

PRE-BUDGET SUBMISSION 2018



Contents

About us



01

Executive Summary



04

Economic Context of Budget 2018



14

Property Data



20

Housing



26

Increase capital investment



40

Conclusion



46

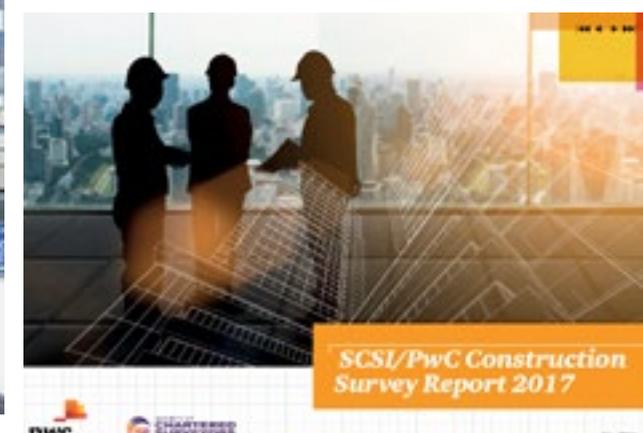
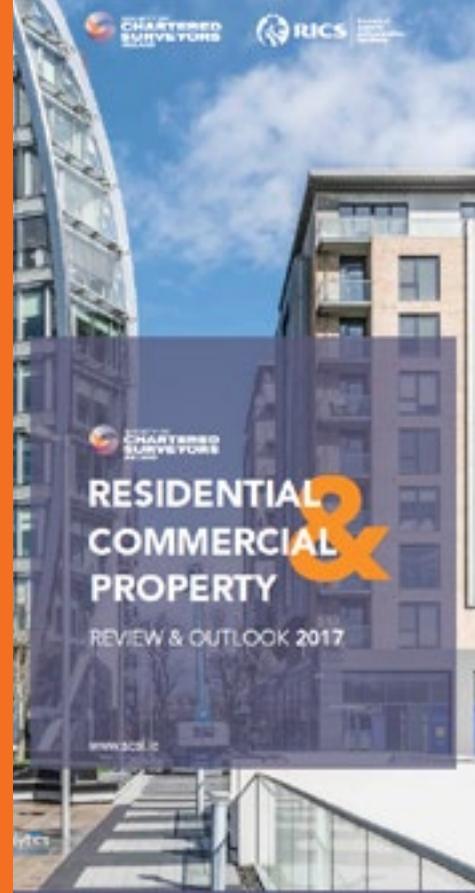
**PRE BUDGET
SUBMISSION
2018**

#01

ABOUT US

The Society of Chartered Surveyors Ireland is the professional body that accredits professionals within the land, property and construction sectors, representing over 5,000 members across the country. We regulate and promote the profession, maintain the highest educational and professional standards, protect clients and consumers via a strict code of ethics and provide impartial advice and guidance. Our members include estate agents, planners, quantity surveyors, building surveyors, land & mineral surveyors, valuers, property and facility management surveyors, working in public organisations, corporate firms and private practice.

Some Recent SCSi Research and Reports



#02

EXECUTIVE SUMMARY

Resolving the Housing crisis

Housing plays an important role in the social and economic wellbeing of individuals and the economy as a whole. From a social perspective, it improves employment, educational and health outcomes. From an economic perspective, housing is a significant driver of investment, productivity and participation, as well as consumption and household savings.

During 2017, various Irish and international commentators have reported on the on-going supply failures in our housing sector. The problem is not distinctly Irish, it is evident internationally following the global recession, and is generally related to the nature of the highly cyclical housing sector. Inevitably, following a deep recession there will be significant time lag in the delivery of new housing supply to meet demand, a situation compounded here by the lack of verifiable, real-time data and analysis.

Both the European Commission and the National Competitiveness Council have warned that the Irish housing system remains broken. As the chairman of the NCC noted recently:

“What is clear is that affordability matters for the individual household, for society as a whole, and for national competitiveness. For the individual, or household, buying a house is their single biggest lifetime purchase, while the cost of owning or renting a home takes a large share of household income. From a societal perspective, a stable and functioning housing market that meets the needs of all of the people living in Ireland is an essential contributor to social cohesion.”

The government plays a critical role in ensuring that housing is affordable for both buyers and renters. Current price developments are not being driven by credit, but by an imbalance between demand and supply. The most sustainable way of resolving the imbalance between housing demand and supply is to promote the construction of affordable, quality homes for the right household types in areas of greatest demand.

In 2016, SCSi delivered the Real Cost of New House Delivery Report. Based on its findings, it is evident that in many parts of Ireland, it is not yet economically viable to commence new development. SCSi recommends a reform of the VAT regime and other public costs in new housing construction to promote activity, encourage the development of all types of affordable housing and protect against further rent and house price increases.

Improving Data

‘...sufficient to support the work of the CSO and other organisations to coordinate efforts towards transparent, real-time, accurate property data’

The property industry can be a key source of growth and strength for the national economy, particularly now it has emerged from a significant downturn. However, good evidence based policy will be essential to counter the boom-bust cycles of old.

