could well insulate Ireland from external shocks such as Brexit.

KEY BREXIT IMPACTS

MATERIAL COSTS

In an industry with already tight margins, the imposition of tariffs and import VAT on materials will be significant on goods imported from the UK. Even single digit cost increases could have a material impact on margin levels. For example, a duty of 7% could apply on insulating material or 3.7% on the likes of domestic electrical cabling.
Tariffs will vary by product but will inevitably lead to overall cost increases and an erosion of competitiveness and margins in the sector.

SUPPLY CHAIN

Supply chains between the UK and Ireland currently operate under the principles of the Customs Union and Single Market. With a significant amount of certain types of construction material used in Irish construction projects being currently sourced in the UK, any new regulatory and customs border will present significant logistical barriers, slow down trade and increase business costs.
This will result in an even greater squeeze on margins and/or delays in the supply chain.

CURRENCY AND PROJECT PRICING

Many construction businesses have already seen currency volatility make project pricing significantly more challenging. However, weak sterling has also resulted in cost savings in relation to materials imported from the UK post June 2016. Businesses should continue to plan for increased currency volatility as they look to tender for new contracts.

LABOUR

Labour market restrictions may create barriers to obtaining the right people with the right skillset.
Increasing demand for certain key skills, e.g., engineers, skilled craftspeople, etc., may also increase pressure on already scarce talent pools.
This increasing demand could have a knock-on effect on the ability to deliver on the NDP and further increase trends on the production of housing stock.

Source: PwC/CIF, Brexit and the Irish Construction Sector report

3.4 Professional indemnity insurance

In recent times, insurers have withdrawn from the provision of insurance in the Irish market and several Lloyds syndicates and specialist insurers have exited the UK professional indemnity insurance (PII) market, leading to a much smaller number of providers. Brokers are finding it challenging to retain the support of insurers in the Irish market. Furthermore, those that remain are carefully monitoring their exposure and restricting their coverage for certain claims. The increased awareness of risk is making it more difficult to obtain PII in certain sectors including windfarms and waste-to-energy. In light of the Grenfell tragedy, most UK underwriters providing PII in Ireland have required Irish architects to provide information to them relating to the construction of the outer skin of buildings they designed within the past ten years and significant restrictions are being placed on some construction PII policies in the UK. Additionally, reliance on UK underwriters is causing difficulties with the continuing uncertainty around the impact of Brexit.

Public works procurers are still demanding significant levels of PII cover, usually €6.5m for relatively small work, which in the current market could represent a significant cost.

There is a significant change to the landscape of PII, with many representative bodies reporting policies being issued for a number of months rather than a year at a time. Insurers are also being more selective about their clients and are seeking much more information, including details of risk management and quality assurance. This has led to a situation whereby some companies are having to consider self-insuring, with no clarity as of yet as to whether this will be an acceptable option to clients.
Since the beginning of 2019 there has been a significant shift in appetite in relation to construction PII. This has largely been driven by the UK market where underwriters are reporting considerable increases in premiums and reduced underwriter capacity, following on from the exit of providers mentioned earlier and large losses suffered by the insurance industry in respect of construction-related claims. The impact on the Irish sector is that risks previously insured in the UK now have to be insured in Ireland. This ultimately reduces the availability of underwriter capacity and increases the cost of cover here. Further increases in premiums are expected, which need to be included in short- and long-term budgets for projects being tendered. Public works procurers are still demanding significant levels of PII cover, usually €6.5m for relatively small work, which in the current market could represent a significant cost. Public procurers are ignoring the guidance issued by the Office of Government Procurement, which is a sliding scale of PII cover relating to the contract value. Consistent requests for disproportionately high PII levels when no demonstrable need by, or value to, clients for such levels is apparent, implies a 'cut-and-paste' approach at tender stage. Furthermore, the GCCC Standard Conditions of Consultancy Services Engagement does not have any cap or limitation on the consultant's liability. There is a need for Government bodies to be fair and reasonable in balancing risk and proportionate liability. Unlimited liability is a false notion. Liability is always limited to a firm's PII cover and the assets realised by placing the firm in liquidation. A cap on liability, with relevant insurance to that cap, is a more sensible approach for all PII policies, for consultants and contractors alike. The requirements of some professional practices for the inclusion of net contribution clauses to limit their liability has presented difficulties for contractors, a practice which would become unnecessary with the introduction of caps on liability. In summary, project risk is best managed by those in a position to control, absorb and insure the loss. With PII an essential element of construction contracts that is becoming increasingly difficult to obtain and maintain, and even more difficult to obtain at a competitive rate, it is vital that these matters be addressed urgently. We would therefore request that the Government meets with representatives of the Construction Industry Council to discuss the foregoing in more detail.

RECOMMENDATION

- Escalate the review programme (included within the Capital Works Management Framework) to investigate issues pertaining to the provision of adequate professional indemnity insurance.

3.5 Skills

The construction sector, like many other industries, has been negatively impacted by the Covid-19 pandemic. The delay in carrying out works during the lockdown period and the need to adhere to social distancing and related protocols will have a knock-on impact across the industry. It is now more important than ever to ensure the continued resilience of the sector and to ensure that the industry is equipped to deliver on targets across the built environment.

While Covid-19 does need to be accounted for, it remains that there are significant and necessary deliverables for the construction sector over the coming years across the built environment, not least on housing delivery and retrofitting works as outlined in this submission.

In a survey conducted in March, over 51% of construction surveyors reported that there was a significant undersupply of quantity surveyors in the built environment.[13] Over 44% reported that there was a significant undersupply in bricklayers, and over 40% of surveyors further reported a significant undersupply of electricians, plasterers and plumbers.

These figures paint a stark picture. While Covid-19 does need to be accounted for, it remains that there are significant and necessary deliverables for the construction sector over the coming years across the built environment, not least on housing delivery and retrofitting works as outlined in this submission.

The construction sector needs to be equipped with a skilled workforce to ensure that capital projects and other deliverables are achieved.

RECOMMENDATIONS

- Continue to support and equip the industry through programmes and workshops designed to ensure continuity of a highly skilled and trained workforce.
- Continue to promote initiatives such as training and apprenticeships, which encourage people to enter the construction profession.

[13] SCSI /PwC Construction Market Monitor Report

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