Policy Options for Supporting the Provision of Housing at Affordable Prices

By Anthony Foley of DCU Business School on behalf of the Society of Chartered Surveyors Ireland (SCSI)

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Contents

Executive Summary

Objective of Report

This report on the housing sector was commissioned by the Society of Chartered Surveyors Ireland (SCSI), the professional representative body for chartered surveyors working in the property, land and construction sectors.

The objective of the report is to assess, and to make recommendations on, the policy options available for ensuring the provision of housing for the growing Irish population in the short and long term and to support the development of a more sustainable and stable housing market in Ireland.

The report is based on a performance review of the housing market and Government policy and leverages existing research on the housing sector from the National Economic & Social Council (NESC), the Housing Agency, ESRI and SCSI.

Construction 2020 refers to *"a strategic approach to the provision of housing, based on real and measured needs, with mechanisms in place to detect and act when things are going wrong"* .

The recommendations are intended to establish a new strategic framework for the development of additional housing required for a growing population. They ensure that in the future a coordinated and integrated view is taken of the overall housing market. In addition, they suggest measures which will boost the sector in the immediate and short terms.

The shortage of supply of housing stock in the private sales and private rented sector remains a key concern for many reasons.

It is reasonable to expect that, following the restoration of supplier and customer confidence and the adjustment of the market to the impact of the Central Bank lending guidelines, more normalised market conditions will provide a sufficient incentive to supply new housing stock, especially in light of the greatly improving economy.

However, even when this happens in the medium term, issues will still arise around meeting the accommodation needs of lower income groups such as first time buyers and single adult households, which comprise a significant proportion of the market. As this report illustrates, the provision of housing at this level is not commercially viable. The following policy interventions are recommended to improve commercial viability and to increase the supply of housing at affordable levels.

Medium-Long Term Recommendations

Recommendation 1

Establish the National Housing Authority (NHA) which will be responsible for ensuring the implementation, direction and co-ordination of housing policy and strategy.

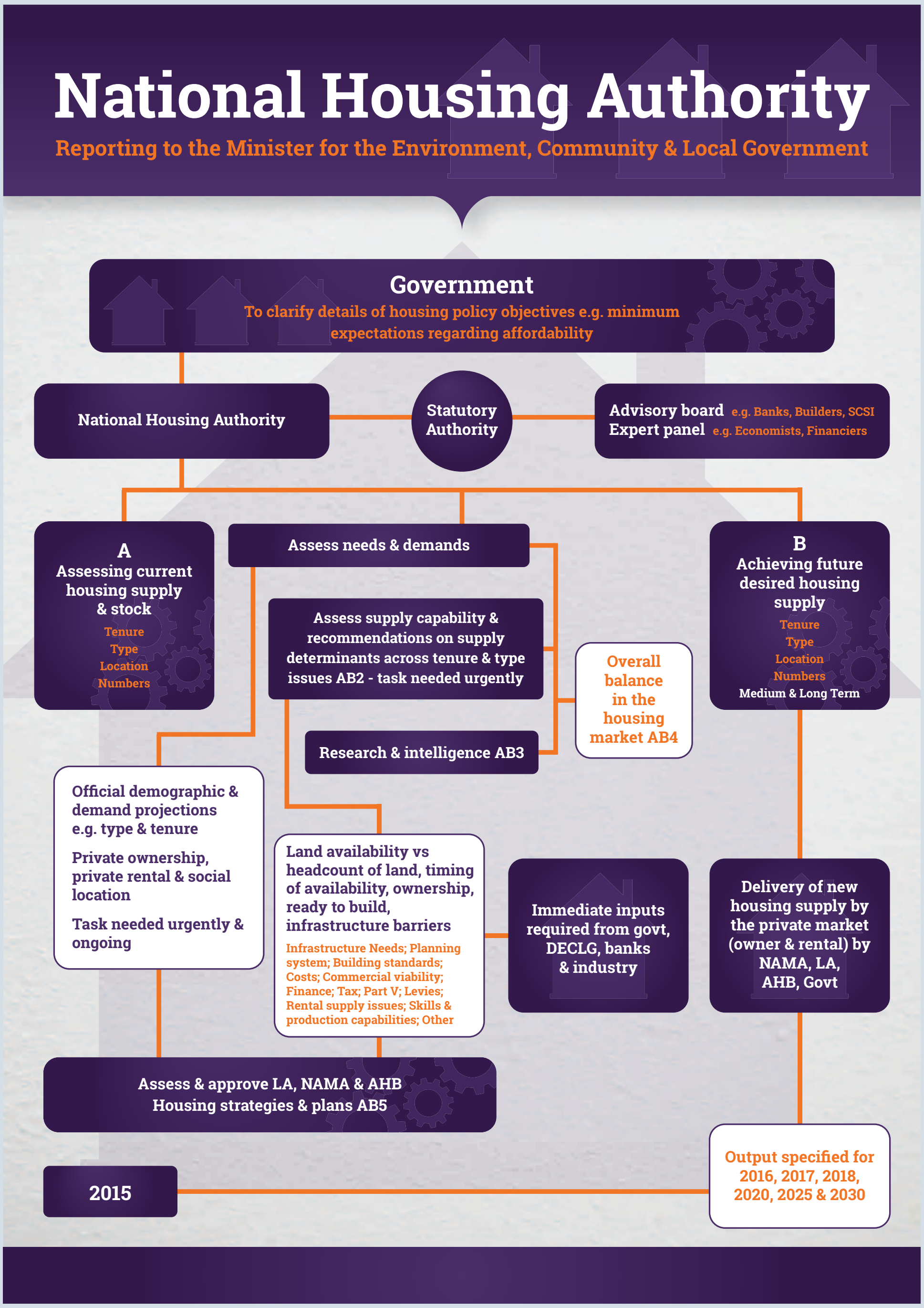
This will involve a rationalisation, restructuring and strengthening of the management and leadership structure for housing policy. Its primary functions would be to;

- assess housing needs nationally and locally and across the different tenure categories of home ownership, private rented and social housing on an updated rolling basis,
- assess supply capability and make recommendations on all aspects of supply including land availability, infrastructure, planning, building standards and regulations, commercial viability, finance, taxation regimes for the different tenure modes, Part V and levies,
- ensure that an appropriate demand/supply balance is maintained in the housing market,
- assess and approve individual local authority housing plans and strategies,
- ensure adequate research and intelligence is produced in a timely fashion on the housing market.

This new body would provide a missing element of official national coordination and assessment of the overall housing market. It would be a strategy design and implementation body as opposed to a housing executive or programme implementation body.

It would encompass aspects currently carried out by individual local authorities, the Housing Finance Agency, the Housing Agency and the PRTB as well as new functions. The housing section of Construction 2020, states that *"Ensuring every citizen has access to suitable housing is a key policy goal of Government."* The NHA would publish a national (with localised components) housing plan within six months of establishment with the aim of achieving substantial progress towards this aim.

Recommendation 1 (continued)



Short Term Recommendations

Recommendation 2

Ensure that the Department of the Environment, Community & Local Government's (DECLG) building and development design standards are the required standards in each planning area.

Individual local authorities should not be permitted to apply more demanding standards than the national standards. This will still maintain acceptable and desirable standards and will reduce costs in areas with above average need for new building. A recent study by SCSI showed that building an apartment development under the Dublin City Council Apartment Design Standards increased the cost of an individual unit by 25% and reduced the density of the development by 18%. A harmonisation of apartment design standards into a single national standard will greatly improve viability.

Recommendation 3

Development levies for housing construction should be reformed both to reduce their cost and phasing of payment.

The 2013 DECLG guidelines on development contributions for planning authorities noted that some local authorities allowed the payment of development contributions in phases and that development contributions should *"not impede job creation or facilitate unsustainable development patterns"*. This same broad principle and other principles of phasing, reduced rates and waivers could be applied, or applied in a more incentivised manner, to housing construction. This should be reviewed after three years.

Recommendation 4

The tax regime for providers of private rented accommodation should be reformed to attract more professional investment into the sector.

Government should operate a supportive policy regime for suppliers, particularly professional landlords, in this sector in light of the growing need for additional private rented accommodation. There is a strong justification, in certain areas, for tax incentives for the purchase of new houses/apartments, for rental purposes, given the new and continuing increased emphasis on renting and changes in household sizes and demographics. Increased supply will assist in moderating rent increases and improve affordability. Clearly, such tax incentives should be well designed, managed and monitored.

