



Building *Better* Buildings

Budget 2020 Submission



About Us

The Society of Chartered Surveyors Ireland is the professional body that accredits professionals within the land, property and construction sectors, representing over 5,000 members across the country.

We regulate and promote the profession, maintain the highest educational and professional standards, protect clients and consumers via a strict code of ethics and provide impartial advice and guidance. Our members include estate agents, planners, quantity surveyors, building surveyors, land & mineral surveyors, valuers, property and facility management surveyors, working in public organisations, corporate firms and private practice.

The Society of Chartered Surveyors Ireland works in partnership with the RICS, the worldwide professional body for Chartered Surveyors that is committed to setting and upholding the highest standards of excellence and integrity and has a global network of over 100,000 members.

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Mr Paschal Donohoe T.D
Minister for Finance and Public Expenditure & Reform
Merrion Street
Dublin 2

12th August 2019

**Society of Chartered Surveyors Ireland-
Pre-Budget Submission 2020**

Dear Minister,

I have the pleasure of enclosing the Society of Chartered Surveyors Ireland's (SCSI) Submission in advance of Budget 2020 in October. The submission explores three areas that we feel requires the most significant attention for consideration. These are;

1. Housing in an urban context,
2. Regional support for a vibrant town community, and
3. The future of construction

It is encouraging to see that the housing delivery program and the Rebuilding Ireland strategy is beginning to take effect. House price inflation is slowing in our major urban centres, rent increases are no longer in double digit growth and new housing completions have grown by 24% in the past 12 months. The SCSI supports any measure that increases this supply in areas of high demand provided that appropriate densities are achieved and this remains at the forefront of our land-use policy.

That said, the supply of new housing is still not enough to cater for current demand and we predict that if current housing output is achieved, it will be at least 2024 before supply and demand equilibrium is achieved. Our Submission outlines a number of areas where housing supply delivery could be expedited through a more radical approach to residential site availability and also the use of technology to speed up the construction process and productivity challenge that is currently curtailing the industry.

An increase of zoned and serviced residential land with infrastructural access is one of the most effective methods of **reducing the costs of delivering new units** to the market. High capital gains tax rates at present only dis-incentivises many landowners to make land available for development and this is an important aspect of the housing market that we would like your department to consider further changes.

Construction productivity is one of the lowest rates within in all of the various sectors in Ireland. Traditional construction methods are still widely practiced and therefore the opportunities to revolutionise this process and industry is significant. Government can act as a conduit to support the industry, co-ordinate efforts with other Stakeholders to **deliver on a tech construction industry to cater for domestic demand but also provide export opportunities**. This proposal requires investment, possible incentives to attract the levels of investment needed and significant commitment from industry and policymakers alike.

The SCSI is aware of and delighted to participate in the research being carried out by KPMG and Future Analytics Consulting for Government, which is looking at ways to address this productivity challenge. We look forward to the report findings which we hope will form the beginning of national debate towards developing a new smarter construction industry for Ireland.

I hope you and your department officials find the enclosed contents of our submission useful and if any further information is required on any of our recommendations, please feel free to contact Edward McAuley at the SCSI (01 644 5500).

Yours sincerely,



Johanna Gill MSCSI MRICS

President

Key Recommendations

Section 1: Meeting the housing needs of a growing population – focus on urban living

- I. Reduce Capital Gains Tax from 33% to 8% for residential zoned / serviced land
- II. Build to Rent sector - Increase Stamp Duty from 2% to 6%
- III. Introduction of transitional timelines to remove the Help- to- Buy scheme over the next 12 months
- IV. Audits of Multi-Unit developments built during the Celtic Tiger era to identify high risk building defects
- V. Cost Benefit Analysis to be carried out on all regulation changes
- VI. Extension of Strategic Housing Development fast-track process until 2021

Section 2: Regional Supports

- I. Removal of Rates Exceptions for vacant commercial property
- II. No further increase in Stamp Duty – except for the realignment of Stamp Duty from 2% to 6% for sale of apartment blocks
- III. Allocation of additional funding and resources to local authorities to strengthen the ‘one-stop-shop’ support to unit owners – Bringing back homes initiative
- IV. Funding allocations for towns to seek professional advice in preparation of a town revival feasibility strategy

Section 3: The Future of the Construction Industry

- I. Investment into the Modular Construction Industry
- II. Nurturing of a new industry in Ireland: Industry 4.0.

Executive Summary

The challenge

The property and construction industry are performing well, primarily in larger urban centres. There is heightened demand for housing, modern office space and industrial units well located to major transports links. Retail is sluggish and is continuing to battle against a shift in consumer behaviour towards online shopping.

A noticeable dampening of demand for more expensive types of residential property has been evident since the start of the year and the obvious element of cautiousness is also mirrored in the commercial sector too. Brexit is a significant fear factor and the extension of the UK's departure date from the EU has only heightened concerns and delayed key decisions being made in terms of property investment in Ireland.

Certainty is a critical component for a thriving property and construction sector. High levels of risk associated with property means that frequent changes to legislation or taxation rates/ exemptions only result in nervousness and delayed decision-making. It is important for any policy agenda to try, where possible, to outline a more 'medium' term approach to fiscal adjustments that concern the development and management of our built and natural environment.

Creating the 'new'

Construction output is increasing year-on-year and it is predicted that by the year 2024, housing output will be at or close to supply-demand equilibrium. But more needs to be done to eliminate barriers and reduce costs of new housing delivery. An adequate supply of development land for residential development should remain a key focus for Government in Budget 2020. A considerable reduction in Capital Gains Tax (CGT) for residential sites will increase the attractiveness of landowners to sell their land, thus making more available for building. SCSi believes that there are ways to ensure financial safeguards for the Exchequer if agreed conditions are not met by the developer, such as temporarily increasing Part V obligations or applying a "burden on the land title to ensure a return of any loss of CGT.

Urban density should be a priority of all governments so that communities are encouraged to live in areas where infrastructure exists and can be expanded in a sustainable way. Apartment building needs to become more viable and this can be achieved by increasing land availability, ensuring a correct mix of units for sale versus rent and application of regulations such as fire regulations that are measured and cognisant of apartment delivery viability in the sector for average income earners.

The Help-to-Buy scheme is a demand initiative and in our view does not address the high costs of construction in Ireland. Whilst many First Time Buyers may welcome an extension of the scheme, it is simply mobilising the purchase ability earlier than what was initially required for saving for a deposit and purchasing a home, and fails to address the costs of delivery.

Redefine the 'existing'

Reuse of existing stock meets the needs of many important metrics such as sustainability, speed of delivery and an improvement of town vibrancy. Many units over shops can be put to residential use and this should remain a key focus for government. Our report on the *'Rejuvenation of our small-town centres'* highlights many difficulties with renewing the attractiveness of main streets for investment. Recent government funding initiatives such as the Town and Village Renewal scheme

and the Rural Regeneration and Development fund are important for the success of town revival. Local authorities need more resources to offer a more end-to-end service to unit owners and communities so that they can navigate through the feasibility stage and ultimately the actual town revival implementation process. Whether this is by way of financial supports for communities to appoint consultants/professionals or adequate staff numbers for local authorities, by assessing and addressing support requirements and short comings, this will increase the effectiveness of these schemes.

A new industry for the future

Technology has changed all our lives and has also managed to deliver efficiencies for many sectors. Construction is ripe for a technological revolution but requires an authority to co-ordinate and lead this discussion to ensure adequate levels of investment are achieved for the sector to revolutionise. The potential value of a modular construction industry in Ireland could equate to €1.7Bn and place Ireland in a strategic position of supplying an export market whilst reacting to domestic demands in a more responsive manner.

Some of the benefits of Tech construction sector in Ireland;

1. Construction efficiencies by using more technological advances for repetitive task
2. Improving and maintaining standards in a tightly regulated and quality-controlled environment
3. Modular Construction becoming more popular across the globe for residential and commercial construction
4. Cost savings by reducing labour overheads and increasing speed of delivery
5. Good for the planet as wastage is minimised and therefore cuts down on carbon emissions

Section one: Meeting the housing needs of a growing population – focus on urban living

Introduction

Ireland's population is set to grow until 2050 when it will reach almost 6.7 million, up from 4.84 million in 2018. The current rate of population growth is at 1.2% per annum. The publication of Ireland's 2040 plan is welcomed and sets the context of this expected population growth in terms of expected public and private services.

