

DOUGLAS NEWMAN GOOD

# DNG

## DNG Pre-Budget Submission | 2020

### Property Advisors

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## **Introduction**

Budget 2020 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. However, while some progress is being made, the reality is that the situation still remains challenging, and further action is required in Budget 2020.

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.

Despite the implementation of Rent Pressure Zones rents have continued to rise over the last twelve months as the stock of available rental properties diminishes. Small landlords continue to exit the sector and the demand for rental accommodation continues to outstrip supply, resulting in increased levels of homelessness or alternative living arrangements for those who can no longer afford to rent in the private sector. In a recent Focus Ireland survey one third of respondents cited the fact that the landlord was selling the property as the primary cause of their homelessness plight. In addition, the survey found that 75% of respondents had come from the private rented sector previously.

The government's 'Action Plan for Housing and Homelessness' was a welcome step in tackling the current crisis. Key to the plan is the commitment to deliver new housing supply at a rate

of 25,000 homes per annum by 2020. It is noted that some headway is being made in this regard, however efforts must be re-doubled to ensure successful delivery of the plan in its entirety. As we enter into the fourth year of the five-year plan, only 21,000 units have been delivered to date, either through construction, purchase or long-term lease arrangements. New dwelling completions continue to rise, but the government must do everything it can to ensure continued growth in new housing output over the remaining two years of the plan. Based on the completion of 9,185 new dwellings in the first six months of 2019 it is forecast that approximately 21,000 new dwellings will be constructed over the course of this year and despite the relative increase compared to 2018, there is still a long way to go to reach a target of delivering 25,000 new units per annum.

The Help to Buy scheme, which is currently under review, has been one of the most positive aspects of the government's commitment to increase housing supply. It has provided sales certainty to builders at the entry price levels of the market and confidence to their funders, which is equally as important and it is imperative that the scheme is extended beyond 2019.

Budget 2020 offers the government a further opportunity to tackle the current crisis with additional measures aimed at increasing the availability and supply of affordable accommodation. By assisting and encouraging potential first time buyers to move into home ownership and out of the private rented sector, some of the acute pressure evident in the rental sector, particularly in Dublin and the other main urban centres across Ireland, can be alleviated.

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 and strengthening at its current rate. It is in this light that DNG are recommending five measures to be introduced as part of Budget 2020.

## **DNG BUDGET 2020 RECOMMENDATIONS**

### **RECOMMENDATION 1:**

#### **Extend the Help to Buy Incentive Scheme beyond 31<sup>st</sup> December 2019**

The Help to Buy Incentive Scheme is due to cease at the end of 2019 and DNG believe it is vital for this incentive scheme to be extended beyond its current end date in order to protect and sustain investment in housing delivery. This will help provide the construction industry with the certainty required to continue expanding new housing output which is specifically aimed at the starter home market.

In a market where affordability is a key issue, the Help to Buy Incentive scheme is justified by the positive impact it is having in increasing new housing construction, and is an important measure in improving first time buyer's affordability, and for these reasons DNG recommend the scheme should be extended for a minimum of three years to the 31<sup>st</sup> December 2022.

### **RECOMMENDATION 2:**

#### **Introduce a new affordable home purchase scheme to stimulate the construction of new homes**

Whilst the government are in the process of introducing an Affordable Housing Scheme for new home sales on state owned land, this needs to be made available for all first-time buyers in all new housing schemes.

Making home ownership more affordable for low to middle income earners is a crucial step along the path to solving Ireland's current housing crisis and is a key priority for government. As such, DNG recommend that the government consider the implementation of an affordable home purchase scheme by way of a Government Equity Stake in properties purchased by approved first time buyers in all designated developments.

The government equity charge will cover a percentage of the purchase price of a new home for approved first time buyers, with the balance of the purchase price paid for by a regular mortgage taken out by the purchaser. A reduction in the amount the purchaser has to borrow

improves affordability and will allow more first-time buyers to access home ownership. A second charge would be placed on the property, expressed as a percentage of the overall purchase price in favour of the government, and the equity charge can be repaid in full at any time during the life of the mortgage and in any event, by the end of the mortgage term or when the property is sold. The value of the second charge would increase should the property increase in value, and would decrease in line with any decrease in the value of the property from the time it was purchased to the time it was sold or the mortgage paid off.

### **RECOMMENDATION 3:**

#### **Alleviate pressure in the private rental market**

Small private landlords continue to exit the rented sector, citing increased costs and more stringent regulatory requirements as the reason for doing so. Small landlords are a key component in the housing sector and Residential Tenancies Board research shows that 70% of private landlords own only one rental property. Taxation measures must be taken to prevent their exodus from the market. At present private landlords are taxed at a higher rate than corporate landlords and institutional investors, and DNG recommends that the taxation system for private landlords be adjusted to mirror the taxation system applicable to corporate landlords so as to encourage more private landlords to invest in the sector, and to retain those thinking of leaving.

The taxation system for commercial property is less punitive than for residential property. As an example, commercial rates are an allowable expenditure for taxation purposes whereas local property tax charged on residential property is not. DNG recommends that this anomaly is rectified in Budget 2020 and local property tax be allowable for the purposes of taxation.

Universal Social Charge (USC) is payable on all rental income earned by private landlords but does not apply to rental income received by corporate landlords. DNG is calling for an immediate exemption from the Universal Social Charge and PRSI for all rental income received in the private rented residential sector as well as a reduction in Capital Gains Tax applicable for long term investment in housing.

#### **RECOMMENDATION 4:**

##### **Review the Fair Deal Scheme**

Under the current Fair Deal scheme there is little or no incentive for persons entering a nursing home to make their existing home available to rent on the open market. As a result, the vast majority of homes vacated by persons going into care remain unoccupied for the duration of the nursing home stay. DNG strongly recommend that if a person offers their vacant home to the private rented sector then 50% of the rental income received be classed as an allowable deduction in the assessment of means for the Fair Deal Scheme. In addition, consideration should be given to the application of a reduced level of income tax on the rental income received. In the short term this has the potential to introduce thousands of vacant properties to the rental sector in a market where more supply is urgently required and in the midst of the ongoing housing crisis, the current position of houses lying empty is not the most efficient use of the housing stock available.

#### **RECOMMENDATION 5:**

##### **Encourage Home Ownership by the reintroduction of Mortgage Interest Relief**

Home ownership is essential in Ireland and should be encouraged. 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 67.6% in 2016 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 buyers to long term rents is not advisable and when those who rent reach retirement age affordability will become impossible for most and state will be required to assist.

To encourage home ownership, we are proposing that the government consider the reintroduction of 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.