The New National Planning Framework, linked to all the relevant census and demographic data, should be carefully monitored to ensure that it plays its part in facilitating a more stable housing market, focussing firmly on the future demands of our growing population and household sizes.

The problem of lack of reliable data is not just facing the housing sector but exists in the commercial and retail property sectors as well. The old military adage that no plan survives first contact with the enemy is apt in considering the externalities and competing market forces at work – good information allows decision makers in public and private sectors to adjust and adapt plans when needed.

Therefore, SCSi is recommending the earmarking of a budget sufficient to support the work of the CSO and other organisations to coordinate efforts towards transparent, real-time, accurate property data.

Promoting investment in Infrastructure

‘...especially important in areas such as schools and hospitals where public investment has not kept pace with population growth and demographic shifts’

SCSI welcomes both an increase in capital investment as well as a return to medium-term budgeting, as this provides clarity and certainty for businesses to tender for public capital works. SCSI recommends that government continues to monitor the procurement and tendering processes for public works, to ensure that procurement is rigorous and delivers value for money, but not so administratively burdensome that it excludes small businesses or new entrants into the Irish construction sector. This is particularly important in a construction sector where capacity is challenged and private projects are plentiful.

It is also important that public investment is targeted to remedy any existing bottlenecks to economic growth, and where demographic changes require increased investment. This is especially important in areas such as schools and hospitals where public investment has not kept pace with population growth and demographic shifts.

**good evidence
based policy will be
essential to counter
the boom-bust
cycles of old**



Key Recommendations



Earmark funding for increased data collection, mining, analysis and reporting for housing, particularly to establish a reliable measure for the supply of new homes locally and nationally.

Provide funding to develop the Commercial Lease Register currently administered by the PSRA.

Establish and fund a Commercial Price Register to include development and agricultural land transactions

Reduce the tax-take from the cost of constructing affordable new homes and apartments in areas of high demand through a time limited reduction in VAT from 13.5% to 0%.

Promote new State-supported financing solutions for the delivery of housing and the establishment of a Development Finance Agency

Increase off-balance sheet public and private investment in public infrastructure to directly improve Ireland's infrastructure stock and indirectly support the development of public and private housing needs in all parts of Ireland

Consideration to be given allowing investors dispose of qualifying lands now to improve land supply without loss of the CGT exemption.

#03

ECONOMIC CONTEXT OF BUDGET 2018

‘The Irish economy as a whole (real GDP) grew by 5.1 in 2016’

The Irish economy as a whole (real GDP) grew by 5.1% in 2016, roughly in line with previous estimates. Figures which better capture the state of the domestic economy (excluding multinationals impact) are provided by the Gross National Product, which rose by 9.6%. This was above the initial estimate of 9.0%. So, despite on-going international turmoil – especially Brexit-related – the domestic Irish economy is showing significant levels of growth, driven by falling unemployment and increased public consumption. Much of this activity is related to domestic demand, with exports falling in activity in 2017. This should be a concern for government, particularly in light of any potential overheating of the property market. It is our view that an ambitious but much needed house building strategy could create other economic challenges, such as inflation and capacity of the sector to deliver in the context of skills shortages.

Key Irish Economic Indicators ¹

	2016	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017
Personal Consumption	3.3	5.9	3.1	1.9	2.2	1.8
Government Consumption	5.3	4.8	5.1	5.5	5.7	3.0
Gross Investment	61.2	-0.1	78.3	58.2	100.9	26.6
Exports	4.6	7.4	6.7	2.4	2.4	3.2
Imports	16.4	13.0	22.9	15.4	14.2	0.2
GDP	5.1	2.5	5.4	2.7	9.9	6.1
GNP	9.6	8.8	5.6	6.1	17.9	7.9

Table 1

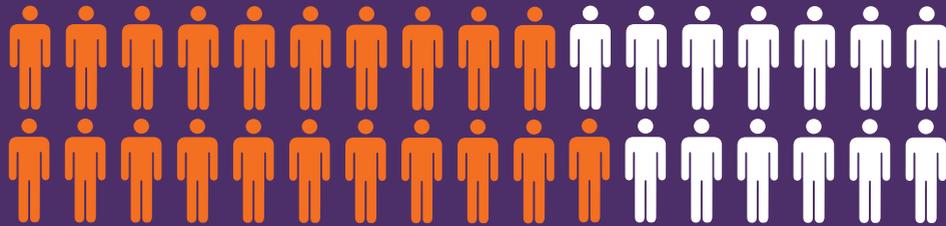
In 2017, the Irish economy has witnessed trends emerge at each side of the spectrum. Although employment figures remain very positive, some of tax heads such as VAT and income tax are not performing in line with expectation, and therefore Budget 2018 must be careful to ensure that economic growth is balanced. In 2018, one of the greatest challenges for the Irish economy will be the role government plays in discussions regarding Brexit. Ireland must be cautious and prepare now to protect the Irish economy if discussions lead to any ‘hard Brexit’ route. Whilst precise quantifications are unreliable at the moment, and are only likely to become more accurate as Brexit negotiations develop, it is not unreasonable to suggest that a hard Brexit may affect the Irish economy by some half a billion euro. Thus while the domestic economy – driven by consumer investment and rising employment – seems stable following a long and deep recession, Brexit is an external factor which must be protected against through sound economic policy.

