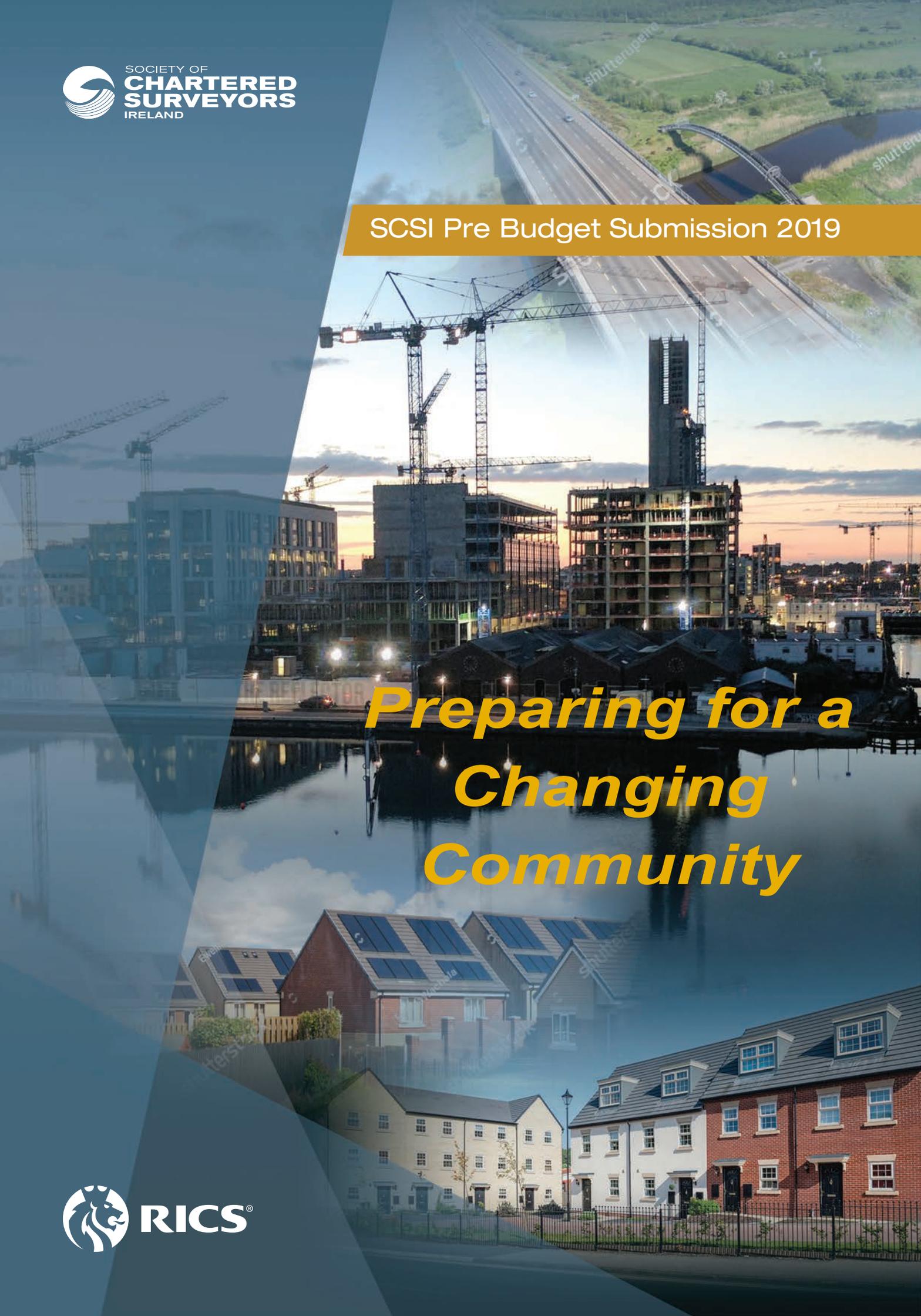


SCSI Pre Budget Submission 2019



*Preparing for a  
Changing  
Community*

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# Executive Summary

Following a strong performance in 2017 and 2018, Ireland's economy is set to outpace our eurozone partners for a fourth consecutive year and growth is expected to continue at a solid pace. Strong growth in full-time employment and consumer spending underpins this performance, alongside strength in domestic and foreign investment.

Overall, Chartered Surveyors remain positive regarding the performance of the property market in 2018, which has seen an increase in construction activity nationally to cater for rising housing demand. However, with significant uncertainty regarding the sustainability of rising housing prices, construction costs and Brexit, the general mood amongst Chartered Surveyors is one of cautious optimism for the outlook in 2019 and beyond.

In this year's Submission, we have focused on two core pillars: **Increasing Availability & Affordability of Housing; and Creating the Long-term Investment & Infrastructure needed for Success.** With the publication of the lower than expected CSO housing completion statistics for

2017, the national housing supply challenge now requires an expedited resolution. There are many complexities around the delivery of affordable housing in areas where there is high demand and therefore our Submission sets out a viable proposition for the prioritisation of releasing State lands to developers on proper terms for the delivery of affordable homes.

Innovation in construction is another key recommendation within our Submission. We believe that there are significant improvements and efficiencies that can be delivered by the construction industry, but we feel that a co-ordinated approach is needed to progress this at a faster pace. SCSI therefore calls on government to establish a **'Construction Innovation Centre'** to co-ordinate and lead the construction industry and all related stakeholders towards a more innovative way of delivering key infrastructure.

The SCSI taxation and expenditure priorities for Budget 2019 are as follows;





## Key Recommendations

- Establish a National Construction Innovation Centre to foster, resource and co-ordinate the delivery of innovation supports within the industry
- Release State land to allow the delivery of more affordable homes in areas of high demand
- Incentivise Developers to deliver affordable housing to the market in locations of high demand
- Directly fund the delivery of new social homes to reduce state competition in the private housing market
- Provide resources to undertake an audit of Multi-Unit Residential Developments to identify high risk safety defects & establish a repair & remediation fund
- Provide a long term, low interest loan facility to those other Multi-Unit Developments requiring significant repair work to address serious building defects
- Fund comprehensive study to examine why existing vacant stock is vacant, any barriers to renovation and re-use.
- In the best interests of the development, skills and standards of Ireland's professions, restore the tax treatment for professional subscriptions as previously provided for under the Taxes Consolidation Act 1997 in Finance Bill 2018.



# Introduction

Ireland's construction and property sectors are five years into recovery. The Society of Chartered Surveyors Ireland has focused on two core pillars in this submission: Increasing Availability & Affordability of Housing; and Creating the Long-term Investment & Infrastructure needed for Success.

The economy's end of recovery phase and move towards growth has left a housing deficit legacy from the collapse that has a social and economic impact. The Government's central aim remains to significantly increase the supply of social and private housing as set out in their Rebuilding Ireland plan. While perhaps politically a setback, the introduction of a highly improved CSO dataset on housing activity is important in addressing the issue. It shows that supply is recovering, if slower than originally thought with 3,526 new dwellings constructed in Q1 2018, by nearly 27% on the same period in the previous year.

*Rebuilding Ireland* set a target of 25,000 home completions per annum by 2021. The National Planning Framework states that between 30,000 and 35,000 new residential units are needed in the years up to 2027 – with an average of 25,000 needed out to 2040. The ESRI has stated that Ireland requires between 25,000 to 35,000 housing units per year to match demand. According to latest official figures by the CSO, new housing completions for 2017 were 14,446. This represents only almost half of the total requirement as calculated by the ESRI where housing demand is between 25,000 to 30,000 units nationally. The current housing crisis is firmly entrenched and is a significant and ongoing risk to our economy.

Ireland experienced a period of very limited housing construction between 2009 and 2013. Although there has been a significant increase in construction since that period, the overall level of activity remains low compared to the long-term average.

The property and construction sectors have performed well in 2017 with the construction sector alone increasing output volumes by 20% in 12 months to end of Q1 2018.<sup>1</sup>

## Business Case

The Summer Economic Statement 2018 states “Government will prioritise spending that mitigates risk, enhances the resilience of the economy and raises our growth capacity.”

## Capacity to Solve the Problem

Before any changes on Budget Day, Government has capacity to increase spending (i.e. fiscal space) up to €800 million.<sup>2</sup> Much of the economy is now in a period of growth, the Government is rightly concerned about pro-cyclical fiscal policies. Yet the inability to undertake major infrastructure projects during the last counter-cyclical period means that investment is required now to mitigate competitiveness risks for Ireland's cities and towns, to sustain the economy and raise our growth capacity from urban centres outward.

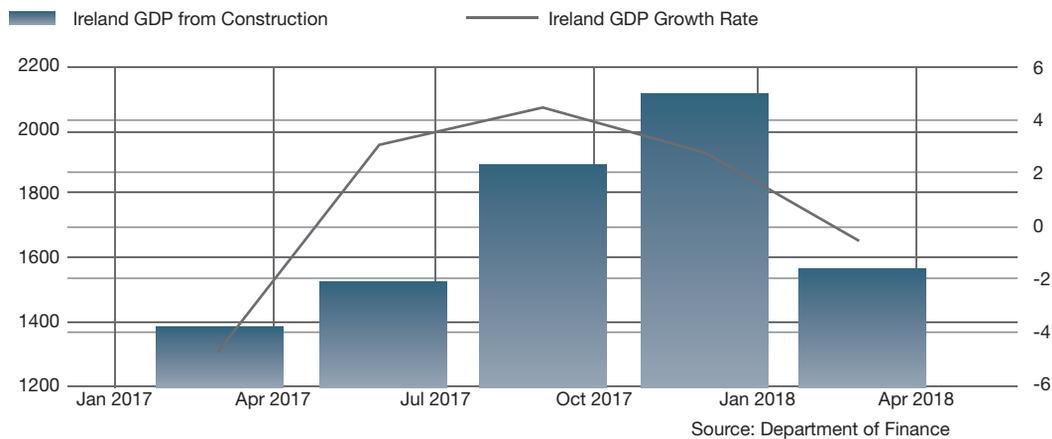
Construction output in terms of Value accounted for almost €20 Bn in 2017 which represents almost 7.6% of GNP. Significant progress in construction output has been made since the downturn in the economy and output has now doubled since the bottom of the market. There are now structural challenges maintaining this recovery in the property and construction sectors, which we will cover in greater detail later.

Stamp duty revenue in 2017, for which property accounts for a significant majority, was €1.33 Bn. Capital Gains Tax amounted to €710 million, Local Property Tax was €460 million and Capital

<sup>1</sup> CSO Production in Building & Construction Index

<sup>2</sup> Department of Finance, Summer Economic Statement June 2018

Chart 1 Ireland GDP Rate compared to GDP from Construction



Acquisitions tax was €440 million. These four tax heads alone, account for almost 30% of the total Exchequer income for 2017 and underline the contribution made by the sector to the ongoing economic wellbeing.

Housing however, is one of the key challenges that we face, solutions for which SCSI is and continues to be committed to develop and support until the shortfall crisis is rectified. We welcome the appointment of the CSO as the responsible body for quantifying housing completion statistics. Disappointingly, we note that in 2017, the CSO housing completion figures are approximately 30% lower than the ESB connections rate, but reliable data is what government and the market need to ensure the right supply in the right locations.

