Putting Affordability at the Heart of the Housing System

Irish Home Builders Association

Reliance Restricted

24 August 2020 | Final

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Putting affordability at the heart of the housing system **24 August 2020**

Dear James,

In accordance with the terms of the Engagement Letter dated 13 May 2020, and our extension of scope letter dated 24 July 2020 we have prepared a report on the issue of affordability and the housing market.

Limitations of Scope

We have not, except to such extent as you requested and we agreed in writing, sought to verify the accuracy of the data, information and explanations provided by yourselves, and you are solely responsible for this data, information and explanations. We have therefore relied on the information provided by you to be accurate and complete in all material respects.

The report has been provided to you for the above Purpose only and should not be used or relied upon for any other purpose, nor should it be disclosed to, or discussed with, any other party without our prior consent in writing. This is a working draft which is incomplete and being shared with you for initial comment only.

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This analysis was undertaken during the Covid-19 pandemic. While it is acknowledged that the Irish economic landscape has changed markedly since early March 2020 with unprecedented disruption brought on by Covid-19, there appears to be a consensus view that the economy will recover in 2021 and reach its pre-pandemic level in 2022 (Department of Finance, April 2020).

We appreciate the opportunity to have provided EY's services to the Irish Home Builders Association.

Should you have any queries or comments regarding this report or if we may be of any further assistance, please do not hesitate to contact me on 086 830 4580.

Yours sincerely

S MacAllister

Simon MacAllister
Partner

Dashboard

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Key Findings

1 Key Findings

Housing plays an important role in our economy and wider society. This report has been prepared to support Government with their stated objective of putting affordability at the heart of the housing system

Key points

- This report provides an analysis of affordability in Ireland, examines why it is challenging in some locations and considers the root causes responsible in order to identify appropriate solutions to tackle the issues immediately and over the short to medium-term. With Covid-19 fundamentally shifting the economic landscape, the time for action has never been more pressing.
- The residential development process is complex, there are many steps which are time consuming and lead to unnecessary delays, all of which can increase the final cost of delivery. The first-time buyer ("FTB") is most impacted as all additional costs which arise during the residential development process are ultimately borne by the buyer, sometimes resulting in the buyer being priced out of the market. In addition, it is the new home purchaser ("NHP") who pays towards the cost of improved transport and other infrastructure, while existing property owners in the area, equally benefit from these improvements but without any cost.
- The quality of new homes is much higher than in the past, reflecting new regulations and higher building standards, all of which have a cost. Estimates suggest that policy imposed costs account for around 20% of the total delivery cost of a new home, and have been a factor in rising construction costs in recent years.
- There are significant economic returns generated from residential construction, with an estimated one-third going back to the Exchequer in taxation and associated revenues. This highlights why investment in housing that is well planned and affordable needs to be prioritised and facilitated.

Key findings

- Housing supply since 2008 has significantly lagged the long term average supply, with private housing supply in 2019 at levels last seen in the 1970s
- Based on current estimates, c.30% of new homes are available to purchase for owner occupation, 15% for the rented market, 35% for social housing and over 20% are one-off builds
- The price gap between new and second-hand properties has been over 40% since 2018, reflecting in the main enhanced standards and a better quality product
- Affordability is predominantly an urban issue while accumulating the deposit is a significant barrier to home ownership
- The time it takes to save for the average deposit ranges from 1.7 years in Kilkenny to in excess of 15 years in Galway City, Wicklow, Waterford City, Cork City and Dublin City
- The average deposit paid by FTBs is 14% of the property price, with many getting support from parents

The market is challenged for a number of reasons:

- Density levels are not always appropriate, resulting in viability challenges
- Planning delays/blockages in the planning system impact commencement and/or viability of development
- The total delivery cost of a new home, including typical costs of design, planning, construction, profit and risk, is not always sufficient to provide the feasible returns required to ensure viability
- Typical construction costs account for between 43% and 55% of the total delivery costs, of which policy related costs are estimated to account for 20%

Solutions for immediate consideration

How to improve affordability

- Introduce a State Backed Shared Equity Scheme for First Time Buyers
- Continue and expand Help to Buy beyond December 2020
- Expand Rebuilding Ireland Home Loan Scheme
- Consider increasing the lending discretion for FTB borrowings

How to improve supply

- "Root and branch" review of the planning system and address blockages
- Identify services required to unlock zoned land
- Provide access to low cost finance for smaller builders, particularly those in regional locations
- Review of densities and planning guidelines
- Measures to reduce the cost of construction (e.g. waive levies) including the development of innovative methods of construction
- Taxation measures to support and encourage sustainable development
- Tax rebate of contributions for First Time Buyers

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Executive summary

2 Executive summary

"Housing for all" is the mission of housing policy but the issues are complex

Housing affordability and supply are key challenges in the housing market

Successive governments have had housing and the restoration of a properly functioning housing market as a top priority for many years. Despite numerous initiatives, policies and reports highlighting the persistent problems in the market, it is clear the issues are many and complex. There is no single quick solution.

At the core of the problem is the decade of underinvestment in private and social house building and related infrastructure, which has resulted in the demand for accommodation consistently exceeding supply. This has given rise to a number of adverse consequences which have created challenges for Irish policy makers, notably, an escalating homelessness problem, close to 70,000 households on the social housing waiting list and house prices/rents which are at levels in some areas of the country which are challenging for many potential buyers and renters.

There is a structural issue in the market when rented accommodation costs more per month than mortgage repayments, yet many borrowers cannot access a mortgage. It is also a strong signal that due to the lack of supply, potential first time buyers ("FTB") are having to compete with local authorities who have been acquiring second-hand properties. In addition, local authorities have been incentivising property owners and home builders to make vacant properties available for social housing. Meanwhile the economy and jobs market have experienced remarkable growth (pre-Covid-19) since 2013. Yet the scale of housebuilding is well below normal levels, demand is strong and home builders find some residential developments are not viable in certain locations.

