



SOCIETY OF  
**CHARTERED  
SURVEYORS**  
IRELAND

# Brexit & Ireland's Housing Challenge

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2018



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## Society of Chartered Surveyor Ireland's Submission to the Joint Oireachtas Committee

**7 December 2018**

### **Introduction**

Professionals operating in the property, construction and land sectors have found the British withdrawal from the European Union challenging to anticipate the different scenarios and their impact on the demand and supply of property as well on the regulatory regimes and skills pipeline which these sectors depend. The Society of Chartered Surveyors Ireland has worked with its members and the public affairs firm Hume Brophy to increase the dialogue on the challenges to inform and prepare the sector for Brexit. This submission represents a summary of those findings.

### **Economic Performance**

Most economic data suggests that Ireland's economy continues to grow, despite the economic uncertainty driven by Brexit. Tax take and public spending, employment growth and import/export patterns suggests record levels of economic growth for Ireland in the near future. Coupled with this, strong consumer sentiment suggests that Ireland has a solid base for future growth for indigenous and trading businesses. This is reflected in recent house price growth and record rent levels, especially in Dublin.

There are currently 377,200 more people at work since 2012 and the CSO is expecting a population growth of over 1 million people by 2040, which is expected to create a further 660,000 jobs. This is likely to provide new economic opportunities for Ireland and also place further pressure on the housing market and Ireland's infrastructure.

Our current pattern of growth is not evenly spread across Ireland. The bulk of economic activity – driven by Ireland's large FDI and financial services sector – is taking place within Dublin and other urban centres, while many rural towns are struggling to take part in Ireland's economic recovery and maintain their population base. It is also clear that a lack of investment in infrastructure during the recession as well as a legacy of undersupply of new housing is putting growth areas of Ireland under significant pressure and exposing potential weaknesses in Ireland's capacity to deal with international shocks.

## **Vulnerabilities**

As a small open economy, Ireland is highly exposed to international shocks compared to other countries. Further, Ireland's geographical and trading links to Great Britain uniquely expose Ireland to shocks generated by the Brexit process. The ongoing uncertainty about the place of Northern Ireland in the eventual Brexit arrangements are undermining the growth of the all-Ireland economy, especially in Border areas. The performance of the global economy including the threat of international trade wars, US tax reform and Brexit, leave Ireland somewhat exposed to the ramifications of two of our largest trading partners' domestic decisions on their foreign policies.

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.

The housing system is particularly exposed to Brexit. In terms of construction, Ireland imports a significant proportion of building products from the UK and EU and this is being further driven by the trend for innovative offsite modular housing and apartment development. Further, as a labour-intensive industry, the house-building industry is reliant on a supply of trained both onsite and offsite operatives, construction trades and professional service firms. If Ireland does experience a "Brexit dividend" in terms of businesses relocating from the UK to Ireland to maintain their EU presence, then this will have an impact on the demand for housing, commercial property and infrastructure in locations where that new investment occurs.

Ireland is uniquely exposed to Brexit with Ireland exporting 15% of goods and services to the UK. Within the construction supply chain, SMEs dominate the industry, with the vast bulk of construction firms being either small firms or "micro-enterprises." These businesses tend to have less well developed trading links with other EU countries which would increase the challenges for their businesses significantly in the event of a hard Brexit.

While the Irish Government has been very active in advising and supporting Irish businesses (especially regionally-based SMEs with exposure to the UK market) there are continued concerns about the reliance of Irish businesses to cope with further Brexit uncertainties. To

fully prepare for Brexit, construction and property firms must firstly assess their operations across various functions including procurement, supply chain, finance, HR and sales. Once this has been done, a full appraisal must then be carried out in relation to the level of exposure of each of these functions to a change in trading and regulatory conditions, to inform any strategy for mitigating against potential risk factors.