Recommendation 5

Reduce the VAT rate from 13.5% to 9% on new housing units up to a selling price (excl VAT) of €300,000 for a temporary period of three years to ensure the commercial viability of house building at the lower end of the price range.

Commercial viability for new housing is very marginal at the lower price range of the market. Any reduction in VAT should be directed at the lower price range of the Dublin market and should be provided for a period of three years. A reduction of the VAT rate to 9% would have a strong impact on potential viability.

Recommendation 6

Increase infrastructural finance from the exchequer to local authorities to ensure that zoned land has the necessary infrastructure to facilitate the provision of new housing.

As already recognised in official reports the physical availability of zoned land (DECLG Residential Land Survey 2015) is not equivalent to shovel ready land. Apart from legal, ownership and other constraints, the land has to be properly serviced with physical infrastructure.

Local authority budgets will have to be increased to ensure that, both currently and in the future, house building in appropriate locations, at the right price, is not constrained by physical infrastructure.

Recommendation 7

Through its various programmes and policy instruments for providing credit finance to industry, Government should make commercially priced finance available for lower priced housing developments where new bank credit rules prevent this.

The availability of development finance is a key constraint on building. Increasing the availability of commercially priced finance, targeted at lower priced housing developments, would support an increase in supply.

Recommendation 8

Streamline the planning process to reduce delays, where possible, in processing applications for housing developments.

An operational review of the current procedures should be immediately undertaken by an independent source with a view to devising better systems. Consideration should be given to an incentive structure to accelerate the administration of the planning process. In addition, the overall production process between idea and completed new dwellings should be reviewed to minimise the time period of the production process.

Recommendation 9

Policy interventions are necessary to manage the price of development land and to make appropriately priced land available for housing developments at the lower price end of the market.

The price of land is a significant component of the final price of a dwelling and policy interventions are needed to increase the supply of land being brought to market by NAMA and financial institutions. Consideration should also be given to the possibility of zoning additional land to prevent significant land price increases.

Recommendation 10

The Government could directly commission the construction of new houses from the private construction sector with the intention of selling these to the owner-occupier sector. The Government could also agree to underwrite sales in specific developments at the lower price end of the market.

A more direct measure to increase supply would be increased state involvement in dwelling unit construction. This could be through an acceleration of the construction of new social housing, an acceleration of the NAMA determined house building programme and a new direct state commissioning of the construction of new housing units for eventual sale to private purchasers.

1. Current Housing Policy Context

Housing Policy Statement

The Government issued a Housing Policy Statement (HPS) in June 2011 which according to the DECLG states that *"the overall strategic objective will be to enable all households' access good quality housing appropriate to household circumstances and in their particular community of choice"*. The HPS also notes, that if a household can afford to rent a high quality home in a vibrant community, but cannot afford to purchase an equivalent home, it would not be considered to need assistance from the state.

In other words, there is no particular policy preference for home ownership over renting. Policy will not seek to bridge *"an affordability gap between the cost of home ownership and household income."* The HPS also notes, that *"a balanced housing sector requires a strong, vibrant and well balanced private rented sector."*

The policy states that Government supports for housing will be focused on meeting the most acute needs such as those who are unable to obtain accommodation from their own resources.

Social Housing Strategy

The Government's Social Housing Strategy (SHS) was published in November 2014. It aims to provide 35,000 new social housing units up to 2020 and to support up to 75,000 households in an enhanced private rental market. The SHS states that housing policy will be guided by the principles of affordability, sustainability (including economic, social and environmental sustainability) and inclusion.

Other Initiatives

Recently there have been several Government and non-Government housing policy initiatives, developments and assessments including:

- Construction 2020: A strategy for a renewed Construction Sector
- Residential Land Availability Survey 2014
- Dublin Housing Supply Task Force
- Independent Office for Planning Regulation
- National Statement of Housing Supply and Demand 2014 and Outlook for 2015-17

In addition, NESC, the Housing Agency, the ESRI and the PRTB have published research and policy papers on the sector.

The NESC report No.142 on housing supply and land recommended:

- The public system should use its authority, capacities and resources to take the lead on the resumption of housing supply
- Sustained in-depth exploration and action on the reasons why the costs of housing provision and construction in Ireland make it so difficult to provide affordable housing of the right type in the right locations
- Drawing on the learning from these actions to address remaining institutional ororganisational gaps in the areas of housing, planning and infrastructure.

The housing section of the 2014 Government document Construction 2020 states that
"Ensuring every citizen has access to suitable housing is a key policy goal of Government".

The Government has introduced the Urban Regeneration and Housing Act 2015 which includes:

- the revision of the Part V arrangements on social and affordable housing (from 20% to 10%)
- retrospective application of reduced development contribution charges
- the introduction of a vacant site levy to incentivise urban regeneration and the provision of housing

The Urban Regeneration and Housing Act 2015 is currently awaiting commencement.

2. Market Behaviour in the housing market: insights from economic theory

The microeconomic demand and supply model is useful for identifying the possible impact of different interventions on the housing market and for illustrating the dynamics of the market.

The supply, demand and supply/demand interaction aspects of the housing market have been well described in the NESC background research papers to NESC 112. The main issues for this report are that supply side supports will normally increase market quantity and reduce price, while demand side supports will increase market quantity and increase price.

For example, incentives to suppliers such as tax incentives, or less onerous regulations, will shift the supply curve to the right and reduce equilibrium price and increase equilibrium quantity. Assistance to purchasers such as first time purchase grants or tax relief on mortgage interest will shift the demand curve to the right and cause equilibrium price and quantity to increase.

Economic theory also shows, except in the very unlikely event of a perfectly elastic supply curve, improvements in demand such as income or employment growth will always generate a price increase. The relative effects of price and quantity adjustments, arising from changes in demand or supply conditions, depend on the different responses or elasticities of demand and supply.

A key policy conclusion from the demand /supply model is that supply response capability is a very significant determinant of meeting demand or needs requirements without excessive price increases. However, it should also be noted that purchaser supports will increase price by less than the value of the support, except in the unlikely situation that the supply curve is perfectly inelastic.

In effect, the improved demand situation causes price to increase which also increases the quantity supplied. The price is higher after the impact of the purchaser support has been absorbed by the market resulting in part of the purchaser support being absorbed as a price increase.

The “ideal” housing market situation would be a perfectly elastic supply curve at affordable or acceptable prices. In such a situation, increases in demand through, for example, population growth would result in a sufficient additional quantity of housing being supplied to match the increased demand without any increase in price.

However, the housing supply curve is not likely to be perfectly elastic.

The model also suggests that rent price controls will reduce the quantity of units available for rent while keeping price down for those who obtain the reduced quantity. This applies except in the very unlikely condition of a perfectly inelastic supply curve. The scale of the reduction in supply will depend on the price elasticity of supply.

3. Overall housing market in Ireland

The Irish housing market has performed poorly over the past two decades. As noted in Construction 2020, there have been wide swings in the volume of output. In 2006, there were over 93,000 housing units completed nationally with 19,000 of these in Dublin. In 2013, 8,000 units were completed nationally of which 1,400 were in Dublin.

There has been no detailed official analysis of the extent to which the 2014 and 2015 additions to the housing stock, and new planning permissions, meet the identified needs in terms of type and location. Currently there is an oversupply in many parts of the country and an undersupply in Dublin and some other urban areas. Prior to the economic collapse, the market produced too many houses relative to demand, and in the wrong locations, and currently not enough houses are being produced in some locations.

The supply response, albeit with a time lag, over the longer term was substantial with the number of houses/apartments growing from 31,000 units in 1995 to 93,000 units in 2006. House completions in Q1 2015 totalled 2,629, an increase of 25.8% on Q1 2014. Commencements were 6.8% lower over the same period. Planning permissions were granted for 3,155 dwelling units in Q1 2015, an increase of 97% on the same period in 2014. When compared with 2014, mortgage drawdowns, in Q1 2015, were 64% higher.

Rents are currently rising significantly reflecting a shortage of rented accommodation to meet demand. Between Q1 2014 and Q1 2015, national rents increased by 6.9% and Dublin rents increased by 9.6% (PRTB).

There were almost 90,000 households on the combined local authority housing waiting list in 2013, compared with 43,000 in 2005. 44% of those on the housing list are single adults. In addition, homelessness has increased greatly. Despite recent improvements, 13.8% of residential dwellings or 104,700 were in arrears in Q1 2015, while 24% of buy to let mortgages were in arrears.

