DNG Pre-Budget Submission | 2017

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Introduction

Budget 2017 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. In reality however, the situation has further deteriorated since Budget 2016 and further action is required in Budget 2017.

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. Whilst the Central Bank's mortgage lending restrictions have undoubtedly helped to slow house price inflation, particularly in Dublin, residential property prices continue to rise, especially in Dublin's commuter belt, as purchasers are forced to relocate further afield due to affordability and supply issues in the capital. Unfortunately, the current Central Bank restrictions which require some changes are slowing down market recovery, leading to increased rents and locking many first time buyers out of purchasing a home.

The government's 'Action Plan for Housing and Homelessness' is a welcome step in tackling the current crisis, however as Minister Coveney himself acknowledged when launching the plan, it is truly ambitious and far reaching in scale, and many of the actions will take several years to deliver. Key to the plan is the commitment to increase housing supply over the period to 2020 so that the estimated 25,000 new units required each year to match demand are delivered.

However, Budget 2017 offers the government a further immediate opportunity to tackle the current crisis with shorter term measures aimed at increasing the availability and supply of rental accommodation by assisting and encouraging potential first time buyers to move into home ownership and out of the private rented sector. 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. It is in this light that DNG are recommending four measures to be introduced as part of Budget 2017.

DNG BUDGET 2017 RECOMMENDATIONS

RECOMMENDATION 1:

Stimulate the Construction of New Homes

Accelerating the delivery of new housing supply for all sectors is a key priority of government contained in the Action Plan for Housing and Homelessness. Whilst the government are examining a host of complex measures in order to achieve this, DNG believe that the introduction of a scheme similar to the Help to Buy Equity Loan Scheme currently operating in the UK would be most beneficial for the market. It should be pointed out however, that there are a host of different initiatives and issues that need to be resolved in order to increase housing output but this recommendation, to our firm, is one of the quickest actions that could be taken which would have a direct material effect on output.

We believe this has the power to deliver large numbers of starter homes to the market as supply increases to meet demand. The scheme operates with the government lending the first time buyer a percentage of the cost of the property in addition to the mortgage secured by the buyer from a lender. We propose that the government scheme lend up to 30% of the property's value in Dublin and 20% outside Dublin. Moreover the part of the loan provided by the government should carry an interest free period of five years and charge an interest rate of just 1% above the cost of government funds to cover administration costs.

In addition, if the scheme were created such that similar to the UK, first time buyers availing of the scheme would only require a 5% deposit, much reduced from the current deposit requirements of up to 20% on properties purchased in excess of €220,000 currently applicable. This would allow first time buyers who are currently saving deposits and living in private rented accommodation to move into homeownership more quickly, thus freeing up rental accommodation in the private rented sector and alleviating upward pressure on rents. This will be especially true in Dublin and will allow purchasers to buy homes closer to the city and their places of work rather than having to locate further afield in the commuter belts of the capital, where prices are already rising at a faster pace than in the capital. The scheme should be administered by the Local Authorities rather than through central government.

RECOMMENDATION 2:

Reintroduction of a First Time Buyers Incentive Scheme

If a 'Help to Buy' Equity Loan initiative cannot be implemented, then government must consider the reintroduction of a first time buyer grant for first time purchasers of both new and resale properties. The grant needs to be substantial and we would advocate a grant of at least €20,000. The grant should be introduced as a short term measure and be available for a defined period so as to attract new purchasers into the market from the rented sector as quickly as possible. Whilst this would represent an initial cost to the Exchequer it is our view that the cost would eventually be more than offset by the additional tax revenue generated from the construction and sale of more new homes. The Vat alone applied to the sale of a new home priced at €330,000 is €39,600.

We believe given the mortgage lending rules currently in force that such a grant incentive will not significantly add to price inflation in the sales market. The grant, if enacted, should be available at the date of the completion of the sale or via the mortgage lender, who subsequently recoups the grant, and then there is no risk of a newly introduced first time buyers grant being used as part of the deposit required to make the purchase.

RECOMMENDATION 3:

Alleviate pressure in the private rental market

Landlords need to be encouraged to remain in the residential private rented market, and new landlords must be motivated into entering the sector by making the proposition of owning investment property more attractive to them. Only through further investment into the sector can landlords provide better quality accommodation in greater volumes at more affordable rents and this will require changes to the tax treatment of landlords in order to achieve the desired outcomes.

Universal Social Charge

As such DNG is calling for an immediate exemption from the Universal Social Charge for all rental income received in the private rented residential sector. Currently all income generated in Ireland, which includes rental income, is subject to USC at either 2%, 4% or 7%.

Reintroduction of Section 23 Type Tax Relief

Section 23 tax relief proved itself to be a very successful way of attracting new investment into the private rented accommodation sector before its cessation. DNG believe that a similar type of relief should be reintroduced at the earliest opportunity so as to retain existing landlords in the sector and attract new landlords into the market.

The tax break should be available to be used against all rental income generated in the State not just on rental income received from the purchased property that qualifies for the relief. As was the case with Section 23 relief, properties should be identified in areas where there is the greatest need for an increased supply of rental accommodation and in areas that require investment in order to improve the stock of residential property. All expenditure relating to the purchase, construction conversion or refurbishment of designated properties should be classed as qualifying expenditure for new properties and a percentage of the value of the property for existing properties.

RECOMMENDATION 4:

Review the operation of the Local Property Tax (LPT)

Following the review of the Local Property Tax (LPT) conducted in 2015, it was announced in Budget 2016 that the revaluation of properties used as a basis for calculating the LPT would be postponed until November 2019, thus leaving things unchanged for another 3 years. DNG believe that there is still a need to amend how the tax is calculated given the increase seen in residential property values since 2013. It 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 in order for them to invest further in the supply of social housing.

Prices in Dublin are currently 58% higher than they were in mid-2013 and as a result 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 (CPI) in the economy to calculate the LPT tax liability. The consumer price inflation figures are far more stable than the more cyclical nature of the residential property market which would mean a more stable flow of income to local authorities and more 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. In addition, purchasers would have greater certainty as to the future cost of purchasing a property which will add confidence in the market.