While increased consumer confidence, improving employment and exchequer figures all bear testament to strong economic growth, Ireland remains susceptible to economic shocks. However, the frustratingly low number of new housing completions is proving to be a steadily increasing concern for many people on housing waiting lists, homelessness, renters, homeowners, business and investors. We believe that an expedited delivery programme of affordable housing is paramount to the performance of our future economy.

If there is anything we have learned from the past, it is that we require more prudence and caution in

the our investment decisions. No one wants a return of the volatile peak to trough economic cycles.

The ESRI and more recently, the Central Bank of Ireland warned about the dangers of an overheating economy in the context of the €116 Bn National Development Plan fund over the next 10 years. SCSI acknowledges the concerns raised and supports any initiative to build in 'shock mitigation measures' to this long-term investment plan. Although the proposed investment is based on economic growth of 3.5%, with clouds of uncertainty on the horizon such as Brexit, structural issues within the EU in terms of country debt levels, immigration policy and trade tariff concerns with the US for instance, there must be more fluidity and flexibility within the National Development Plan to adjust to external factors.

As our economy continues to grow, it is vital that Irelands construction industry is fully supported to allow further expansion to deliver upon important infrastructural needs to accommodate our population growth and economic vision. A sustainable level of construction activity in respect of GNP by European averages is 12%. Irelands construction industry output has a long way to go to achieve this as current contributions are around 7-8%.

Our 2019 submission is focussed on the priority issues in property and construction such as the housing crisis, supporting small to medium sized enterprises, regional investment and energy.

# Section 1: A Sustainable Housing Market



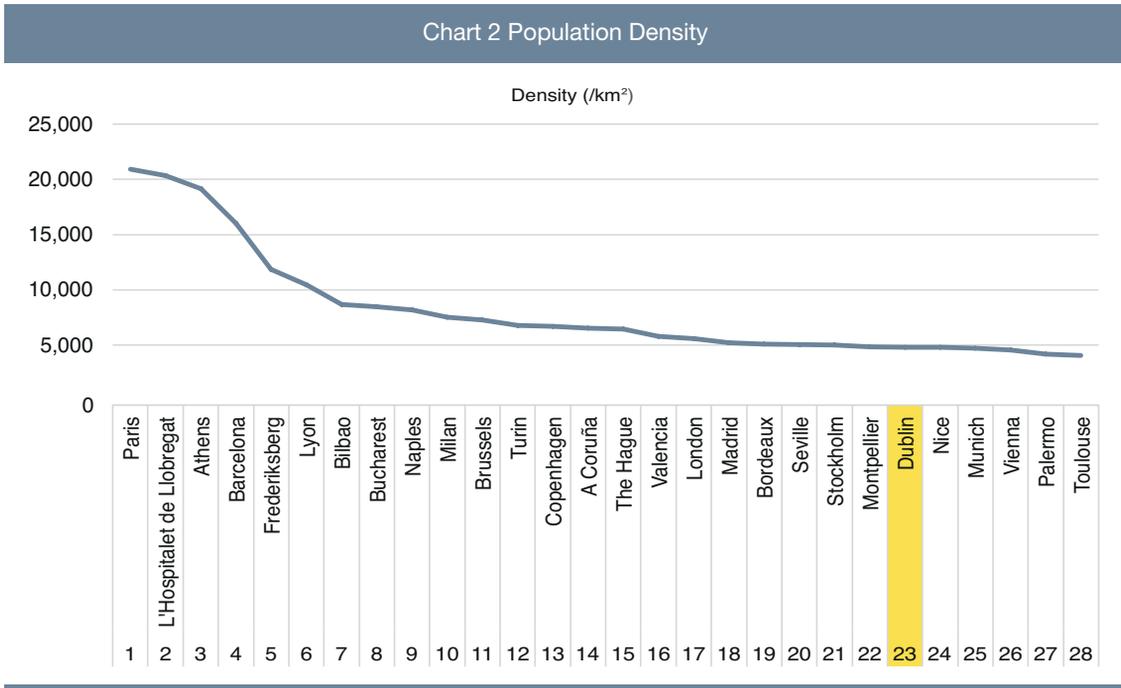
## **Problem: Housing requirements vs. the activity to date**

As set out in the introduction, the deficit of completed units (14,446) vs housing demand (between 25,000 to 30,00) is at the core of the current housing crisis. Policy makers recognise the significant risk to our society and more recently to the economy.

The gap which exists between demand and completions is further fuelled by other demand fundamentals including demographics and urbanisation trends. Census 2016 showed that Ireland's population continues to become increasingly urbanised, with 2.99 million living in urban areas, up by 4.9% on 2011. This is compared to 1.78 million in rural areas, up 2% on 2011. Ireland's urban development has been strongly concentrated around the eastern seaboard and Dublin in particular. The recent recovery in home construction has seen a larger recovery in development around Dublin and the Greater Dublin Area in contrast to a relative lack of development in the rest of the country. In 2017, the Greater Dublin Area accounted for 57% of new home completions.

## **Benefit: Quality of Life and the Right Thing to Do**

The IBEC's Better Lives, Better Business Report states that 'the volatility of Ireland's housing market over the past 20 years was not inevitable. It was a result of policy and regulatory choices. In future, we will need to be more careful about demand side incentives through Government policy and avoid the temptation for quick fixes. This can be done whilst actively supporting a functioning market.' A long-term vision should always trump the temptation for short term fixes as the latter often add to uncertainty and risk, hence a more volatile property market. The scale of our ambition also needs to be ramped up. Dublin ranks 23rd in the list of EU cities listed below in terms of population density per km<sup>2</sup> and this is a policy that needs urgent attention here so that it aligns more closely with EU averages.

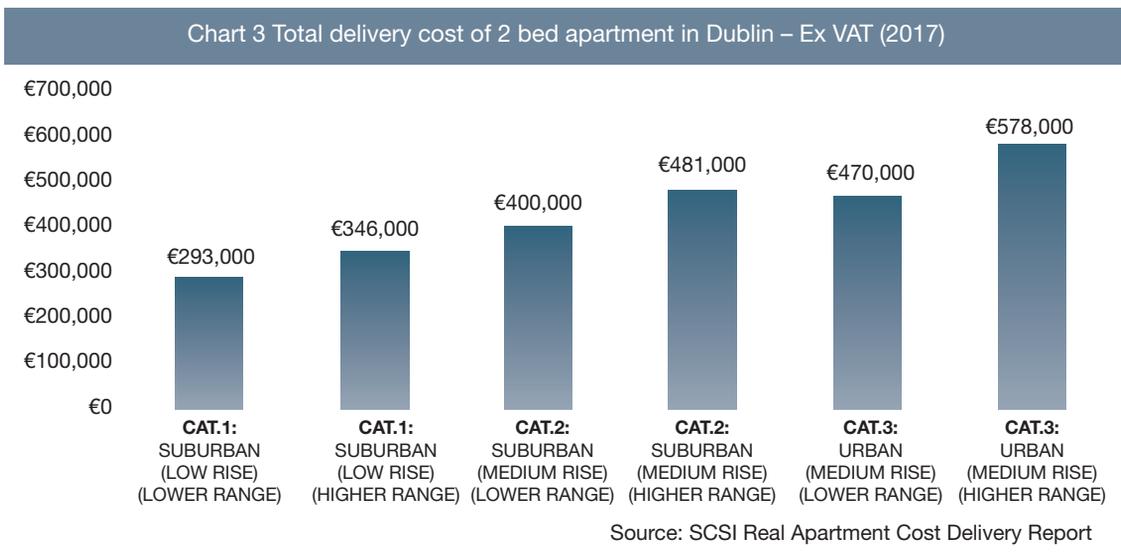


### Opportunity & Barrier 1: Supply of New Accommodation vs Unaffordable Cost to Deliver

Ireland's established housing and planning policy has been to build on green field sites where commuters make the journey to cities for work. This is unsustainable and will cost the country in terms of revenue, well-being and pollution. A recent report by Government highlighted that the annual cost of congestion in the Dublin area alone was €358 million in 2012, increasing to €2.1 billion (in 2011 prices) over the next 15 years. Ireland urgently needs to revisit how and where we live. We need more density

and we need planning policy to reflect the needs of our population for our future social and economic needs.

The costs of delivering a standard 3 bedroom semi-detached house in Dublin is approximately €330,000 which is too high and needs to come down. For example, those on average combined incomes of say €80,000, affordability is a significant obstacle to access the housing market. What can government do to deliver more affordable housing to the market? One recommendation is to incentivise developers to deliver affordable housing i.e. below say €300,000 to the market.



## Could affordable land be the key to unlocking affordable homes at scale? - Recommendation

Land costs can account for 43% of the total delivery costs of housing in Ireland, according to the SCSI's recent study.<sup>4</sup> Residential development land increased in value by 10% to 14% in 12 months, according to the SCSI Annual Survey of Chartered Surveyors.

The second recommendation of the National Economic and Social Council's Urban Development Land, Housing and Infrastructure: Fixing Ireland's Broken System was "Build affordability into policies that are designed to increase the supply of housing, starting with land and cost of rental". The NESCC report emphasises the need for land intervention as supply alone will not achieve meaningful market price reduction. For some commentators this might be arguable; however, from the SCSI's delivery cost report it is also clear that land price reductions will need to be a part of the solution.

Selling public land for the highest price usually does not produce the best outcome for affordable housing delivery and this is recognised in Germany which has a very stable housing market. The methodology in Germany is to value the site, then allocate it to a particular type of delivery, for example residential, and then sell it competitively, with the price fixed at the valuation level for the 'best' scheme. The definition of 'best' will depend on the public policy objectives that are trying to be achieved.

So should public land be sold at sustainable levels which will support the delivery of more affordable homes? This is a concept that is being discussed in the UK and goes against the usual approach of selling to the highest bidder.

The pursuit of the highest offer is not always the best option for public policy. It is important that the priority objective is reached which is to deliver housing at affordable levels. While some increases in construction costs can be as a result of regulatory changes, every effort should be made by all stakeholders to apply downward pressure on the overall delivery cost of housing. The SCSI House

Delivery Costs Report published in 2016, highlighted that a 3-bedroom semi-detached house in Dublin costs €330,000 to deliver to the market, including land, construction, VAT, profit and levies. This level is clearly beyond the affordability threshold of many potential buyers. SCSI recommends that State lands are identified for a clear social objective e.g. provision of housing and released for development with strict parameters focussing on the end delivery output and costs for affordable housing.

## Fund New Delivery of Social housing but Fix Procurement First - Recommendation

One of the objectives of Rebuilding Ireland was: "A truly ambitious social housing programme of 47,000 units to 2021 will be delivered with funding of €5.35 billion". In 2017, 4,054 new builds, 2,214 acquisitions and 827 through leasing went towards social housing. This amounts to 8,852 units or 75% of the annual target to reach the 47,000 units by 2021.

When the Local Authority new build figures are examined, just 1,014 were completed in 2017. The supply balance is reliant on Part V, Approved Housing Bodies and Voids to make up the difference.