Volatility in House Prices

National average house prices collapsed from a peak of €323,000 in 2007 to €228,000 in 2013 before rising to €246,000 in 2014 (new house and apartment prices). Price increases have moderated in recent months. Between January 2014 and December 2014, the CSO Residential Property Price Index grew by 17%, but between December 2014 and May 2015, the index increased by just 0.2%. The recent very low price increases are notable given the apparent imbalance between substantial demand and limited supply. The recent Central Bank macro prudential policy lending guidelines have had a negative impact on demand. Currently, as manifested by the low price increases of houses and apartments in the Dublin area, effective demand, as measured by willing and able purchasers, is not much greater than supply.

Over the economic boom, house prices increased enormously from €78,000 in 1995 to €323,000 in 2007 (new house and apartment prices). These were unsustainable prices, and reflected a bubble effect, and were unaffordable for average income households.

The price paradox arises in that rising prices, from current levels, are undesirable in that it becomes more difficult for average income households to afford house ownership as the preferred accommodation mode.

Changes in Tenure

Based on the 2011 Census of Population, 70.8% of permanent private households were owner-occupied, while 18.8% were privately rented. 8.9% were in social renting (mainly local authority units). 1.6% were in other categories. Compared with 2006, this is a significant increase in the private rented sector (11.0% in 2006) and a decline in home ownership (77.2% in 2006).

Home ownership peaked at 80% in 1991. Included in the private rented sector are tenants who receive State rent supplement which is paid to private landlords. NESC has recalculated this data to reflect the degree of State support. The figures are 69.7% in owner-occupier accommodation, 15.7% in privately paid rental accommodation, 11.5% in State supported rental accommodation and 3.1% in other. Based on this classification, privately paid rental accommodation increased from 9.4% in 2006 to 15.7% in 2011. Some of the mortgaged owner-occupiers who are in arrears will also be receiving State support.

Ireland was always seen to have a very high rate of home ownership, but the 2011 Irish home ownership proportions are similar to the EU averages of 67 per cent for the EU15 and 71 per cent for the EU28. In several EU countries ownership rates are currently increasing compared to the Irish decline. Private rented accommodation, as an accommodation option, is likely to continue to grow as a share of total households. Additional consideration needs to given to the likely role of private rented accommodation as a "settled family home" solution as opposed to a more transient demand for such accommodation such as students, young people between leaving the family home and settling in more long term accommodation and non-nationals intending to depart Ireland after a period.

The growth in private rental accommodation in the housing market is further illustrated by the share of the growth in households absorbed by the private rented market. The table below presents the data.

Table 1: Private dwellings in permanent housing units by tenure 2006 and 2011

	2006 (000) households	2011 (000) households	Change 06 to 11 (000) households	Change 06 to 11 % share of change
All types	1463	1649	186	100
Owner-occupied	1092	1150	58	31
Private rented	145	305	160	86
Public rented (local authority and voluntary)	156	144	-12	-6

Source. CSO database (data excludes a residual "other" category)

Between 2006 and 2011, there was an increase of 186,000 in the number of private households. The private rented sector increased by 160,000 to more than double its 2006 number, while owner-occupied households increased by 58,000. The numbers in public rented accommodation declined from 156,000 to 144,000. An informative element of housing policy would be the publication of expected and desired future patterns of tenure, distribution of household size and the distribution of the size of the dwelling.

It is notable that in 1946 the owner-occupier share was 53%, while the private rented share was 26%. The private rented portion continued to decline to 1991. The non-national population mainly avails of the private rented sector with 68% of non-nationals using this sector. Not surprisingly, renters tend to be younger and single person and two person households.

The 2014 PRTB/DKM survey of renters' attitudes shows that

"Based on the full set of responses, flexibility, convenience and transitory living arrangements are considered to be important reasons for renting". However, there was also evidence that affordability was an issue. *"the inability to get a mortgage due to an insufficient deposit makes up 17.2 per cent of responses, while inability to get a mortgage due to lower than required earnings or job instability represents 14.9 per cent of replies".*

In addition to population growth, demand for housing and particular types of housing, including size and tenure, depend on other economic factors such as incomes, expectations, absolute and relative prices of housing, interest rates, affordability and mortgage conditions. Over the medium and long term, our expectation is that most demand determinants will change to add to demand, these include employment growth, income growth, after tax income and sentiment.

The negative demand factor is likely to be interest rates but not for a year or two. Tighter mortgage conditions will have a negative effect, but these have been already introduced and are unlikely to be further tightened.

4. Future demand for housing

There have been several recent projections of future demand for housing. While there are differences, they each point to a growing population, and a growing rate of potential new household formation, and consequently an increased demand for housing. A summary of the different projects are shown below.

Table 2: Future demand projections

Organisation	Time Period	Future Housing Demand
Housing Agency	2014 – 2018	16,000 p.a. across all urban settlements, with 7,500 p.a. required in Dublin
Investec	2013 – 2031	Annual household formation of 18,600
ESRI	2014 – 2020	12,500 p.a. with 8000 p.a. required in Dublin and 3,000 p.a. in surrounding counties
SCSI	2014 – 2018	7,000 p.a. required in Dublin

It should be noted that these projections refer to “need” as opposed to effective demand. The Housing Agency, for example, refers to housing requirements. A growing population suggests the need for more housing units to achieve a particular quality of housing. Some of these additional people may not be able to afford accommodation in either the private rented sector, or in home ownership, and so will need social housing. The building industry should not assume that demographic based expected growth in need for housing will translate equally into increased demand for new privately purchased houses.

The Housing Agency projections were for an average of 15,940 new homes nationally between 2014 and 2018. The individual annual requirements for urban settlements were projected to be:

Table 3: Projected annual national housing requirement 2014-2018 by the Housing Agency

Year	Projection
2014	9,500
2015	12,800
2016	17,100
2017	19,400
2018	20,900

Source: Housing Agency

The ESRI projections were presented on an annual average over the 2014 to 2020 period. Delivery of new homes in 2014, and most likely 2015, will be well below the projected needs. Consequently, taking 2015 or 2016 as an initial planning year, the future annual needs projections will be higher than those above.

Availability of Finance

Mortgages are more difficult to obtain than in the boom period due to more stringent bank criteria and due to the recent Central Bank macro prudential guidelines for mortgages. Developers and builders also face greater difficulties in obtaining bank finance than in the boom period. In contrast to previous provision of 100% finance, banks are now seeking about 40% equity finance and therefore lending just 60% of the capital required. This tightening of credit conditions is desirable in the context of the fallout from the economic collapse. It does, however, mean that it remains difficult for SME builders to access development finance which is a constraint on supply.

The current housing market is some way short of normal. House prices for some new homes reflect specific historical factors as opposed to the full economic cost of production. Some unfinished dwellings are being completed and some land costs do not reflect current and future prices. NAMA is also a major player in the Dublin housing market and its costs and financing may not reflect mainstream or usual market activity.

Interest Rates

The ECB monetary quantitative easing programme will keep EU interest rates low for the next couple of years, but UK and USA rates will start increasing earlier. Currently Irish banks charge a substantial premium on variable rates relative to the ECB cost of money. It remains to be seen if that will continue in the face of Government's desire to lower lending rates and increase competition. It may be that eventual higher EU interest rates will absorb the higher variable rates of Irish banks. If not, the medium term will see an increase in the Irish mortgage rate, but not while the ECB maintains its current monetary policy stance.

In addition, there may be concerns about the future levels of property tax. The new Central Bank mortgage guidelines have reduced consumer demand. Daft.ie research indicates that 60% of potential purchasers in Dublin, and 50% of potential purchasers nationwide, are delaying the purchase of a house/apartment due to a need to save for a deposit. The new guidelines are likely to permanently remove some lower income purchasers from the purchase market, and will also result in a temporary decline, as some existing purchasers have to spend a longer period of time saving for a deposit.

Affordability

Affordability is an important element of housing policy. The Housing Agency (Statement of Housing Supply and Demand 2014) noted that, as a general guide for people on moderate income, housing would be considered affordable where the cost of housing is below 35% of the household's income. However, this cost should be related to the quality of the accommodation. Affordable should refer to having suitable accommodation, however defined, and costing below 35% of income. The national affordability of mortgages from DECLG in 2014 was 20.6% (for a two income household). This is well within the affordability proportion, but in Dublin the figure was 29.5%. A Housing Sentiment Survey reported that private rents were on average 30% of income nationally and 35% in Dublin.

If rents were to continue to increase at recent rates, and if house prices were to continue to increase at their 2014 average annual rate, there would be a substantial decrease in the affordability capacity of the population.