Productivity is the engine of long run economic growth and therefore a country's ability to improve its standard of living for its citizens over time depends on productivity. Productivity is about how effectively a country harnesses available technology or know-how for converting resources into outputs, and the way in which resources are organised to produce goods and services. The drivers of productivity include Investment (physical capital), Innovation, Skills, Enterprise (seizing new business opportunities) and Competition. If we take the construction industry as an example, as mentioned above, the risks of a hard Brexit on the supply chain is likely to create an immediate supply cost tremor. Off site construction and investment in modular construction is dismally non-existent in Ireland. This is due to a number of reasons such as the issue regarding scale factor, Ireland is a small country, and also the highly cyclical and volatile nature of the construction industry in Ireland. The [SCSI pre Budget submission](#) set a number of recommendations, one of which advocates for a visionary approach to our sector. We currently do not have a Tech hub to co-ordinate the delivery of more innovation in construction. This centre for excellence that we are calling for could act as an influential catalyst for change and a stronger and accelerated embrace of technology to solve 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. Currently, for example, the construction sector relies heavily on imports of good and products for construction such as facades, cement board, mechanical and electrical (M&E) Products etc. What supports could Government provide industry to become more self-sufficient and mature to an export market? Ireland currently has a very low productivity performance when foreign owned construction firms are excluded. This places Ireland's home growth construction firms in a fragile position in light of Brexit.

It is clear that given the high level of reliance on UK imports in Ireland, construction and property supply chain costs are likely to increase, regardless of whether a hard border is imposed, due to an increase in administrative costs. VAT and customs duties and tariffs will significantly impact on the cost of supply. Furthermore, supply chains are likely to become

less efficient with increased delays including customs checks and border crossings to be factored in.

Outside of the construction and property sectors, reduced competitiveness in the face of a weakened sterling will severely reduce the demand for Irish goods, and Irish firms will need to adapt, and to diversify into new markets in search of opportunities. In preparation for this, the Irish Government has made a provision under the Ireland 2040 Plan to establish a €300 million fund to support SMEs with fewer than 500 employees, to prepare for Brexit. It is important for Ireland's continued economic recovery that the focus of this support should be on ensuring that Ireland rebuilds its construction supply chain to ensure the timely delivery of new, quality, affordable housing to buy or rent in all parts of Ireland.

### ***Macroeconomic Impact***

According to almost all metrics, the impact of Brexit on the Irish economy will be both substantial and negative, despite any increased economic activity taking place here because of the movement of some firms from the UK to Ireland as a result of Brexit. As a result of such forecasts, the Irish government has embarked upon an extensive diplomatic campaign, seeking to forge new trading relationships with countries within and outside of the European Union.

Both the Department of Finance and Central Bank of Ireland continue to warn of the economic implications of a hard-Brexit, including the potential of a three per cent contraction in GDP over a ten-year period and the permanent loss of up to 40,000 jobs. Again, it is highly likely that these job losses will be in regions of Ireland and in economic sectors which are exposed to currency fluctuations and the Border with the United Kingdom.

Recent research commissioned by the Department of Business, Enterprise & Innovation (DBEI) has concluded that in the event of a no-deal hard Brexit, Ireland economy could decline by as much as seven per cent by the year 2030. Obviously, the speed and nature of the final withdrawal agreement, and the ability of business to confidently predict outturns for future investment will determine both the scale and duration of this Brexit-impact.

In addition to this macro-economic shock, the ESRI predicts that Irish households could lose as much as €1,400 per annum in the event of a hard Brexit. This would be as a direct result of inflated food and household goods prices, and would, therefore, impact low-income families adversely. This could have a significant impact on the affordability of housing for many of

those low-income families, further distorting the schisms in the Irish property market between urban areas with high levels of employment and wages, and more rural areas with lower household income.

Should the size of Ireland's economy gradually decline over the coming years, the impact for the availability of construction employment, investment in infrastructure and the future supply of housing would be significant and negative.