Local Authority delivery is close to the required annual target, but there are competing demands at play. For example, in relation to the 2,214 acquisitions, this is clearly taking stock from the private market place and competing with individual buyers. SCSI believes that the required social housing demand should be calculated on the basis that the supply does not withdraw or reduce the supply of affordable properties from the private market.

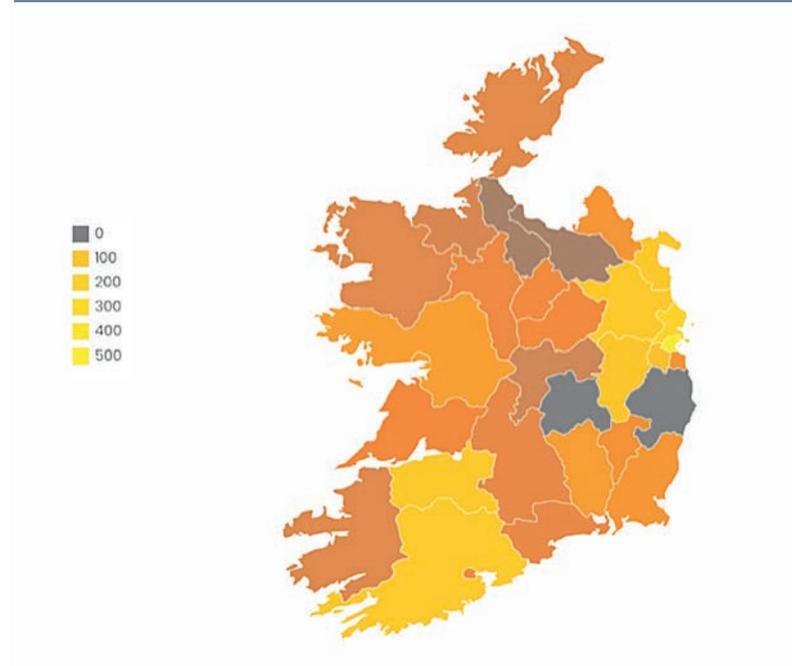
Making State lands available on proper terms to developers that can deliver affordable housing must be prioritised. Industry is more than willing to work with government to tackle any barriers to this which may include procurement, skills and capacity within the sector. The industry however, is looking for a clear vision and commitment from government for the medium to long-term.

<sup>4</sup> SCSI 'Real Cost of New Apartment Delivery', Report 2017

The Irish Council of Social Housing said Housing Associations have been responsible for 35% of new build social housing in 2017 (799 homes), and including both development and acquisition, as well as casual vacancies, the sector will have delivered close to 3,000 homes for social housing

tenants in 2017. This is to be welcomed and the delivery of homes via the Approved Housing Body model is proving to be effective. There is a need however to build more capacity hence the call for more aggressive housing delivery programmes as mentioned previously.

Chart 4 Social Housing Completions in 2017



This information is derived from schemes reported as at the stage of practical completion in the Rebuilding Ireland quarterly report.

Source: Focus Ireland (<https://www.focusireland.ie/resource-hub/latest-figures-homelessness-ireland/>)



## Opportunity & Barrier 2: Use of Existing Accommodation vs Confidence & Supply

### Rental Market Role

National rents have increased by 7% over the past year, according to the RTB's Q1 2018 figures. Standardised average rent for Dublin stood at €1,527, up €110 from the previous 12-month period.

High demand and low supply is the single biggest factor resulting in increasing rents. Research from the SCSI conducted earlier this year suggests that for every new rental coming to market, between 2 and 3 landlords are leaving. If this trend continues, this will continue to impact on the rental market.

In the survey of Chartered Surveyors across all regions, many have experienced an increase in tenant demand alongside a reduction in landlord instructions. The introduction of rent caps to many locations is highlighted by Chartered Surveyors as a key influencing factor in the reduction of landlord instructions. While many Chartered Surveyors consider this to have influenced the supply of second-hand properties to the market for sale, there is also consensus that the measure has negatively impacted the supply of rental properties with half of (50%) Chartered Surveyors reporting a reduction in the number of landlord instructions in 2017. In the last SCSI outlook survey, Chartered Surveyors predicted that 'permanent introduction of rent

control' would be the most influential factor when considering what measures would reduce the supply of properties in the rental market in 2017. Despite the introduction of rent caps limiting increases to 4% per year in designated Rent Pressure Zones, Chartered Surveyors expect rents to increase beyond this level in all areas in 2018 (as new build rents will demonstrate). Nationally, Chartered Surveyors consider that there will be a significant lack of rental properties of all types and locations in 2018 and for the foreseeable future.

### Support the Creation of Sinking Funds in Apartments & Multi-Unit Developments - Recommendation

Census 2016 identified 204,145 occupied apartments in Ireland, up by over 10% since 2011. Apartments accounted for 12% of dwellings and are now the single most common dwelling type in the Dublin City Council area.

The growth of MUDs, which in some cases include duplex units, houses and commercial units as well as apartments, has meant the emergence of Owners' Management Companies (OMCs) to manage these developments. In many cases, the professional services of licensed Managing Agents is procured to manage developments on a day-to-day basis including the collection of service charges on behalf of the OMC.

Chart 5: RTB Rent Index – National Q4 2007 = 100



There is a real concern that MUDs are not adequately financed, and this is a problem for the sector to mature. SCSI are conducting research into this area and our primary research found that 90% of Agents reported that less than 25% of MUD's under their management have adequate levels of Sinking Funds.

Given the clear public interest in MUDs having appropriately funded and robust Sinking Funds, government should consider ways to incentivise OMCs to put money aside for longer-term needs. There is already reluctance on the part of owners to act as OMC directors due to the often onerous compliance responsibilities for volunteers, including the proper long-term management of development. A 'top-up' scheme for bona fide OMC Sinking Funds would be one possibility, based on an expert Building Investment Fund report and up to a set limit. Reimbursing VAT to OMCs (generally not VAT registered) for legitimate Sinking Fund expenditures would be another option (e.g. based on the model of the Home Renovation Initiative). Further suggestions have previously been put forward by the Apartment Owners' Network.

### Cost:

The CRO record 1567 entries of OMCs in their files. However, there are some duplications within this record, so this is not a definitive figure.

### Fund an Audit to Establish Risk of Celtic Tiger Apartments - Recommendation

SCSI raised concerns about building defects in MUDs and outlined our concerns over 2017 and 2018 in evidence given at Oireachtas hearings and submissions to government. When defects are identified in recently constructed apartment blocks, this causes a lack of confidence in the very housing sector we most need to support densification, sustainability and 'placemaking' in our urban centres.

There is a chance to rectify this and encourage a mindset change of apartment living for families.

In our submission to government, SCSI called for an emergency fund to be established for those MUDs with significant defects to be repaired, prioritising schemes where defects may represent a risk to life. Establish a study of high risk multi-unit residential buildings built during the 'Celtic Tiger' era which are considered in relation to serious immediate building defects impacting on safety, health and well-being of its occupants. A funding model for such work will need to be developed.



#### Our recommendation include;

##### Inspections

- Establish a mechanism whereby a study of high risk multi-unit residential buildings built during the 'Celtic Tiger' era are considered in relation to serious immediate building defects impacting on safety health and well-being of its occupants  
Emergency Fund
- Serious consideration should be given to setting up an emergency fund to deal with the most urgent of issues such as: Notification of fire to occupants
- The risk of fire spread from apartment to apartment
- The risk of fire spread from common area to apartment  
Mitigation of future defects in this area
- Establish the CIRI register of competent contractors on a statutory footing to protect consumers in the future against recurring defects of this kind.

### Long Term Loan facility

SCSI proposes that government consider setting up a loan facility over a relatively long term for building owners in relation to building defects that would be outside the scope of any emergency scheme and where there is a current funding shortfall. We would request that government review the above proposals and consider convening a multi-stakeholder working group, involving relevant industry players and governmental agencies, representatives of Owners' Management Companies and licensed Managing Agents.

### Opportunity & Barrier 3: Overcoming Expensive Regeneration Cost of Existing Housing

**Myth 3:** Addressing the affordable housing gap means investing in new buildings (Mc Kinsey & Co)

**Reality:** Renewal is as important as new building.

The existing housing stock and new units are complementary parts of the same solution. Cities need to provide housing where residents can flourish, whether by building new units or supporting refurbishment, division, repairs, and upgrading of existing stock.

#### Maximise €1bn Regional Rejuvenation Investment – Recommendation

Following some incentives introduced in recent Budgets, the take up and success rates for regenerating vacant and underutilised units has been slow. SCSI recommends that studies are carried out on a sample of properties to understand why they are vacant. The CSO has carried out a study to identify the number of vacant units, but we do not know why they are vacant. It is important that this is analysed so that a more targeted approach can be delivered to bring more properties back into use.

Is it planning regulations or possibly building regulations that are the most common reasons? Perhaps its financial issues or probate? Or perhaps there are other interests involved in property that is preventing derelict properties coming back into use.

The SCSI has commissioned a study into this and will happily share its results which we hope will begin to identify why some commercial and residential property in Ireland is underutilised. It is only then, that a targeted initiative can be implemented to change the face of the rejuvenation of buildings.

### Why is our building stock vacant? Fund a comprehensive study – Recommendation

According to the CSO, 12% of our housing stock is vacant. Government introduced a number of funding mechanisms and grants to incentivise those property owners to put the property back into use. Unfortunately, take up is low and the reasons for this are unknown. If one is to examine the 'Repair and Leaseback scheme', only 1% of applications resulted in an operational lease.

Why is the take up so low? We also note that 28% of the applications are awaiting initial inspections before they can proceed. Is this due to lack of resourcing of Local Authorities? Is there a skill set challenge? Where is the €140 m funding allocated for this? Should it now be redeployed elsewhere for use? SCSI is supportive of targeted incentives to increase the supply of housing. However, the projects require close and continuous monitoring and must be amended and re-tailored depending on the success or failure of the scheme. In principle, the Repair and Lease scheme is a positive step forward to releasing more vacant properties back to use. However, the application and approval process appear to be unsupportive of the demand for it. SCSI is happy to work with government to identify any local, planning or investment barriers to take-up and help improve this initiative.

### Opportunity & Barrier 4: Construction Sector Rife for Innovation to Drive Productivity

Ireland is not alone in low productivity gains from construction. In most countries where economic impact is measured, the construction sector faces productivity issues and a gap in the innovation chain between research and industry.

The acceleration of the digital revolution and the shrinking attractiveness of construction as an

occupation is a concern for many. Innovation can and will assist with minimising levels of employment challenges but this is an area that government needs to redirect attention and investment to maximise the potential of innovation in construction.

## McKinsey & Co.

**Myth 6:** Construction costs are too high to make housing more affordable.

Reality: Proven technologies and approaches and regulatory support can enable large-scale, affordable housing production.

Industrial approaches (using components manufactured off-site), standardisation, and improved purchasing/funding processes can reduce cost by up to 30 percent. Uniform building codes can spread these practices and government can use its purchasing power to build scale for industrial production, which can require high capital costs.