Affordability improved after the economic collapse reflecting falls in house prices and interest rates. Since 2012, affordability has worsened, changing from 15.6% to 20.6% nationally and from 18.8% to 29.5% in Dublin, based on the DECLG measure of affordability which assumes two earners each on the average income.

The EBS/DKM Affordability Index noted that single income households (on average income) had a very high mortgage related affordability index nationally and especially in Dublin. For a Dublin two income average income household, the percentage of net income needed to support a mortgage for an average priced house was an estimated 22.1% in June 2015 compared to 15.7% outside Dublin.

The impact of the new Central Bank lending guidelines on the ability to purchase a first home is shown below. As seen from the data, a two income couple each on the average earnings level are very close to average North Dublin house prices, and well below South Dublin prices, in terms of their affordability position. A significant proportion of households earn less than the average income in this example.

Table 4: Impact of the Central Bank guidelines on a two income couple on the average earnings level

Maximum Purchasing Price Calculations	
Couple's Income (Annual income of 36,000 based on all NACE activities)	€72,000
Value of Loan (Based on a loan to value ratio of 3.5)	€252,000
Deposit	€36,000
Maximum Purchase Price	€288,000
Comparison with Average Asking Prices in Dublin	
Dublin City Centre	€249,000
North County Dublin	€264,000
West Dublin	€268,000
North Dublin City Centre	€280,000
South Dublin City Centre	€343,000
South County Dublin	€526,000

5. Supply side and cost analysis

Housing Forecasts

In 2006, there were over 93,000 housing units completed nationally and 19,000 of these were in Dublin.

Figure 1: Housing completions 2006-2014

Source: Department of Environment, Community & Local Government

In 2013, 8,000 were completed nationally of which 1,400 were in Dublin. There has been no detailed official analysis of the extent to which the 2014 and 2015 additions to the housing stock, and new planning permissions, meet the identified needs in terms of type and location.

Currently there is an oversupply in many parts of the country and an undersupply in Dublin and some other urban areas. Prior to the economic collapse, the market produced too many houses relative to demand, and in the wrong locations, and currently not enough houses are being produced in some locations.

The supply response, albeit with a time lag, over the longer term was substantial with the number of houses/apartments built growing from 31,000 units in 1995 to 93,000 in 2006.

The SCSI/DKM Irish Construction Prospects to 2016 report expects an increase in house building in 2015 and 2016, from 8,800 in 2014 to 10,000 in 2015 and 14,000 in 2016.

Table 5: Projected house building output units 2014-2016

	Public sector	Private sector	Of which NAMA	total
2014	515	8298	1000	8813
2015	750	9250	1500	10000
2016	1000	13000	2000	14000

Source. SCSI/DKM

House completions in Q1 2015 totalled 2,629, an increase of 25.8% on Q1 2014. Commencements were 6.8% lower over the same period. Planning permissions were granted for 3,155 dwelling units in Q1 2015, an increase of 97% on the same period in 2014. When compared with 2014, mortgage drawdowns, in Q1 2015, were 64% higher.

Policy-making would be enhanced by more detailed housing demand forecasts which estimate the expected tenure and type of accommodation. Part of the NAMA/IBF supported ESRI research programme considers the determinants of tenure type. If a substantial proportion of new houses is intended for the rented sector, consideration has to be given to the likely returns from renting to attract providers of rented accommodation.

As identified by the ESRI, the national inadequacy of supply relative to need is not repeated in every local market. In some locations there is a current excess of supply.

The recent Housing Agency report (National Statement of Housing Supply and Demand 2014 and Outlook for 2015-17) provides updated estimates of housing needs for 2015 to 2017. In addition to a carry-over of a 4,000 undersupply from 2014, there will be a new supply requirement for both urban settlements and rural housing, of 16,000 in 2015, 20,200 in 2016 and 22,500 in 2017. Housing supply in 2014 was 11,000 units.

Housing Commencements

The SCSI has identified the mix of recent new commencements in the Dublin region. The details are presented below for the region, and for two local authority areas, to illustrate differences in the commencements mix.

Table 6: Number of housing commencements in the Dublin region and two local authority areas Q1 2015

Number of bedrooms	1	2	3	4	5	Over 5	Total
Dublin region	60	395	647	503	0	0	1605
Dun Laoghaire-Rathdown	40	185	122	103	0	0	450
Fingal	16	24	408	313	0	0	761

Source: SCSI/Future Analytics Consulting

There were 1,605 dwelling commencements in Q1 in the Dublin region. 60 of these were one bedroom dwellings and 395 were two bedroom dwellings. Fingal had only 16 one bedroom dwellings and 24 two bedroom dwellings. In contrast, Dun Laoghaire, which had less overall commencements than Fingal, had 40 one bedroom dwellings and 185 two bedroom dwellings. The question arises whether this overall Dublin mix is appropriate, in light of current and future needs, and if the different geographic mix within the region is also appropriate relative to needs.

Housing Supply Capability

There are several determinants of supply capability.

Industry Capacity

One set of determinants relates to the productive capacity of the industry to build additional units such as skills, management resources and entrepreneurial capacity. There is concern about a possible skills shortage if the level of house building increases significantly. Apart from skills, it does not appear that these are a constraint on increasing supply.

Availability of Zoned Land

A second set includes the availability of zoned land. While there is a substantial amount of zoned land, this does not mean it is "shovel ready" for development as noted in the DECLG Residential Land Survey in 2015.

"Identification of lands under the survey should not be taken as evidence that they have been provided, either fully or partially, with infrastructure such as water services, communications and energy systems, transport, amenities or schools. The servicing of lands for housing development in terms of providing water services, energy and communications, transport, schools and community facilities and amenities is complex and takes time and involves many organisations both public sector organisations and private sector companies."

In addition, there may be other factors preventing the utilisation of available suitable zoned land, such as legal disputes, hoarding and ownership and a shortage of development finance.

Overall, the physical availability of zoned land will not guarantee the development of the land in light of these other factors. However, most assessments indicate that there are sufficient quantities of zoned land which are free from these impediments to allow a higher level of house construction, especially, in the Dublin area, than is currently happening.

Planning Process

A third set is the local authorities planning approval process for developments which includes long approval periods and cost increasing conditions and regulations.

Profitability

A fourth set of supply determinants is the fundamental cost/revenue/profit position. Associated with this set is the broad risk assessment/confidence factor of the building/development sector in the future price and demand for their products.

Availability of Finance

Historically, up to 100% bank finance would have been available, but in the new credit and regulatory situation banks expect developers, or their backers, to provide 40% equity finance while banks will provide 60% of the project finance.