To this end, the investment in infrastructure and housing are of paramount importance if Ireland is to achieve its targets for a more sustainable future. For our communities to thrive then this needs to be reflected in an appropriate mix of housing type, size and tenure, in our capital and other major urban centres.

Urbanisation Trends

More than half of the world's population lives in urban areas. Due to the ongoing urbanisation and growth of the world's population, there will be about 2.5 billion more people added to the urban population by 2050. Urbanisation occurs mainly because people move from rural areas to urban areas and it results in growth in the size of the urban population and the extent of urban areas. These changes in the population lead to other changes in land use, economic activity and culture. Historically, urbanisation has been associated with significant economic and social transformations. For example, urban living is linked with higher levels of literacy and education, better health, longer life expectancy, and greater access to social services and enhanced opportunities for cultural and political participation¹. However, urbanisation also has disadvantages caused by rapid and unplanned urban growth resulting in poor infrastructures such as inadequate housing, water and sanitation, transport and health care services.

In 1960, the global urban population was 34% of the total; however, by 2014 the urban population accounted for 54% of the total and continues to grow. By 2050 the proportion living in urban areas is expected to reach 66%. Figure 1 shows the change in the rural and urban populations of the world from 1950 through to projected figures up to the year 2050.

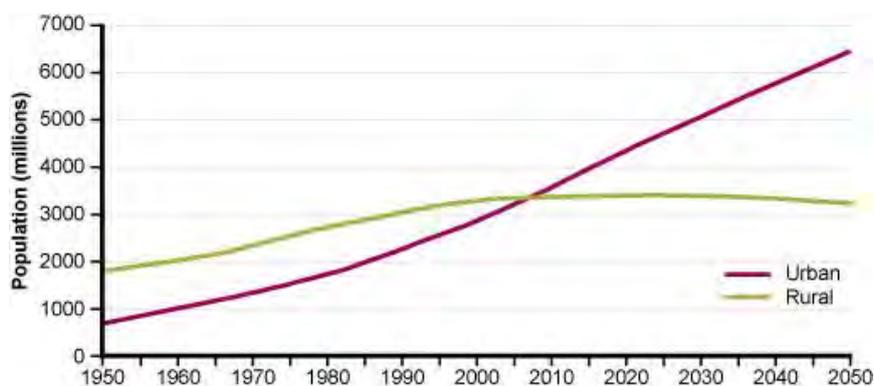


Figure 1 Urban and rural population of the world, 1950–2050. (UNDESA, 2014)

¹ United Nations Department of Economic and Social Affairs, 2014

Urbanisation is not just a phenomenon for other global and EU cities, it impacts on our own cities too. To date, there are almost 2.5 times more houses being built compared to apartments in Dublin with similar trends elsewhere in Ireland. According to the latest planning data, much of the house new builds are taking place outside of the cities and in our suburbs. If this trend continues, our cities will become further congested and more reliant on substantial infrastructural investment to cater for increased demand.

Dublin was ranked the 6th most congested city in Europe in 2019 and the 14th most congested city in the world. Cork and Limerick were ranked 72nd and 117th respectively. The World index has seen an increase in Dublin's congestion level in recent years which is of significant concern. It is important that this trend is prevented from escalating and reversed if we are serious about planning for a more sustainable future for next generations.

The *2040 Plan* has a funding allocation of €116 Bn with much of this earmarked towards our national infrastructure. The linking of our cities with highly efficient and safe infrastructure is critical to support inward investment to areas outside of Dublin in order to improve its attractiveness in terms of Foreign Direct Investment.

Planning and Completions

It is encouraging to see an increase in the number of new units coming onto the market and this trend should be nurtured and encouraged to meet the housing demand now and projected demand into the future. Apartment delivery is still lagging in our cities. If we look at our Capital city over the past three years, new house construction exceeds that of new apartment construction considerably.

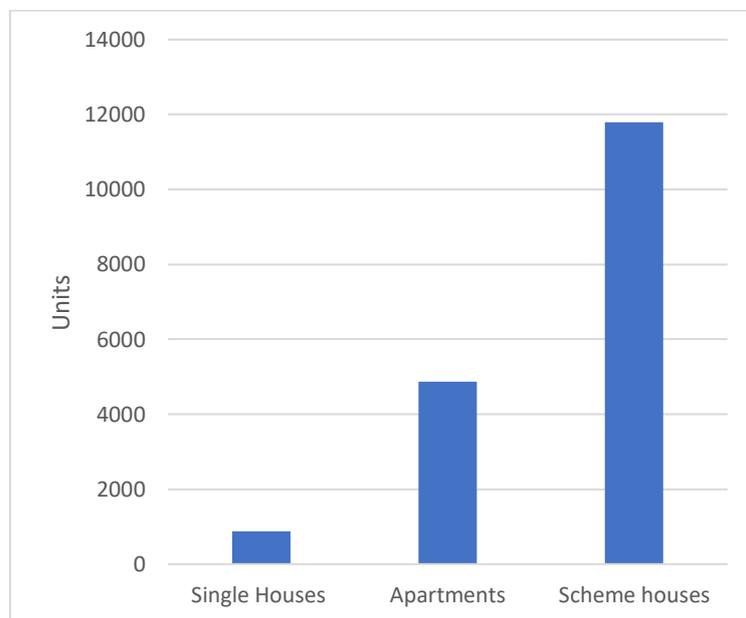
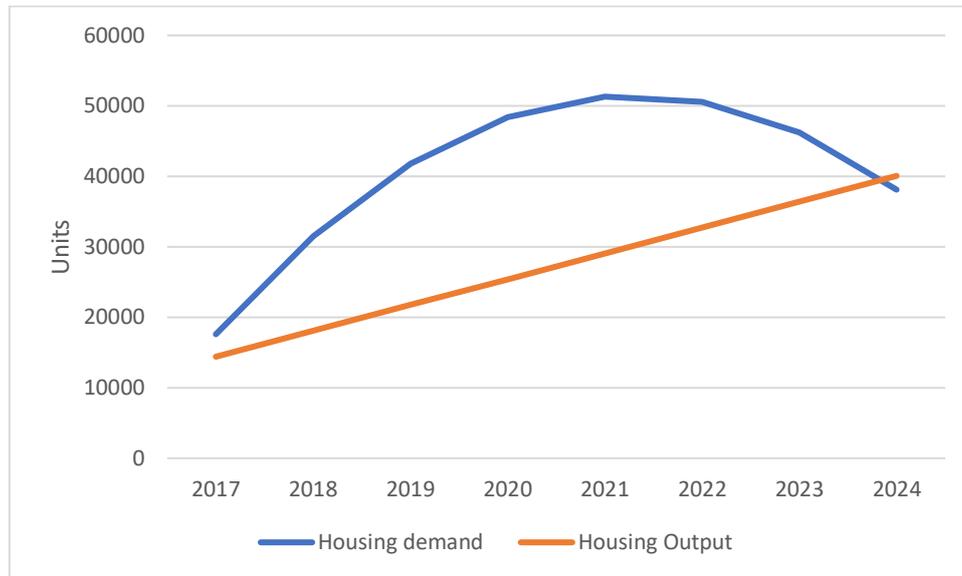


Fig. 2 New Completions – Local Authorities Q1 2016 to Q1 2019 (Dublin)

New unit estimates² suggest somewhere between 30,000 to 35,000 new completions are required to meet the housing need of our growing population. Using an average of 32,500 compared against current levels of output recorded by the Central Statistics Office (CSO), it will be between 2023 and 2024 before there is an equilibrium level of demand and supply on new housing, see Fig 3. This figure is based on the current year-on-year increases in new housing output.



Source | Society of Chartered Surveyors Ireland

Fig 3 – Projected Housing Supply Demand Equilibrium

There is a concern, however, that the new completions achievements are bias towards new housing development rather than apartments, which are necessary for a more sustainable future. It is important that the delivery of apartments and the costs associated with their delivery are continually measured and reviewed. One method of reducing costs is to focus on the speculative land sector. SCSi suggests a review of the current tax treatment of vacant and under-utilised brownfield and infill sites in are large urban centres. It must be structured in such a way that speculation is dis-incentivised. Construction costs remain relatively steady in terms of year-on-year inflation, with one of the biggest and most challenging parts of apartment building being the cost of serviced land.