Housing is fundamental to the quality of life of all citizens in the State. The overall stated objective of housing policy has been to enable every household to have available an affordable dwelling of good quality, suited to its needs, in a good environment and in a sustainable community, and in as much as possible at the tenure of its choice. The newly elected Government in May 2020 has put 'housing for all' as its mission in the Programme for Government.

An effective housing market must ensure all tenures are catered for and that those who can afford to provide for their housing needs should do so either through home ownership or in the private rented sector and that targeted supports should be available to others having regard to the nature of their need. There needs to be adequate supply to ensure consumers have choice in meeting their housing needs at a cost which is within their financial resources. This issue of affordability is at the core of this report and requires some form of intervention to ensure the cost of delivery is aligned with the consumers ability to purchase.

> "
>
> *Over the next five years we will:*
>
> - *Put affordability at the heart of the housing system.*
> - *Prioritise the increased supply of public, social and affordable homes.*
> - *Progress a State-backed affordable home purchase scheme to promote home ownership.*
> - *Increase the social housing stock by more than 50,000, with an emphasis on new builds.*
> - *Tackle homelessness.*
> - *Ensure local authorities are central to delivering housing.*
> - *Work with the private sector to ensure an appropriate mix and type of housing is provided nationally.*
> - *Improve the supply and affordability of rental accommodation and the security of tenure for renters.*
>
> *We recognise the important role that private housing supply will continue to play. We will seek to address challenges in this sector including viability, access to finance, land availability, the delivery of infrastructure, building quality, building standards and regulation and an adequate supply of skilled labour.*

Programme for Government, June 2020 *

* https://static.rasset.ie/documents/news/2020/06/draft-programme-for-govt.pdf

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Only one-third of new units are available to purchase which makes home ownership a difficult target for many buyers

Focus of this report

EY-DKM was commissioned by the Irish Home Builders Association (IHBA) to provide an evidence-based report to help address the affordability of housing.

This report acknowledges the range of steps involved in the residential development process which are time consuming and can lead to unnecessary delays. These delays can give rise to additional costs throughout the process which impact the final delivery price a home buyer ultimately pays, assuming they have adequate financial resources to purchase the property and that conditions in the market are favourable to making a transaction. It is often the case the process results in a price which is above what first-time buyers can afford in many urban locations, leading to unviable residential development.

This report recommends measures to reduce those delays and address issues in the residential development process, including supply and demand factors. These could improve housing policy outcomes, with a positive impact across the country. This is a prerequisite to improve competitiveness, attract and retain talent/foreign direct investment and progress our climate change targets.

This research is being undertaken at a pivotal moment for Irish society and the economy. Firstly, the country is emerging from a global pandemic which has fundamentally shifted the economic landscape and is having a more widespread economic impact than originally expected.

Secondly, the new coalition Government has published its Programme for Government (PfG) for the next five years, in which it pledges to

"*put affordability at the heart of the housing system*"

With IHBA members delivering in the region of 85% of all new dwellings in Ireland annually, the PfG recognises the important role the private sector has to play in tackling the supply of housing in the years ahead.

This report is intended to support Government deliberations on the housing market, in order to achieve the stated objective of putting housing affordability and home ownership at the heart of the housing system.

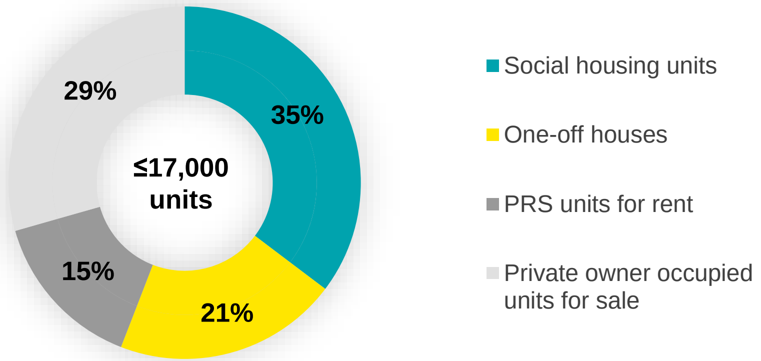
Housing requirement is up to 36,000 per annum based on population

Housebuilding levels remain substantially below what is needed. 21,138 new homes were delivered in 2019 and a total of 70,550 over the past five years. Initial projections for output in 2020 show it falling to c.17,000 units in the wake of the COVID-19 outbreak. This is despite recent estimates from the Central Bank of Ireland and the ESRI stating that an average of c.35,000 new dwellings will be required per annum until 2030 to keep pace with the projected population growth. Estimates based on the range of population growth scenarios from the CSO suggest a requirement of between 460,000 and 760,000 new homes by 2040 or an average of between 22,000 and 36,000 per annum. Meanwhile private housing supply in 2019 was at levels last seen in the 1970s.

Around 30% of new units available for sale for owner occupation

A detailed analysis of supply in different market segments shows that the 2019 figure of 21,133 is made up of 6,074 (28.7%) social housing units from local authorities and approved housing bodies, 5,065 one-off units (24%) and an estimated 2,850 (13.5%) private rented sector (PRS) units, leaving 7,144 (33.8%) for the owner occupied market (including small scale investment demand). Based on the current estimate for 2020 of 17,000 (assuming no further lockdown), the corresponding analysis suggests that the number of units available for owner occupation will be around 5,000 or 29.4% of the total.

Figure 1: 2020 Housing Supply (Estimate)



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This report focuses on housing affordability, which is not the same as affordable housing

Affordable versus affordability

The issues of affordable housing and housing affordability tend to be used interchangeably, but they are not the same:

- *Affordable housing* is the term which is generally used to refer to subsidised housing which is provided by local authorities mostly in urban areas to those who cannot afford to purchase a property due to income constraints. Local authorities will generally require those allocated a home to meet certain income eligibility criteria to qualify for affordable housing.
- *Housing affordability* has a number of dimensions and is determined based on a household's ability to buy or rent based on their income and/or their ability to raise a mortgage and the deposit required. As income levels vary by individual and by household, a property which is affordable for one household may not be affordable for another household.