¹ year-on-year % changes). Department of Finance Monthly Economic Bulletin. 25 July 2017.

Shifts in Demographics

Demographic change does not respect economic conditions, and while the economy moved sluggishly through its lost decade, the population was increasing and new households were being formed. Between now and 2040, the Irish population is likely to increase by one million². Therefore at least 500,000 extra homes are required to be close to services and amenities.

In terms of where those new houses will be needed, international comparisons suggest that in just over 50 years the world's urban population grew from 34% to 54%, and is set to continue according to UN with it reaching 66% by 2050. Ireland's economic development suggests that much of this demand will be in our cities and our national spatial strategy needs to reflect this housing growth pattern, to take advantage of existing infrastructure and services.



in just over 50 years the world's urban population grew from 34% to 54%,

² Central Statistics Office

Sectoral change

Recent SCSi research, in conjunction with the Central Bank of Ireland, has recorded an increase in property sales activity for both Dublin based surveyors and those located in regional Ireland. This is the first national increase recorded since the beginning of our quarterly survey since its inception in 2012. This increased activity is also reflected in the CSO property price register figures which shows double digit growth in house prices outside of Dublin especially those commuter counties such as Meath, Kildare, Louth and Wicklow. Equally, the construction sector is extremely active in Dublin and other urban centres and figures released in the SCSi / PwC Construction Activity Report earlier this year show that the capacity of our construction sector to deliver upon current and projected construction projects is extremely limited.

EXPORTS AND IMPORTS OF TOWER CRANES (SITC 744.34)

	→ IMPORTS →			→ EXPORTS →	
	Jan-Mar (tonnes)	Year (tonnes)		Jan-Mar (tonnes)	Year (tonnes)
2010	77	127	2010	515	2,347
2011	-	151	2011	136	1,069
2012	-	45	2012	146	1,556
2013	-	118	2013	79	1,140
2014	-	4	2014	281	1,133
2015	177	314	2015	-	154
2016	311	1,106	2016	38	52
2017	471	-	2017	-	-

In many respects, all these factors combined have the potential to lead to the 'perfect storm'. Affordability is now a major concern in our urban centres with high rents and escalating house prices.

The EU's country economic review of Ireland raised a number issues relevant to our sectors. They conclude that the acceleration of residential property prices "needed to be closely monitored". The Society would share the EU's criticism that demand side policies "exacerbated recent price trends, yet the fundamental issue remains insufficient housing supply."

By way of example, metrics like tower crane imports and exports provide a clear indication of the scale of recovery in the construction sector.

Housing vacancy rates

According to Geodirectory, the vacancy rate (excluding holiday homes) stood at 4.9% across the country. This is half the rate estimated at the time of the Census in April 2016. On a regional basis, the lowest vacancy rate is in Dublin, where it stands at just 0.9%, versus 6.6% in the Census (see chart below). The highest vacancy rate is in Leitrim (16.6% versus 20.8% in Census 2016). Across the country, the vacancy rate is substantially below the Census estimate, though the order of counties from high to low is the same. Some definitional issues are likely to be playing a role in the difference between both datasets and is another example how investment in collaborative data collection projects are important and should be prioritised for funding.

Housing construction activity

The other interesting aspect of the data relates to construction activity. A total of 5,966 buildings (as opposed to residential units) were under construction in Q2 2017, up 36% year on year, a quarter of which was in Dublin. While there is clearly strong momentum, the total under construction (even allowing for the fact that some will be apartment blocks representing multiple units) is lower than official estimates.



#04

PROPERTY
DATA

Good decision making relies on good information. Having an accurate read of our operating environment improves the chances of solid business decisions being made and the chances of organisations attaining their highest possible performance. Conversely, inaccurate data misleads individuals and businesses, resulting in poor decisions and uncertainty around operating conditions. In short, effective strategic decision making is built on reliable quantitative and qualitative inputs. This applies to government agencies as well as industry.

Government needs to drive and develop accurate research and data on the supply, type, location and availability of new housing units. The construction of new housing is cyclical in nature – driven by many factors including demographics, economic conditions, public sentiment towards home ownership and changes in government policy – and the lag time from the commencement to completion is particularly critical when our housing delivery system is predicated on poor data and market inefficiency. One of the Celtic Tiger legacies, an oversupply of housing, much of it in the wrong locations, followed by a dearth of new housing development is not unique to Ireland. However, with historically poor or siloed datasets, we should not be surprised when Ireland experiences significant inefficiencies in all parts of the housing system.