**1. Is the current housing policy robust enough to deal with significant changes in migration patterns?**

During the recession, and since the economic recovery, housing activity datasets (including prices, rents and new housing completions) suggests that Ireland continues to experience a non-uniform housing sector; that is, the supply and demand for housing (to buy and rent) in urban areas, particularly Dublin, is performing differently than the housing market in rural areas. This is because of differing micro-economic activity, with employment, wages and economic activity performing more strongly in urban areas than rural areas. This diversity in economic activity between urban and rural areas is likely to be a long-term structural feature of Ireland's economic recovery. Indeed, it is the norm in most advanced economies.

To date, Ireland has been the beneficiary of a number of decisions by professional services firms and financial firms to retain a base in the EU by moving part of their operations from London to Dublin. This is fuelled by Ireland's relatively low-tax economy compared to competitor EU countries. It is highly likely that this inward migration will continue to occur as long as those structural advantages remain, and it is also almost certain that Dublin will remain the base of choice for these firms seeking to locate in Ireland.

The employees which will accompany these firms will resemble those who have already moved to Ireland to work in the technology sector – highly qualified young professionals with good salaries and high expectations for employment and living standards; they will be likely to be seeking to rent apartments close to their place of work. This is likely to put further pressure on the Dublin private rented sector which already has historic low levels of availability of apartments and city-centre houses to rent.

It will take significant time for sufficient supply of new urban homes to become available to accommodate both the natural increase in demand because of indigenous demographics and

new demand from FDI businesses. Therefore, it is likely that Brexit will compound the divisions seen within the Irish housing market by fuelling demand for already scarce Dublin property and doing very little to support areas which are currently struggling.

## **2. How will potential population changes affect the private rental market?**

With the on-going fallout from the mortgage crisis, as well as a legacy of under supply of new social housing, Ireland is experiencing a significant homelessness crisis. Government policy has been focused on the current expenditure side, utilising existing stock in the private rental sector to house homeless families. This has done little to create a new supply of property into the rented sector. This policy has therefore fuelled rising rental costs in the private market, forcing young families, individual households and middle-income earners out of urban centres and into suburban areas – increasing pressures on transport infrastructure. A similar scenario is borne out in the private purchasers' market with significant pent up demand against a drip feed of supply.

In the event of a no-deal Brexit, or indeed the Brexit scenario which is unfavourable to the rights of unskilled migrant workers in the UK, there may be a consequent displacement of EU workers migrating from the UK to Ireland, and more specifically to Dublin and major urban centres in search of economic opportunities. In such a scenario, there would be substantial further pressure placed on the private rented sector (PRS) in particular. As such, the SCSi would recommend the prioritisation of encouraging the development of new build-to-rent projects in urban centres to cater for a specific demographic of the market, alleviating demand pressure for three and four bed homes in the short term, which may currently be under utilised in house-share set-ups.

## **3. Are there infrastructures in place to support an increase in population, particularly in urban centres?**

As noted, any growth in population driven as a result of Brexit will be on top of underlying demographic changes which will increase demand for apartments or two-bedroom houses within urban areas. In order to prevent the price and rental increases that this may cause, it is important that government policy should be focused on removing bottlenecks to the delivery of new housing within existing urban areas. SCSi would therefore recommend that capital investment in public infrastructure is prioritised to unlock potential development sites, particularly brownfield development.

During the recession, Ireland's public capital investment programme was slashed, with investment in Ireland's physical economic and social infrastructure falling from c. €6bn in 2010 to €3bn in 2013. With the recovery of the exchequer position, there has been a steady increase in capital investment, with around €4.25bn scheduled for investment in 2017, and further increases in investment likely in future Budgets. Government has also signalled its intention to return to the creation of multi-annual capital envelopes of funding.

SCSI welcomes both this increase in capital investment as well as a return to medium-term budgeting, as this provides clarity and certainty for businesses which intend tendering for public capital works. SCSI recommends that government continue to monitor the administration of tendering for public works, to ensure that the process of tendering is rigorous but not so administratively burdensome that it excludes small businesses or new entrants into the Irish construction sector.

It is also important that public investment is targeted to remedy any existing bottlenecks to economic growth, and where demographic changes require increased investment. This is especially important in areas such as schools and hospitals where public investment may not have kept pace with population growth.