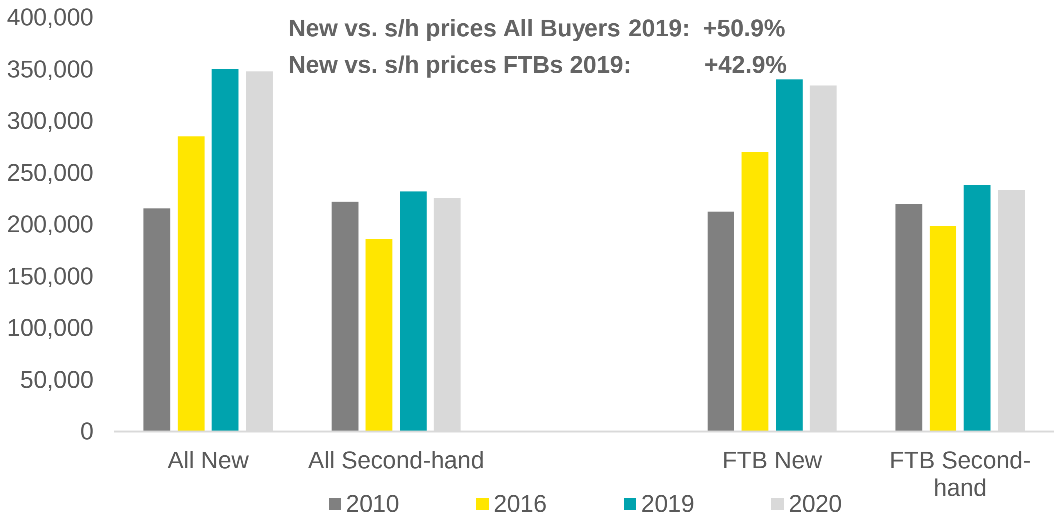
This report is predominantly about housing affordability. While recognising the fundamental right to subsidised housing for those who cannot meet their own accommodation needs, solving the affordability problem for FTBs and NHPs could potentially reduce the level of State support required.

The median new house price had increased by 22.8% to €350,000 between 2016 (the year of Rebuilding Ireland) and 2019. The corresponding FTB new property increased by 25.9% to €340,000. The gap between new and second-hand properties has been over 40% since 2018, reaching 50.9% for all buyers and 42.9% for FTBs in 2019.

These trends, in an economy in which average earnings increased by 9.2% over the same period, exacerbated the affordability problem, putting housing out of the reach of many FTBs.

> *Affordability is not simply a question of how much is too much to pay on a mortgage but of how much is too much for whom and in what circumstance? That is why this Government would rather seek to try and accommodate each household's particular family need and financial circumstance. It is why, in the first part, we will assess eligibility on the proportion of the net income a household would need to buy a house on the open market to meet their needs.*
>
> **Minister for Housing, Local Government and Heritage, 7 July 2020**

Figure 2: New versus Second-hand Property (Median Prices)



Source: CSO, 2020 data based on first five months to May.

2 Executive summary

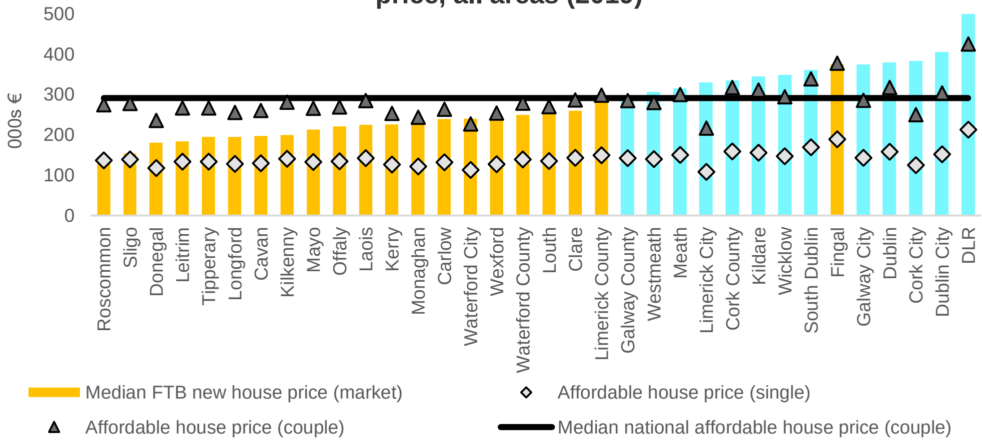
Affordability is predominantly an urban issue while accumulating the deposit is a significant barrier to home ownership

Key findings from the analysis of housing affordability

Housing affordability has many dimensions and is fundamentally dependent on incomes and net incomes in particular. The other key element is the property price and this analysis has established that:

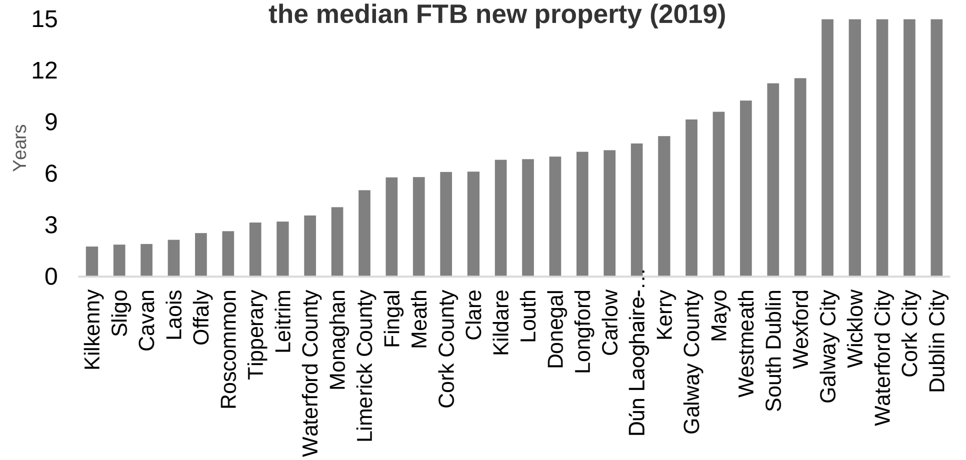
- There is a notable gap between the price of new and second hand properties. This is a key factor driving demand for second-hand properties as many are purchased by FTBs starting out because of location, proximity to work and family and for affordability reasons.
- Affordability, measured in terms of the median house price to gross income ratio, is predominantly an urban issue. In 21 of the 34 city and county council areas examined, the income of a working couple is sufficient to purchase the median property price in their area.
- The main affordability crisis is in the city council areas, where median incomes are not sufficient to purchase the median FTB new house price.
- Funding the required deposit is a barrier to home ownership for some households. The average deposit required is €30,000, or higher in areas where the median FTB property price is the most expensive. However, Banking & Payments Federation Ireland (BPFI) data shows that the average deposit ranged from €23,000 in Connacht/Ulster (excluding Galway) to €51,200 in Dublin in 2019 and was higher than the minimum of 10% required. Anecdotal reports suggest that, in some case, this is only possible because FTBs are getting support from parents or other sources.
- Taking household expenditure and rent into account, the average time it takes to save for the deposit ranges from 1.7 years in Kilkenny to in excess of 15 years in Galway City, Wicklow, Waterford City, Cork City and Dublin City.
- A key issue is high rents in the private sector, which make it difficult to save for a deposit. Having demonstrated the capacity and commitment to making regular rental payments, consideration should be given to taking the rental history of applicants into account in the mortgage application process. This would leave the buyer with more disposable income after monthly mortgage repayments.

Figure 3: Median FTB new house price – affordable versus market FTB price, all areas (2019)



Sources: CSO market FTB median new house price and median earnings. Note: EY-DKM estimate of median annual earnings in the four Dublin local authorities: Cork City/County, Waterford City/County, Limerick City/County and Galway City/County areas based on CSO data. The relatively lower prices in Roscommon and Sligo are indicative of very few transactions in 2019, which were predominantly one-off new builds.

Figure 4: Time to save a deposit for average FTB household purchasing the median FTB new property (2019)



Source: CSO, EY-DKM. Note: EY-DKM estimate of household income based on CSO data

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There are a number of factors which explain current housing market issues

The analysis of why the housing market is not functioning properly concluded as follows:

- **The current density guidelines:** 35-50 dwellings per hectare in urban areas, over 50 dwellings per hectare in more central urban areas or on sites served by high frequency public transport, and between 20-35 dwellings per hectare in areas at the edge of smaller towns and villages are often promoted. However, these can be in areas that are difficult to justify as viable and are sometimes at odds with the market. On some sites, a number of factors such as location, design and capital costs often make the development of apartment based schemes unviable.
- **SHD planning process:** It is acknowledged the Strategic Housing Development (SHD) Initiative had a positive impact on housing supply but the process is onerous, due to the level of supporting documentation required. The activation rate in terms of the number of successful SHDs that had commenced on site was found to be lower than expected by the SHD Review Group; yet there is a "use it or lose it" measure if works are not commenced within 18 months is under consideration.
- **Planning delays:** Delays in the planning system due to invalidations, which are typically due to administrative matters rather than the substantive planning matters.
- **Post grant of planning permission**: Planning permissions with conditions often require further compliance submissions. Such submissions can take several weeks or months to prepare, with development delayed in the interim. Despite being included in the 2018 Planning Act, the Commencement Order for section 23(4) that would compel planning authorities to reply to pre-commencement conditions in a timely fashion has yet to be signed. That leads to legal uncertainty in determining compliance with the terms of a permission and the commencement of development.
- **Electronic planning process for local authorities**: The absence of a fully-functioning and streamlined electronic planning system, which has been under discussion since 2008, continues to delay the planning process. This is particularly pertinent due to Covid-19.
- **Delivery on State lands:**

  The LDA, as the key driver of housing supply with control over significant public lands, is focused on state led schemes.

  The intention is that the LDA would have first refusal on any State lands being offered for sale. The full potential residential delivery capacity of State owned lands can only be established when there is a complete database on the quantum and location of all public lands.

  The Programme for Government sets out a range of areas and powers which will be legislated for to ensure the LDA can deliver on its core objective of delivering "sustainable, climate resilient, low carbon housing" in sustainable communities. These include Compulsory Purchase Order (CPO) powers of public lands, including small parcels of land which may be blocking the development of larger sites.

  Public lands currently have the potential to deliver up to 5,000 new dwellings beyond 2022. These are to be a mix of social (10%) and affordable (30%) housing, comprising discounted homes for eligible purchasers under an affordable home purchase scheme as well as cost rental for tenants. To provide new units efficiently and cost-effectively, the LDA should consider harnessing the expertise and scale of the private construction sector in managing the cost and delivery of high quality, affordable housing.

  The LDA should assess whether segmenting their larger schemes into smaller lots to create competition for smaller home builders, would support the delivery of more affordable units more quickly
- **Vacant Site Levy (VSL):** The VSL introduced in October 2018 can be punitive to those genuinely seeking to develop lands, with some sites placed on the Register shortly after agents and home builders approach planning authorities in pre-application discussions. The levy has given rise to disparities across the country and is diverting attention from those seeking to develop lands but are delayed due to a lack of services or infrastructure, which are the responsibility of the State and/or local authorities. The system can penalise home builders for not delivering when the reasons for the delays often relate to planning related challenges which impact the commencement or viability of a development.