It is clear from recent data that activity in the house building sector is increasing as planning permissions and completions figures are increasing in general quarter-on-quarter. It is important that this is nurtured and that there are no further regulatory impacts that disrupts this supply.

² Economic Social Research Institute

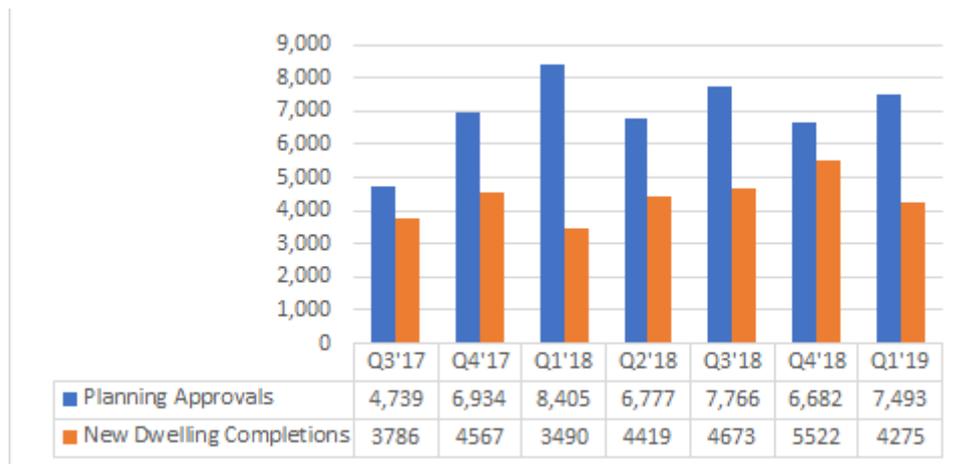


Fig 4 Planning approvals vs New Dwelling Completions

New Apartment Construction

Research carried out in the *SCSI Annual Residential Property Reports* suggest that apartment living for growing families is not as an attractive proposition compared with houses. Furthermore, recent defects uncovered in apartment blocks has damaged the reputation of apartment living.

SCSI notes an increase in the number of new apartment blocks being sold off market to large investment funds, which are likely to only become available for occupation on the rental market. In much the same way that a balance of social tenants and private occupation of property is important for social mix, a balance of tenanted properties and owner-occupied properties is also important to promote vibrancy, place-making and overall correct mix to populate local communities.

Urbanisation and increased densities are of paramount importance for our future and for sustainability. It is essential that an adequate supply of apartments come on the market for sale, so that those families/couples etc. that wish to purchase their own home rather than rent, have that option. It is the objective of many to own their own home and every effort should be made to support this, but in a way that makes accommodation available in our cities for growing families.

Unfortunately, in recent years, the trend has continued to allow development outside of urban centres where investment in services is then required to service developments. Over the past 3 years, the number of apartments built was 4,866 compared to almost 13,000 houses. Approximately 7% of Ireland's population live in apartments, compared to on average 41% across the EU. In 2016, apartments in Dublin, overtook the number of houses for the first time (CSO 2017). There has been a substantial increase in planning permissions for apartments in recent years, and this is expected to continue for the foreseeable future. Between January 2018 and March 2019 permission for 4,619 apartments was granted under the Strategic Housing Developments process (An Bord Pleanála 2019). The challenge with the industry is that whilst permissions for apartments has increased, completions are still lagging. Apartment building remains a risky investment and as such this risk comes at a premium.

Apartments are costly to deliver for many reasons. The *SCSI 'Real Cost of New Apartment Delivery Report'*, soon to be updated, highlights the costs of delivering both urban and suburban low and medium rise apartment blocks in Ireland (Dublin). Our data from 2017 shows that all medium rise apartment blocks in Dublin were unviable to build for a market constituted of those with average

incomes. The only viable apartments were low rise, typically 2/3 storey buildings built using traditional construction (traditional strip foundations / block construction etc.).

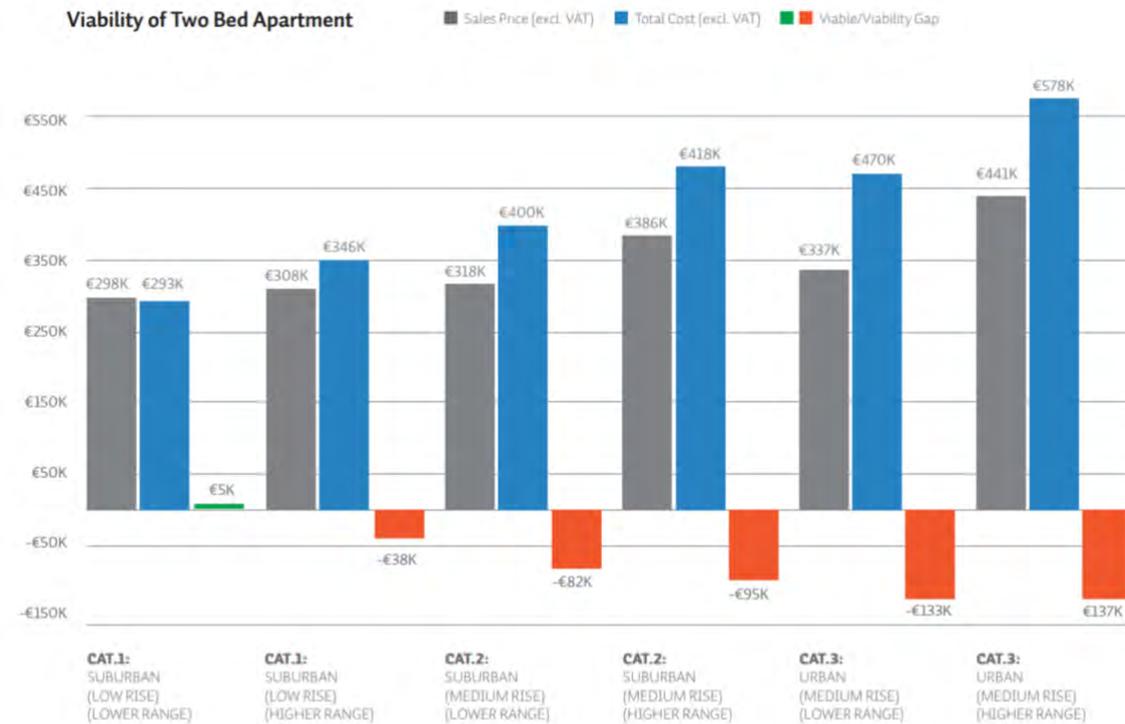


Fig 5 SCSi Real Cost of New Apartment Delivery Report, 2017

Since the release of our report two years ago, the Department has revised its design considerations for apartments, urban density and building heights. SCSi welcomed the introduction of the changes, which we understand have had a positive impact on the delivery of new apartments to the market. This has ‘tipped the scales’ in respect of more viable developments and the combined effect of achieving higher density means that, in theory, the outlook looks bright for more sustainable apartment living in our cities.

Moreover, the formula for delivering high quality apartments to areas of high demand remains precarious. Further amendments and adjustments to regulations has the potential to add additional cost to new units and has the potential to slow down delivery at a time when demand is so high.

Part B (Fire) of the building regulations are proposed for amendment, and the changes may have design and cost implications for the delivery of new apartments to the market. We understand that the proposed amendments are in respect of, primarily but not limited, to open plan apartment and fire protection. The importance of fire protection, especially within apartment complexes, cannot be overstated, but we suggest that the changes are adopted in a practical and pragmatic way so that the minimum standards proposed doesn’t have unintended and disproportional consequences elsewhere by way of significant cost escalation.