In 2014 of the SCSI Gold Medal recipient, John Mulcahy, former Head of Asset Management with NAMA, called for the development of good data to better inform the market;

“There is an absence of real-time quality information as to what is going on in the engines of the property and construction markets. The whole information base we now have seemed to be geared to those who seek a more leisurely and reflective look at the economy and economic history and less to business and citizens who have to make decisions in real time in the here and now.”

The Chief Economist of Goodbody stockbrokers, Dermot O’Leary, commenting in July 2017 stated:

“Accurate statistics are the bedrock of good policymaking. With increasing question marks about the accuracy of Irish housing statistics, there is a risk that inappropriate policies will be applied. This is all pointing in the direction that more aggressive moves are needed if Ireland is to solve its housing problems.”

With our public interest remit and through the volunteerism of its expert members, SCSi sought to provide independent, real-time market cost data to fill this lacuna. In 2016, the SCSi completed a report on the “Real Cost of New House Delivery” to illustrate the cost for a three-bed semi-detached home in the Greater Dublin Area and in Autumn 2017, the SCSi will publish a similar report on the actual costs of delivering apartments to the market. We believe that it is imperative to support and provide good quality data to help identify the challenges and to solve the problems being experienced in our housing market. The government, through its various agencies, holds significant datasets, but the lack of co-ordination, data sharing and analysis means that opportunities to better plan for our future are lost.

The data deficit is not limited to information relating to housing construction. The limited data available for commercial leases and the lack of a commercial property price register is another area where the publication of sales results and rental levels could assist the proper functioning of a sustainable property market. The publication of such data and the promotion of transparency in the commercial property market would have many benefits for consumers, business and local government.

SCSi believes that promoting good data offers many benefits and improves government’s ability to manage risk and produce results. Data-driven and evidence based policy making would also allow for a more rational public debate on sensitive topics, like the current homelessness crisis and the gap between official assessments for vacant homes. Good data can also act like an ‘early warning system’. Clear and open analytics prior to the economic crisis would have alerted policy makers and investors to the risk levels in the economy and the property market. Operating ‘blind’ to the data impedes the pace of supply to meet demands and adds unnecessary risk to the market, which in turn reduces the willingness of policy makers to take the aggressive action needed or to encourage and support development.

“There is an absence of **real-time quality information as to what is going on in the engines of the property and construction markets. The whole information base we now have seemed to be geared to those who seek a more leisurely and **reflective** look at the economy and economic history and less to business and citizens who have to **make decisions** in real time in the here and now.”**

Earmark funds for publishing accurate property data

As part of Budget 2018, we strongly recommend that funding is earmarked for the development and sharing of accurate research and information from all public sources, as a key pillar in the strategy to ensure a proper housing supply for our current and future needs. This objective forms part of the overarching framework in the eGovernment Strategy 2017-2020. The SCSl believes the societal and economic benefits that the collection, analysis and availability of such data would provide greatly outweigh any perceived commercial sensitivities.

Other government agencies can benefit from this existing experience to better develop and join up other datasets with the proper resources being put in place.

SCSl recommends the establishment a national housing unit within the Department of Housing, Planning and Local Government to oversee housing data and identify housing delivery issues that will affect annual housing production; A national housing unit, could take a lead role to collate and improve the vast and disparate information on housing and land supply that exists across the country. Such a unit could have scope to undertake strategic research in relation to the information currently lacking, and improve the government's ability to forecast the future housing requirements of Ireland ageing and growing population.

- SCSl advocates that funding in the 2018 Budget should be allocated towards:-
The establishment of a national body/unit to measure, monitor and forecast the housing requirements of Ireland's growing and ageing population.
- The adequate resourcing of the CSO, with a view to maximising the accuracy of key macroeconomic data and collection of national housing information that underpins an accurate understanding of the Irish housing market.

#05

HOUSING

Housing supply and demographics

‘The growth in the Irish economy seen in 2016 and 2017 is mainly due to rising domestic consumer demand and is no longer primarily being driven by exports’

Getting the housing sector working properly is one of the most serious and significant challenges for government since the foundation of the State. The issues that have brought the housing sector to the point of the current crisis have been well-researched, so now, it is imperative to have a reliable and achievable plan to address many issues facing all parts of the Irish housing sector as quickly as possible. While the Rebuilding Ireland Plan outlines some good initiatives, the speed of implementation now needs to be accelerated.

Overcoming the current challenges facing the sector will require strong leadership, as well as a whole-of-government approach. The growth in the Irish economy seen in 2016 and 2017 is mainly due to rising domestic consumer demand and is no longer primarily being

driven by exports. It should be a concern for any government to see domestic demand rising at such a pace when exports have dampened. In the context of the Government’s welcomed and ambitious housing plan to deliver 35,000 units per year, this will ultimately lead to further fuelling general inflation at a time when government should be reducing consumer spending and to save for the ‘rainy day’ through prioritised strategic investment in critical public infrastructure.