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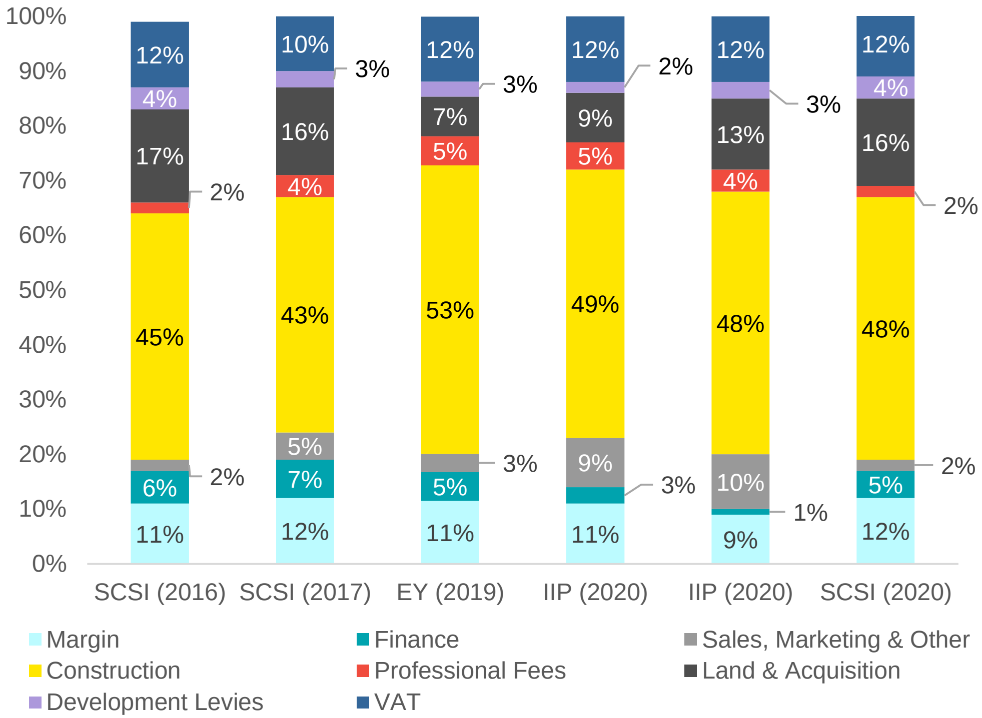
Housing issues can also be attributed to the increased cost of delivering a new home over the past five years

The analysis of why the housing market is not functioning properly has also attributed it to the increased cost of delivery of new homes. An analysis of previous research on the composition of the delivery costs for new housing found that:

- Estimates for the total delivery (pre-Covid-19) cost in 2020 ranged from €330,300 for a 2-bed townhouse in Dublin (IIP), €371,311 for a 3 bed-semi-detached house in the Greater Dublin Area (SCSI) to €463,100 for a 2-bed apartment in Dublin (IIP).
- One significant cost, outside of the builder's control (and controlled by Government), is VAT which is applied at a rate of 13.5% and ranges from €39,000 to €55,000 per unit.
- Construction ("bricks and mortar") costs comprise between 43% to 53% of the total delivery costs.
- This leaves between 47% and 57% representing the 'soft' costs, which comprise sales and marketing, consulting and design fees, development contributions, financing costs, site acquisition costs, builder's margin, VAT and contingency.
- The SCSI (2020) estimate land and acquisition costs at 16% of the average price of a 3-bed semi-detached house in the Greater Dublin Area, but note that there can be a significant variance in land values throughout the country. As well as locational factors (i.e. access to amenities and public transport), other factors influencing land costs are density, risk, topography and demand, according to the SCSI.
- Other studies also acknowledge that land is a highly volatile cost which depends on, among other variables, the size and location of the site. There is a high degree of variability with regard to land and acquisition costs, which range from 7% to 17% of the total delivery price.
- Professional fees account for between 2% and 5%, while finance costs account for circa 7% of the total delivery price.
- The developer's margin/risk typically accounts for between 9% and 12% of the total delivery cost and is the typical industry requirement with funders. This margin covers the developer's risk as well as the cost of overheads and other input costs, including land.

Figure 5: The composition of the sales price of residential units for selected house types



Notes:

- SCSI (2016): 3-bed semi-detached house, Greater Dublin Area, Selling Price: €330,493
- SCSI (2017): 2-bed apartment, Dublin, Selling Price: €442,938
- EY-DKM (2019): 2-bed apartment, Cork city suburbs, Selling Price: €438,752
- IIP (2020): 2-bed town house, Dublin, Selling Price: €330,300
- IIP (2020): 2-bed apartment, Dublin, Selling Price: €463,100
- SCSI (2020): 3-bed semi-detached house, Greater Dublin Area, Selling Price: €371,311
- Other costs capture contingency costs, development staff, legal and admin costs, Part V costs and Irish Water and other utility connections.

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Actions to address housing challenges must be focused on reducing the financial burden for FTBs

Options to address affordability and increase housing supply

A number of actions could be introduced over the short and medium-term to reduce the cost of delivery of new housing and increase supply, and ultimately improve affordability. As with any business, additional costs are likely to be passed on to the final customer and thus all measures should be focused on reducing the financial burden on FTBs and NHPs. The proposals in the following pages are those which should be implemented with immediate effect. These and a number of other measures which can be implemented in the short to medium term are set out in Section 6. They are grouped under the following headings:

- ✓ Supporting FTB and NHP affordability and increasing supply
- ✓ Densities
- ✓ The cost of construction
- ✓ Planning system
- ✓ Land management - Servicing of lands and the delivery on State lands
- ✓ Access to and cost of funding
- ✓ Regulation
- ✓ Taxation

Many of the proposals which follow will also facilitate an improvement in the productivity of the residential development process by a combination of the following:

- The availability of better information on the quantum of zoned lands in the private and public sector, which can better inform a programme for the servicing of zoned lands
- A greater collaboration between Government, the Land Development Agency, the private housebuilding industry and other stakeholders
- A range of improvements proposed for the planning system
- Measures to reduce the cost of construction by improving the use of technology, off-site manufacturing and modern construction methods where funding is available to permit same
- Ensuring a public procurement process and access to funding which effectively mobilise smaller home builders

Housebuilding makes a significant contribution to Exchequer revenues and GDP

This report acknowledges the complexities in the residential development process. However, it highlights the significant economic impacts of housebuilding. A separate analysis by EY-DKM (July 2019) estimated the additional Exchequer revenue (i.e. profits taxes, payroll taxes, social insurance contributions, consumption taxes and Local Authority contributions) generated from apartment construction at one-third of the total sales price. * Assuming broadly the same relationships as for all residential development:

- ✓ Every 1,000 new dwellings completed would deliver €115.5 million in additional Exchequer revenues and development contributions. Based on this the 21,133 units delivered in 2019 would have generated €2.44bn in revenues for the State.