Construction volumes represents almost 8% of GDP. This is predicted to increase in the short to medium term in response to significant domestic demand from residential, commercial and infrastructural projects. Other industries are embracing technological change at pace, however this appears not to be reflected in Ireland's construction sector. In the UK, a Report titled 'Modernise or Die' - the Farmer Review looked at the construction industry to examine the implementation needed to move a very low level of productivity in the construction sector to one of efficiency.

"We [in Ireland] never had a discussion on rebuilding the construction sector," said Rory O'Donnell of NESAC. Globally, the construction industry expenditure is \$10 trillion annually, equivalent to roughly 13% of the world's GDP<sup>5</sup>. However, it is a major laggard in global productivity growth averaging only 1% annually over the past two decades. It will require productivity

growth to nearly triple to catch up on the global average of productivity growth (2.8%) and even more if it is to catch the manufacturing industry (3.6%).

There is a significant educational requirement for any intensification of innovation in the construction industry. The CSO/Forfás survey on Business Expenditure on R&D (BERD) contains indicators relating to R&D personnel and expenditure across all sectors of the economy. Construction activities are included within a broader utilities group, and it is evident from the survey results for 2009/10 that BERD in this grouping is negligible compared to other manufacturing and services sectors. Of the total headcount of all R&D staff, the construction and utilities group comprise 61 out of the 15,773 across all sectors, and accounts for only €4.6 million out of a total of €1.9 billion expended by all sectors on R&D.<sup>6</sup>

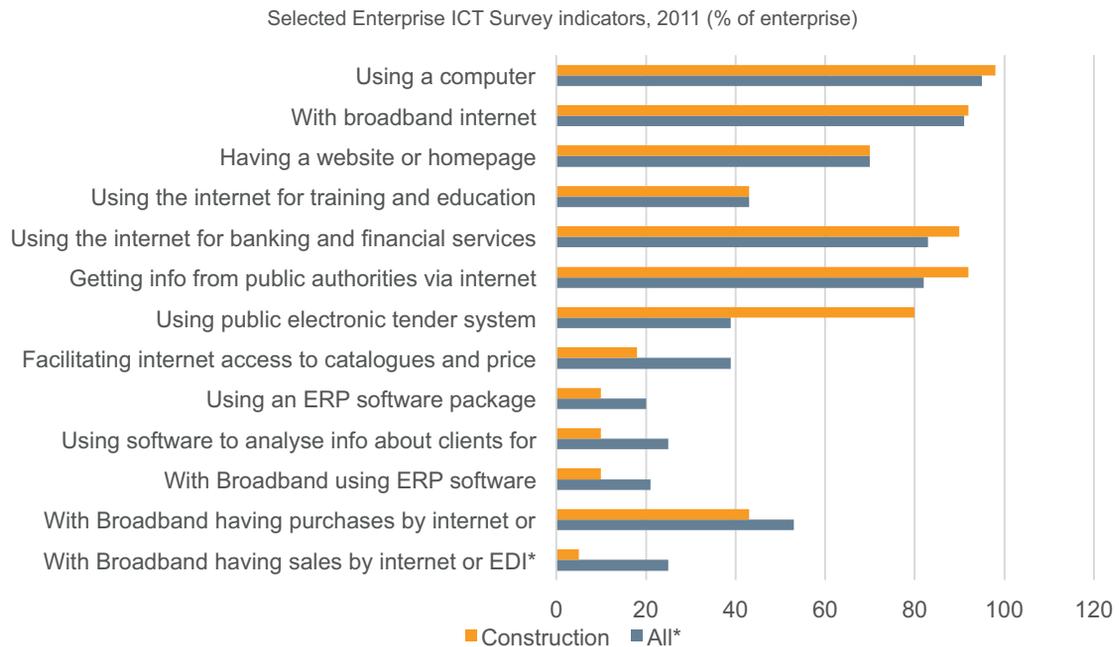
According to the Farmer Review Report, there are many reasons why innovation has not materialised in the UK. Many of these are down to the cyclicality of the industry and how this does not support a low overhead, flexible business models. Other reasons can often include finance where a lump sum off site payments are incompatible with the risk levels and understanding from financiers as they move away for traditional stage payments and this is difficult to manoeuvre.

Irrespective of the many challenges, the overriding difficulty arises in the current skills level of trades. There is a mentality of 'this is the way we always do it' within the sector and therefore a long-term programme of upskilling is required which could be targeted at those workers who still have a significant number of years ahead in their careers.

<sup>5</sup> McKinsey's "Reinventing construction: A route to higher productivity" 2017

<sup>6</sup> CSO/Forfás Ireland's Construction Sector: Outlook and Strategic Plan to 2015

Chart 6 Technology Survey – Construction vs All enterprise



Source – CSO/Forfás Outlook and Strategic Report 2015

## Establish a National Construction Innovation Centre to Achieve Greater Industry Productivity - Recommendation

In 2001, Inter Trade Ireland's *A Review of the All Island Construction Sector* recommended the establishment of a "construction innovation centre". The subsequent property and construction crash and recovery has not changed underlying the business model of "high-volume/low-margin business, which does not have or retain surplus resources to invest in long-term strategic issues." The recent work of Enterprise Ireland is to be welcomed, but there remains a lack of capacity to undertake research and development necessary for real industry innovation. Ireland has developed a significant capacity in other industries to innovate through the work of many bodies – such as Science Foundation Ireland. The construction and property sector needs to integrate and create knowledge flows between government, academic and industry groups. Much of the original scope of work remains relevant nearly two decades later:

- Establishing the sector's needs, requirements and problems;
- Investigating how other countries have resolved similar situations;
- Adapting the findings to the local situation and implementing the solutions; and
- Monitoring the systems and processes to bring about continuous improvement

The introduction of such an innovation centre would be timely in managing our other current critical risk – Brexit. The Society has been working to inform members on how to mitigate their professional risk on this issue. From skills to material, the impact that Brexit will have is difficult to understand.

### Cost:

First year cost would be relatively small and the use of an existing body to deliver this would reduce overhead costs. The best body will be the one that can leverage the knowledge of all stakeholders while promoting radical change to innovation models.

In the case of Science Foundation Ireland, of the Oireachtas Grant €193.47m, 95.5% went into supporting key research (2016 Annual Report).

## Government Procurement Changes to Drive Industry Innovation – Recommendation

The *Economist* wrote of the construction industry in 2017 about that lack of innovation the following:

“Its profit margins are the lowest of any industry except for retailing. It is also highly cyclical. During the frequent downturns that afflict the industry, any firm that invests in capital, and thereby raises its fixed costs, is vulnerable. By contrast, companies that employ lots of workers without investing much can simply cut their workforces. The trade as a whole is reluctant to spend money on the sorts of technologies, from project-management software to mass production, that have revolutionised so many other industries.”

It concludes that despite the benefits to the private sector, its fragmentation will be a barrier to be the key driver of innovation. They said that governments can “encourage the spread of mass production by harmonising building codes”. The SCSI believes, that government can drive the growth of precision/ offsite built housing by helping to standardise a procurement model that would reduce cost associated with unnecessary adaption costs.

In the past there has been a track record in the industry of working with government to procure for the lowest cost rather than for best value. Our public procurement needs to move from a traditional, transactional, risk-averse approach to recognise that value (not cost) is all important. This means considering the whole life cost of an asset—including improved safety and environmental performance of buildings and infrastructure—rather than just the initial capital cost. This may mean a larger initial cost but should lead to higher quality assets that cost less to run and maintain. Consequently, the lifetime cost should be less.

Additionally, Building Information Modelling (BIM) is an opportunity to support a catalyst for change. BIM uses 3D models of a building or other built asset and a common data environment to access and share information across the supply chain. It can help the entire supply chain to work from a single source of information, reducing the risk of error. The OGP and DEPR’s recent adoption of BIM in government contracts is welcomed. However the commitment should be expedited, adopted and incentivised to a higher level so that this investment will promote greater change for the private sector. Small and medium sized businesses, including those offering professional services, are prepared to invest, but clear, committed leadership is required by State to pave the way for industry to follow.



# Section 2: Creating the Long-Term Investment & Infrastructure for Success



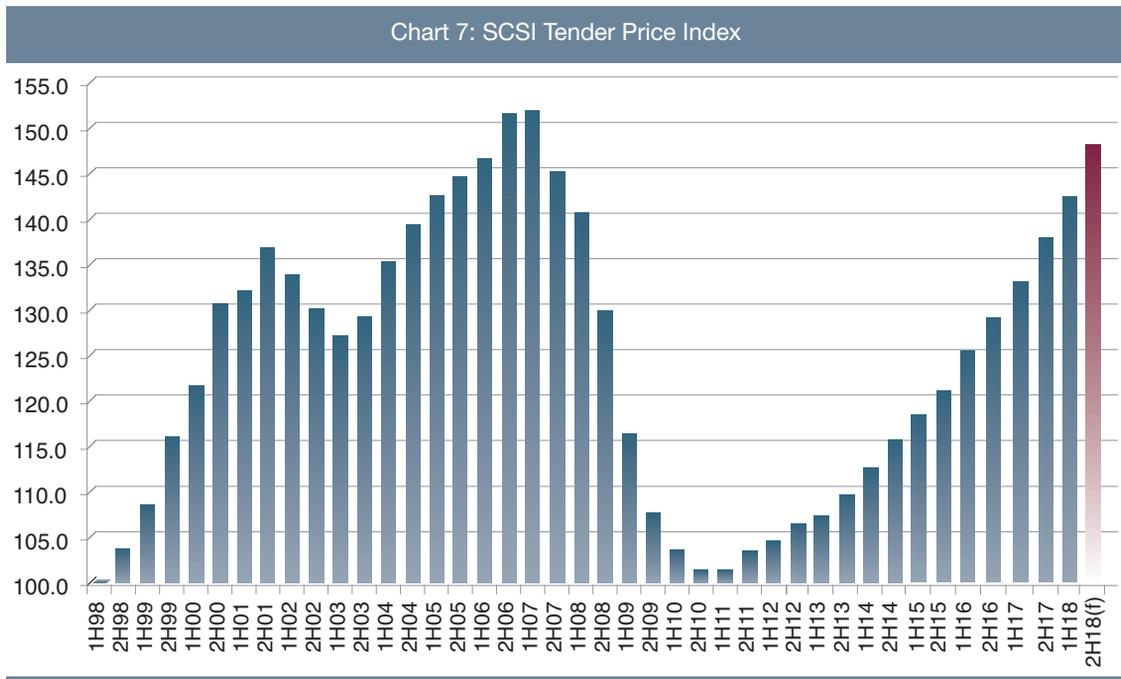
## Problem:

The Greek proverb said: “A society grows great when old men [& women] plant trees whose shade they know they shall never sit in.” Yet, the findings of NESC report (page viii) which states that: “Ireland’s approach to infrastructure also has a number of weaknesses: It has been highly pro-cyclical, reflecting periodic economic and fiscal crises; There has been an inability, even when resources were available, to identify and undertake ‘game-changing’ public infrastructure projects; [and] The cost of land has formed a major component of the cost of infrastructure.” Therefore, Ireland sits in the heat of infrastructure problems of past generations. For many of these problems, it is not yet known.

