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DOUGLAS NEWMAN GOOD

DNG Pre-Budget Submission | 2016

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Introduction

After several years of austerity, DNG believes that Budget 2016 affords the government its first real opportunity to consider a variety of stimuli, aimed at correcting some of the imbalances that have developed across a whole plethora of sectors of the Irish economy and wider society in recent years.

The property market and indeed the wider construction sector are two areas that are currently in sharp focus as market imbalances result in complex problems and societal concerns. Decisions made in the past are now manifesting themselves as real and pressing issues for government and indeed wider society, notably supplying enough accommodation to meet demand, particularly in Dublin. Rents have risen sharply in the last twelve months as demand for rental accommodation continues to far outstrip supply; house prices have recovered rapidly in the last three years meaning the amount of affordable accommodation available for purchase by first time buyers is now even more constrained, a problem exacerbated by the historically low levels of new housing supply delivered since 2007. In addition, increasing rents in the private rented sector and a chronic lack of social housing supply mean that homelessness is increasing at an unprecedented rate, particularly in the capital but also in other major urban areas. The market simply cannot supply the required amount of accommodation at an acceptable price and this imbalance must be addressed through a combination of short and longer term measures.

As a result DNG believe that an innovative integrated approach is required, involving key stakeholders, in order to address the issues outline above. It is critical that the government prioritises the provision of a constant supply of appropriate affordable accommodation, at a level sufficient to meet demand. A lack of suitable accommodation in the right areas is a key constrained on economic growth and is reducing Ireland's competitiveness for skilled mobile workers at the very time that skill shortages are becoming evident in the Irish economy. As a result the attractiveness of Ireland for foreign direct investment is reduced and the ability to create jobs and reduce unemployment is constrained. It is our view that Budget 2016 offers the government the flexibility and to some extent, the capacity, to begin to address some of these issues. This submission sets out four recommendations, which if implemented, could contribute to such a process.

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Recommendations

RECOMMENDATION 1:

Re-evaluate the Central Bank's rules on Loan to Value thresholds for first time buyers

As 2015 has progressed, the impact of the newly introduced Central Bank rules on mortgage lending has become clear. Price inflation in the Dublin residential property market has slowed dramatically, even turning negative according to the latest DNG House Price Gauge statistics for Dublin (Quarter 2, 2015). As a result of the imposition of the new rules combined with higher prices in the market, first time buyers in the capital are now finding it increasingly difficult to make the transition from the private rented sector into the owner occupier sphere through home purchase.

As a result, DNG recommends that the threshold at which first time buyers can borrow up to 90% of the purchase price be increased from €220,000 to at least €300,000, with a loan to value ratio for properties valued between €300,001-€500,000 of 85%, and above €500,000 a loan to value ratio of 80% applying. This will ease the deposit burden required for home purchase for this particular cohort whilst the risk of negative equity will not be significantly increased due to the length of mortgage available to them. In other words in the long term the value of the properties purchased will rise thereby reducing the loan to value on the property.

RECOMMENDATION 2:

Incentivise potential first time buyers to move on from the private rented sector.

The current problem faced in the private rented sector is that of rising rents. Demand is far outstripping supply, especially in Dublin, and as a result those that cannot afford are forced to seek alternative accommodation, often on an emergency basis with the local authorities. Any measure that encourages potential first time buyers to leave the private rented sector and purchase property must be considered in the short term.

As a result DNG recommends that first time buyers of newly constructed private dwelling homes be given a one-off grant of €6000, whilst first time purchasers of existing private dwelling homes be given a one-off grant of €4000. The higher incentive of €6000 for first time buyers of newly constructed private dwelling homes is aimed at stimulating demand in the construction sector, however a significant grant to first time purchasers of existing dwelling homes will still contribute to the increased availability of private rented accommodation, thereby helping to house more people and subdue the rapid rental price inflation evident in the current market.

We believe that under the stricter mortgage lending rules operated by the mortgage lenders, such an incentive will not significantly add to price inflation in the sales market. As the grant would not be available until to the first time purchaser until after the completion of the sale there is no risk of a newly introduced first time purchaser's grant being used as part of the deposit required to make the purchase.

RECOMMENDATION 3:

Remove the Vacant Site Levy from the Urban Regeneration & Housing Bill 2015

The idea of imposing a levy on sites or properties that remain vacant or unused is yet another example of an imposition that could discourage development activity. We see this proposed measure as being contrary to the directive to local authorities to reduce non construction related development costs so as to promote redevelopment and increase the supply of new housing. As proposed, the Levy would be a crude instrument and would not adequately take into consideration the considerable time it can take to assemble multi-plot infill sites, particularly in Dublin.

It is our view that where commercially viable redevelopment projects exist they are indeed taking place, but the reality remains that many redevelopment projects currently under consideration are either not yet economically viable or finance for such redevelopment cannot be secured, and it is our contention that the imposition of such a levy form 2018 onwards is grossly unfair on developers and landowners who find themselves in this position.

Whilst it is clear that the deliberate hoarding of land so as to realise a substantial uplift in value over time is detrimental to economic improvement and development, we firmly believe that the introduction of such a levy on vacant sites or unused buildings will do little or nothing to increase the supply of residential property under development in the short to medium term.

RECOMMENDATION 4:

Review the operation of the Local Property Tax

The introduction of the Local Property Tax has been deemed a success judging by the compliance rates being achieved and the revenue generated. The high compliance rate demonstrates public acceptance of the tax as a means of providing a constant and potentially sustainable source of revenue for local authorities which can be channelled back in to the provision of public services, not least in the area of social housing. DNG believe that this is 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.

Given the high rates of price inflation in the residential market since 2012 and therefore since the initial Valuation Date of 2013, if no changes are made to the basis of calculation then many home owners are facing a steep rise in the level of property tax payable when the next valuation date comes around in 2016. Prices in Dublin are currently 33% higher than they were in mid-2013 and as such many properties will now be valued several bands higher than they were then. Significantly higher levels of Local Property Tax payable per annum on a property has the potential to impact negatively on the property sales market as potential buyers will have to factor in a higher cost when considering whether to purchase.

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 in the economy each year since 2013 and into the future. The consumer price inflation figures are far more stable than the more cyclical nature of the property market where values have the potential to rise and fall steeply in relatively short periods of time. As such moving to an 'Index Linked' method of calculation will provide local authorities with a far more stable revenue stream and greater certainty in the market. In addition purchasers would have greater certainty as to the future cost of purchasing a property which will add confidence in the market.

This measure would also remove the requirement for individuals to self-assess their properties' value as the vast majority of properties now have an established 2103 value, to which the annual rate of consumer price inflation could easily be applied.