Chartered surveyors working in this area have highlighted that current land use policy is still grossly wasteful and does very little to achieve government vision to move to higher density schemes so that workers and growing families can travel to work and school from affordable housing with ease. There is still a tendency to build new units (low density housing) on green field sites, on the periphery of cities and towns with a general reluctance to develop a tried and tested model from other jurisdictions for higher density urban living at an affordable price.

VACANCY RATE (EXCL. HOLIDAY HOMES)

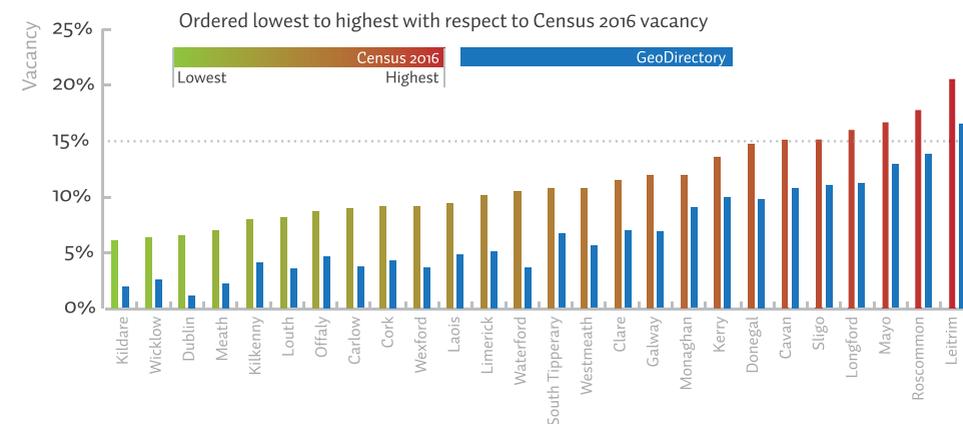


Chart 1

Supply Side reform

SCSI is supportive of measures that will increase the supply of affordable housing in areas of high demand. The process of site acquisition, obtaining development finance, designing and planning the housing scheme, construction and fit-out of the property can typically take at least two years, where no service or infrastructure constraints exist. Therefore, these quick wins can have short-term impacts of increasing funding available to meet demand for housing in a construction market that will only adjust in the medium to long term to such changes.

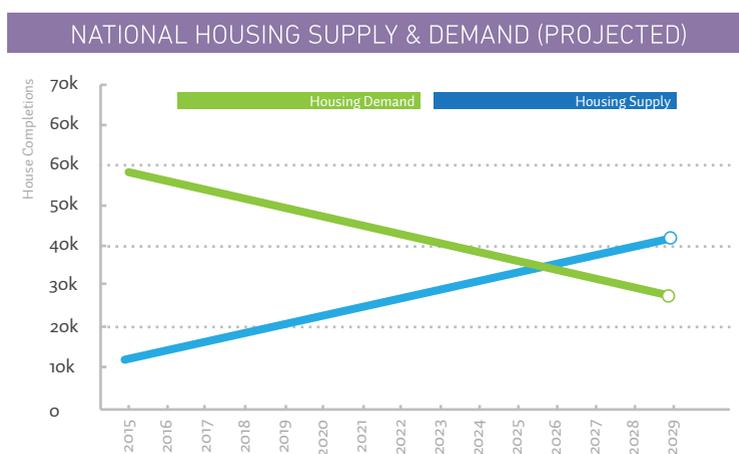


Chart 2 Source: SCSI

As shown in chart 2, equilibrium of national supply and demand, going by current trends, will be reached by 2026. The ESRI predict that there is current requirement of 35,000 new units per annum. There is currently only c 16,000 units constructed and the cumulative effect of the undersupply means that supply will remain an issue for another decade.

The tax (cost) on new housing is the major impediment to addressing the current low housing affordability levels and declining home ownership rates. When all taxes/levies and costs are included, the taxation on a new house can represent up to 18 per cent of the purchase price. The cost for younger home buyers of financing the extra amount of a new home due to taxes can equal around €60,000 of their after-tax incomes.

Extract from The Real Cost of New House Delivery report

'...the total cost to deliver a three-bed semi-detached house amounted to €330,000, of which only 45% was attributable to the actual construction or "hard" costs'

SCSI published its report 'The Real Cost of New House Delivery' in 2016, a detailed study of house building projects underway or completed in the Greater Dublin Area. The report found that the total cost to deliver a three-bed semi-detached house amounted to €330,000, of which only 45% was attributable to the actual construction or "hard" costs. As we consider issues like maintaining competitiveness in the face of rising prices and rent, where some economic commentators are warning of the potential for a price bubble, SCSI recommends that more should be done to tackle the high component costs of building houses, such as VAT, levies, cost of finance, cost of land etc. to ensure that we deliver more affordable homes.

By way of example, the affordable home scheme by Ó Cualann Cohousing Alliance, a co-operative housing body, that recently brought three-bed houses in Ballymun to market at more than 30% below market value, illustrates the validity of the report. The largest component of the savings can be attributed to the public land being provided and the waiving of development levies by the local authority. The co-operative's reported margin was only 6% less than the private sector. The reduced developments costs also reduce the overall cost of finance, further underpinning scheme viability.