The SCSl welcomes the National Planning Framework as a piece of joined up thinking that

was never previously realised in the National Spatial Strategy and Government policies. The growth in employment and housing that underpins the plan means we have must deal with pent-up demand in the residential sector while also addressing infrastructure and future commercial needs. These demands will stretch the viability and affordability of all projects, both private and public. The Government needs to help push the construction industry to be more efficient and examine all areas where the regulation or process could actually be adding unnecessary costs.

The economy enjoyed a positive and strong performance in 2018. The strong growth in full-time employment and consumer spending underpins this performance, alongside strength in domestic and foreign investment. Whilst the outlook remains positive, the impact of Brexit continues to generate



uncertainty and represents a significant risk to the forecast for 2018. While the Irish economy has performed strongly and projected growth in GDP for 2017 is between 4.2% and 5%, a more moderate growth rate of between 3.9% and 4.2% is forecast for 2018.

### Support Professionalisation of the Industry – Recommendation

Public trust and confidence are two of the most important and fundamental aspects of the work of professional bodies. A May 2018 survey of 50 multinational companies, carried out by Behaviour & Attitudes, found overwhelming support for Ireland’s professional qualifications and standards. Professional skills and expertise emerged as the single most important factor for multinational companies when choosing a professional service provider in Ireland. The strong sentiment for and recognition of these attributes expressed by the multinationals is evidence of the quality and rigour of Ireland’s professional qualifications and the investment made to ensuring those standards. The commitment professionals make to lifelong learning and continuous development is a key metric for best practice standards, innovation and value for clients and employers.

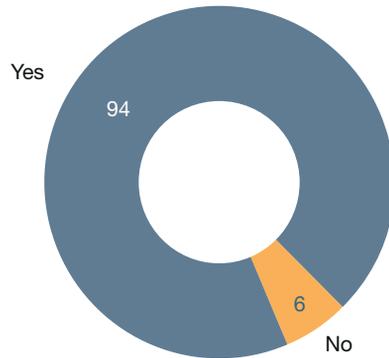
The significant and ongoing investment in education by Ireland’s professional bodies fully reflects the priorities in the National Planning Framework, which focuses on a knowledge-based economy, education and technological innovation. The value of professional qualifications and international standards of Ireland’s professions come into even sharper focus in light of the OECD declaration that skills have become the global currency of the 21st century.

In this context, the government needs to review its tax treatment of professional subscriptions. Previously, an employer who paid an employee’s subscriptions to professional bodies was specifically excluded from the usual benefit-in-kind (BIK) rules where the subscription was “relevant to the business” of the employer. Since Finance Act 2011, employers must now collect employee BIK and pay 10.85% employer PRSI on professional subscriptions paid for their employees unless it is “wholly, exclusively and necessarily”. Further recent clarification by the Revenue Commissioner now makes it clear that a BIK exemption will be allowed only if one of the following requirements are met:

1. Membership of the professional body is a statutory requirement for the role involved or
2. A practising certificate or licence is required to carry out the role or

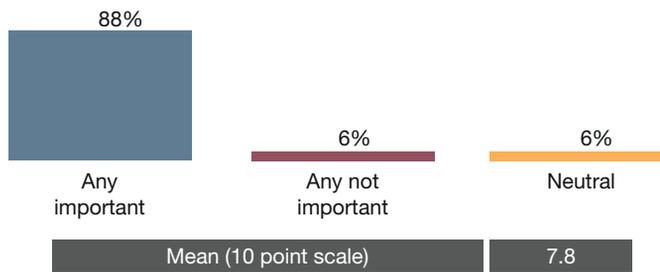
Professional Standards – Public Trust and Confidence Survey

Providing confidence in standards



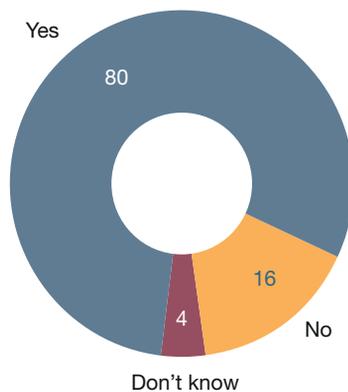
Professional qualifications were also viewed by 88% of multinational companies as inspiring trust when recruiting or hiring services.

Inspiring trust/confidence



The great majority of respondents (80%) equate professional qualifications with "international best practice".

Equate with 'international best practice'



Source: Building Irelands Future, The Role of Professions, May 2018

3. The role requires a right to plead or be heard before a court/tribunal (and that right is available only through membership of the professional body).

The skills and standards that professionals provide to the economy and society, validated through

membership of professional bodies are of significant benefit and highly valued by the FDI sector. Other countries, such as the UK, Canada and Australia, all recognise the value of membership bodies in their tax treatment of professional subscriptions.

## Cost:

The full report on which this analysis is based was supported by SCSI along with the Association of Consulting Engineers of Ireland, Association of Optometrists Ireland, CPA Ireland, Engineers Ireland, Institute of Directors (IoD) in Ireland, Irish Dental Association, Irish Pharmacy Union, Irish Tax Institute, Law Society of Ireland, Royal Institute of the Architects of Ireland. It was not possible to provide an impact on Budget 2019 in terms of the cost of reversing the tax. However, in 2011 when the tax treatment was changed, the annual saving was estimated at €5m.

## Recommendation

Governments can mitigate the industry's boom-and-bust problem by smoothing out their investment programmes on infrastructure and construction projects. Too often, public investment is cut during downturns to find budgetary savings. Greater certainty about future work will give firms confidence to invest more in technology. Providing greater clarity about proposed projects can also help. Britain's National Infrastructure Pipeline, an assessment of planned spending by both the public and private sector, has boosted investment in the tunnelling business because companies can see more clearly what projects lie ahead.

Major infrastructure projects in the UK have created significant opportunity to promote innovation in the industry such as Great Ormond Street hospital and Heathrow Terminal 5. UK research into innovation in construction identified inherent barriers such as highly mature and competitive industry with limited ability to capture and retain knowledge. Differences between the construction industry and manufacturing include individual procurement of heterogeneous products, firm level specialisation and sub-contracting. The industry is well known for being highly cyclical. The return on investment in innovation can take place over many years and comes with high upfront cost that in a downturn might have little to no retained value; whereas less productive and more traditional resources are far less risky.

## Opportunity & Barrier 5: Waste of Energy and How Buildings Can Save the Environment

Energy conservation and sustainability is a key concern for many in every industry and no more than those operating in property and construction. A sustainable environment where Co2 emissions are minimal is an important milestone for us to achieve.

SCSI, through its educational programme and contacts within the industry, has been very active in upskilling Surveyors on NZEB and life cycle costings. SCSI is fully supportive of NZEB, in both residential and commercial new building and renovation, provided that a cost-benefit analysis for all regulatory standards are carried out to ensure supply affordability for any proposed innovation changes. Of course, there are challenges with such targets to be achieved but one which industry is committed to achieving as the cost of doing nothing is too high.

Energy wastage in Ireland is a concern. The EU Directive on Energy Consumption for domestic and non-domestic properties is welcomed. Energy consumption of dwellings has reduced by up to 70% based off 2005 regulations and any further reductions is welcomed provided the implementation costs are proportional to the cost savings in energy.

## Conserve Energy by Retrofit Energy Upgrades

SCSI recommends that further investment be made to retrofit energy upgrades to domestic properties in particular. SEAI have spent over €400 million on energy grants of which produces over €1Bn in cumulative energy savings. This is a significant return on investment and one which should be further promoted.

SCSI is concerned however that providers of energy efficient systems are aware of grant recipients and therefore may increase their charges to take account of the subsidy. Efforts should be made to

ensure best value and prevent this cost distortion from continuing. SCSI recommends that a panel is established to promote and support compliant providers and for those professionals providing energy efficient advice and solutions. There are many new energy systems coming to the market each year and this is constantly evolving at a fast pace. The establishment of a panel of experts should be advanced so that the customer experience in adopting energy saving technology is not dampened by poor installations.

## Cost

An increase of 20% for additional funding for energy efficiency and retrofitting would cost €80 million. Ensuring that the government is getting an acceptable value for money offering, it should establish a panel of competent and compliant contractors and professionals so that the grants are directed and protected for its main use and that correct information is provided to clients.

## Measures for Budget 2019

In Budget 2019, Government should



### Key Recommendations

- Establish a National Construction Innovation Centre to foster, resource and co-ordinate the delivery of innovation supports within the industry
- Release State land to allow the delivery of more affordable homes in areas of high demand
- Incentivise Developers to deliver affordable housing to the market in locations of high demand
- Directly fund the delivery of new social homes to reduce state competition in the private housing market
- Provide resources to undertake an audit of Multi-Unit Residential Developments to identify high risk safety defects & establish a repair & remediation fund
- Provide a long term, low interest loan facility to those other Multi-Unit Developments requiring significant repair work to address serious building defects
- Fund comprehensive study to examine why existing vacant stock is vacant, any barriers to renovation and re-use.
- In the best interests of the development, skills and standards of Ireland's professions, restore the tax treatment for professional subscriptions as previously provided for under the Taxes Consolidation Act 1997 in Finance Bill 2018.
- Support the professions through taxation

# Appendix

## Nesc report excerpts:

(page ix)

### **Recommendation 1: Ireland must change its system of urban development, land management and housing provision**

The dramatic experience of boom, bust and prolonged stasis makes it clear that the problem is largely systemic. It is a mistake to see the current crisis as simply a legacy of the crash, which, as it fades, will yield a return to 'normality'. It is the system that shapes the interaction of the different elements and actors. Dysfunctional patterns, interactions and outcomes are hard-wired into our approach. Without a change in the system, we are condemned to an endless sequence of isolated measures. Reforms should be based on a coherent, evidenced-based view of what an effective and inclusive system of urban development, land management and housing affordability looks like—as set out in the Council's work (NESC 2004; 2014a; 2014b; 2015a; 2015b). The National Planning Framework (NPF) and the National Development Plan (NDP) set out clear and inspiring principles and goals: compact growth (40 per cent of housing development within or close to existing built-up areas); higher housing and job densities; much greater use of brownfield sites, under-used land and buildings; and integration of policies and objective for the protection of biodiversity into statutory development plans. To achieve these, we need to change the system of urban development, land management and housing provision. But adoption of the NPF and NDP also creates the perfect moment, and probably the last chance, to start the transition to a better system.