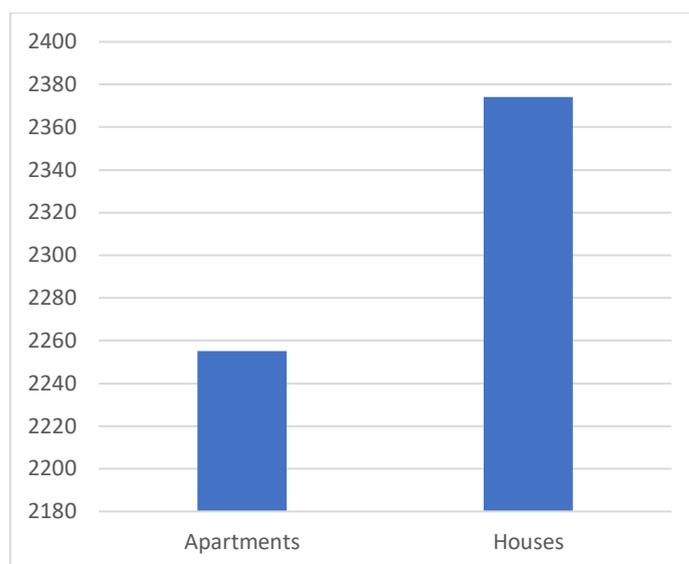


Figure 6 – New Completions – Dublin (2018 – 2019)

The number of new apartment schemes coming available on the market is mainly due to the significant levels of investment coming from large funds and REITs. This is welcomed as it brings much needed housing to an undersupplied market.

The Stamp Duty rate is currently at 2% for apartment blocks when sold but SCSI believes that now is the time for the commercial activity to be brought in line with the non-residential or commercial rate of Stamp Duty which is 6%.

Strategic Housing Development

SCSI members have found that the measures introduced in the Planning and Development (Housing) and Residential Tenancies Act 2016, to enable fast-track planning applications for strategic housing developments of 100 or more housing units, has worked well. However, there are resourcing challenges associated with An Bórd Pleanála (ABP) and more investment is needed in any extension of responsibilities to ABP. More resources are needed for Strategic Housing Development applications and to assist with ABP’s other core duties, such as appeals cases. We believe that further recruiting when coupled with our other proposed amendments (below), would make way for a more efficient process application and decision process resulting in greater supply of necessary housing without negatively impacting quality.

The SCSI welcomes the extension of the Strategic Housing Development process at a time when housing demand is so high. We believe that the centralisation of applications to *An Bórd Pleanála* has helped to deliver more consistent outcomes on planning decisions and will de-risk the planning process for those looking to build this necessary housing. Given the resourcing challenges faced by local authorities over recent years to cater for the increasing planning permission demand, some inconsistencies or divided opinion on interpretations has led to elements of conflicting and inconsistent planning responses to applicants. The responsibility of *An Bórd Pleanála* to deal with larger applications is still warranted and should remain a feature until its review again in 2021; while building the capacity and resources of Local Authorities to deliver a similar role in the future. The more operational recommendations set out in our submission issued to the Department of Housing Planning and Local Government on the extension of SHD (July 2019) aims to establish more efficient methods of delivery of decisions which will ultimately assist with the resourcing challenge in ABP.

Managing our Existing Apartment Stock

There are obvious cultural and behavioural shifts required to achieve a more vibrant apartment living proposition for many. Apartment living is very often perceived as a starter home and one that is temporary and not suitable for growing families. It is viewed as a short-term accommodation solution particularly for those looking to rent for short periods of time in their lives. Many may argue that there is an element of trust concerns, especially considering the Grenfell tragedy in the UK recently. Government and the Department of Housing, Planning and Local Government have an important and challenging role to play here to make apartment living more accessible and achievable for those looking to buy an apartment or rent one in areas of demand.

Conversely, the trend towards more apartment living has increased in recent years with 20% of people now living in apartments in Dublin and 9% nationally³. It is projected that an additional 90,000 apartment units are required in the next 20 years.

Some residential buildings built over the past decade and beyond have been in the spotlight for all the wrong reasons as building defects, some serious, impacted on property values, costs for owners, challenges for Owners' Management Companies and more importantly, on the health, safety and wellbeing of occupants. Building defects in our apartment complexes are mainly down to poor workmanship, improper design requirements, and lack of skills and knowledge in respect of materials being used in locations not suitable for its use. Legislation in recent years has made good progress in addressing these deficiencies in the future with the introduction of the Building Control (Amendment) Regulations (BCAR) in 2014 and the impending introduction of mandatory CPD and registration of building contractors and specialist sub-contractors through the Construction Industry Register Ireland (CIRI). Aside from the further improvements to standards, the legacy challenges of building defects still exist.

Help to Buy Scheme

The Help to Buy Scheme was introduced at the same time when the Central Bank of Ireland macro-prudential lending policy was established. The Help to Buy scheme is a demand side initiative that has had the impact of bringing forward the purchase decision of those First Time Buyers that were of the view to purchase at some point in the future.

The SCSi has raised the concerns of the high delivery cost associated with bringing new homes to market and this was highlighted in more detail within our *Real Costs of New Home Delivery Report 2016*, soon to be updated. This report showed that in Dublin, the average cost of delivering a new three-bedroom semi-detached house was around €330,000. These figures are now three years out of date and given the year-on-year inflation rate of development land, delivery prices are expected to be a lot higher. The *Annual Residential SCSi Property Reports* shows us that residential development land has increased on average 10% annually over the past few years. This is mainly due to supply constraints and therefore the Help to Buy scheme is doing nothing to address the high input costs of delivering housing which need to be brought down.

The labour element of house building is relatively high and can account for approximately half of the overall cost of building a home. The construction industry is limited in expansion and increased output due to skills shortages. The SCSi believes that there are obvious and attainable opportunities

³ CSO data

to revolutionise the house building sector by embracing more off-site construction modern methods of new home delivery. Our recommendations are explained in more detail in section three of this submission.

ELEMENTAL ANALYSIS - 3 BED SEMI-DETACHED HOUSE					
Gross internal Floor Area		1,214 Sq.ft	113 Sq.m		
ELEMENT		€	€PSF	€PSM	% OF TOTAL
CONSTRUCTION COSTS (per house)					
Housing Building Cost	(A)	122,251	101	1,084	37%
Siteworks Within Site Curtilage	(B)	10,000	8	89	3%
Site Development	(C)	18,000	15	160	5%
CONSTRUCTION COST (A) + (B) + (C):-		150,251	124	1,332	45%
OTHER COSTS (per house)					
Professional Fees		5,500	5	49	2%
Levies		11,750	10	104	4%
Land & Acquisition Costs		57,500	47	510	17%
Sales & Marketing Costs		8,200	7	73	2%
Finance Cost		20,002	16	177	6%
Margin		37,980	31	337	11%
VAT		39,310	32	349	12%
TOTAL HOUSE COST:-		330,493	272	2,930	100%

Figure 7 - SCSl Real Cost of New House Delivery Report, 2016

Recommendations

Recommendations to increase new build completions and support more sustainable living:

Type	Recommendation	Exchequer Cost/Return
Development land	<p>Increase supply of residential development land. Reduce development land Capital Gains Tax rate from 33% to 8% for a defined period but aimed at zoned and serviced residential development land. Scenario;</p> <ul style="list-style-type: none"> • Landowner sells land and gets a reduced CGT rate of 8% • Developer builds out an entire scheme within a set timeframe e.g. 3-4 years • If the developer reneges on agreement, then either a burden is placed on the land – so that revenue gets the loss of CGT plus interest when sold, or has the control to increase Part V responsibilities to say 20% until the scheme is delivered in full <p>The reduced CGT rebate cost to be applied to the developer by way of increased Part V obligations and only removed once the objectives (house delivery) is met within agreed time limits.</p>	€-37 million loss based on 1% reduction on CGT across all CGT areas. This proposal is limited to residential development land only.
Stamp Duty	Apartment block sales – increase stamp duty rate from 2% to 6% in line with other commercial property stamp duty rate.	
'Help to Buy' Scheme	The 'Help to Buy' Scheme, is, in our opinion, mainly a demand side initiative. Increase the supply of development land to the market to address the high demand for accommodation. Given the reliance of the Help-to-Buy scheme, particularly outside of the cities, SCSi suggests that transitional timelines are introduced to remove the Help-to-Buy scheme i.e. removal over next 12 months.	
Building defects	<p>An audit of Multi-Unit developments built during the Celtic tiger years to identify those that are high risk properties. This exercise is useful to ascertain the extent of the building defect issue.</p> <p>Fund established to assist in the remediation of those complexes where defects are of a serious nature in respect of health and safety.</p> <p>Emergency Fund: Serious consideration should be given to setting up an emergency fund to deal with the most urgent of issues such as:</p> <ul style="list-style-type: none"> - Notification of fire to occupants - The risk of fire spread from apartment to apartment 	

	<ul style="list-style-type: none"> - The risk of fire spread from common area to apartment 	
Regulations	Cost benefit analysis of all proposed changes to regulations to avoid any unintended consequences of the changes.	
Strategic Housing Development	<p>SCSI recommends the extension of the SHD until 2021, but additional resources are required to address increased demand for SHD applications and for appeal cases.</p> <p>SCSI recommends a 'short form' application change process so that minor changes can be addressed without having the need to resubmit. SCSI also suggests that a 'further information' route is also established so that any further clarity required can be provided without the need for new application.</p>	

Section two: Regional Supports

Regional Communities – a 2019 Viewpoint

Concern over the vibrancy and future of our regional high streets has been part of social discourse for the last few decades. As more streets and towns began to suffer a slow decline, policies and funding schemes have been formulated to counter this. However, it is perhaps only in the last decade, with the onset of the economic crash and the extent of damage it caused, that there has been a clear and determined effort on the part of successive governments in Ireland to address the fundamental issues that are leading to this decline. Regional high streets have been significantly affected by the recent economic downturn. The impact has been felt throughout Ireland, with increasing vacancy rates and a decline in the vibrancy of many rural communities. Conversely, there are many positive developments, which can act as an exemplar for other towns.