SCSI suggests the following recommendations to help address the high cost of construction. It is not solely a Budget 2018 issue so further policy initiatives are needed to maximise the impact on supply of affordable housing coming to market.

**REDUCE
VAT ON NEW
AFFORDABLE
HOUSING
TO 0%**

ELEMENTAL ANALYSIS - 3 BED SEMI-DETACHED HOUSE

Gross internal Floor Area

1,214 Sq.ft

113 Sq.m

CONSTRUCTION COSTS (per house)

		€	€PSF	€PSM	% OF TOTAL
Housing Building Cost	(A)1	22,251	101	1,084	37%
Siteworks Within Site Curtilage	(B)	10,000	88	9	3%
Site Development	(C)	18,000	15	160	5%
CONSTRUCTION COST (A) + (B) + (C):-		150,251	1241	2,332	45%

OTHER COSTS (per house)

		€	€PSF	€PSM	% OF TOTAL
Professional Fees		5,5005		49	2%
Levies		11,7501	0	104	4%
Land & Acquisition Costs		57,5004	7	510	17%
Sales & Marketing Costs		8,2007		73	2%
Finance Cost		20,002	16	1776	%
Margin		37,980	31	337	11%
VAT		39,310	32	349	12%
TOTAL HOUSE COST:		330,493	272	2,930	100%

Source: SCSl - The Real Cost of New House Delivery

SCSl appreciates the need for the Government to remain compliant with EU VAT legislation. There is scope under Directives 2006/112/EC (Annex III – article 10) and 2009/47/EC (which amended Annex III to include – article 10a) to apply a reduced rate of VAT for –



provision, construction, renovation and alteration of housing, as part of a social policy;



renovation and repairing of private dwellings, excluding materials which account for a significant part of the value of the service supplied.

The estimated cost of the VAT reduction was €190 million (based on 4.5% reduction), according to Revenue 2016 figures. The introduction of such a policy would be consistent with the overall objective of the Government under Rebuilding Ireland. The inclusion of a 'sunset' clause in the legislation would be welcomed by the industry, as it would set time parameters for the policy and promote early development. SCSl recommends that the VAT reduction to 0% should be available only for new residential units delivered to the market within the timeframe of the policy at an 'affordable level' e.g. below €300,000. Due to the escalation of the housing crises, SCSl recommends that VAT should be reduced beyond previous calls from 9% to 0%.

In reviewing this proposal last year, the Government's Tax Strategy Group cited the ESRI that the savings would not be passed on due to existing supply issues. They went on to conclude that due to "stringent planning regulations, infrastructural constraints, access to finance and building costs, including the impact of building regulations" such a reduction would not have a significant impact on supply. However, as the affordable housing scheme outlined above demonstrates, the cumulative effect on price of a number of cost areas being addressed does have an impact. Further SCSl recommendations below illustrate additional cost factors that could be ameliorated.

Increase the use of Development Land

In theory, increasing the availability of development ready land to the market where house-building activity will actively take place should also assist in the reduction of house prices. SCSl suggests both a carrot and stick measure to be introduced to increase the availability of development land. The vacant site levy is due to be implemented in 2019 may go some way to address land supply. Again, greater transparency and data in the market for factors like ownership, why sites are not being developed and infrastructure deficits, would assist all stakeholders to better understand why housing development is not taking place.

Another contributing factor to land holding may also be due to CGT exemption introduced by government in 2012. To avail of this CGT relief, investors have to hold qualifying land or buildings for 7 years, i.e. up to 2019. While the original relief was introduced to stimulate sales activity in the commercial market, it could now be one of the reasons why serviced development land is not being released to the market, further exacerbating the already chronic housing shortage. Again, real-time, reliable data collected when this incentive was introduced could now be used to identify whether the timing of this relief has had unintended consequences at a different point in the market cycle. We call on the Minister to consider allowing investors dispose of qualifying lands now to improve land supply without loss of the CGT exemption.

If Ireland is to adequately address our housing crisis, there is an urgent need to promote higher density. Land is not an endless resource. The Irish planning system needs to change to support the provision of higher density schemes to be seen as an attractive solution to both investors and occupiers. The Build to Rent model, well established in many countries like the UK and the US for many years, has proved a successful way to deliver affordable housing in urban locations and provide many additional services such as reserved access to amenities like gyms, dry cleaners, communal rooms, venues for parties etc. Our planning system needs to adapt quickly to encourage the provision of Build to Rent schemes and our rental legislation needs to change to reflect the long-term leasing in order to providing security of tenure and choice for occupiers.