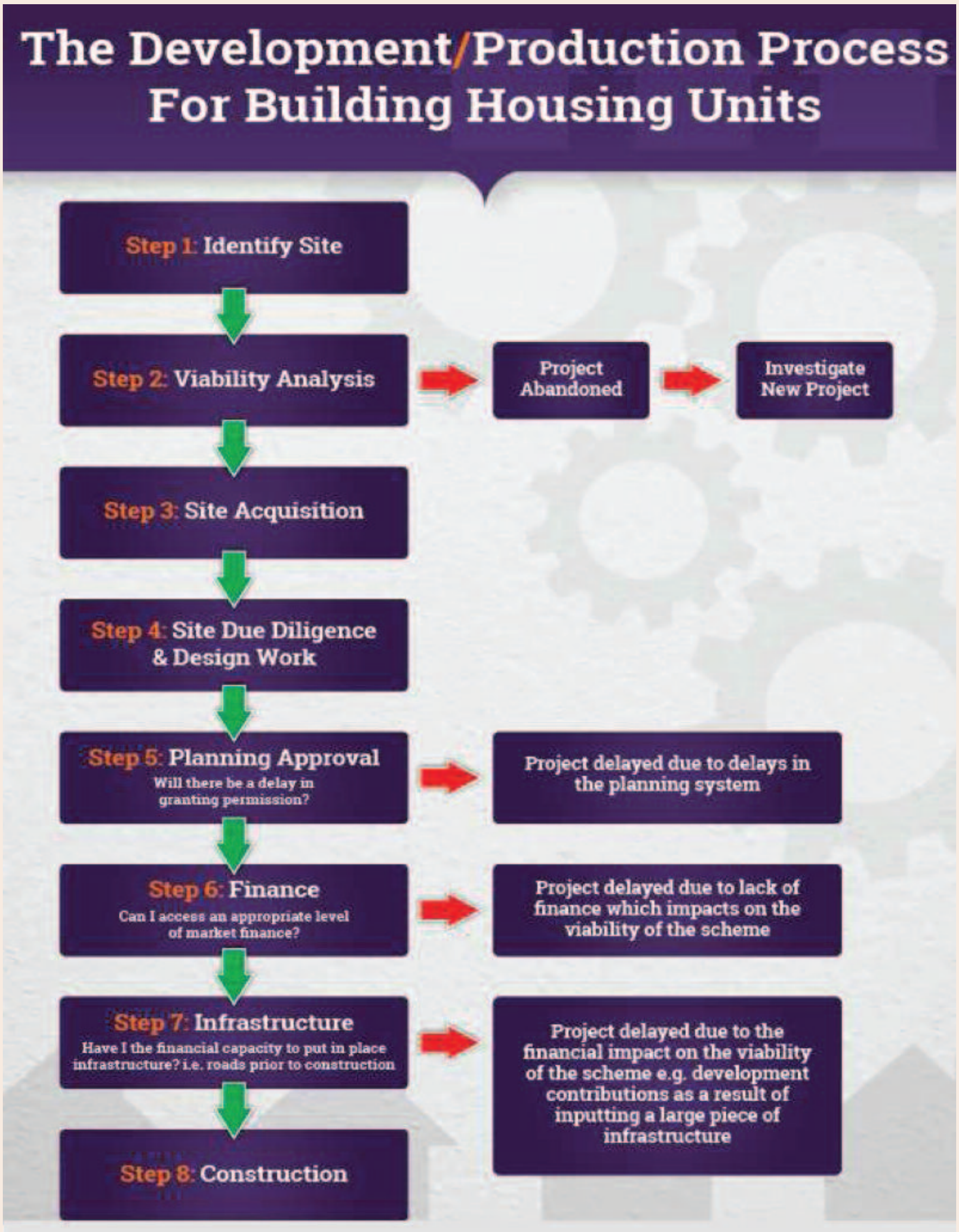
An alternative typology of supply determinants was presented in NESC 142 and is shown below.

Table 7: Issues and factors impacting land and housing supply
• Estimates of current & future housing need
• Land with planning permissions
• Land with inhibiting complexities: title, banking and other
• Appropriateness of permissions
• Profitability of building;
• Finance for development debt (around 50 per cent) or equity (around 40 per cent)
• Development Contributions
• VAT
• Incentives to hoard land;
• Mortgage finance;
• New regulatory & prudential requirements
• Developers' capability to deliver on a large scale;
• Skills suited to the enhanced building standards & new technologies;
• Terms on which developers resume activity;
• Potential of builders to act as developers;
• Potential of receivers to drive development;
• Emergence of a new generation of developers;
• Role of SDZs: complexities of their timing & coordination
• Social Housing
• Local authorities lack of funds to take Part V properties in the developments that are resuming
• Approved Housing Bodies (AHB) difficulties; and
• Possible investment role for state entities

Source: NESC

The development/building production sequence is illustrated in the following chart. As shown, the process can be relatively long between initial desire to build and the finished dwellings. Of course, many projects can be completed in a shorter period if all the steps fall into place smoothly and finance is not an issue. Delays can occur at each stage of the process. Often, there is insufficient information initially available to planners or about objections. Delays can result from objections and appeals and from financing. Clearly, in a stressed housing market it is desirable to minimise the time lag between idea and product.

Figure 2: Development/production process for building housing units



Viability

As part of the research for this report, a short survey of Chartered Surveyors was undertaken to assess views on commercial viability. 117 surveyors responded to the survey. The survey indicated that the average profitability per house in 2006/2007 was about €35,000 and for an apartment it was €29,000.

On average, current estimates of profitability. On average, for new housing units were loss-making (28% of respondents), up to €5,000 per unit (28% of respondents), over €5,000 and up to €10,000 (22% of respondents), over €10,000 to €20,000 (14% of respondents) and over €20,000 (9% of respondents). In response to the question, "Does the current price of new housing units relative to the cost of construction provide a sufficient incentive to significantly increase construction of new housing units?" 69% said no and 22% said yes, while 9% were unsure.

In response to a question seeking a ranking of a selected set of financial inhibiting factors to increased levels of construction, 35% of respondents identified bank finance as the number one constraint, 27% identified insufficient profitability, while 17% identified the availability of mortgage finance. Earlier SCSI research indicated a concern that skills shortages could arise if there was a substantial increase in construction activity.

Assessments of the cost of construction and land both for this report and by NAMA, and supported by interviews with builders, suggest that at the lower price end of the market it is uneconomic to build new houses/apartments. The table below summarises changes in cost relative to price since 2000. The cost and prices data are from DECLG. Between 2000 and 2007, costs of construction increased by 43% but prices increased by 93%. Since 2007, costs increased by 2.1% while prices decreased by 23%.

Table 8: House building cost and price changes 2000 to 2014

	NHCCI index	Price 3 bed (bank.BS) national €(000)	Price 3 bed Dublin €(000)
2000	141.0	166.6	216.9
2007	201.7	321.4	482.4
2014	206.0	248.0	338.4
	% change	% change	% change
00/07	43.0	92.9	122.4
07/14	2.1	-22.8	-29.9

Between 2007 and 2014, costs increased by 2.1% but Dublin prices decreased by 29.9% or €144,000 per house. Nationally the decline was 22.8% or €73,000 per house. The SCSI cost of rebuilding data shows that for a Dublin three bedroomed semi-detached house the cost of rebuilding increased by 27% between 2002 and 2007. Between 2007 and 2015, the rebuild cost declined by 13%. This is substantially less than the decline in prices. The rebuild cost was €1,869 per sq.m in 2015. For a 95 sq.m sized house, the total rebuild cost would be €178,000.

Table 9: Total cost of production and selling price for a three bedroom house				
	Scenario 1: Vat is at 13.5% and site costs are €50,000	**Scenario 2: Vat is at 13.5%, but site costs are reduced to €30,000**	**Scenario 3: Vat is reduced to 9% and site costs are €50,000**	**Scenario 4: Vat is reduced to 9% and site costs are reduced to €30,000**
Cost of construction excluding land cost including profit margin €	226,000 (based on 10,000 Part V at current rates)	222,000 (based on 6,000 Part V at current rates)	226,000	222,000
Cost of site €	50,000	30,000	50,000	30,000
Total cost before VAT €	276,000	252,000	276,000	252,000
VAT at 13.5% €	37,000	34,000		
VAT at 9% €			25,000	23,000
Total selling price €	313,000	286,000	301,000	275,000

Source: Walsh Associates Chartered Quantity Surveyors

The basis for the cost estimates used above is an exercise carried out on behalf of the Irish House Builders Association by Walsh Associates Chartered Quantity Surveyors (July 2014).

The cost relates to the construction of a typical 3 bedroom semi-detached house. Land costs are a large element of the total cost of providing a new dwelling and this varies greatly from location to location, date of purchase and specific project characteristics.

Scenario 1 represents the present situation where the cost of construction for a three bedroom house is €226,000 (based on €10,000 part V) which includes a 15% profit margin for profit and sales. The site costs are assumed to be €50,000 and VAT is charged at 13.5%. This results in a selling price of €313,000.

When this figure is compared to the current selling price for a three bedroom house in North Dublin (€280,000), it is evident that there is a commercial viability problem for houses in this area and elsewhere.

Scenario 2 demonstrates the effect of lower site costs. A lower site cost of €30,000 results in a construction cost excluding VAT of €222,000. A selling price of €286,000 arises when VAT (13.5%) and sites costs are included. €286,000 is just about within the commercial viability range for the lower price segment.

Scenario 3 demonstrates the effect of a reduction in VAT from 13.5% to 9%. This represents a saving of €12,000 and reduces the selling price to €301,000 which still leaves a viability problem for lower priced houses in North Dublin and elsewhere, but has a substantial effect on potential profitability.

A reduction in VAT to 9%, as demonstrated in **Scenario 4**, and coupled with lower site costs, would have a significant impact on potential profit.

All developments have to make an allowance for Part V (Social & Affordable Housing) which is 20% of the development value of the site. In this exercise, €10,000 has been allowed for this, which indicates that the land value of the unit is €50,000. This has now been changed by the Urban Regeneration Act of 2015. This has increased by €10,000 since 2012 because of the higher site value of the land. Planning contributions attached to a grant of planning permission have been included at €12,400 which is in line with current charges.