The lack of critical mass in Ireland is a challenge for regional growth. Traditionally, the Irish have been predominantly rural, indeed up until relatively recently a majority lived in rural locations. The island was composed of many small towns and villages, with compact centres and a clear differentiation between urban and rural. The compactness remained for centuries, until in the 1950s and 1960s there was an increase in urban development, with almost two thirds of us now living in urban areas according to the 2016 Census. However, in many cases, development was an unstructured sprawl spreading from the core. Urban sprawl is not limited to Ireland. It is a global epidemic which originated in the US with the development of the motorised vehicle.

The SCSi published a study on the *Rejuvenation of our Small-Town Centres* in 2018. This report made a series of recommendations, much of which we are encouraged to see being addressed in government policy with the publication of the *Reuse of Existing Buildings Manual* and the availability of additional funding for local authorities, many of which are using to rejuvenate town centres.

The purpose of our report was to provide an overview of the trends currently influencing the regional high streets and the impacts of those trends on the ground, consider a range of barriers in enabling a vibrant regional high street and identify critical success factors at play that have succeeded elsewhere. The Report purpose ultimately was to provide pragmatic policy interventions and recommendations to revitalise the regional high street and bring a stronger sense of place and a new lease of life to rural communities.

Reducing Vacancy

Due to the competitive, and dynamic nature of the retail environment in recent years, vacancies have become more commonplace on our high streets. While this is undoubtedly a problem, it also has knock-on effects. Vacant premises that lie unoccupied for a sustained period can create a negative perception of a place. This, in turn, can be off-putting for both consumers and any potential investors or retailers, who will see vacant premises as an indication of poor health, creating a vicious circle of decline.

Residential vacancies also contribute to the overall perception of a place and therefore understanding the trends in this area will provide a useful indicator. The CSO produce a dataset which highlights the changes in residential occupancy in 845 settlements across Ireland. This data shows that 74% of 845 settlements across Ireland recorded a decrease in residential vacancy. This indicates that as the housing crisis is intensifying, more vacant homes are coming back into use. Commercial vacancies are not recorded by the CSO, however, Geodirectory release annual reports

outlining commercial vacancy which shows that 70% of settlements (79) in this study recorded an increase in commercial vacancy rates.

Efficient Use of Existing Building Stock

In 2018, government published its strategy to tackle the decline in the regional high streets. This included additional funding streams and a remodelled 'one-stop-shop' approach to offering supports for building owners to renovate properties. The 'Bringing Back Homes' Manual published by the Department of Housing Planning and Local Government aims to provide a streamlined process for those that need to interact with the planning and building regulations.

It may be too early to judge the success or failings of this new approach, but the concept is positive. It's important that accurate data is compiled of those using the new initiative to bring back derelict properties back to use.

Commercial Property and Taxation

Recent budgets saw the increase of Stamp Duty to 6% with the additional revenue used to fund expenses in other areas of Exchequer overheads. The rise in this transactional tax was mainly due to the rebound of activity in the sector and the increased levels of investment taking place, mainly in the office and industrial sectors. Unfortunately, this has never been a reliable and steady form of income for the Exchequer as witnessed during the recession when residential and commercial transactions were particularly low, impacting on the overall tax take. As a reaction to this, the Local Property Tax was introduced as a steadier and more reliable source of revenue.

The SCSi is concerned that if past and future Budgets continue to place more reliance on transactional taxes, the exposure to volatility in tax income streams will increase. The more recent increase in Stamp Duty impacts on all areas of commercial property and in all geographic locations. For example, the market in Dublin or Cork is much different to the market in Port Laoise or Tullamore. Whilst some areas are doing well, not all areas of Ireland share the same levels of optimism and activity, and this needs to be considered.

In terms of revenue streams for local authorities, many offer a commercial rate relief/refund scheme for those with commercial properties that were renovating a property and are seeking a refund, or those demonstrating that they were unable to let/occupy a building due to poor demand. It is the latter that is of concern, and one that we suggest needs addressing. Rural Ireland is particularly blighted by poorly managed and maintained properties on high streets, and this can have a lasting and devastating effect on the image of towns to attract visitors to their centre. We believe government has been very supportive by offering additional support services to property owners to bring back their properties to use. However, we believe that it is timely to remove commercial vacancy reliefs to property owners in the instance that a property is long term out of use. It is incumbent on all building owners to ensure that their property is being put to some local good and therefore if it's not, then a Rates exemption should be removed. Every building has a value. It is therefore no longer acceptable that because a property is failing to be occupied, that a rates exemption should apply. Obsolescence and the visual demise of some buildings on our streetscape can have detrimental impacts on the overall look and atmosphere of our towns and villages. It's vital that every measure is addressed to promote a pro-business and pro-accommodation strategy for bringing more life back to our urban centres.

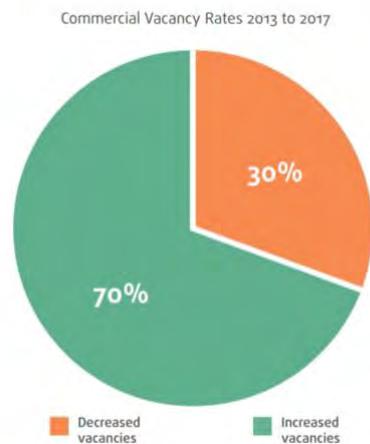
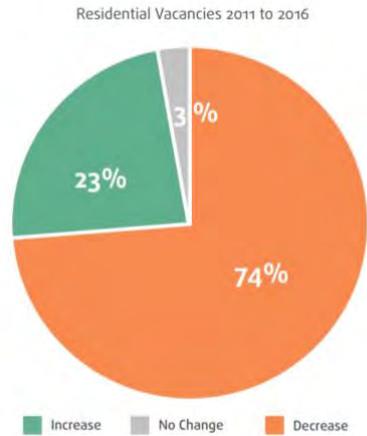


Figure 8 - Vacancies on high streets – Regional Ireland

Digital Ireland

Online shopping is a growing trend, one that small towns will need to exploit in order to survive. There are many initiatives currently on offer whereby group online platforms provide a stage for small retailers compete with the Amazons and eBay's of this world. SCSi recommends that any funding streams that are made available are released in such a way that its prioritised to those looking to implement a digital strategy for their town. This requires effective leadership from a local authority as well as from locals. Any funding made available to small towns should also allow for an element of professional advice, a project manager or professional leader to co-ordinate the delivery of a project, such as outlined in the digital flatform project.

