



IRELAND
A HOUSING CRISIS?

OVERVIEW

Against a backdrop of improving property prices and increased transaction levels across the majority of the country there is still little doubt but that Ireland has a serious housing crisis. This is not a crisis of too few houses being available for sale, as stock levels on all the main property websites have increased over the course of 2015 and, whilst slow, the new homes pipeline particularly in Dublin and surrounding commuter counties has ramped up considerably over the last 12 months.

What we are currently experiencing is a rental and social housing crisis especially in Dublin but which is now starting to show signs of spreading to other large urban areas. Recent widespread calls for rent control measures and for developers to build up to 20,000 – 25,000 new housing units a year to be sold to the owner occupier market are not the answer and we believe could do more harm than good without even meaningfully addressing the short term housing and homelessness problem.

On this basis we broadly welcome the package announced by the government in the last 24 hours to deliver more rent certainty and housing supply but we do not believe that it has gone far enough. The new measures announced yesterday include a two year rent freeze and a deposit protection scheme; increased mortgage interest relief for 3 year rental agreements for tenancies supported by the HAP, RAS or Rent Supplement schemes; a new affordable rental scheme to be piloted in 2016; development contribution rebates for qualifying new developments in excess of 50 units which commence construction after the date of this submission; and support for infrastructure delivery and strategic development zones.

However, we find it unfair and unreasonable that existing new developments that have already commenced and will be continuing to construct units in the next two years cannot take advantage of the new development contribution rebate scheme and we have concerns over the implementation and application of the deposit guarantee scheme to be operated by the PRTB.

We also believe that further measures need be considered by government and set out below a combination proposals that could and would bring both immediate assistance to the rental and social housing sector as well as providing longer term benefits.

- Rent Supplements for social tenants need to increase urgently and immediately;
- Local authority's 3,000 vacant houses requiring refurbishment should be utilised on the basis of a PPP arrangement for long term social housing purposes;

- We need to build 10,000 - 15,000 new units in Dublin, Cork & Galway but build these solely for social, rental & student accommodation purposes. UK Government measure including the following should be considered:
 - Get Britain Building Fund Stg£500m available to builders for new private & /or social housing schemes;
 - Builders Finance Fund to allow the completion of part built schemes;
 - Loan Guarantees for builders to construct social housing only;
 - Build to Rent Fund – For investors to build buy to let houses only;
 - NewBuy Guarantee Scheme (Help to Buy) – The UK government facilitates loans with only 5% deposits. More than 70 housing developers and 6 major lenders now offer the scheme.

1. INTRODUCTION

While 2015 has seen the majority of key urban areas outside the capital experience strong price inflation, Dublin has had a levelling out of house price growth following three consecutive years of price inflation. In fact, the price inflation being experienced outside the capital will strongly outperform Dublin this year but one must remember that relatively speaking most areas outside the capital have had little price recovery up until now and prices sat at a much lower base at the start of this year than in Dublin. Indeed this year's stabilisation in Dublin prices should be seen as very welcome as it shows the resilience of the capital's residential property market.

The number of properties changing hands in Ireland this year continues to grow with nearly 24% more house sales recorded on the Property Price Register (PPR) in the first nine months of this year compared to last. However, an in-depth analysis carried out by DNG Research of the Property Price Register for the first six months of 2015 indicates that approximately 20% of all house sales in the capital were multi-unit or block sales in housing developments to single purchasers with a corresponding figure of 10% for the rest of Ireland. This does not include loan book or fund sales many of which are included in the register and could account for another 5% – 10% of total sales which artificially boost the overall PPR numbers. Notwithstanding this, there is no doubt that transactions nationally and in Dublin are on an upward trajectory as the market continues its recovery.

While the overall Irish property market is well on its way to recovery and appears fairly robust, interventions such as the recent Central Bank's new loan restrictions, whilst in the main prudent; are certainly affecting the property market and in particular the first time buyer sector. Some buyers are struggling to meet the revised mortgage criteria and are now opting to stay either in their family home or in rental accommodation for longer which is putting additional strain on the rental sector.

The rental sector is also under pressure with rents rising and government rent supplements not increasing correspondingly, leading to more and more social tenants being unnecessarily evicted in favour of higher paying private tenants. Ironically whilst rents are increasing, finance is challenging to obtain for buy to let mortgages due to overly strict criteria being operated by financial institutions which affects new entrants to the sector. Returns have also become less attractive for investors as new costs such as Property Tax (in the UK it is paid by tenants) and USC charged on rents have been imposed.

Therefore there is little doubt but that Ireland has a serious housing crisis. This is not a crisis of too few houses being available for sale, as stock levels on all the main property websites have continued to increase over the course of 2015 and, whilst slow, the new homes pipeline particularly in Dublin and surrounding commuter counties has ramped up considerably over the last 12 months, with NAMA being specifically mandated to produce 20,000 new homes over the next five years and a number of new and established builders entering and re-entering the market backed by international funds.

If we did have property sales crisis there would not be over 5,000 houses for sale in Dublin nor nearly 24,000 available nationwide for sale at this time, compared to 3,700 and 18,000 respectively at the end of 2014 on myhome.ie – there would be decreasing stock levels available on all the main national property websites; there would be queues outside all new show houses schemes and, of course, property prices would be rising by double digit growth in Dublin. If demand seriously outstripped supply we would be preselling new homes developments from plans and construction would be escalating at a much greater rate from the new builders that have recently set up business and do have the funds to construct but in the main they are only currently building to meet demand.