In a separate Economic Impact Assessment of the Construction Industry prepared for the CIF (July 2020), the direct, indirect and induced impacts of the activities of the construction industry were estimated and found that:

- ✓ Every €1m increase in construction would deliver an additional €1.85m of economic output and 12.1 full-time equivalent (FTE) jobs after all direct, indirect and induced economic impacts are taken into account.
- ✓ This output would generate a total Gross Value Added (GVA) of €2.27m. This would represent the industry's contribution to Irish GDP (or the profits and wages generated) in the year of the investment.

The above illustrates the significant economic returns generated from residential construction and highlights why investment in housing that is well planned and affordable needs to be prioritised and facilitated. There are also the wider improvements in quality of life for all citizens who can access good quality housing, suited to their needs, in a good environment and in a sustainable community, at the tenure of their choice.

* Viability and Affordability of Apartment Building in Cork City, EY-DKM 2019.

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Summary of options for immediate action – Supporting affordability and increasing housing supply

SUPPORTING AFFORDABILITY

1 Introduce a Shared Equity Scheme

- Introduce a State Backed Shared Equity Scheme for affordable units on private lands, supported by a Government funded equity loan, for 25-30% of the price, depending on house type and location. This would be modelled on the Help to Buy Equity Loan Scheme in England which was a key driver of the increase in supply due to the additional demand created from buyers who could not buy without the scheme

2 Extend the Help-to-Buy Scheme

- Extend the increased tax relief of up to €30,000 announced in the July Stimulus from 31 December 2020 to 31 December 2025 in light of the recent events with Covid-19. This will provide support to potential buyers and more certainty for home builders and consumers in the coming years

3 Rental payment history and increasing discretion limits for FTBs

- Consideration should be given to taking the rental payment history of applicants into account in the mortgage application process to allow for a smaller deposit.
- The impact of increasing the 5% discretion to 10% for new lending to FTBs above 90% should be assessed
- The impact of increasing the 20% discretion to 30% for new lending to FTBs above the 3.5x limit should be assessed

INCREASING HOUSING SUPPLY

1 Restore vacant properties to residential stock

- Encouraging the conversion and restoration of vacant properties through some form of retrofitting incentive would help return some of the estimated 91,000 (Geoview Residential Report, Q2 2020) vacant properties back to the market.
- Investigate the potential to facilitate the use of space above shops for use as living space.

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Summary of options for immediate action – Densities and reducing the cost of construction

DENSITIES AND PLANNING GUIDELINES

1 Reassess guidelines

- Prepare a review of all planning guidelines. For example, streamline design standards nationally in terms of garden sizes, garden walls, bin stores, bike stores etc. all adding unnecessary costs and affecting the amount of space available for development. Many guidelines are outdated or still in draft, and a review and finalisation of them will ensure that they are fit for purpose.

2 Reassess densities

- Current density guidelines result in densities being promoted in areas that are not viable. Decisions are forcing the design of higher density in locations where 1) there is no market; and 2) it is uneconomical to deliver the homes. A holistic review is required of levels of appropriate density in the context of location and proximity to public transport corridors, private and public open spaces, parking and privacy. The minimum standard of 35 dwellings per hectare needs reassessment as there may be a valid case (location dependant) where 25-30 units per hectare is more appropriate.

REDUCING THE COST OF CONSTRUCTION

1 Offset mechanism for provision of services

- There is a need to review the current arrangement where the first builder in a particular location funds the delivery of services which are significantly above their requirement, and which subsequent developments do not contribute to. Alternately, there should be an offset mechanism for recovery at a later stage when other builders come into the same area.

2 Waive development levies

- Section 48 development levies should be waived for city centre designated areas for a short-term period (e.g. up to 2 years) to encourage apartment development (similarly Section 49 levies could be reduced/deferred/waived)

3 Consider reducing the State take to support FTBs

- On the basis that the State takes 20% of the average delivery cost of a new home, consideration should be given to reducing this component for FTBs

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Summary of options for immediate action – Streamlining the planning system

STREAMLINING THE PLANNING SYSTEM

1 "Root and Branch Review"

- Commit to a root-and-branch review of the Irish planning system. Rebuilding Ireland envisaged that this would be undertaken and completed by Q1 2017 but this has yet to occur and is significantly overdue.

2 Provide outline planning permission early in the process

- Restructuring the planning process so that an outline planning permission can, where appropriate, be obtained early in the process which agrees the general parameters for development, such as, use, height, density, roads, services, open space. Public consultation and objections can be fleshed out at this early stage. This will reduce the cost of design and reduce the timeframe for delivery, along with de-risking projects earlier in the development process, which could reduce the cost of financing. When a project is altered or refused at the final hurdle in the planning process it is costly for home builders and inefficient for local authorities.

3 Local authorities to offer a full pre-validation service

- Introduce a (compulsory or opt-in) pre-submission validation check by a planning authority. It should provide for a more customer-centric planning system by reducing the risk of invalidation. This would ensure planning applications are validated as quickly as possible to minimise the amount of time and effort that otherwise has to go into returning the planning application.

4 Viability assessment of high densities

- Over a defined metric, a planning application should include an economic assessment. Current density guidelines are overly prescriptive, especially in highly-populated areas. Viability should ultimately be one of the determinants of whether a proposed development goes ahead.

5 Online planning service

- Expedite the delivery of an electronic planning system in order to streamline and speed up the planning process

2 Executive summary

Summary of options for immediate action – Servicing of lands and delivery on State owned lands

SERVICING OF LANDS

1 Register of all lands

- The Department of Housing, Planning and Local Government should work in conjunction with the Land Development Agency to establish a register of all lands zoned (public and private) by local authority functional area which should identify the land use and the deficit with respect to services. This would facilitate a programme (timeline and funding) to be put in place for the delivery of those services.
- For lands where the provision of services cannot be accommodated to meet areas where there is a housing demand, the local authority should rezone additional lands to meet the housing need while they are waiting for the services to be brought on stream for the longer-term lands. The register should be fully transparent for everyone to review and update as necessary.