Online weekly shopping is on the rise, with Ireland set to follow international trajectories

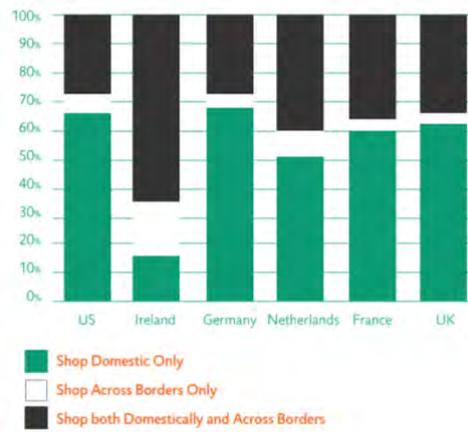
PWC Retail Consumer Report 2018



Irish online shoppers are more likely to purchase through international websites than those in other nations

PayPal/Ipsos Insights 2018

SURVEY OF ONLINE SHOPPERS



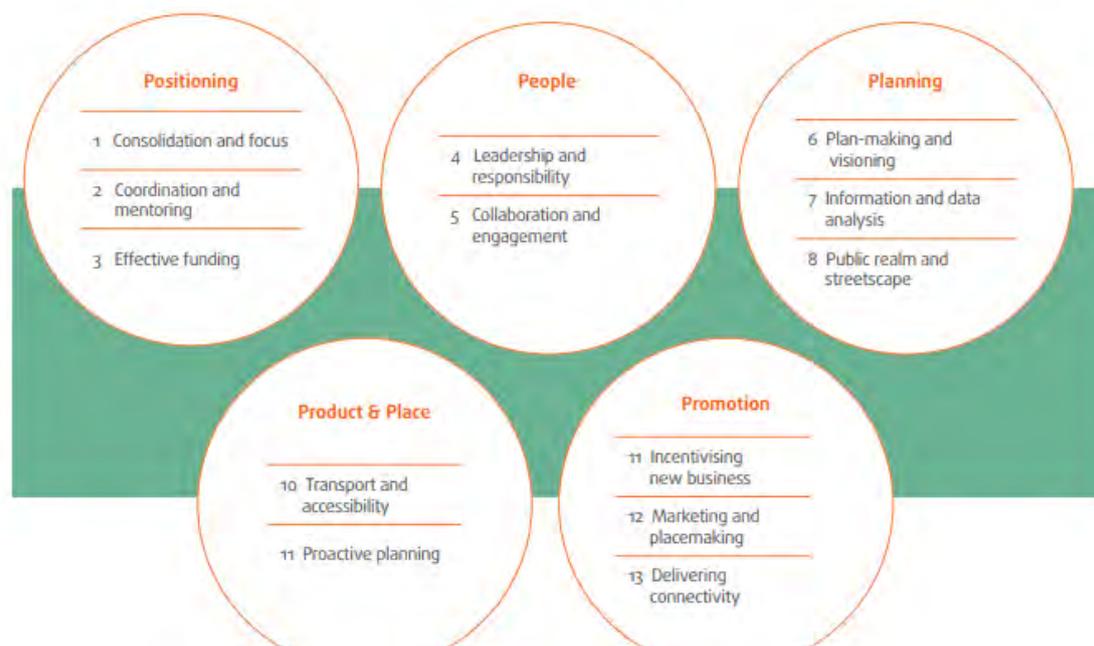
The goal of the SCSI is to start a dialogue and encourage the rejuvenation of the heart of our rural communities – the essence of Ireland. This report is a call to action for stakeholders in the regional high street including local, regional and central government, residents and business communities in each town.

Priority Recommendations for Local and National Government

There are seven priority recommendations that the SCSI believe are fundamentally important to ensure that regional high streets can thrive and become vibrant and successful community hubs.

These include:

- **Informed high streets** - An Irish Towns Partnership should be established to enable sharing of best practice, innovation and mentoring.
- **Viable high streets** - Further development of large scale retail centres and convenience stores that compete with, rather than complement, small town centres should be managed to encourage consolidation and enhance economic viability and vitality.
- **Collaborative high streets** - Inclusive and collaborative engagement mechanisms must be created that includes the local authority, community and business.
- **Attractive high streets** - Public realm strategies must be commissioned for each town and included in town plans.
- **Living high streets** - Local authorities must proactively address vacant buildings in towns to revitalise town centres.
- **Working high streets** - Local authorities and other stakeholders must recognise the changing commercial landscape and attract new high street business through incentives.
- **Connected high streets** - Delivering quality broadband connections to rural areas is fundamentally important for high streets and must be prioritised by government.



Key Actions to Delivering a Revived Town Centre

1	Consolidation and focus	Positioning
2	Coordination and mentoring	
3	Effective funding	
4	Leadership and responsibility	People
5	Collaboration and engagement	
6	Plan-making and visioning	Planning
7	Information and data analysis	
8	Public realm and streetscape	Product & Place
9	Transport and accessibility	
10	Proactive planning	
11	Incentivising new business	Promotion
12	Marketing and placemaking	
13	Delivering connectivity	

Town and Village Renewal Scheme

In the past 3 years, €53 million has been approved for 670 projects across Ireland. This equates to an average of €79,000 per scheme. SCSi welcomes recent initiatives to tweak certain aspects of the scheme to further promote those towns aiming to increase the number of habitable residential properties into towns. We understand that a pilot study is underway with several towns to identify the practical difficulties with bringing residential units to the high street.

SCSi recommends further funding and resource allocations are provided to local authorities to strengthen their current One-Stop-Shop offering to business and property owners. It is important that this is done, as many property owners find that unless there is a very proactive support in place to 'hold their hand' throughout the revitalisation process, then renovation measures will simply not be complete, or the scheme will not be taken up.

Many communities can be limited in the levels of volunteerism required to successfully access funding and co-ordinate the delivery of these funds for the successful outcome of schemes. SCSi recommends that a panel of appropriately qualified professionals is established nationally to assist communities in feasibility studies, applications, and co-ordination/project management of schemes to ensure a successful outcome.

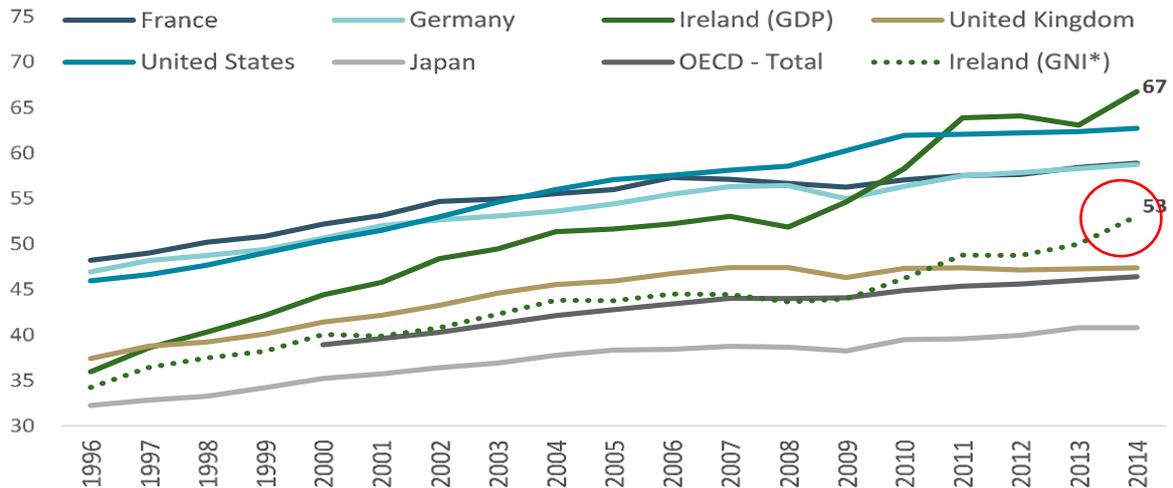
Recommendations

Type	Recommendation
Commercial Rates	Removal of Rates Exceptions over a 24 month period for reasons of not being able to sell or let the property.
Stamp Duty	Reduce over reliance on Stamp Duty and other transactional taxes as Exchequer income streams given volatility in the sector. SCSl recommends no further increase in Stamp Duty rates, with exception of apartment block stamp rate realignment to 6% as indicated in section one.
Town and Village Scheme	Allocate more funding and resources to local authorities to strengthen the 'one-stop-shop' support to unit owners. Funding to be extended to permit local communities to appoint professional support in the application and co-ordination of schemes. The Office of Government Procurement could assist in developing Frameworks of Professionals to support local communities.
Digital Ireland	More funding streams should be made available and released in such a way that it's prioritised to those looking to implement a digital strategy for their town. This requires effective leadership from a local authority as well as from locals. Any funding made available to small towns should also allow for an element of professional advice, a project manager or professional leader to co-ordinate the delivery of a project, such as outlined in the digital platform project.

Section three: The Future of the Construction Industry

Introduction

Productivity, in general, is performing well in Ireland compared with other EU and Global cities. More significant improvements have taken place over recent years which has been encouraged by government initiatives such as entrepreneur reliefs and exemptions to help grow the industry.



