

DOUGLAS NEWMAN GOOD

DNG

DNG Pre-Budget Submission | 2019

**Minister Paschal Donoghue,
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By e-mail: minister@finance.gov.ie

Introduction

Budget 2019 offers the government another opportunity to address the severe imbalances evident in Ireland's housing sector at the present time. It is encouraging that the government has begun the process of tackling the real and complex issues that surround the provision of accommodation across the country. However, while some progress is being made, the reality is that the situation still remains extremely challenging, and further action is required in Budget 2019.

With regard to the residential property market, decisions made or indeed not made in the past continue to manifest themselves as pressing issues for government and indeed wider society, notably supplying enough accommodation at affordable prices in order to meet demand, particularly in Dublin. Rents have continued to rise sharply over the last twelve months as the stock of available rental properties diminished and demand increased, resulting in increased levels of homelessness or alternative living arrangements for those who could no longer afford to rent in the private sector.

The government's 'Action Plan for Housing and Homelessness' was a welcome step in tackling the current crisis. Key to the plan is the commitment to deliver new housing supply at a rate of 25,000 homes per annum over the period to 2020. It is noted that some headway is being

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made in this regard and new dwelling completions continue to rise rapidly, albeit from a very low base. Based on the completion of 7,900 new dwellings in the first six months of 2018 it is forecast that approximately 18,000 new dwellings will be constructed in 2018 as a whole and despite the relative increase this year compared to 2017, there is still a long way to go to reach a target of delivering 25,000 per annum.

The Help to Buy scheme which is currently under review has been one of the most positive aspects of the government's commitment to increase housing supply. It has provided sales certainty to builders at the entry price levels of the market and confidence to their funders, which is equally as important.

However, Budget 2019 offers the government a further opportunity to tackle the current crisis with additional measures aimed at increasing the availability and supply of affordable accommodation. By assisting and encouraging potential first time buyers to move into home ownership and out of the private rented sector, some of the acute pressure evident in the rental sector, particularly in Dublin and the other main urban centres across Ireland, can be alleviated.

A properly functioning residential property market is a key element in delivering sustainable economic growth and the delivery of appropriate and affordable accommodation options and tenures is critical if the Irish economy is to continue expanding and strengthening at its current rate. It is in this light that DNG are recommending four measures to be introduced as part of Budget 2019.

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DNG BUDGET 2019 RECOMMENDATIONS

RECOMMENDATION 1:

Extend the Help to Buy Incentive Scheme beyond 2019

The Help to Buy Incentive Scheme is due to cease at the end of 2019 and DNG believe it is vital for this incentive scheme to be extended beyond its current end date. Extending the scheme now, rather than in Budget 2020 will help provide the construction industry with the added certainty required to continue expanding new housing output which is specifically aimed at the starter home market. In addition, if the scheme is not extended, it is likely that there will be some degree of ‘panic buying’ amongst first time buyers eager to avail of the incentive scheme before its conclusion. There will be many first time buyers who fear that if they do avail of the scheme and purchase before the deadline, they will never be able to purchase a new home, such is the importance of the scheme to first time buyers from an affordability perspective.

In a market where affordability is a key issue, the Help to Buy Incentive scheme is justified by the positive impact it is having in increasing new housing construction, and is an important measure in improving first time buyer’s affordability, and for these reasons DNG recommend the scheme should be extended for a minimum of at least two further years to the end of 2021.

RECOMMENDATION 2:

Introduce a new affordable home purchase scheme to stimulate the construction of New Homes

Making home ownership more affordable for low to middle income earners is a crucial step along the path to solving Ireland’s current housing crisis and is a key priority for government. As such DNG recommend that the government consider the implementation of an affordable home purchase scheme by way of a Government Equity Stake in properties purchased by approved first time buyers in designated developments.

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The government equity charge will cover a percentage of the purchase price of a new home for approved first time buyers, with the balance of the purchase price paid for by a regular mortgage taken out by the purchaser. A reduction in the amount the purchaser has to borrow improves affordability and will allow more first-time buyers to access home ownership. A second charge would be placed on the property, expressed as a percentage of the overall purchase price in favour of the government, and the equity charge can be repaid in full at any time during the life of the mortgage and in any event, by the end of the mortgage term or when the property is sold. The value of the second charge would increase should the property increase in value, and would decrease in line with any decrease in the value of the property from the time it was purchased to the time it was sold or the mortgage paid off.

RECOMMENDATION 3:

Alleviate pressure in the private rental market

Landlords continue to exit the buy-to-let market, citing increased costs as the reason for doing so. At present private landlords are taxed at a higher rate than corporate landlords and DNG recommends that the taxation system for private landlords be adjusted to mirror the taxation system applicable to corporate landlords so as to encourage more private landlords to invest in the sector, and to retain those thinking of leaving. For example, Universal Social Charge (USC) is payable on all rental income earned by private landlords but does not apply to rental income received by corporate landlords. DNG is calling for an immediate exemption from the Universal Social Charge for all rental income received in the private rented residential sector.

In addition, the taxation system for commercial property is less punitive than for residential property. As an example, commercial rates are an allowable expenditure for taxation purposes whereas local property tax charged on residential property is not. DNG recommends that this anomaly is rectified in Budget 2019 and local property tax be allowable for the purposes of taxation.

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RECOMMENDATION 4:

Review the operation of the Local Property Tax (LPT)

The Government is currently reviewing the Local Property Tax (LPT) and is due to report on the review imminently. Currently, the revaluation of properties used as a basis for calculating the LPT is scheduled to take place in November 2019 and DNG believe that there is still a need to amend how the tax is calculated given the increase seen in residential property values since 2012. Indeed, the DNG House Price Gauge, which has tracked house price movements in Dublin for the last twenty years shows that on average, prices have increased by 87% since 2012, with even larger percentage increases in value evident at the lower end of the market. DNG believe it is now an appropriate time to review and revise the basis on which Local Property Tax is calculated so as to ensure continued high levels of compliance and stable revenue streams for local authorities.

In view of this, DNG recommend that the initial valuation date (and corresponding value of the property) are retained, however the basis for calculating the increase in value be switched, using instead the rate of consumer price inflation (CPI) in the economy to calculate the LPT tax liability. The consumer price inflation figures are more stable than the more cyclical nature of the residential property market which would result in a more stable flow of income to local authorities and a more accurate self-assessment for property owners. Using the CPI would also eradicate regional and local price fluctuations and moving to an 'Index Linked' method of calculation will allow local authorities to plan with greater certainty of the estimated revenue stream coming from the LPT annually.

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