### **Recommendation 2: Build affordability into policies that are designed to increase the supply of housing, starting with land and cost rental**

While an increase in the supply of housing can have some effect in reducing its market price, the nature of housing markets, land markets, credit markets and urban development means that this is not in itself a reliable or sustainable means of achieving housing affordability. Ireland must now engineer affordability into the supply of housing through systems of land management, cost rental and social housing. International experience suggests that cost rental is the most effective and fiscally sustainable way of achieving permanent affordability (as explained by the Council in its 2014 report *Social Housing at the Crossroads: Possibilities for Investment, Provision and Cost Rental*). Cost rental uses modest supply-side supports, such as land and finance at favourable rates, to underpin affordability, and it makes this permanent by ensuring that rents cover costs and that the equity that accrues as loans are repaid creates a revolving fund, used in the service of further affordable housing. Cost rental makes rental a realistic and secure long-term option, quite different from the current Irish system (as explained in the Council's 2015 report *Ireland's Rental Sector: Pathways to Secure Occupancy and Affordable Supply*). It also avoids the creation of segregated social housing occupied only by those on low incomes and dependent on welfare.

**Recommendation 3: Give public institutions a strong developmental mandate, political authorisation and executive capacity to drive sustainable urban development**

Government has announced the establishment of a National Regeneration and Development Agency (NRDA). It is to work with local authorities, government departments and other bodies to secure the best use of public lands and infrastructure and to drive the renewal of strategic areas. This is an important policy development and the Council strongly supports it. Effective active land management involves public authorities working with a range of private and non-for-profit development and housing organisations. A wide range of contractual, joint venture, partnership models and financing arrangements are used. This requires well-staffed and well-led urban development agencies that are dedicated to the task and have the professional competence to draw up master plans and engage in complex arrangements for implementation with the private sector and community groups. In moving to a new Irish system, a number of other institutional possibilities will need to be considered. Beyond the establishment of the NRDA, it may be necessary to create new entities at municipal level, or other spatial scales, and/or to enhance the remit and capabilities of existing bodies.

**Recommendation 4: Use publicly-owned land to increase the supply of housing, ensure affordability and create quality residential developments**

The most critical resource available to the State is land in public ownership. A substantial amount of state-owned land exists in our cities and towns, including large city-centre areas that were former docks or rail depots, other areas in key locations and along new public transport corridors opened up by infrastructure projects, such as the Luas Cross-City line in Dublin. Publicly owned sites now have a central role in addressing the housing crisis and starting the transition to a new system of active land management and urban development. There is an element of trade-off between two important goals: making housing affordable and capturing value to support the funding of infrastructure. However, it is possible and desirable

to pursue both goals and, viewed from a longer-term perspective, they are complementary. In using state land for housing and related infrastructure, there are a number of priorities: First, it is vital that the land be put in the hands of actors who will develop it in a timely and appropriate manner, rather than seeking to maximise state revenue by selling it outright, without regard to when and how the land will be developed. This would constitute a change from the approach adopted by many public bodies, including NAMA. As well as direct use, state-owned land should be used to provide opportunities for a range of actors with the capacity to build appropriate housing, but who may not have the capital to meet the upfront cost of land purchase, including approved housing bodies (AHBs), community land trusts and other cooperative groups, developers and individuals (self-build). Second, public land should be used to create permanent housing affordability. This can be achieved through cost rental, social housing and affordable housing for purchase, subject to conditions that ensure permanence. The relative advantages of homeownership and rental, and the need for honest discussion of aspirations and policy possibilities, are discussed in the Council's 2014 report *Homeownership or Rental: What Road is Ireland On?* Third, in the case of significant public sites, the area should be master-planned before entering partnership or other arrangements with development entities. Fourth, given the fiscal constraints on capital investment, the opportunity should be taken to use public land in a way that creates locational value and garners a share of this to support the cost of investment in infrastructure (see Recommendation 6). This could include long-term leasing or licensing arrangements. Fifth, development on public land should deliver a step-change in the level of environmental sustainability of Irish urban areas.

**Recommendation 5: Work with private holders of urban development land to ensure the delivery of affordable housing and sustainable urban development**

Current arrangements with respect to urban development land in private ownership, such as the vacant site levy, while useful, are not sufficient to assure appropriate housing supply and affordability. It is now necessary to create the conditions and

institutions for more active land management and new kinds of relationships between public authorities and private holders of development land. The forthcoming establishment of the NRDA is an important step in the right direction. It is vital to recognise that the NRDA can, and should, go well beyond simply bringing more publicly-owned land into housing provision, in order to simply increase supply. It also has the potential to model new patterns of housing provision and to change the relationship between public bodies and private owners of urban development land (as proposed in the Council's 2015 report *Housing Supply and Land: Driving Public Action for the Common Good*). Indeed, as in other countries, a key function of the new agency should be to work with the owners of private land. There are a number of mechanisms and models to ensure more effective relationships between public bodies and private actors: joint ventures combining public and private land, land readjustment as undertaken in Germany, and planning conditions concerning affordability and social infrastructure. More effective engagement between public bodies and private holders of urban development land will require enhanced compulsory purchase powers. This is necessary to ensure that owners of urban development land engage constructively with the public agencies. International evidence shows that the dynamic of the land market changes where there is a credible possibility of public purchase of urban development land at less than its full development value, even where the compulsory purchase powers are rarely used. They ensure that all actors take planning seriously. In addition to the major reforms recommended here, introducing a site value tax (SVT) on development land would have a number of advantages. First, it would have less distortionary effects than other forms of taxation. Second, it could promote improved land use. Third, it could, arguably, ensure greater fairness as it would play a role in recovering some of the value added to land by public investment and services. However, such an arms-length instrument would not be sufficient to achieve the desired pattern of land use and urban development. This requires the active land management, institutional development and affordable housing policies set out above. While driving these reforms, Ireland should learn more about how countries such as Denmark design and implement a site value tax.

**Recommendation 6: Use the potential of locational value creation and sharing to help fund strategic infrastructure, particularly public transport infrastructure**

Ireland must now actively explore the use of locational value creation and sharing instruments to support its new ambition for enhanced infrastructure and sustainable urban development. This should be part of a broader commitment to complement state expenditure with alternative sources of financing and more innovative and tailored funding mechanisms. In addition to development levies, the range of possible locational value mechanisms include: property tax in the vicinity of transport amenities; site value tax; tax increment financing;<sup>1</sup> direct public or joint development; sale or lease of land; auctioning of development rights or air rights, and leasing of commercial space.

**Recommendation 7: Adopt an ambitious national programme of specific, understandable and socially accepted flagship projects**

Government should start the transition to a new system by driving a number of major projects to provide affordable housing, quality urban development and strategic infrastructure. It can draw on the experience of projects such as the Dublin Docklands Development Authority and Grangegorman Development Agency. Both were highly ambitious and transformative urban regeneration projects. They both involved bespoke institutional development agencies engaging with a range of complex and interconnected policy issues: land management and development, planning, infrastructure funding and a multi-institutional environment. Delivery of such flagship projects will reveal the need for connections across policy areas and co-operation between agencies.

END

## Housing Agency

[https://www.housing.gov.ie/sites/default/files/publications/files/comparison\\_of\\_residential\\_construction\\_costs\\_in\\_ireland\\_to\\_other\\_european\\_countries.pdf](https://www.housing.gov.ie/sites/default/files/publications/files/comparison_of_residential_construction_costs_in_ireland_to_other_european_countries.pdf)

(Page 20) Ireland

*Unlike the UK or Germany there are no established institutions responsible for collecting construction data and publishing it.* Details for seven recent residential projects in or around Dublin and the east of the country were examined. This included 4 no. apartment and 3 no. housing projects which have been tendered and analysed within the last 2 years (including a project with tenders received in June 2017). In arriving at a national mean, we have used the mean for these projects based in or around Dublin to establish a mean for the Dublin region and then applied a location factor to establish a national mean. The basis used to establish the national mean for Ireland was to use an analysis of published data over 7 years provided by the SCSI for house rebuilding costs in seven regions in Ireland. An analysis of that data indicates a consistent average regional costing differential across Ireland from Dublin at base 100 down to 68/69 for the North West and Border counties. In order to correlate the SCSI regional costs to actual regional output, CSO statistics for planning permissions for residential developments in Q1 2017 based on total floor areas for planning regions were used and, applied as a

weighting factor to the SCSI regional cost data to arrive at a national mean. This resulted in a mean location index being calculated as 87 and applied to the Project Data mean to establish the national mean for Ireland. As already noted Ireland and the UK have a lot in common in respect to the way our respective construction industries operate including the residential sector.

It should be noted that the Society of Chartered Surveyor's Ireland has published a construction market based tender price index for non-residential buildings since 1998. It is generally relied on in Ireland as a national trend in movement of tender prices in construction including residential notwithstanding that residential project data is excluded from the data on which it is based. Similar indices are published by BCIS in the UK and BKI in Germany. In preparing this study the SCSI tender indices have been used to update Irish residential project data in combination with the published CSO data relating to construction.

END

## McKinsey

**Myth 1: There is no economic case for affordable housing.**

**Reality: Affordable housing can raise productivity.**

Affordable housing in the right locations boosts the city's productivity by integrating lower-income populations into the economy and reducing costs to provide shelter and services. It enables labor mobility, opening a path to rising incomes, giving households more to spend on goods and services in their neighborhoods and, over time, enabling them to move up the income pyramid and help drive city GDP growth.

**Myth 2: Upper-income and lower-income housing markets are independent.**

**Reality: A city is an integrated housing market with a mixture of incomes.**

Cities need to think of housing as one market, in which decisions at the top trickle down through all income groups and where market failures in any submarket have ramifications across the city. In a vibrant housing market, building new housing for upper income segments will ultimately free up housing for middle- and lower-income groups, either for rental or ownership.

**Myth 3: Addressing the affordable housing gap means investing in new buildings.**

**Reality: Renewal is as important as new building.**

The existing housing stock and new units are complementary parts of the same solution. Existing housing, even in poor condition, may serve residents better by placing them where they have social connections and access to employment. Cities need to provide housing where residents can flourish, whether by building new units or supporting refurbishment, repairs, and upgrading of existing stock.

**Myth 4: Cities can guarantee decent housing by imposing high standards.**

**Reality: Affordable housing is part of a "ladder" of rising housing aspirations.**

Uniform standards that are set too high can price poor households out of formal housing (without subsidies). It may be better to provide basic, safe shelter in appropriate locations, even with limited space or communal facilities, if it can house lowest-income households until their incomes rise.

**Myth 5: There is no land for affordable housing.**

**Reality: Cities have land at appropriate locations that could be unlocked.**

Even in cities such as New York there are many parcels of under-utilized or idle land—including government-owned land—that could support successful housing development. Land can be freed for development through idle-land regulations, land readjustment and pooling, and transit-oriented development.

**Myth 7: Affordable housing is too risky to finance.**

**Reality: Financing for purchasers and builders can be made less risky and less expensive.**

With better data (valid property appraisals, credit ratings, use of non-traditional credit-rating data) and proper controls, lenders can reduce underwriting costs and safely lower rates for low-income borrowers. Contractual savings programs can help borrowers build down payments. Developer financing costs can be cut in many ways, including de-risking projects by guaranteeing occupancy and streamlining permitting.

**Myth 8: Affordable housing is an unattractive investment.**

**Reality: Well-located, properly maintained, affordable housing can be quite profitable.**

Housing built for lower income households runs a higher risk of dilapidation and value loss, but mostly due to weak asset management practices and poor choice of location. However, if housing is built where residents can connect to employment and vital services, and if management realizes scale efficiencies in operations and maintenance, properties can rise in value.