Source Central Statistics Office

Fig 9 - GDP and GNI per hour worked 1996-2014

However, the construction sector is one of the most unproductive sectors in Ireland and is likely to undergo a tech revolution in the future, but only if investment in the sector is forthcoming. Figure 10 highlights the level of productivity of the various sectors and construction is among the lowest. This is mainly down to the high labour requirement of new buildings and renovations, across residential and commercial.

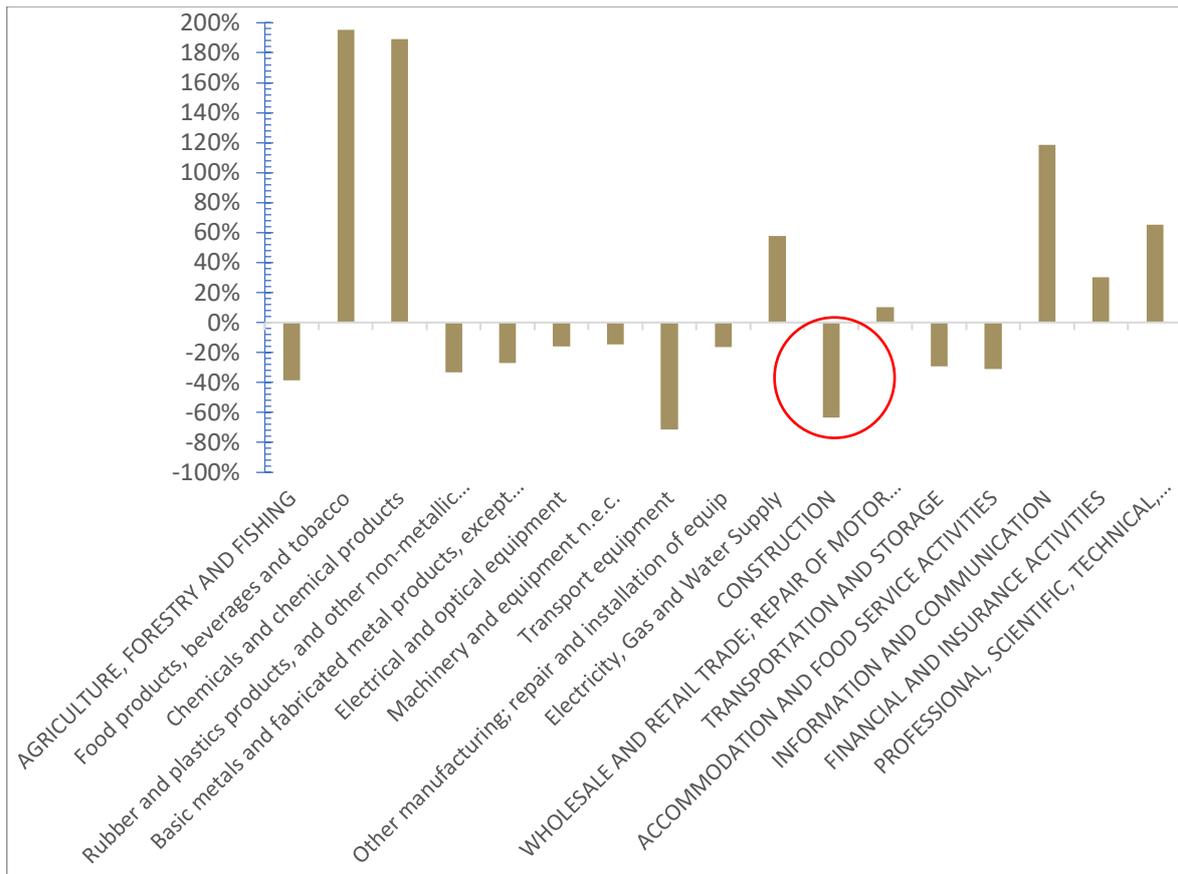


Figure 10 - Source Central Statistics Office

Export by R&D Active Firms (2000 to 2016)

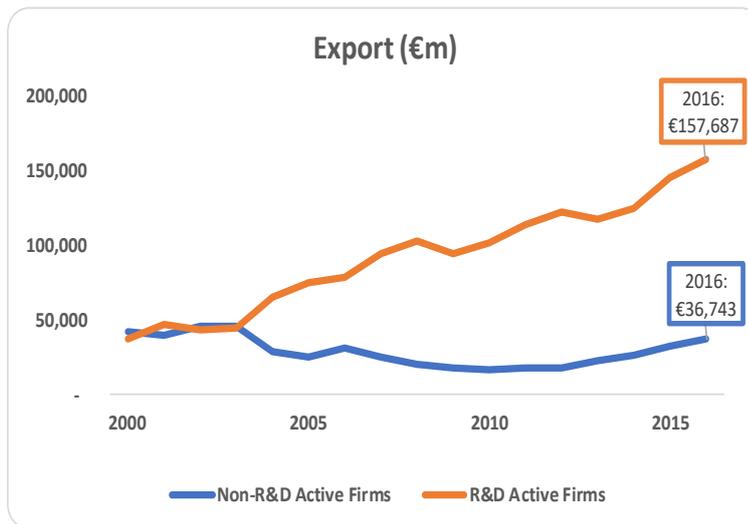
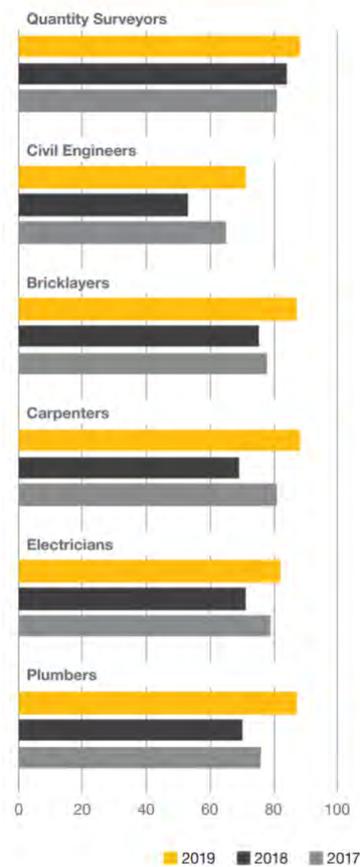


Figure 11 - Source Central Statistics Office

Ireland's construction industry is valued at €20.8Bn⁴. Construction activity has grown exponentially since the downturn a decade ago. Unemployment has reached an all-time low and those now working in the construction industry is estimated at almost 150,000 people. The construction sector is struggling to attract additional labour to cater for activity demand.



Source SCSi/PwC Construction Report 2019

Figure 12 - Skills shortages in construction 2017 - 2019

Research carried out by SCSi and PwC highlight the growing trend of the skills shortages challenge. Many in our industry point to the commercial sectors drawing in key skills to the detriment of other sectors such as housing as involvement in commercial construction tends to be more lucrative.

So, the question remains, how can technology and investment in more end-to-end off-site construction solve the issue of skills shortages in an industry struggling to cater for demand?

Traditional construction activities use labour intensive approaches to builds, and whilst this type of construction has elements of off-site construction (prefabricated roof trusses, bricks etc.), a significant portion of work involves installation of components on-site. This provides an element of agility for onsite changes to client requirements etc. but is an inefficient process in a less controlled environment compared to an indoor manufacturing style process.

Low productivity can be linked to uncontrolled environmental factors i.e. weather. There can be often difficult and complex component interdependencies that require specific attention on installation, and this can cause delays. Materials and buildings components can often be delayed leading to a delay in processes and can be costly with labour arranged and on-site (or other sub-contractors waiting for stage completion for their process).

Off-site construction can address these challenges and more. Apart from the obvious benefits of reducing down-time and delivering more efficient processes and cutting down on material wastage, off-site construction also has the added advantage of producing real-time, accurate information of the buildings and component (pods) being produced.

High standards in construction delivery are at the forefront of many in the sector and therefore the benefit of increasing standards further and eliminating poor workmanship issues is an attractive proposition alone for investment in a tech construction industry.

⁴ Linesight Market Review Report 2019

Off-site / Modular Construction – International Examples

Modular construction is being delivered now. It is achieving many cost saving, high standards, well-designed buildings using the latest technology. Modular construction has become a market leader and an exemplar method of delivering quality buildings from houses, to schools and hospitals.