However, these amounts can vary depending on the local authority where the unit is being constructed. Bank finance is required for the initial site purchase. This remains in place during the planning process and the construction stage and is paid off on completion of the sale of the house. €7,000 per unit has been included for finance, but this can vary depending on the duration of the loan and the rate charged for the finance.

Table 10: Illustrative cost of a 3 bedroomed semi detached house

Item	Cost (2014)
House Costs (Floor Area 1,189 sqft)	
Foundations and Floor slab	
Masonry Works including budget for features to front elevation	
Carpentry Materials & Labour including Stairs, doors, stud partitions, skirting boards etc.	
Roof trusses, roof finishes (concrete tile), rainwater goods	
Windows and External Doors	
Plasterwork and Painting and budget for tiling	
Heating and Water Services	
Electrical Installation (including security alarm)	
Kitchens, Wardrobes & Fire places	
Insulation upgrade to Part L , BER, Air Tightness membrane, tests, supervision of air tightness	
Renewable Energy Requirements (Solar Panels)	
Sub Total House Cost	**€103,965**
Drainage Services Around House	
Rainwater Harvesting	
Boundary walls and fences, metal gates etc.	
Footpaths and Paving around House, driveways etc.	
Topsoil and seeding to Gardens	
Sub Total External Woks	**€16,013**
Site Clearance, topsoil removal, adjusting site levels	
Site Enclosures, site boundaries, entrance piers, sub stations etc.	
Roads, footpath, play areas, allowance for road widening at entrance	
Foul and surface water main and drainage; including Local Authority Fees	
Site services including Power, Phone, TV Providers, Public Lighting, gas supply	
Landscaping of Public Areas, Play fittings, seating, bollards etc.	
Sub Total Site Development Works	**€15,860**
Site Indirect Costs including Scaffolding, Site Supervision, Health & safety, Small tools, power, site accommodation, site security; Insurance; Homebond Insurance	€9,850
Building Contingency for Unforeseen Items	€5,000
Overall Construction Total	**€150,688**
Financial Contributions and Local Authority Bonds	€12,400
Part V Contribution to Local Authority	€10,000
Show house/ Advertising & Marketing / Sales & legal Fees	€8,000
Consultant Design Fees (excludes additional supervision)	€6,200
Assigned Certifier as required under Building Control (Amendment) Regulations 1 March 2014	€2,200
Site & Building Finance	€7,000
Sub Total Other Costs	**€45,800**
Profit margin 15%	€29,473
Overall House Cost excluding land	**€225,961**
VAT on House Cost Excluding Land	€30,505
Overall House Cost with VAT Excluding Land	**€256,466**

Source: Walsh Associates Chartered Quantity Surveyors

VAT at 13.5% is charged on the cost of construction of €225,961 which results in the seller achieving a price of €256,500 excluding land to achieve commercial viability. The public sector costs on house building are VAT, Part V costs and development levies. These are the direct housing related public sector costs. In addition, specific regulations e.g. the cost of hiring a design and assigned certifier also add to the cost as does the PRSI and general tax charged on enterprises and employees.

In the case above, the public sector costs are VAT (€30,500), Part V of (€10,000) and development levies (€12,400). This totals €52,900. The assigned certifier cost brings this to €54,900 or 21.4% of the cost excluding land. The effect of the changes in Part V costs will be a reduction of €5,000, leaving the direct public sector induced cost at €49,900 or 19.5%.

It is clear from the data that the cost of construction is substantial and when the market value of the land is included, the cost of supplying this unit is very close to the market price in the lower end of the private housing market. It is also clear that the public sector induced costs are substantial at €52,900 or €47,900 on the new lower Part V charges. The risk factor should also be taken into account.

Actual costs might actually be higher and selling price might have to be lower. The level of demand may result in slower sales then planned for in the project planning. There is no certainty that the figures used in the illustration will be realised. Of course, the outcome might be better than expected with higher selling prices. The VAT payment at the current rate is greater than the profit margin.

A reduction of the VAT rate to 9% would have a strong impact on potential profitability.

Cost relative to price viability issues do not arise, to a significant extent, for housing units in the €300,000 and over price bracket except where very high prices have been paid for land. At this level, the principal financial constraints on additional building are finance availability and expected demand. These costs are averages and actual costs are influenced by individual project factors and location.

Overall, despite the ongoing economic recovery, the relatively high economic growth rates, the decreasing level of unemployment and the projections of housing needs, it is not surprising that the construction of housing units remains at relatively low levels.

After the lengthy dismal performance of the market, and especially the price and business collapse since 2007, it is to be expected that confidence will be low, plans and implementation will be more cautious and housing building recovery will be slower than desired.

As already noted, there are concerns that need will not directly translate to actual sales, that the Central Bank guidelines will negatively impact on demand for mortgages and that constructing low priced houses, at current prices, is commercially unviable.

6. Assessment of possible supply and demand side measures

There have been significant improvements in housing policy, strategy and research in the very recent past. Notable improvements include the Social Housing Strategy, the NESC reports and the Housing Agency and ESRI housing needs projections. The housing needs projections indicate a requirement for substantial numbers of new housing units. However, a need for housing units does not necessarily translate into effective demand or customers with sufficient money.

Much of the housing need relates to individuals and households who will be unable to afford either private purchase, or private rent, and will need social housing or other Government support. Current expectations are that the private rental sector will be expected to provide a large share of the new housing requirement.

Whatever the mix of tenure types, it is still necessary to construct new houses. However, the demand which will generate and absorb the supply will depend on the tenure structure.

Historically, there has been a close association of projected housing demand or need with demand for private owner purchases. This will be less so for the future. There will also be a need to provide for a different mix of household sizes than in the past.

There is a substantial degree of consensus about aspects of housing and housing policy. There is broad agreement:

- that supply of new dwellings will increase in 2016
- on the quantification of the short term and medium term need for new dwellings
- that on current expectations the supply of new dwellings will fall short of need or demand
- that smaller sized units will be a larger proportion of need than previously
- that the private rented sector will play a larger role than previously
- that the need for social housing will be proportionately higher than previously
- that affordability is a problem in Dublin for both owner-occupation purchases and renting
- on the range of constraints to increasing supply
- that the housing market is not yet normalised after the difficulties and legacy of previous years
- that the tax/incentive regime for the provision of dwellings for renting needs improvement
- that the demand or need for different tenure types is interlinked.

In addition, there is some agreement that the production of lower priced new dwellings are not commercially viable. There is less agreement on what might be done to accelerate the supply of new dwellings over the short and medium terms.

As already stated, there are several measures in place to increase supply from what would have happened based solely on market forces, including the involvement of NAMA, Government support for the completion of unfinished houses and estates and new supply of social housing units.

The options available are to continue with existing policies and approaches or to intensify the effort to encourage increased supply earlier, and to a greater extent, than would otherwise occur. We propose the latter approach of a more intensive approach to increasing housing supply.

A continuation along the current approach will increase supply through additional social housing, NAMA generated additional supply and private market generated additional supply induced by demand, profitability and improved economic circumstances. However, the increased supply will fall far short of need, as identified by the Housing Agency, over the short term and possibly into the medium term. In addition, there will be insufficient supply of new dwellings at the lower price end of the market.

We propose an intensification of measures to increase supply to deal with this market failure through an improved profit incentive to private suppliers via reduced VAT and other public sector determined costs, an improved supply environment through increased availability of finance and an improved planning environment as well as the direct procurement of new dwellings and/or the underwriting of some of the demand risk for suppliers. A particular focus should be on new dwellings at the lower end of the price range. Market forces are more likely to cater for the higher priced dwellings.

From the developers and builders perspective the demand for new housing units will come from:

- Purchases by individuals for owner occupation as principal dwelling houses
- Purchases by individuals and companies intending to let the dwellings to both private and public renters
- Purchases by state and voluntary bodies of dwellings for social housing purposes

The Government or state sector directly determines demand for social housing units and market forces determine the other two elements of demand.

Both demand and supply side measures could be used to increase the construction of new dwelling units.

Demand side measures

Demand side measures such as interest relief on mortgages, purchase subsides or VAT refunds would increase demand. This would increase price and would draw out a larger supply from developers/builders. As noted earlier in the report, this approach increases price as well as the number of units supplied. The eventual adjustment between higher price and increased quantity depends on the supply responsiveness, which in the short term might be weak.

Supply side measures

Alternatively, the focus could be on supply side measures designed to improve the attractiveness, ease and profitability of housing construction. This approach would increase quantity and either decrease price or leave it unchanged.

The focus of our recommendations is on improving the supply determinants.