As the economy continues to recover, the exchequer position will become more favourable with greater resources to invest in infrastructure to make up for the cuts seen during the recession. SCSI recommends that government borrow additional revenue at low interest rates from EU sources, the European Investment Bank and internationally to allow for investment in key nationally important strategic infrastructure.

SCSI has welcomed the government's 'Building on Recovery: Infrastructure and Capital Investment 2016-2020' but is concerned that adequate investment is not being made available as soon as it should be, with particular regard to the looming date for the UK's departure from the EU and the potential economic impact it may have.

Brexit is likely to have a profound effect on economic growth in Ireland, bringing challenges (especially in the Border region) and opportunities. Already it has become evident that Dublin may become the new home of financial services firms which wish to relocate from London to remain within the EU. The increased economic dividend of this move can only be fully captured if there are sufficient homes and offices for these new companies. It is important that potential

brownfield development sites have the requisite infrastructure and services in order for them to be developed in a timely manner. This requires further targeted capital investment, planning reform and joined-up, sequenced investment programming across government departments and agencies.

#### **4. What price fluctuations would you foresee due to Brexit?**

As noted previously, recent trends towards off-site development and more modular development techniques have fundamentally changed the construction supply chain, and the process of construction. Ireland already imports a large amount of raw building materials such as steel, as well as prefabricated building materials including windows and bathroom pods. Any increase in costs or availability of these products will inevitably increase house construction costs and place a further strain on viability.

In addition, for the reasons set out earlier, any increased demand for housing will naturally increase prices.

However, should there be a no-deal Brexit, it is likely that the medium to long term macroeconomic impacts on the economy will dampen consumer sentiment and demand somewhat. It is not possible to currently quantify any potential employment impact, but it is likely that, as with the recession, this will not be evenly distributed throughout Ireland, and less economically developed regions of Ireland (most significantly the Border region) may face the greatest negative impact.

If the final Brexit deal does weaken Ireland's economic growth, this will ensure a potential downward pressure in house prices and create further challenges. As such, State led counter cyclical interventions are urgently required to cushion the sector from shocks and to ensure that the sector is in a position to steadily deliver the requisite supply to meet social demands.

#### ***CAP Reform: Budget Cuts Could Potential Impact on Land Prices***

The Common Agricultural Policy stands to undergo a difficult transition to a post-Brexit world. The price and availability of land will have an immediate impact on the supply and affordability of new housing.

A European Parliament report has spelt out in clear terms what the EU should expect. The UK's net contributions to the CAP amount to €3 billion per year, money which will need to be generated from new sources once Britain leaves the Union.

"There is no pain-free way of adjusting CAP spending to the Brexit gap", the report states. CAP, although not as singular an element of the EU budget as it once was, still takes up almost 40% of EU spending, so the ultimate end-state of the Brexit negotiations will inevitably exert a heavy influence on the Policy.

In a hard Brexit scenario, with the imposition of WTO rules levying tariffs of up to 78% on produce, the effect on the Irish agri-food and farming sectors would be significant. This would likely result in depressing agricultural land prices in the short to medium term, pending the outcome of difficult CAP reform discussions.

In the last round of multi annual financial framework (MFF) negotiations, CAP was not cut significantly. The next round of negotiations, however, are set to present a substantial reduction, with the Parliament estimating that a cut of 20% in CAP could be required to fill the Brexit gap left by Britain's departure.

According to the [SCSI/Teagasc Land Review and Outlook Report](#), land prices have been rising slightly, though industry figures have suggested that worries around Brexit and longer-term reform of the CAP, may be putting a dampener on any inflation. Whatever the eventual outcome of these negotiations, the availability of land for new housing development will have a significant impact on new housing output and the price of such new housing.