The main advantages of modular construction that would greatly benefit our industry's lag include;

- **Greater Flexibility and Re-use:** Modular buildings can be disassembled, and the modules relocated or refurbished for new use, reducing the demand for raw materials and minimizing the amount of energy expended to create a building to meet the new need.
- **Less Material Waste:** When building in a factory, waste is eliminated by recycling materials, controlling inventory and protecting building materials.
- **Reduced Construction Schedule:** Construction of Modular buildings occurs off site in conjunction with the site work that would otherwise delay the beginning of structural construction. This can improve on the time of traditional methods by 30-50%.
- **Elimination of Weather Delays:** 60-90% of the construction of prefabricated buildings will occur off site inside factories, therefore mitigating the risk of encountering weather delays. This allows for buildings to be occupied much faster than traditional methods, creating faster returns on investment.
- **Built to Code with Quality Materials:** With our Building Codes and Standards improving constantly, construction processes are becoming increasingly labour intensive. The utilisation of modular builds will reduce the rate of human error in technical processes and cut down on labour hours.
- **Safer Construction:** There is a reduced risk of accidents and related liabilities for workers through indoor construction.
- **Precision Engineering and BIM:** PMC relies on advanced BIM for visualization to assess the energy performance and identify the most cost-effective efficiency measures. PMC is ideal for the use of this technology where the construction process is already a collaboration of systems, materials and people - much like the software itself.
- **Limitless Design Opportunities:** Modular units may be designed to fit in with external aesthetics of any existing building and modular units, once assembled, are virtually indistinguishable from their site-built counterparts.

As owners and designers look for more sustainable designs for improved environmental impact, modular construction is inherently a natural fit. Building in a controlled environment reduces waste through avoidance upstream rather than diversion downstream. This, along with improved quality management throughout the construction process and significantly less on-site activity and disturbance, inherently promotes sustainability. High quality, sustainable, innovative, efficient, cost-effective, and shorter time to completion.



Figure 13 – Modular Construction Schedule vs Site Build

Market Share and Uptake: In Germany, the market share of prefabricated buildings is above 20%, with Sweden being Europe’s leading advocate for the method, coming in at an 80% market share (this is driven by their climate not allowing for the delays encountered by weather).

Sweden can be the model to show to show how this strategy is scalable, Lindbäck’s Bygg is the Scandinavian nation’s premier modular home manufacturer. Its assembly lines have revolutionized the notoriously slow-moving construction industry in its home country, with enormous potential to translate that success abroad. After a new factory goes online this year, the 75-year-old company will be able to produce more than 25,000 square feet of turnkey housing per week. This will translate to almost 1,500 apartments a year from a single plant. The company produces multiunit housing for public and private clients developing market-rate apartments, affordable housing, student dormitories, emergency shelters and retirement homes, most of which look the same as high-quality conventionally built structures. Its buildings aren’t repetitive mass-produced clones. Lindbäck’s were inspired by Toyota’s construction method of waste reduction and maximum efficiency within their factories and as such have streamlined their production over their 20 years in the business.

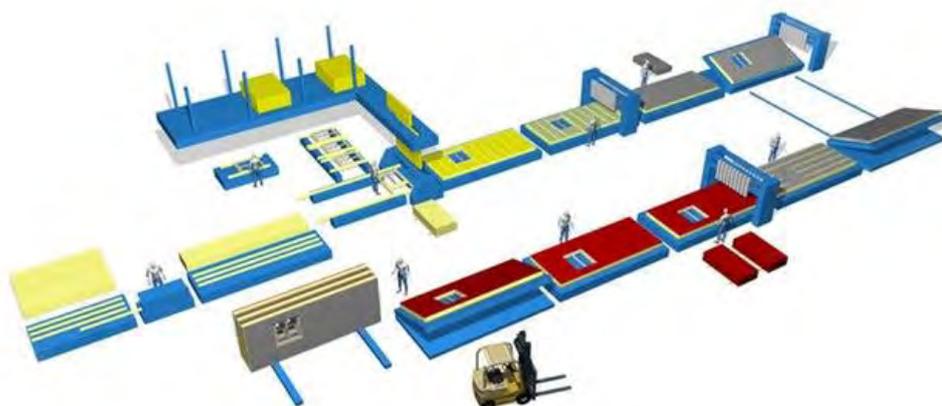


Figure 14 - Randek Assembly Line

Prefabricated buildings are structured differently than conventional timber developments. Modules must be sturdy enough to ship and minimize redundancy in floors and ceilings. The need for strong,

solid exterior walls in the modules means that floors are hung from the walls, as opposed to having walls stand on top of every floor.

Nurture a New Industry in Ireland

As stated previously, Ireland's Construction Sector output was valued at €20.8 billion in 2018. This is 8.2% of our 2018 GNP figure of €253.8 Billion.

According to KPMG's 2016 UK Smart Construction Report, Off-site manufacturing accounts for 7% of the UK's construction output. With these figures we can estimate that a relatively low level of uptake and utilisation of modular construction, when compared to our European neighbours such as Germany, could pump at least a further 7% of our Construction output into our GNP. This new output would be valued at €1.456 Billion and that would only be the beginning.

The same KPMG study also found that there is a possibility of savings of up to 7% as rental and sales incomes can be retrieved sooner with sped up completions.

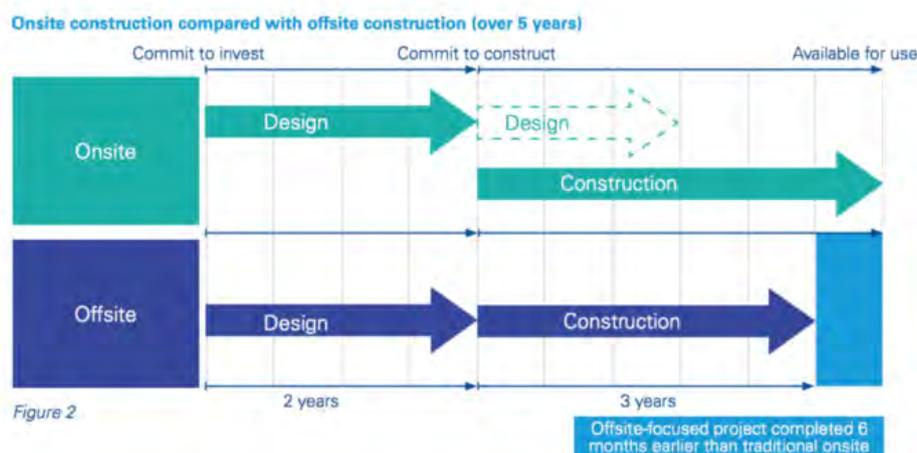


Figure 15 – KPMG Comparison for a 5 Year Development

Five Benefits of Getting It Right

1. Modular Construction becoming more popular

The trend towards modular construction is increasing year-on-year globally with prefabrication being over 30% of housing delivery in the US.

Modular construction is not just for residential building but has significant benefits for the commercial sector too.

2. Improving and maintaining standards

Modular construction allows for more controlled delivery of construction in tightly regulated and quality-controlled environments. Traditional methods of construction can have issues with materials getting abused and exposed to weather when left on sites, not to mention the heightened risks of materials getting stolen!

3. Construction efficiencies

In controlled areas and with the use of repetitive processes with machinery, faster build times are a significant benefit with off-site construction. Weather delays are also not a problem with off-site construction.

4. Cost Savings

Modular construction has numerous cost benefits over traditional onsite construction. As mentioned regarding the cost savings with technology and repetitive processes being carried out by machinery, there is also cost saving benefits with reducing wastage. With off-site construction, there is opportunity to manage very lean processes so that waste is minimal. Compared with on-site construction, materials are often delivered onsite in raw format and cut to size, causing wastage issues.

5. Good for the planet

With the reduction of waste comes the benefit of saving on environmental impacts.

Because modular construction facilities take advantage of production repetition common with assembly line manufacturing, the modular building process uses less energy than traditional construction.

Unlike onsite construction practices, waste in modular construction is used instead of discarded.

Many modular construction facilities store unused materials in controlled environments and recycle them for use in other projects. This helps reduce the 135 million tons of construction waste that ends up in landfills each year.

When it comes to construction efficiency, modular building is quickly becoming the new industry standard.