Reducing construction costs

It is desirable, where possible, to reduce the cost of construction of new dwelling units. This is relevant across the whole spectrum of house types and qualities, but is particularly important at the lower end of the house purchase market. It has been argued in this report that commercial viability is marginal or absent in this segment of the market. If this is the case, there is little or no incentive for private sector developers to initiate activity in this segment.

Developers and builders should avail of the most efficient production methods to maximise productivity, thereby contributing to lower costs of production. Some elements of cost are subject to market forces such as labour (both construction and professional labour) and apart from increased productivity, or more efficient procurement for professional services, there is little that developers can do to reduce cost. Materials are sourced at market prices and again, subject to productive efficiency and effective procurement, the developer is a price taker. Nonetheless, attention should be given to measures which could reduce the labour and materials cost of construction where possible.

Public sector related costs include employer PRSI costs as well as the previously noted development levies, Part V charges and VAT. Part V charges are due to be reduced to 10% from 20%.

Consideration should be given to further reductions in development levies, and in the timing of payments, to reduce capital requirements and to reduce production costs. As already shown in the report, VAT is a substantial cost on new dwellings and affects commercial viability at the lower end of the private purchase market. One might reasonably expect that purchasers of higher priced dwellings will be able to pay a price which supports profitability. The data suggests that this is not the case at the lower end of the price range.

Government has used preferential lower VAT rates successfully to stimulate economic activity in the hospitality sector. A reduction in VAT affects economic activity through two mechanisms. As in the case of hospitality, the expectation was that the VAT reduction would be passed on as a price reduction. The lower price, which would be passed on to consumers, would increase demand which would increase economic activity and employment. Various assessments have suggested that this is what happened. Not all of the VAT reduction was passed on, but most was and prices decreased leading to higher economic activity, output and employment. This is not what is intended for the house construction sector.

The second mechanism is that suppliers keep prices as they are and retain the finance generated by the lower VAT rate to improve margins and improve profitability. The improved profitability encourages suppliers to supply more of the product. The latter may eventually result in a reduction in price but the primary intention is to improve the commercial viability of the supplier. This is what is intended to happen with the VAT reduction recommendation. As argued earlier, commercial viability is very marginal at the lower price end of the new house market.

The reduction in VAT should be concentrated on the lower price end of the Dublin market and should be provided for a period of three years. Other cost reduction measures should be implemented such as reductions in development levies to support the recent reduction in Part V from 20% to 10%. An exception to the demand discussion is the rented sector, where it is proposed that suppliers of rented accommodation should be supported by a more favourable tax regime. This would increase the demand for new dwellings to let and would add to price pressure.

State involvement in construction

A more direct measure to increase supply would be increased state involvement in dwelling unit construction. This could be through an acceleration of the construction of the new social housing units, an acceleration of the NAMA determined house building programme and a new direct state commissioning of the construction of new housing units for eventual sale to private purchasers. A variation on the latter would be a short term state purchase guarantee scheme for a portion of new developments. While there is objective confidence that there is a need for additional housing, through the different demographic projections, this may not be sufficient to encourage developers to risk finance in significant new construction quickly. There is a difference between the demographic based confidence and strong business confidence that new houses will be sold at a profitable price.

These measures, and others identified in the next section of the report, impose costs on the exchequer either in revenue forgone or increased expenditure. We recognise that, despite the recent improvements, the public finances are very limited, both in availability of funds and EU determined expenditure growth rules. The net cost of the measures would be much lower than the gross costs because of the increased volume of construction and the associated tax revenue flows.

The measures are intended to boost supply in this still abnormal market and to improve ongoing policy implementation. In time, as the economy continues to grow and the housing market operates on a balanced supply/demand basis, there will be no need for special measures. Consideration might also be given at that time for additional exchequer revenue generation measures subject to market conditions to recoup any lost revenue in the preceding years.

The housing market is in a stressed situation. There appears to be a market failure in terms of insufficient supply to meet needs and there are concerns in relation to the supply of lower priced housing units. In the absence of increased supply, it is likely that rents will continue to increase and that house prices will resume an upward path. This is undesirable from both a social and economic perspective.

It is therefore imperative that action is taken with both short and medium term measures to increase the supply of housing and to develop a more sustainable market which, according to the goal of Construction 2020 can *"Ensure every citizen has access to suitable housing"*.

7. Conclusions and recommendations

The conclusions and recommendations are based on the following factors:

- Lessons from the house building and price boom and collapse from the mid-1990s to 2013
- The objectives of housing policy as stated in the 2011 statement and later documents such as the Social Housing Strategy and Construction 2020 strategy
- Recent experience in the Irish housing market
- The urgency of the current housing situation
- Assessment of policy interventions based on the supply/demand economic model
- Interviews with various stakeholders in the housing sector
- The broadly accepted need for additional housing units over the next several years
- The significant social policy aspect of housing
- The economic competitiveness aspect of housing
- The growing role of the private rented sector in the Irish housing market
- The sentiments expressed in Construction 2020 on housing strategy
- The supply shortage and affordability issues are more acute in Dublin than elsewhere
- Recent NESC, ESRI, Housing Agency and PRTB research
- The assessment of price cost relationships at the lower price part of the housing market
- The changed bank credit/finance conditions for builders and developers.

The recommendations are intended to establish a new strategic framework for the housing market and the development of the additional housing needed for the growing population and to improve the supply of housing in the short term.

They ensure that in the future a coordinated and integrated view is taken of the overall housing market. In addition they suggest measures which will boost the sector in the immediate and short terms. It is reasonable to expect that following the restoration of supplier and customer confidence, and the adjustment of the market to the impact of the Central Bank guidelines, more normalised market conditions will provide a sufficient incentive to supply new housing stock, especially in light of the greatly improving economy. However, even when this happens in the medium term, issues will still arise around meeting the accommodation needs of lower income groups.

There will be a growing demand for privately funded rented accommodation but incentives to supply this need to be improved. In addition to the impact of the additional measures, acceptance of the overall strategy will provide a substantial confidence boost to the supply side of the industry which will encourage investment and activity and speed up the return to normal market conditions.

The Government has accepted the housing market must operate within the new Central Bank guidelines which have significantly increased the difficulty of purchasing a house/ apartment, at least until when the market adjusts to the new conditions. It has argued in the 2011 HPS that, on the basis that a failure of affordability arising from an imbalance between average prices and incomes will not arise again, there is no need to operate affordability programmes.

However, that will only be possible if suppliers provide an adequate proportion of houses at the low end of the price range. As seen in this document commercial viability is questionable at this price level.

Public Policy

Overall, we agree with the NESC view that the public policy framework should take a more active leadership and coordination role in reviving and sustaining the house building sector.

The purpose of housing policy should be to satisfy the housing needs of the population subject to available resources. The economic benefits of employment and exchequer revenue from house construction should be regarded as a desirable by-product not as an end in itself. Housing is a critical element of social and economic infrastructure and its policy priority has to be enhanced.

Ireland, nor any other economy, can satisfy all housing demands in terms of type and location of dwellings. Government has to be clearer on what are reasonable expectations such as concepts of affordability and type of dwelling for different population groups. The minimum standard needs additional clarification. Based on likely income levels and distribution, the affordability criterion (such as proportion of income absorbed by housing) will then determine the capability of people to secure appropriate accommodation without state support. Based on expected income levels and distributions and mortgage criteria it will be possible to identify the prices that lower income groups will be able to pay for dwellings in the owner-occupier market.

The final aspect is whether the cost of construction and land will facilitate the building of these appropriately priced dwellings. Policy should strive to ensure the provision of affordable housing in the private market.

A vision or target picture of the housing system of the future is needed, identifying the number and location of units, their size and tenure mix. The task is to move from the current position to that vision identifying the road map and steps. Clearly one cannot be deterministic or certain about the future and our expectations about the future will be regularly undated.

The measures are intended to address the market failures of the slow recovery in the rate of house/apartment building to meet needs and the issue around the marginal commercial viability of constructing low priced houses.

Recommendation 1

Establish the National Housing Authority (NHA) which will be responsible for ensuring the implementation, direction and co-ordination of housing policy and strategy.