2 Servicing of zoned lands

- Providing services to zoned land will increase the supply of zoned and serviced land in the market. The current system is promoting higher land values by virtue of the fact that the lands which can be serviced and get through the planning system are commanding a premium. In addition, providing these services will incentivise landowners to sell their lands as they are now more attractive to home builders and are at a more advanced stage in the development process, shortening the period to secure planning permission. This servicing of zoned lands would open up enhanced funding options and certainty of delivery.

3 Funding of Irish Water

- Irish Water need to be adequately funded and given set timelines for the upgrading of services to ensure a faster servicing of lands.
- An alternative is that the private sector undertake this work and have the cost offset against contributions.

DELIVERY ON STATE OWNED LANDS

1 Land Development Agency

- Land Development Agency (LDA) to link with the private industry for delivery and use their expertise
- The LDA should be drawing from the resources and skill sets of the private sector to bring efficiencies to the schemes they are developing. The private sector may design units which the market wants in a more cost-effective way.

2 LDA to open up sites to smaller home builders

- Once planning permission is secured on larger sites, the LDA should assess if segmenting larger schemes into smaller lots, to create competition for smaller home builders, would support the delivery of more affordable units more quickly. In a situation where all lots on the land are active at the same time, there may be scope for efficiencies, as opposed to one single builder controlling the whole site.

2 Executive summary

Summary of options for immediate action – Access to funding, Regulation and Taxation

1 Access to and cost of funding

- The cost and availability of development finance is a major factor that is contributing to the delay and supply of housing. An assessment should be undertaken on how small home builders can be funded at an economic rate to allow development to proceed across the country.
- Provide accessible funding to all parts of the country at competitive rates equal to / or competitive with the pillar banks
- The State, through House Building Finance Ireland (HBFI), should access lending from the EU and lend at a rate which will facilitate the commencement of new developments
- Utilise the HBFI platform to lend on licence agreements where home builders do not have first charge on land
- Expand the 'Momentum Fund' beyond the initial period of Covid-19 into 2025 at a minimum
- Waive or reduce fees for drawdown and repayment as this has a significant impact on viability

1 Regulation

- There should be a cost benefit assessment of current regulations and standards, including a benchmarking against other countries. Any new regulations should be carefully evaluated against their impact on the viability of residential construction and subject to a cost benefit analysis to ensure they do not undermine the deliverability of new housing supply
- The current system which allows local authorities, through their development plans, to apply different design standards, should be reviewed.

2 Taxation - Support sustainable development

Consideration be given, subject to EU approval if required, to expanding the scope (and duration) of tax relief available under the Living City Initiative, to incorporate newly constructed apartments in designated urban areas. This expanded relief could be targeted at owner occupiers and owners of vacant properties and small scale landlords. The focus of the expanded relief would be to provide a buy side incentive to specifically encourage apartment construction and the return of vacant properties in urban areas, thereby supporting national policy objectives on sustainable compact growth

1 Taxation - Rebate to FTBs

- In a situation where development contributions are not replaced by a more equitable Local Property Tax for all property owners, a rebate of contributions paid should be provided to FTBs over a defined period and banks should factor this rebate into the mortgage repayment model.

3 Taxation - Tax regime for small scale landlords

- To ensure retention of small scale landlords/investors, there should be a level playing field with respect to tax treatment. Hence measures should be assessed to ensure small and largescale landlords are taxed on an equivalent basis.

3

Introduction and background

Background

For many years the overall stated objective of housing policy has been to "enable every household to have available an affordable dwelling of good quality, suited to its needs, in a good environment and as far as possible at the tenure of its choice".* The general principle underpinning this housing objective was that those who can afford to provide for their housing needs should do so either through home ownership or private rented accommodation and that targeted supports should be available to others having regard to the nature of their need. This vision remains similar today, with the added provision that the affordable dwelling should be made available in sustainable communities.

The current policy subsequently set out in Rebuilding Ireland in July 2016 raised high hopes with an investment programme of €6 billion, based around five pillars.** These are to address the housing needs of homeless people, accelerate the provision of social housing, build more homes, improve the rental sector and ensure the existing housing stock is used to the maximum degree possible. A key objective of the Building Homes pillar is to focus on improving the viability of housing and ramping up the production of additional new housing stock in regional cities with a balanced approach between providing housing for owner occupation and both private and social housing for rent.

Four years on, housing remains a policy challenge for Government since housing supply plummeted to 4,575 units in 2013. The key challenges are a lack of housing supply, a significant homelessness problem, social housing deficits, rising demand across all tenures, and house price and private rental inflation, which, although moderating of late, have resulted in housing affordability issues for many potential first-time buyers (FTBs) and renters.

Moreover, housebuilding levels remain substantially below what is needed. Under 10,000 new dwellings were delivered in 2016, the year of Rebuilding Ireland. 21,138 new dwellings were delivered in 2019 and a total of 70,550 over the past five years. Initial projections for output in 2020 show it falling to around 17,000 units in the wake of the COVID-19 outbreak (assuming no further lockdown), despite the most recent estimates from the Central Bank of Ireland and the ESRI stating that an average of around 35,000 new dwellings will be required per annum until 2030 to keep pace with the projected population growth.

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We believe that everybody should have access to good quality housing to purchase or rent at an affordable price, built to a high standard and located close to essential services offering a high quality of life. We understand that provision of more affordable housing has a profound benefit socially and economically and believe the State has a fundamental role in enabling the delivery of new homes and ensuring that best use is made of existing stock.

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Programme for Government, June 2020

* Statement on Housing Policy, February 2007
** Rebuilding Ireland 2016

3 Introduction and background
Report structure

Report Structure

This report provides an analysis of affordability in Ireland, examines the reasons why it is challenging in some locations and sets out policy solutions which can tackle the issue immediately and over the medium-term.

