DNG Pre-Budget Submission | 2015

DNG

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Introduction

The Irish economy continues to show signs of improvement and positive growth in economic activity and the continuing reduction in the number of people unemployed are both to be welcomed. According to the latest figures from the Department of Finance, GDP is expected to grow by 2.1% in 2014 and a further 2.7% in 2015, signalling the return of a far more stable macroeconomic environment than has been evident in recent years. In addition, unemployment continues on a downward trajectory, falling to below 12% from a peak of 15%, according to the latest available CSO data.

However, the picture currently being unveiled in Ireland's housing market is far from satisfactory, and major challenges remain, not least in the property and construction sectors:- the evolution of a two-tiered urban/rural property market; rapidly rising property prices and rents in urban areas; residential property supply shortages in the capital and to a lesser extent all other major urban areas; rising levels of homelessness; rising local authority housing waiting lists; and a chronic shortage of supply of social housing in appropriate areas, are all issues which if not addressed satisfactorily, have the potential to undermine the recovery, reduce competitiveness and exacerbate social exclusion.

This submission sets out a series of measures, which if implemented, would help to address the key challenge faced by the construction sector and wider property industry, namely increasing the supply of both social and private housing to help alleviate some of the growing issues outlined above. It is our belief that an innovative approach to rebalancing the housing market supply – demand equation needs to be implemented as a matter of extreme urgency by Government, in order to achieve the economic and social policy objectives as laid out in the Programme for Government.

Recommendations

In order to help the market deliver the required increase in accommodation required across the state, we believe that the following six recommendations must be considered for inclusion in Budget 2015. Whilst we acknowledge that there is no 'magic wand' to solve the problems currently being faced in the residential property market, consideration of these measures will go some way to increasing housing supply, dampen excessive rates of price and rent inflation and provide for a more socially inclusive society through the provision of badly needed additional social housing.

RECOMMENDATION 1:

A time-limited reduction in development contributions

The opportunity exists to drastically reduce non-construction related development costs with the aim of revitalising the construction sector, in order to provide a sustainable level of new housing activity by allowing viable residential construction projects to proceed. Development levies are a key non-construction related cost associated with the provision of new housing supply, and a reduction in these levies for a minimum period of two years and granted retrospectively to projects where planning permission has already been obtained, should be introduced.

With the introduction of residential property tax acting as a new and growing funding stream for local authorities, the rate at which development levies are calculated has scope to be reduced and index-linked. By reducing development levies for a limited period, the economic viability of new housing development projects will be improved, leading to a larger increase in new housing output that would otherwise be expected.

RECOMMENDATION 2:

Reform of Part V. Obligations

The evidence suggests that to date, Part V. social and affordable development obligations have failed to deliver the required level of social housing required across the state. Whilst the legislation, as currently formed, was designed to increase the supply of social and affordable housing, this has simply not happened. Moreover it could be argued that the obligations of Part V. actually hinder the provision of social housing by making a number of developments of new housing unviable, thereby undermining the intended provision of a 'social dividend' from the planning process and development of private residential accommodation.

The complexity of the current arrangements are a contributing factor to this and a simpler scheme should be introduced, whereby straight financial contributions, set at an appropriate level could be made on all residential and commercial construction activity for a period of three years before review. This initiative should be introduced alongside increased investment in social housing as part of the Public Capital Programme to 2020 in order to achieve real increases in the level of social housing being made available.

RECOMMENDATION 3:

Time-limited Incentivisation of Landlords to Provide Long Term Social Housing

In the current environment of rising rents in the private rented sector, particularly in Dublin, landlords should be incentivised to offer the use of their investment properties for the provision of long term social housing to tenants in receipt of rent supplement and receiving assistance in finding accommodation from the local authorities.

Specifically, consideration should be given to the provision of an exemption from Local Property Tax for landlords who provide quality accommodation to tenants requiring social housing. In addition, consideration should be given to the use of an initiative, similar in nature to Section 23 Relief, whereby income tax relief is granted to landlords who provide units for use as social housing.

RECOMMENDATION 4:

Reduction in Windfall Tax Rate

The current windfall tax rate of 80%, payable on gains in value of development land attributable to a relevant planning decision or re-zoning should be immediately reduced down to a level of 33% in line with the current rate of Capital Gains Tax. The 80% rate serves as an impediment in the development land market and adds a significant cost to the development of new housing and other property. By reducing the rate to 33%, the viability of development projects focussed on increasing the supply of new homes will be improved in certain circumstances.

At its present rate, the Windfall Tax acts as a disincentive to the sale of land and to the change of its use, particularly brownfield sites, which again adversely impacts the redevelopment of land to a more appropriate use such as residential development especially in Dublin and other urban areas. In order to create increased levels of construction related employment and boost new housing supply, infill and brownfield sites need to be put to more productive use and rezoned as residential without the threat of a punitive tax burden falling on the owners of such sites upon disposal.

RECOMMENDATION 5:

Capital Gains Tax Relief Extension

In Budget 2012 the Minister introduced a new incentive relief from Capital Gains Tax (CGT) for the first seven years of ownership for all properties bought between Budget night and the end of 2013, in situations where the property is held for more than seven years. This relief was subsequently extended for a period of one year for properties purchased up until the end of 2014, and we would again call on the Minister to extend this relief for a further period of one year. Investors have been encouraged into the market by this incentive scheme over the last two years, and this in turn has increased the overall level of transactions taking place in the residential market during its first year of operation whilst the extension in Budget 2014 served to maintain higher level of transactions compared to previous years. By extending the scheme for a further twelve months, we believe this higher level of residential property transactions can be maintained.

RECOMMENDATION 6:

Scrap the Planned Vacant Site Levy

The idea of imposing a levy on sites or properties that remain vacant or unused is yet another example of a factor that could discourage development activity. We see this proposed measure as being contrary to the instruction to local authorities to reduce development levies 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 a high proportion of them will now be developed, but the reality remains that many redevelopment projects currently under consideration are simply not economically viable, and it is unfair to impose a levy on developers and landowners who find themselves in this position. Also many of the landowners are under serious financial strain and some close to bankruptcy and to add a further financial burden on them will send them over the edge. 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.