Summary of recommendations

- More staff resourcing for the Department of Housing, Planning and Local Government to manage the release of State and Semi State lands to the market as outlined in the Rebuilding Ireland Action Plan for Housing and Homelessness. It is important that this plan is monitored closely and that early interventions are made if lands are not being released or released too slowly to the market.
- Reduce VAT from 13.5% to 0% for a period of time and for those residential units that are brought to the market at an affordable price.
- Reduction of Capital Gains Tax from 33% to 20% for a defined period in order to release more lands to the market.

Planning reform to deliver new homes

'Ireland would see the over 65 population double by 2050, from 12.4 per cent to 24.9 per cent'

For the first time since 1966, the Census has shown that household size has stopped contracting – in 2011, the average number of persons per households was 2.73 and in 2016 it was 2.75. The SCSJ does not believe this a societal trend but a result failure in supply to align with needs. This suggests there is a significant pent-up demand for housing, which, if it were available and affordable, household size would continue to fall as people form their own new households.

There is also a clear shift in demand away from the traditional three-bed home towards apartment living; this is part of an internationally seen trend for urban living. Yet both Irish local authorities and private sector developers find it difficult to segment the population into new models, and thus there is an on-going mismatch between housing types being demanded and provided, driven by weak data and a long time lag between commencing and completing new developments.

An example of the need to think differently about behaviour was a report commissioned by the Ireland Smart Ageing Exchange & the Housing Agency. In "Housing for Older People – Thinking Ahead", their analysis of the demographic changes found that Ireland would see the over 65 population double by 2050, from 12.4 per cent to 24.9 per cent. Their focus group results found that currently "a significant number live in the same house that they did 20 years previously". They found this was not due to "lack of finance, rather the lack of choice or supply".

Remedy defects within apartments

SCSI made a detailed submission, Defects in our Built Environment, to the then Housing Minister, Simon Coveney, highlighting the issues regarding defects being uncovered in some apartment blocks in Dublin and other parts of the country due to shortcomings in the regulatory framework at the height of the building boom. Following this submission, the tragedy at Grenfell Tower in the UK prompted the current Minister to issue a fire safety review of all units owned by Local Authorities or Approved Housing Bodies in multi-unit development schemes (MUD). A fire safety review affects all occupiers and owners and has the potential, when issues are identified, in creating significant challenges, from evacuation issues right through to the potential cost burden.

Our submission called for a high-level study to be undertaken to examine the extent to which high risk residential buildings, particularly multi-occupancy units constructed between 2000 and 2008 should be considered for inspection and to establish the extent of possible significant defects within such properties. A methodology for risk rating should be developed in consultation with industry stakeholders and government, leading to a phased investigation of targeted properties.

SCSI recommends that funding should be ring-fenced in this year's Budget for support local authorities to undertake this high level review in their operational areas.

SCSI recommends that Government should consider the establishment of an emergency fund to tackle the most urgent and serious building defects where there is a potential risk to life. Budget 2018 should commit an interim amount to provide assistance for the early remediation of priority cases.

Chartered Surveyors have continually raised concerns regarding the rental market, which SCSI has expressed during the rental strategy consultative process. SCSI is dismayed that in the past, large private equity firms were permitted to avoid paying tax on rental income when those smaller investors paid high rates of tax on all income without being permitted to offset any deductions from the overall tax liability.

Rental legislation is now hugely complex and restrictive which was compounded by the introduction of rent predictability measures last year. SCSI understands the rationale for the introduction of the 4% rent inflationary limit for certain locations, but feels that the overly complex rental system does nothing to promote confidence in the sector, for both landlord and tenant. Chartered Surveyors have highlighted that the

smaller investor/amateur landlord is at a competitive disadvantage when compared with private equity firms that have invested on a large scale in residential property in Ireland. The tax treatment of the smaller investor is too restrictive and penal and far too lenient on those operating with thousands of units.

Summary of recommendations

- SCSI notes Government commitment to reinstate mortgage interest relief for investors incrementally over the next few years but recommends that this is immediately front-loaded so that smaller investors get the benefit straightaway.

#06

INCREASE CAPITAL INVESTMENT

During the recession, Ireland's public capital investment programme was slashed, with investment in Ireland's physical economic and social infrastructure falling from c. €6bn in 2010 to €3bn in 2013. With the recovery of the exchequer position, there has been a steady increase in capital investment, with around €4.25bn scheduled for investment in 2017. Government has also signalled its intention to return to the creation of multi-annual capital envelopes of funding.

SCSI welcomes both this increase in capital investment as well as a return to medium-term budgeting, as this provides clarity and certainty for businesses which intend tendering for public capital works. SCSI recommends that government continues to monitor the administration of tendering for public works, to ensure that the process of tendering is rigorous but not so administratively burdensome that it excludes small businesses or new entrants into the Irish construction sector.

It is also important that public investment is targeted to remedy any existing bottlenecks to economic growth, and where demographic changes require increased investment. This is especially important in areas such as schools and hospitals where public investment may not have kept pace with population growth.

As the economy continues to recover, the exchequer position will become more favourable with greater resources to invest in infrastructure to make up for the cuts seen during the recession. SCSI recommends that government borrows additional revenue at low interest rates from EU sources, the European Investment Bank and internationally to allow for investment in key nationally important strategic infrastructure.