## **5. What challenges will the construction industry face following Brexit?**

As a broad sector, businesses working in the construction supply chain have already been affected by Brexit and will continue to be so as businesses, employers and consumers react to the eventual Brexit deal. As noted earlier, investment decisions and the release of development finance will inevitably be delayed until certainty about the future of Brexit is achieved. Uncertainty about the future trading and customs relationships between the UK and EU, and on the island of Ireland will undermine the financial viability of many new construction projects.

One of the lessons of the recession is that construction activity can very quickly halt at the start of a period of economic uncertainty, and lag any upturn in economic conditions. Therefore, Ireland should be prepared to see delays between the final Brexit deal being revealed and the commencement of new onsite construction activity.

It is important to note that construction firms vary in size and role, from micro sub-contractors to large multi-national building companies. Many of these firms are only now repairing their balance sheets and rebuilding their capacity to work following the deep recession. The challenges facing the construction industry range from the macro to the micro level and as such, Brexit-proofing the sector is crucial. As an island economy, Ireland is highly exposed to Britain leaving the EU, with shocks across trade, labour and capital flows posing just some of the potential dangers.

### ***Labour Market Risks from Potential Divergent Standards post-Brexit***

Fears around regulatory divergence exist across many sectors in Europe. Concerns centre around potential deviation on standards and criteria which apply to professional qualifications. These will have an impact on the availability of professional service providers to the construction industry in Ireland.

At present the EU's Professional Services Directive (PSD) exists to govern and permit mobility of certain classifications of skilled professionals throughout the EU.

The Directive itself is an EU regulation governing regulated professions which enables "free movement" of professionals including doctors and architects, amongst other professions, between EU countries.

There are understandable levels of unease and worry among stakeholders in the Brexit process as to the potential impact of Brexit on the free movement of labour. For instance, if the UK leave the EU, they will become a 'third country' if it remains within the WTO. If this is so, then Quantity and Building Surveyors from outside of Ireland that wish to become Registered under the Building Control Act, will now have to enter this assessment by an alternative route whereby applicants will need to satisfy more arduous application conditions.

For financial services firms for example, the retention of the 'passporting' option has been a concern. Passporting is a provision of EU membership which permits firms with operations

located in any EU country, to conduct business in other EU countries without the requirement for additional regulation.

The EU's Chief Brexit Negotiator Michel Barnier, last year ruled out the retention of passporting rights for UK financial services firms effectively heralding tighter restrictions to labour. However, there are growing indications that this situation may be resolved.

The potential impact of the ultimate Brexit agreement upon Irish business is uncertain but fears remain of a resultant lack of access to skilled professionals, further exacerbating any skills shortages in the construction sector.

The skills lag born of the lack of sectoral graduates during the economic downturn, and the now rising demand from the growing construction and property sector in Ireland, could cause pressure on the firms in the sector to fill posts.

The SCSi's "[Employment Opportunities and Future Skills Requirements for Surveying Professions 2018-2021](#)" report, authored by Dr. Róisín Murphy in June 2018, found that gap in professional overall based on current projections. The report found: "Given the projected demand for surveyors... and based on current enrolment on third level surveying programmes nationwide, **graduate output will be insufficient to meet future demand** for surveying professionals." Overall this figure was 2,162 and for Quantity and Building Surveyors it was 916 person gap by 2021. Ireland would traditionally look to the UK market to address such a gap.

A recent Migration Advisory Committee interim report, examining the impact of Brexit upon the labour market voiced concerns from the UK's perspective, though it is important to note that the report was written on the assumption that the Common Travel Area would continue to operate between the Ireland and the UK.

That the rights conferred by the CTA would continue has been a stated intention of both the Irish and British parties in the negotiations to date, although there has been little in the way of clear definition as to the precise nature of the changes, if there be any.

It will be important to continue monitoring the negotiations closely in the coming months as the nature of the post-Brexit landscape begins to become clear. However, potential positive

dimensions to changes to labour flows may include displacement of skilled non-professional EU migrant workers, who may shift from the UK to Ireland, seeking employment opportunities.