**Myth 9: Affordable housing is a national-level problem.**

**Reality: Yes, lack of access to decent housing is a national issue, but the solutions are local.**

Cities are the logical unit for housing planning: they can work best with the public, government agencies,

and the local private sector. Only local planning using household-level data across all income bands and local decision-making can achieve community consensus and success.

**Myth 10: Affordable housing requires a massive commitment of government resources.**

**Reality: Speed of delivery may be the most important factor in success.**

If private developers can execute projects on tight, predictable schedules—and use cost reducing strategies—the economics of affordable housing improve significantly. Cities must plan and oversee housing programs, but their greatest contribution might be ensuring that permitting and other development-related regulatory processes do not get in the way.

## IBEC

Ibec in their Better Lives, Better Business campaign stated “a continued chronic shortage of affordable housing in Ireland is threatening to undermine the achievement of major economic policy goals.”

IDA Chairman, Frank Ryan, has highlighted the growing impact across Irish cities – “when you talk about housing, people talk about Dublin - it’s not just Dublin, its other cities and urban areas in the country.”

Ireland’s population is growing at a faster rate than the EU average, while average household sizes have further to fall to reach the EU average. Ibec estimates that these twin factors will drive new household formation of up to 36,000 per annum between 2018 and 2046.

Ireland’s housing market is clearly not functioning properly and as presently constituted is incapable of meeting demand. Without remedial actions, the housing shortage will act as a barrier to entry for new investment and a disincentive to talent retention for

existing workers who are unable to find suitable and affordable accommodation.

Ireland’s infrastructural roll-out is hindered by an out-of-date planning appeals system, including judicial review, which remains slow and cumbersome compared to other developed countries. This results in delays to badly needed investments in clean energy, data processing, transport, and waste treatment. The dysfunctional nature of our planning system is now a threat to our economic development; could completely undermine the success of the National Development Plan (NDP); and is damaging our international reputation as a good location to do business.

Resolving the impasse will require a holistic solution involving local, regional and national State agencies, in addition to changes to the courts process.

END

## Kenny Report – Four Decades on the Shelf

<http://www.publicpolicy.ie/kenny-report-1973-four-decades-on-the-shelf/>

### **‘Designated Area Schemes’, ‘Betterment’ and Capital Gains Tax**

The Kenny report highlighted the disproportionate rise in the price of building land. From 1963 to 1971 the average price of serviced land (‘undeveloped land which has the main services; water, sewerage and drainage close to it’) in County Dublin increased by 530 per cent compared to a rise of 64 per cent in the consumer price index. The committee recommended that local authorities be given the right to acquire undeveloped lands at existing use value plus 25 per cent by adopting Designated Area Schemes. This financial deal was deemed “a reasonable compromise between the rights of the community and those of the landowners” (Kenny, 1973: 40). The committee believed this would in turn stymie the disproportionate price rise in building land and thus end speculative land banking. Regulating the price of building land was considered by some as an infringement of private property rights which are protected under the Constitution. Nonetheless, as the increase in the value of building land was in many cases attributable to infrastructural works carried out by local authorities, the committee argued that the local community had a legitimate claim to all profit accruing to the land. This increase in value was referred to as ‘betterment’.

In 1982 the Commission on Taxation<sup>1</sup> echoed calls for recommendations in the Kenny report to be implemented, particularly in relation to betterment. It recommended a high ‘development gains tax’ to capture betterment for the community. In principle this would be a 100 per cent tax on betterment gain. However, it was thought it would be difficult to distinguish development gains from other gains and therefore proposed a single rate of tax on any development gains, which would be higher than the normal rate of capital gains tax.

Compensation afforded to landowners, who were refused permission, set particularly onerous conditions or where land value was reduced on

account of a planning decision, was very generous from the introduction of the 1963 Local Government (Planning and Development) Act. However, during the 1980s the need to address the ‘culture of compensation’ grew and the 1990 Planning Act instigated what Grist (2012)<sup>2</sup> calls a “fundamental shift” in balance away from an individual landowner in favour of the planning authority. Indeed the Kenny report argued that the official arbitration system used to determine compensation rates for landowners “tends to inflate land prices” (Kenny, 1973: 13). Thus, it argued that if the free market system continued to be used to determine land prices, that the price of building land would continue its upward trajectory. This was undoubtedly the case during the Celtic Tiger period when prices increased substantially.

Instead of a betterment tax on profits, a Capital Gains Tax (CGT) has been charged on profits from the disposal of property assets. In recent years CGT has increased; since 2008 when the rate of tax on disposal of assets was 20 per cent to the current rate of 33 per cent since 6 December 2012. Furthermore, the 2009 NAMA Act charged gains on disposals of development land, to the extent to which gains are attributable to a relevant planning decision (rezoning or a decision to allow a material contravention of a development plan), at a windfall rate of 80 per cent. This charge has been abolished and profits from rezoned land are, from January 2015, to be taxed at a capital gains rate of 33 per cent.

### **Development Contributions**

Under Sections 48 and 49 of the Planning and Development Act 2000, a planning authority is empowered to impose conditions requiring a contribution in respect of public infrastructure or facilities benefitting development in the area of the planning authority. While there are no explicit mentions of betterment levies in Irish planning law, it can be argued that planning conditions and development contributions apply “a type of

betterment levy” as they capture part of the value added through local authority works (Grist, 2012: 116). Local authorities produce a Development Contribution Scheme which details the financial basis for the determination of contributions. Contribution rates are linked to the Tender Price Index. Development contributions are partly in-keeping with the Kenny report recommendation that developers contribute the full cost of the facilities the local authority would provide benefitting the development<sup>3</sup>.

Development contribution guidelines were updated in January 2013 and amended further in 2015<sup>4</sup>. The revised guidelines<sup>5</sup> aimed to reduce levies, which may have inhibited development and also increased house prices. However, Lyons (2014)<sup>6</sup> argues that levies on development of up to €50,000 per unit amount to unnecessary regulatory costs, which require further reduction.

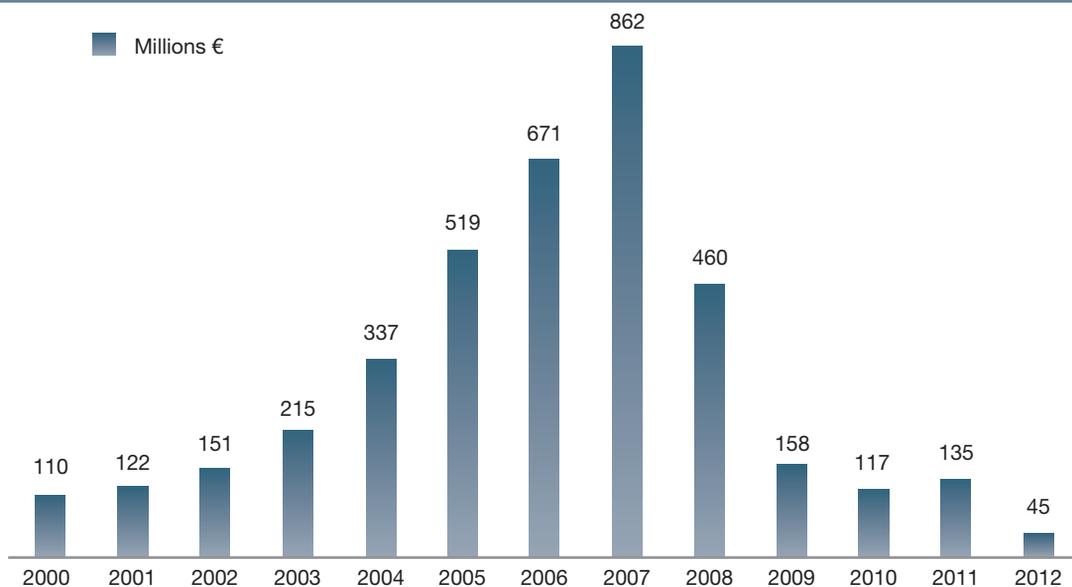
Development levies rose by a factor of 30 between 1995 and 2007. An inter-departmental committee on development contributions in April 2007<sup>7</sup> did not allude to concerns over the dependence on contributions to fund local authority infrastructural works. However, the committee did acknowledge at the time that schemes should be reviewed and a Circular letter to local authorities in May 2007 outlined issues they should examine. These were:

1. Levels of contributions
2. Variations across Planning Authorities
3. Double charging
4. Need for extensive consultation
5. Transparency (“branding” of projects)
6. Waivers for certain developments
7. Flexible funding arrangements for public infrastructure/facilities
8. Evaluation of existing operation of scheme

The review of schemes and revised guidance from Government took place as property prices fell and revenue from development levies was diminishing. The Local Government Audit Service reported in 2006<sup>8</sup> that accounting systems were “unsatisfactory” in relation to contributions, which made it difficult to establish an accurate sum due from developers. From 1 January 2007<sup>9</sup>, local authorities were obliged to account for contributions on an accruals basis as opposed to ‘cash’ equivalent used to that point. Indeed, Grist (2012) states that many developers were simply ignoring contribution conditions, because of inadequate monitoring at governance level. Figure 1 draws attention to the peak revenue from levies in 2007 which stood at €862m, to the drop in 2012 to €45m.

Contributions from developments not commenced are accounted for as long term debtors and short

Figure 1 – Development Contributions, 2000 – 2012



(Source: Audit Activity Reports & Annual Planning Statistics \*Note: figures for 2007 to 2012 are accrual based)

term debtors. Short term debtors (regarded as collectable at the end of 2012; deferred income) amounted to €360m with a corresponding provision for bad and doubtful debts of €232m, representing 64% of the debtors balance<sup>10</sup>.

The housing strategy of local authorities, as a consequence of Part V of the 2000 Planning Act, allows for the transfer of land at existing use value rather than market value. Indeed, principles of the Kenny report can be found in amendments to the Planning Act. Nonetheless, there are “no provisions about betterment in the Irish planning code” and the general scheme of the Planning and Development Bill (Nos. 1 and 2) 2014 does not refer to betterment either (Grist, 2012: 116). However, the recently enacted Urban Regeneration and Housing Act 2015 contains other mechanisms which may contribute to balancing supply and demand for housing. These include: an annual vacant site levy<sup>11</sup>, a reduction in the provision of social housing requirements from 20% to 10% under Part V<sup>12</sup>, and reduced development contributions for planning permissions yet to be activated<sup>13</sup>. Although the Kenny report was not implemented, it has undoubtedly contributed to the design of several schemes aimed at capturing the benefits from the provision of public infrastructure and social housing since its publication.

#### Notes:

<sup>1</sup> Commission on Taxation, First Report, July 1982 Chapter 14

<sup>2</sup> Grist, B. (2012) *An Introduction to Irish Planning Law* (Second Edition). Dublin: IPA

<sup>3</sup> The Royal Institute of Chartered Surveyors proposed that development contributions should be in two parts. The first payable for connections to existing services and the second as a fund used to fund connection to additional services.