This will involve a rationalisation, restructuring and strengthening of the management and leadership structure for housing policy. Its primary functions would be to;

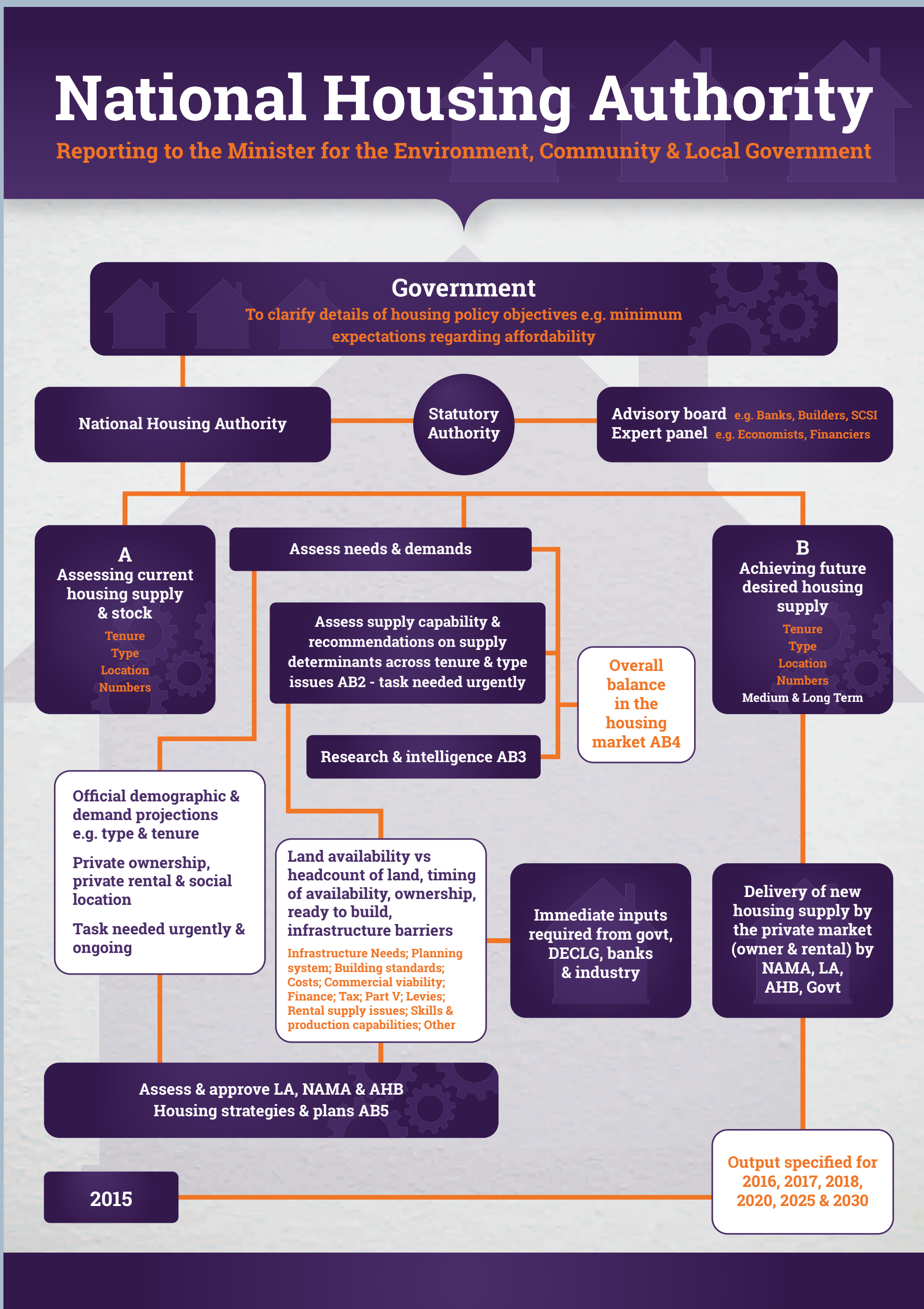
- assess housing needs nationally and locally and across the different tenure categories of home ownership, private rented and social housing on an updated rolling basis
- assess supply capability and make recommendations on all aspects of supply including land availability, infrastructure, planning, building standards and regulations, commercial viability, finance, taxation regimes for the different tenure modes, Part V and levies,
- ensure that an appropriate demand/supply balance is maintained in the housing market,
- assess and approve individual local authority housing plans and strategies
- ensure adequate research and intelligence is produced in a timely fashion on the housing market.

This new body would provide a missing element of official national coordination and assessment of the overall housing market. It would be a strategy design and implementation body as opposed to a housing executive or programme implementation body.

It would encompass aspects currently done by individual local authorities, the Housing Finance Agency, the Housing Agency, and the PRTB as well as new functions. The housing section of the Construction 2020 states that *"Ensuring every citizen has access to suitable housing is a key policy goal of Government."* The NHA would publish a national (with localised components) housing plan within six months of establishment with the aim of achieving substantial progress towards this aim.

Recommendation 1 (continued)

Fig 3: National Housing Authority (NHA)



Recommendation 2

Ensure that the Department of Environment, Community & Local Government's (DECLG) building and development standards are the required standards in each planning area.

Individual local authorities should not be allowed to apply more demanding standards than the national standards. This will still maintain acceptable and desirable standards and will reduce costs in areas with above average need for new building. A recent study by SCSI showed that the building of an apartment development under the Dublin City Council Apartment Design Standards increased the cost of an individual unit by 25% and reduced the density of the development by 18%. A harmonisation of apartment design standards into a single national standard will greatly improve viability.

Recommendation 3

Development levies for housing construction should be reformed both to reduce their cost and phasing of payment.

The 2013 DECLG guidelines on development contributions for planning authorities noted that some local authorities allowed the payment of development contributions in phases and that development contributions should *"not impede job creation or facilitate unsustainable development patterns"*. This same broad principle and other principles of phasing, reduced rates and waivers could be applied, or applied in a more incentivised manner, to housing construction. This should be reviewed after three years.

Recommendation 4

The tax regime for providers of rented accommodation should be reformed in order to attract more professional investment into the sector.

Government should operate a supportive policy regime for suppliers, particularly professional landlords, in this sector in light of the growing need for additional private rented accommodation. There is a strong justification, in certain areas, for tax incentives for the purchase of new houses/apartments, for rental purposes, given the new and continuing increased emphasis on renting and changes in household sizes and demographics. Increased supply will assist in moderating rent increases and improve affordability. Clearly, such tax incentives should be well designed, managed and monitored.

Recommendation 5

Reduce the VAT rate from 13.5% to 9% on new housing units up to a selling price (excl VAT) of €300,000 for a temporary period of three years to ensure the commercial viability of house building at the lower end of the price range.

Commercial viability for new housing is very marginal at the lower price range of the market. Any reduction in VAT should be directed at the lower price end of the Dublin market and should be provided for a period of three years.

Recommendation 6

Increase infrastructural finance from the exchequer to the local authorities to ensure that zoned land has the necessary infrastructure to facilitate the provision of new housing.

As already recognised in official reports the physical availability of zoned land (DECLG Residential Land Survey 2015) is not equivalent to shovel ready land. Apart from legal, ownership and other constraints, the land has to be properly serviced with physical infrastructure.

Local authority budgets will have to be increased to ensure that, both currently and in the future, house building in appropriate locations, at the right price, is not constrained by physical infrastructure.

Recommendation 7

Through its various programmes and policy instruments for providing credit finance to industry, Government should make commercially priced finance available for lower priced housing developments where new bank credit rules prevent this.

The availability of development finance is a key constraint on building. Increasing the availability of commercially priced finance, targeted at lower priced housing developments, would support an increase in supply.

Recommendation 8

Streamline the planning process to reduce delays, where possible, in processing applications for housing developments.

An operational review of the current procedures should be immediately undertaken by an independent source with a view to devising better systems. Consideration should be given to an incentive structure to accelerate the administration of the planning process. In addition, the overall production process between idea and completed new dwellings should be reviewed to minimise the time period of the production process.

Recommendation 9

Policy interventions are necessary to manage the price of development land and to make appropriately priced land available for housing developments at the lower price end of the market.

The price of land is a significant component of the final price of a dwelling and policy interventions are needed to increase the supply of land being brought to market by NAMA and financial institutions. Consideration should also be given to the possibility of zoning additional land to prevent significant land price increases.

Recommendation 10

The Government could directly commission the construction of new houses from the private construction sector with the intention of selling these to the owner-occupier sector. The Government could also agree to underwrite sales in specific developments at the lower price end of the market.

A more direct measure to increase supply would be increased state involvement in dwelling unit construction. This could be through an acceleration of the construction of new social housing, an acceleration of the NAMA determined house building programme and a new direct state commissioning of the construction of new housing units for eventual sale to private purchasers.

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