**6. What potential affects, if any, will Brexit have on the movement of construction materials between Ireland, the UK and the rest of the EU?**

The Department of Finance recently produced report on Ireland's potential exposure to changes in import and export arrangements which found that Ireland faces greater risk on imports, than on exports, as previously thought.

This demonstrates that a no-deal Brexit presents a significant threat to Irish supply chains. The report suggests that Ireland's import exposure stems from our location on the periphery of Europe, stating that the removal of the natural land bridge of the UK between Ireland and continental Europe, and the proportionate size of the Irish market, may render it uneconomic to export to for many continental suppliers.

Whilst the UK itself is not a major manufacturing economy, many countries manufacture goods elsewhere and export them to be 'warehoused' in the UK, prior to being exported to Ireland.

In addition to this, Ireland is also the most exposed country of the EU27 in terms of the import of machinery and transport equipment, according to the same report.

Using CSO figures from 2016, the report estimates that large Irish firms in the manufacturing and construction sectors import more than €6bn worth of goods per annum.

In the manufacturing and agri-food sectors micro and small enterprises comprise the vast majority of importers in Ireland. These figures could signal potential threats to the construction and building sectors, who import significant amounts of materials and equipment to support their activities.

Irish firms reliant on goods imports for construction purposes, are particularly exposed, with lack of supply likely to signal higher acquisition costs, if they are required to source from markets further afield. Alternatively, importing from the UK may require payment of substantial tariffs, and additional customs checks which could potentially cause delays, In a fast moving economy, delays are a further cost that must be factored into the overall cost and time of producing the end product.

As a result, the importance of the Free Trade Agreement to the supply chains of firms in the Irish construction and property sector cannot be ignored, as firms in the sector try to mitigate against, and minimise risk and exposure where possible.

**7. What affects could Brexit have on building costs and completion times? Particularly if the UK were to leave the single market and/or customs union?**

As noted previously, Ireland imports a significant volume of building materials from both the EU and the UK. While imports from the EU would be unaffected by Brexit, any barriers to the free movement of construction products from the UK could have a significant impact on the construction process in Ireland.

The construction industry has proven itself to be responsive and adaptive to new ways of doing business, and investing in new products and processes to drive innovation in the sector. While this technological innovation will not slow down because of Brexit, it is important that Irish businesses remain able to harness new ways of doing business to mitigate against any risks posed by Brexit.

**8. Are we at risk of losing workers in construction and related industries following Brexit?**

Traditionally, Ireland has relied on workers from other EU member states to fill employment requirements in the construction industry. Changes in the availability of such workers has always had an immediate impact on construction costs and, therefore, the cost and availability of new property.

During the recession, employment in the sector dropped dramatically and Ireland experienced net emigration as many construction workers left Ireland to return to their country of origin. It is likely that, as in the past, non-Irish employees, including professional service providers, will meet demand for construction workers. It is unlikely, however, that Brexit will have an immediate impact on Ireland's ability to attract workers from the EU, and indeed, it may be the case that if entry into the UK is made more complex because of the eventual Brexit deal, Ireland may be a beneficiary of having a wider pool of EU workers to attract.

Within the professional services sector, a large number of UK businesses operate freely in Ireland both directly, and as joint ventures with Irish businesses. The exact nature of the future agreements between the EU and UK mean it is difficult to see whether such joint ventures will remain as easy to develop as is currently the case; this may cause capacity constraints within the Irish professional services sector, but one which may be met through joint ventures with companies operating from other EU countries.

### **About the Society of Chartered Surveyors Ireland**

The Society of Chartered Surveyors Ireland is the independent professional body for Chartered Surveyors working and practising in Ireland. Working in partnership with Royal Institute of Chartered Surveyors (RICS), the pre-eminent Chartered professional body for the construction, land and property sectors around the world, the Society and RICS act in the public interest: setting and maintaining the highest standards of competence and integrity among the profession; and providing impartial, authoritative advice on key issues for business, society and governments worldwide. Members of the profession are typically employed in the construction, land and property markets through private practice, in central and local government, in state agencies, in academic institutions, in business organisations and in non-governmental organisations.