What we are currently experiencing is a rental and social housing crisis especially in Dublin but which is now also starting to show signs of spreading to other large urban areas. Recent widespread calls for rent control measures and for developers to build up to 20,000 – 25,000 new housing units a year to be sold to the owner occupier market are not the answer and we believe could do more harm than good without even meaningfully addressing the short term housing and homelessness problem. Rent control is a blunt measure and past experience in other countries has resulted in less supply and poorer quality accommodation after introduction. Seeking the construction of 20,000 – 25,000 private housing units per annum also makes little sense as there are only likely to be a total of 45,000 transactions this year in the state of which as many as 5,000 – 10,000 of these are block sales or bulk mortgage-book sales leaving around 35,000 normal house or apartment sales for the year.

On this basis we broadly welcome the package announced by the government in the last 24 hours to deliver more rent certainty and housing supply but we do not believe that it has gone far enough. The new measures announced yesterday include a two year rent freeze and a deposit protection scheme; increased mortgage interest relief for 3 year rental agreements for tenancies supported by the HAP, RAS or Rent Supplement schemes; a new affordable rental scheme to be piloted in 2016; development contribution rebates for new qualifying schemes which are in excess 50 units which commence construction after the date of this submission; and support for infrastructure delivery and strategic development zones.

However, we find it unfair and unreasonable that existing new developments that have already commenced and will be continuing to construct units in the next two years cannot take advantage of the new development contribution rebate scheme and we have concerns over the implementation and application of the deposit guarantee scheme to be operated by the PRTB.

The property market, while on the right track, is not yet operating normally. Data compiled by DNG Research compares Ireland's performance to that in the UK. Per 1,000 head of population, Ireland still lies well behind Northern Ireland, Wales, Scotland and England with on average of a third less transactions occurring per 1,000 populations in Ireland than in Great Britain.

We believe that it is to UK that we should look for potential additional solutions, rather than to more vastly different European countries. The British government have been very proactive in seeking to address the difficulties from the fall out of the global economic crash and foresaw the importance of property to achieving full economic recovery. From as early as 2010 the UK government have been implementing a raft of measures to get their property market back on its feet, not just in an effort to house its population but for the wider economic benefits of a healthy and robust housing market. They widely quote that every new house constructed supports two new jobs, not to mention the knock on effect on all other associated businesses involved in the fitting out of a home, furniture, flooring, electrical suppliers etc.

We set out below what we believe are additional viable and achievable solutions to address the current housing crisis of rental and social housing. We are confident that a combination of these measures can bring both further short term assistance to the rental sector as well as providing longer term benefits thereby enabling our economy and property market continue on the path to overall recovery.

2. PROPOSED MEASURES

Rent Supplement

- HAP levels (rent supplements) need to increase urgently and immediately as social welfare tenants are losing homes unnecessarily many which could and do become homeless as a result.

Vacant Local Authority Housing Stock

- It has been reported that local authorities have over 3,000 vacant houses requiring refurbishment. These should be immediately bundled into a joint venture or PPP arrangement with a REIT or a fund to be refurbished and rented back to the local authorities for long term social housing purposes.

Central Bank Lending Rules

- The Central Bank mortgage lending rules need to be altered slightly bringing the €220,000 for 90% loan to value up to €300,000 as it is having a negative effect particularly in Dublin. The requirement to come up with a €48,000 deposit to buy a house at €350,000 is not realistic expectation for many entry level buyers. In the UK the same first time buyer is only required to have saved a deposit of Stg£17,500.

Incentivising Social, Rental and Student Housing Construction

- We need to build 10,000 - 15,000 new units in Dublin, Cork & Galway but these should be built solely for social, rental & student accommodation purposes. We believe that we should look to our nearest neighbours in Great Britain and examine the benefits of introducing some of the measures that the UK government have adopted to address there housing problems, while on a considerably larger scale are not hugely dissimilar to our own and have led to a significant increase in the delivery of new homes.

Therefore we recommend UK Government measures, including the following, should be considered:

- **Get Britain Building fund Stg£500m available to builders for new schemes**
The £500m 'Get Britain Building' investment fund was created for smaller developers and builders to address funding weaknesses in the housing market.
- **Builders Finance Fund to allow the completion of part built schemes**
The 'Builder Finance Fund' also provides capital investment to enable building on sites that have stalled. Up to 12,000 new homes have commenced construction since its introduction in 2014.

- **Loan Guarantees for builders to construct social housing only**
In the UK new loan guarantees are being offered to developers that are backed by government to encourage the building of more social and privately rented housing.
- **Build to Rent Fund – For investors to build buy to let houses only**
A wider range of investors are encouraged to build housing for private rent with the ‘Build to Rent Fund’.
- **NewBuy Guarantee Scheme (Help to Buy)**
The UK government facilitates loans with only 5% deposits needed for 70 housing developers with 6 lenders operating the finance.

3. CONCLUSION

The property market has been one of the biggest casualties of the global credit crunch and in particular the Irish economic crash. It also holds one of the most significant keys to a substantive national recovery and how we influence the path to full property market recovery is one of the biggest challenges facing us all. Government intervention needs to be measured and cautious as their actions can often have detrimental and unintended consequences.

However, it is imperative that Government continue to step-up and address the very serious rental and social accommodation housing crisis that prevails and implement additional measures. We believe that our proposals and suggestions above, provide real and meaningful methods and measures to address this crisis.

DNG 11th November 2015