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***DNG
BUDGET
SUBMISSION
2023***

DOUGLAS NEWMAN GOOD **DNG**

**Minister Paschal Donohoe,
Minister for Finance,
Department of Finance,
Upper Merrion Street,
Dublin 2**

26th August 2022

By e-mail: minister@finance.gov.ie

Dear Minister Donohoe,

INTRODUCTION

As has been the case for the last number of years, housing remains the biggest economic and social issue facing Ireland at the present time, and as a result, housing remains the biggest political issue on the government's agenda. Whilst the Housing For All plan launched last year is both comprehensive and ambitious, it is a long term plan that will take years to fully implement. The current market is characterised by the ongoing shortage of housing supply, rising prices and rents, affordability issues for buyers and a lack of rental accommodation available on the market and it is in this context that DNG believe more short term measures are needed as part of Budget 2023.

The lack of supply in the market is combined with very strong levels of demand in both the purchase and rental sectors, driven by Ireland's robust economic performance and rising population. Recently released figures from the CSO indicate that in the year to April 2022, the population increased by 88,000 people, the largest 12-month increase since 2008. In addition, the latest CSO Labour Force Survey shows that the number of persons in employment in the State increased by 8.7% to 2,554,600 in the year to Q2 2022 and the total number of persons in the labour force was up 5.6% in the same period. This is adding to demand and putting additional pressure on the housing sector.

The expansion of both the economy and the labour force is exacerbating the pressures on the residential market that have been evident for the last 5 years due to a chronic undersupply of new housing output over the last decade. A properly functioning residential property market is a key element in delivering sustainable long term economic growth, and the delivery of appropriate and affordable accommodation options in both the private and social housing sectors are crucial if the Irish economy is to maintain its current growth trajectory.

DNG Research estimates that approximately 7,000 units have been lost in the rental sector this year putting pressure on the rental market.

The Housing For All plan contains an extensive list of actions aimed at delivering increased levels of housing supply, improved affordability for buyers and higher rates of home ownership however, there remains an opportunity in Budget 2023 to deliver further housing related measures aligned to the core targets of the Housing For All plan.

It is in this light that DNG are recommending three measures to be introduced as part of Budget 2023.

RECOMMENDATION 1:

Incentivise small landlords to remain in the rental market

Swathes of small landlords continue to exit the market now that they are out of negative equity. Interest rates are rising, the current tax regime is taking its toll and landlords realise that renting at below market rates due to rent controls is not viable. The taxation of private landlords is very onerous and acts as a significant disincentive for participation in the private rental market.

The Government needs to conduct an urgent review of the taxation treatment of small and medium sized landlords and introduce tax incentives in Budget 2023 to halt the exodus, which we estimate to be around 7,000 per annum. Tax on applicable rental income is currently payable at 40%, 4% PSRI & up to 11% USC and we believe that all landlords should be able to fully write off USC and PRSI against rental income.

RECOMMENDATION 2:

Extend and revise the Living City Initiative

More efficient use of the stock of existing buildings in the State is one method of increasing housing supply, reducing vacancy rates, improving sustainability, and bringing life back in to cities. In addition, this will have the knock on effect of assisting retailers especially in small towns and villages across the country. The repurposing of vacant premises for residential use is an important component in ensuring the future sustainability of urban areas and we believe that a redesign of the Living City Initiative (LCI) could play an important role in bringing vacant buildings and space above retail premises into residential use.

In formulating their latest Develop plan for Dublin 2022-2028, Dublin City Council identified more than 4,000 empty spaces above retail units in the capital that have the potential to be used as residential space. Financial incentives should be provided and building regulation requirements addressed to allow ease of adaptation of the upper floors of buildings in the city and conversion to residential use.

In this regard DNG are calling for a widening of the Living City Initiative and an extension of the scheme to December 2024. The designated Special Regeneration Areas (SRA's) under the LCI should be reviewed and widened, to include more city centre locations and other urban areas across the country. In addition, landlords of these buildings should be allowed to write off 90% of the refurbishment cost of these buildings against all rental income they have. It is a relief like this that will be meaningful and lead to these buildings being brought back to life in a timely manner.

RECOMMENDATION 3:

Extend the temporary enhancement to the Help To Buy (HTB) Incentive Scheme to December 2023

The enhanced Help To Buy (HTB) incentive scheme for first time buyers is due to end on 31st December 2022, having been extended as part of the July Stimulus package in 2020. We believe the scheme is playing a vitally important role in increasing supply in the new homes sector and needs to continue for a further two years until 31st December 2024.

The latest Revenue data to the 30th of July 2022 shows that since the schemes inception, 85,244 applications to the scheme have been made, resulting in 34,151 approved claims for purchased properties or self-builds, highlighting the importance of the scheme to the new homes market. This is particularly true in the Dublin market, where affordability issues are at their greatest, and this has resulted in 8,304 HTB claims totalling €166 million in Dublin since the scheme began.

Whilst the governments recently published Housing for All plan includes a commitment under action 1.12 to consider the extension of the scheme in the context of the upcoming Budget, we would strongly recommend that the enhanced HTB initiative scheme is extended again until 31st December 2024 in the context of improving affordability and increasing the supply of new housing output.

RECOMMENDATION 4:

Encourage Home Ownership through the reintroduction of Mortgage Interest Relief for First Time Buyers

As the Housing for All plan acknowledges, home ownership is essential in Ireland and should be encouraged. As the plan states, "Putting Homeownership back within reach of the 'squeezed middle' and breaking the rent trap are core goals of Housing for All.

At present there is a worrying trend in the declining rate of home ownership across the state. Census results show that home ownership rates declined from 79.7% in 2002 to 68.7% in 2019 and the percentage of rented properties grew.

Policies need to be introduced to support home ownership as the cost of renting in Ireland for an average priced property is nearly 40% higher than owning a property. Confining people to long term rental accommodation is not advisable and when those who are renting reach retirement age, affordability will become challenging for most renters and the State will be required to assist. To encourage home ownership, we are proposing that the government reintroduce mortgage interest relief for first time buyers as an incentive for them to buy. In addition, this will also free up much needed accommodation in the private rented sector.