SCSI has welcomed the government's 'Building on Recovery: Infrastructure and Capital Investment 2016-2020' but is concerned that adequate investment is not being made available as soon as it should be, with particular regard to the recent Brexit vote and the potential economic impact it may have.

Protect the economy from Brexit shocks

Brexit is likely to have a profound effect on economic growth in Ireland, bringing challenges (especially in the Border region) and opportunities. Already it has become evident that Dublin may become the new home of financial services firms which wish to relocate from London to remain within the EU. The increased economic dividend of this move can only be fully captured if there are sufficient homes and offices for these new companies. It is important that potential brownfield development sites have the requisite infrastructure and services in order for them to be developed in a timely manner. This requires further targeted capital investment, planning reform and joined-up, sequenced investment programming across government departments and agencies.

It is well recognised at this stage that Ireland has the largest risk exposure of any of the EU member states to a British exit from the EU. The economic impact on sectors not seen as directly impacted by a Brexit, such as construction and property, remains difficult to quantify. While there may be offsetting opportunities, these will not be regionally spread.

Support agri-businesses and rural land use

Potential output of Ireland's economy can be drastically halted or repressed by a hard Brexit and thus impacting upon current and future fiscal space. Concerns raised by SCSl members with regard to those areas with strong Agribusiness and Farming sectors are most concerned. 40% (equivalent to €4bn) of Ireland's exports go to the UK each year. Figures compiled by the Irish Farmers' Association, found that "50% of our beef, one-third of our dairy, over half of our pigmeat exports, and more than 90% of all Irish mushroom exports" are going to the UK. SCSl members believe that low barriers to entry through the EU market, have allowed many Irish businesses to achieve these levels of penetration into the UK through a mainly export strategy (i.e. less than expected outward direct investment). In turn, this has created a number of employment opportunities in regional locations that might have been based closer to the end market in the UK.

Therefore, SCSl is supportive of the recent Seanad Committee report on the "Withdrawal of the UK from the EU." Should the UK, in the final agreement, withdraw from the Single Market and the Customs Union, a Comprehensive Free Trade Agreement that includes food and agricultural products will be needed. Tariff rates on food and agricultural products need to be at 0% or at minimal rates. Any Free Trade Agreement should include a commitment to match EU health and safety standards for UK products, and for products coming into the UK. Transitional Arrangements Negotiations to develop Free Trade Agreements are often long, detailed processes that cannot be rushed. In the event that the EU-UK negotiators believe that a full and comprehensive free trade agreement cannot be reached within the timeframe of the UK's withdrawal, transitional arrangements should be agreed.

Much progress has been made in the Irish agricultural industry over the past few years. Following the abolition of milk quotas and the recent recovery in milk prices, there still remains a tentative positive mood among most farmers. However, with the heavy exposure with a hard Brexit, concerns are raised that any fallout will have a disproportional negative impact on agri-businesses far greater than any other Irish business.

As the agri-industry moves towards achieving further efficiencies within each farming unit, our members have highlighted that there are many taxation barriers preventing the transaction of farmland. For example, the CGT rate is currently at 33% which can result in a substantial tax liability during the disposal of a farm asset. SCSl recommends that this is reduced to 20% to allow or incentive those landowners that have retired from farming or have no desire to farm, to offload this to the market so that younger farmers with ambitions to set up a viable commercial enterprise are provided with every opportunity to do so.

Also, the current threshold for inheritance tax is moved to €310,000 which was increase from €280,000 in recent budgets. This is a small increment and one that should be reviewed again to which we recommend should be kept at €500,000. The inter-generational transfer of land is one that should be promoted so that the industry can move to a more feasible and cost effective model in preparation of the review of the Common Agricultural Policy in 2020, which is likely to be less supporting to Irish farmers.

“Potential output of Ireland’s economy can be drastically halted or repressed by a hard Brexit...”

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CONCLUSION

The economic context of Budget 2018 is one of the strongest in many years with falling unemployment and growing consumer sentiment. House price growth is not being driven by cheap credit, but rather through low supply and high demand. The priority for the Budget should be the resolution of this imbalance through increased efforts to promote the development of quality housing at affordable prices and rents. Therefore SCSi recommends reform of VAT and other taxation measures to encourage increased supply of new homes, and better land-use management. Many of these policies fall outside the scope of the reforms available to the Department of Finance, but should be implemented across whole of government, beginning on Budget Day.

The recovery in the housing and commercial property sectors must be underpinned by good quality, timely and accurate data; past housing errors were compounded because of poor evidential information.

Brexit remains a threat to Ireland's economic recovery, and while it may lead to increased investment in Ireland from the UK, this will bring threats such as a lack of office space, residential units and bottlenecks in infrastructure. These can be avoided through increased public capital investment. Threats from Brexit to the Border region and the agri-foods sector again can be avoided through taking positive policy steps in the Budget to protect Ireland against the worst risks from Brexit.