<sup>4</sup> Development contribution rates for Dublin City Council are fixed from 1 January 2016 to 31 December 2017. The Council may apply indexation to the rates of contribution effective from 1 January 2018 in consideration of the SCSI Construction Tender Price Index.

<sup>5</sup> The Development Contribution Scheme Guidelines (2013) reduced the rates for temporary permissions as follows: a. 33% of normal rate for permissions of up to 3 years; b. 50% of normal rate for permissions of up to 5 years; and c. 66% of normal rate for permissions of up to 10 years

<sup>6</sup> Lyons, R. (2014) *Boom, Bubble or Bust – Understanding the Irish Housing Market* [IIA Ireland Annual Conference] Trinity College Dublin. 10 October. Available here

<sup>7</sup> Government of Ireland (2007), *Report of the Inter-Departmental Committee on Development Contributions* – Available here

<sup>8</sup> Local Government Audit Service (2006) *Activity Report* – Available here

<sup>9</sup> Local Government Audit Service (2009) *Activity Report* – Available here

<sup>10</sup> Local Government Audit Service (2014) *Activity Report* – Available here

<sup>11</sup> The vacant site levy will be applied at a rate of 3 per cent of the market value each year. The Commission on Taxation (2009) recommended such a recurrent tax on zoned lands left vacant.

<sup>12</sup> The 2015 Act ends the provision under the Planning and Development (Amendment) Act 2002 which accepted cash payments as a substitute for social housing from developers.

<sup>13</sup> A reduced period of planning permission, also termed as the ‘use it or lose it’ principle, was proposed in the Construction 2020 strategy. However, this mechanism was not included in the Urban Regeneration and Housing Act 2015.

END

## ECONOMIST 2017

The clients of construction firms have every interest in lower bills and speedier completions. But private-sector customers are themselves too fragmented to catalyse change. Governments are another story. The public sector accounts for 20-30% of total construction spending in America and Europe. As both a large customer and a setter of standards, it has the clout and the means to encourage the industry to improve.

First, governments can mitigate the industry's boom-and-bust problem by smoothing out their spending on construction projects. Too often public investment is cut during downturns to find budgetary savings. Greater certainty about future work will give firms confidence to invest more in technology. Providing greater clarity about proposed projects can also help. Britain's National Infrastructure Pipeline, an assessment of planned spending by both the public and private sector, has boosted investment in the tunnelling business because companies can see more clearly what projects lie ahead.

Second, governments can encourage the spread of mass production by harmonising building codes. The growth of companies making prefabricated houses can be stymied by the cost of adapting their designs for specific jurisdictions. This is true not just across

borders but within them. American counties and municipalities employ up to 93,000 different building codes between them. Standardising rules ought to mean bigger production runs and higher returns.

Can they fix it?

Public-sector contracts can also be designed to nudge companies to adopt new technologies and to co-ordinate with each other more efficiently. Too many construction jobs are still mapped out with pen and paper. Britain, France and Singapore now require bidders for public-sector contracts to use a process called "building information modelling", a type of digitised construction plan, in the hope that once they have invested in the relevant software, it will be used in private-sector projects, too. Building sites are often home to many contractors and subcontractors. Structuring public-sector contracts so that these firms share in a bonus if projects come in on time and under budget is another example of good practice.

The world has an annual \$1trn shortfall in infrastructure spending. Those projects that are given the green light tend to come in late and over budget. If the construction industry could build more for less, investors, citizens and customers would benefit. Governments can help lay the foundations.

## National Economic Dialogue - Breakout Session 4:

The clien Sustainable urban development to address housing supply

Chair: Minister Eoghan Murphy T.D. and Maria Bailey T.D.

Rapporteur: Dr Larry O'Connell

### Introduction

There was very constructive, wide ranging and interactive discussion of sustainable urban development and its role in addressing housing supply. The discussion can be grouped under four themes:

- Getting behind project 2040
- New solutions and areas for further consideration
- Capacity and skills
- Thinking about renting.

### Getting Behind Project 2040

Project 2040, the NPF and the NDP provide a clear roadmap and direction of travel. The challenge as perceived by participants is now about 'getting behind Project 2040'. There are four aspects to what it means to get behind Project 2040.

First, it means communicating and explaining the plan. Greater effort is needed to explain to people what sustainable urban development means – that first and foremost it is about affordable housing: if housing is not affordable to 40 or 50% of a community then it is not sustainable. That it is about social sustainability and quality of life—people living closer to each other and with access to better services; it is about choice, creating living urban centres and vibrant communities, where people can and want to live and work locally. It is about environmental sustainability and the costs in terms of GHGs and biodiversity loss associated with dispersed sprawling patterns of development. These and other messages need to be communicated to ensure that people understand why Project 2040 is good for them and their children.

Second, getting behind Project 2040 means following through on the commitments to investment in infrastructure spending over the period of the Plan.

Third, getting behind Project 2040 means defending the plan. One challenge the Plan faces is how to bring forward more land for development in key urban areas. The Plan has the potential to confer enormous windfall gains on land and property owners, which in many cases will be amplified with the passing of time. There is an urgent need to ensure that CPO can be deployed as a credible threat, so that the owners of land or property in areas of high demand cannot choose to ignore Government efforts to enhance supply. This may require a test case or an examination of the constitutional implications of specific CPO proposals. Project 2040 may also need to be defended in the face of pressure from those who continue to champion alternative more dispersed patterns of development.

Fourth, getting behind Project 2040 means setting up and making the new National Development and Regeneration Agency (NDRA) operational as soon as possible. One of the most striking features of the discussion was the support for more active state involvement in land and housing. The most concrete illustration was the support among all participants for NDRA. It was stated that it needs to have the power to identify and assemble land, public land in the first instance to lead by example, but it also needs to engage and collaborate with private land and property owners. It can be a real force in enhancing the role of the state not just in increasing affordable supply but also in working to develop places where people want to live – what is referred to as place making. It can be a driver in helping to 'crack the nut of regeneration' which can sometimes take longer (than new greenfield development) but the benefits of which are often more lasting and sustainable.

It may also be able to take a broader community perspective on the higher costs associated with brownfield sites when they are looked at in isolation. It could also have an active role in finding ways to transfer stock from LAs to AHBs.

## **New solutions and areas for further consideration**

The participants identified a range of new ideas and areas for further consideration.

First, the need to continue to enhance data, in particular in relation to future housing needs, which would allow more tailored plans from Government and Local Authorities. Modelling techniques were discussed and further details will be provided to the Minister. It was argued that better data and evidence could help ensure a greater diversification of home types being built.

Second, density and height was discussed including that there is a degree of over-sensitivity in public discourse around height and indeed a tendency to oversimplify the impact of height on the economics of building. A key issue identified was the need to focus on better design rather than height per se.

Third, various issues arose in relation to the planning process. These included the hidden costs associated with delays, including long delays at pre-planning stages; some continuing burdens associated with the four stage plans, which are exacerbated for AHBs; the lack of weight given to supporting applications compared to dissenting views; ability to provide clarifications; the need to deal with spurious objections; the need for an objection to have locus standi; distinguishing between an observation and an objection (and charging more for the latter); the potential to spread development levies over the lifecycle of a project; and the question of why development levies are still levied when LPT has now been introduced.

Fourth, the issue of a site value tax was raised and discussed and further documentation will be provided to the Minister outlining the case for such a tax.

Fifth, the issue of finance for builders was raised and it was noted the new House Building Finance Initiative is targeting this constraint. It is seen as critical that the HBFI Bill will pass through the Oireachtas as soon as possible. It was also noted that the Help-to-Buy scheme has been positive and has helped builders to secure finance.

Finally, the possibility of allowing lands held privately being incorporated into the affordable purchase scheme was raised.

## **Capacity and skills**

The third issue to arise was capacity, resources and skills in both the public and private sector.

In the private sector there is a real shortage of skilled labour. Discussion focused on two aspects of this: apprenticeships and international workers. In relation to apprenticeships it is not seen as a career of choice, and there is a need to re-examine how it is portrayed in general, to parents and in schools and to examine the system of further education and the level of supports provided. For international workers there are a range of obstacles including taxation and housing issues, skills or qualifications no longer or not recognised and smaller though often significant issues like high car insurance costs for returning immigrants as their Irish no claims may have lapsed.

In the public sector the skills and resources available are increasing but there are still gaps. Participants recounted long delays around pre-planning and issuing of certificates; this can often mean completed homes are delayed coming onto the market. Staff shortages were also noted in Local Authorities and key agencies and service providers. A key shortage identified was in relation to staff carrying out Local Area Plans.

In AHBs there are also skill shortages, in particular in relation to technical skills, for example project managers and QS. The question was asked if some temporary solution could be created to allow AHBs access to shared or temporary expertise.

The issue of low or no growth in productivity in the construction sector was identified. This is not just an Irish problem and in part reflects unique aspects of the sector and in particular its cyclical nature. The industry, it was argued, doesn't lend itself to high levels of investment and in this context it was suggested the role of research grants and procurement as means of supporting investment and innovation could be examined and used in the sector.

Finally, in terms of capacity the discussion also focused on the role of innovative design, e.g. models that can be changed from being 2 beds to 4 beds, then can be turned into retirement villages. It was noted that it will be important to identify and harness those kind of innovations.

### Thinking about Renting

An interesting theme to emerge during the discussion was rent. Rent looks increasingly likely it will be a long-term tenure –by choice or otherwise- for a large proportion of the population.

The participants noted that Build to Rent is an important development in this regard. It has delivered new supply and that is very welcome. It is in most cases high cost and it based on a model which requires long-term high rents and tends to lead to rent and price inflation in the areas where major BTR developments take place. It also is not likely to be viable in areas other than major urban centres. The other success is student housing provision. This is also delivering new supply at scale and there is also possibility to extend similar models to other groups, such as recent graduates, who may also be interesting in living in paces with shared facilities etc.

However, these developments give rise to a number of important considerations. It is important to think carefully on the combined impact of these types of developments on the liveability of our major cities: will families be pushed out to the suburbs. This also brought into focus the question of further diversification of stock and the opportunity for stock to be provided at every stage of the life cycle which in turn the need for inclusivity and community aspect of apartment dwelling and other housing types.

In addition, what will be the competitor to the current BTR? What types of rental models will compete with current profit-based build to rent? The obvious candidate is cost rental. It was noted that there are a number of models proposed –individual AHBs, Social Justice Ireland and NERI have outlined working models– alongside the Government's work with EIB. A suggestion was given the scale of the long-term challenge that more than one cost rental model should be supported.

Finally, the discussion on rental brought to the surface the need to be mindful of the long-term consequences and implication for pensions and peoples security after retirement.

### Conclusion

It is clear that Project Ireland 2040, the NDP and the NPF have provided an inspiring vision and ambition. There is an openness to and indeed a demand for more pro-active Government involvement in land and housing. There is also huge energy and commitment amongst stakeholders to work with Government, to deal with challenges and to realise this vision.



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Society of Chartered Surveyors Ireland,  
38 Merrion Square,  
Dublin 2, D02 EV61,  
Ireland.

Tel: + 353 (0)1 644 5500  
Email: [info@scsi.ie](mailto:info@scsi.ie)