- **Section 1** contains the key findings on one page
- **Section 2** contains the Executive Summary which details the key findings of the report.
- **Section 3** sets out the context for this report.
- **Section 4** examines the Irish housing market up to 2020 from both a demand and a supply side perspective, and outlines the existing policy measures which have been introduced over recent years.
- **Section 5** contains an analysis of housing affordability in Ireland, including a detailed assessment of the affordable property price for a single person and a working couple, the deposit and the potential earnings required to purchase the current median FTB new house price across the country.
- **Section 6** examines why there is a persistent housing affordability problem, focusing on a number of issues, ranging from planning and density to construction costs and land management, while acknowledging the complexity of the residential development cycle
- **Section 7** sets out a comprehensive suite of policy measures to tackle the housing affordability problem.
- **Section 8** contains appendices

4

Irish housing market

4 Irish housing market

The future housing requirement is between 460,000 and 760,000 over next 21 years depending on population growth

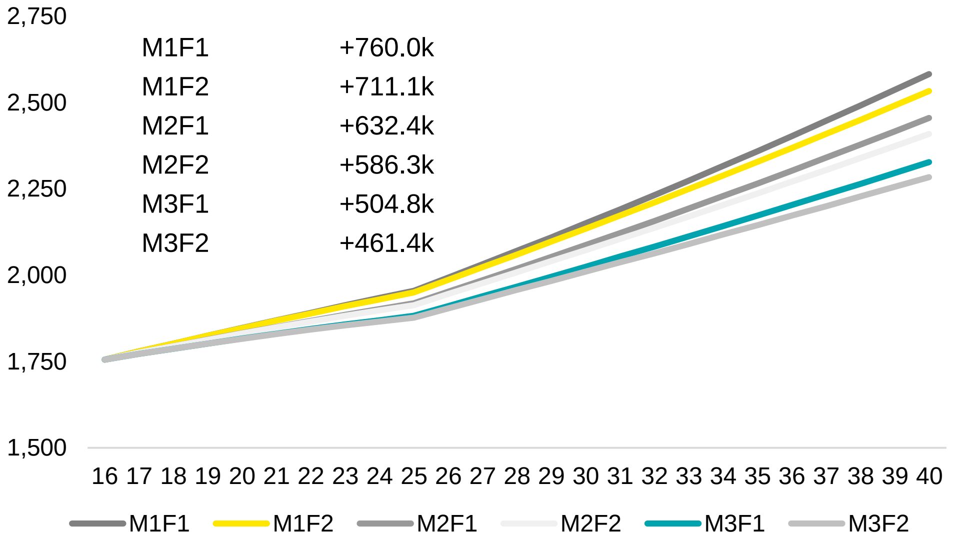
What level of housing supply is required?

The National Planning Framework (NPF) vision for Ireland forecasts an extra million people living in the country by 2040. The State's population is currently estimated at 4.9 million (2019), which implies an annual average population growth of 0.9% since 2011. Based on an additional 1 million persons by 2040, the average annual growth is projected to be similar at 0.9% over the next 21 years.

Other projections released by the CSO (2018) provide a wide envelope of scenarios, with the population in 2040 forecast to range from 5.4 million to 6.1 million, based on various assumptions about fertility, mortality and migration. This corresponds to an annual average growth of between 0.5% and 1.0% over the next 21 years.

Ireland's average household size was 2.7 at the time of the last Census (2016). Based on assuming that it remains at 2.7 until 2024 and starts to fall towards the current UK average household size of 2.37 person per household from 2025 onwards, this implies a requirement of between 460,000 (average 22,000) and 760,000 (average 36,000) new homes by 2040.

Figure 6: Projected Households in Ireland to 2040 and increase 2019-2040



Source: CSO Population Projections. EY-DKM assumptions on average household size. For scenario assumptions, see the Appendix.

1 **The total number of new homes provided in the last 21 years 1999-2019 was almost 800,000 or an average of 38,000 per annum.**

2 **This compares with an average of under 16,000 new dwellings provided in the four years since Rebuilding Ireland and an estimate of around 17,000 new dwellings for 2020 (assuming no further lockdown)**

3 **Ireland's population requires up to 36,000 new homes on average over the next 21 years**

Where should required housing be located?

As Ireland has been underbuilding for the past decade, it provides an opportunity to step back and consider the vision society wants for the future pattern of development across the country. The requirement of up to 36,000 new homes per annum needs to be delivered in the right locations to ensure sustainable development and an improved quality of life for all citizens.

One of the key objectives of Project Ireland 2040 and the National Planning Framework (NPF) is to achieve compact, smart and sustainable growth. There are ambitious targets for the five cities, which are being targeted to deliver 50% of overall national growth between them, with Ireland's large and smaller towns, villages and rural areas accommodating the other 50%. On the housing front, the settlement pattern envisaged in the NPF is that at least 40% of all new housing is to be delivered within the existing built-up areas of cities, towns and villages in infill and/or brownfield sites. The remainder is to be delivered at the edge of settlements and in rural areas.

Recognising that brownfield and infill sites will be costly to develop, due to the need to be decontaminated, and will take time, a programme for the medium to long term with financial aid should be determined to ensure these sites have the capacity to deliver the 40% of new housing expected from them. An assessment should be undertaken to ascertain the quantity of brownfield sites.

Both Government and local authorities at a local level are responsible for the promotion of policies for sustainable development and related planning policies. Such policies need to be realistic and should ensure that the total cumulative cost of meeting the requirements set down by those policies does not undermine the deliverability of new housing and thus the objectives of Project Ireland 2040.

Thus a refocus on the type, location and density of housing that Ireland needs to build may be warranted given the substantial building programme which is required and the objectives set down in the NPF. This focus is further warranted due to Covid-19 which is changing attitudes to lifestyle and working patterns. Whether widespread working from home becomes the 'new normal' remains to be seen but it is a factor which may have implications for the spatial distribution and type of new housing delivered in the future.

4 Irish housing market

Housing supply since 2008 has significantly lagged the long term average supply – private housing supply in 2019 at levels last seen in the 1970s

What level of housing supply has been delivered?

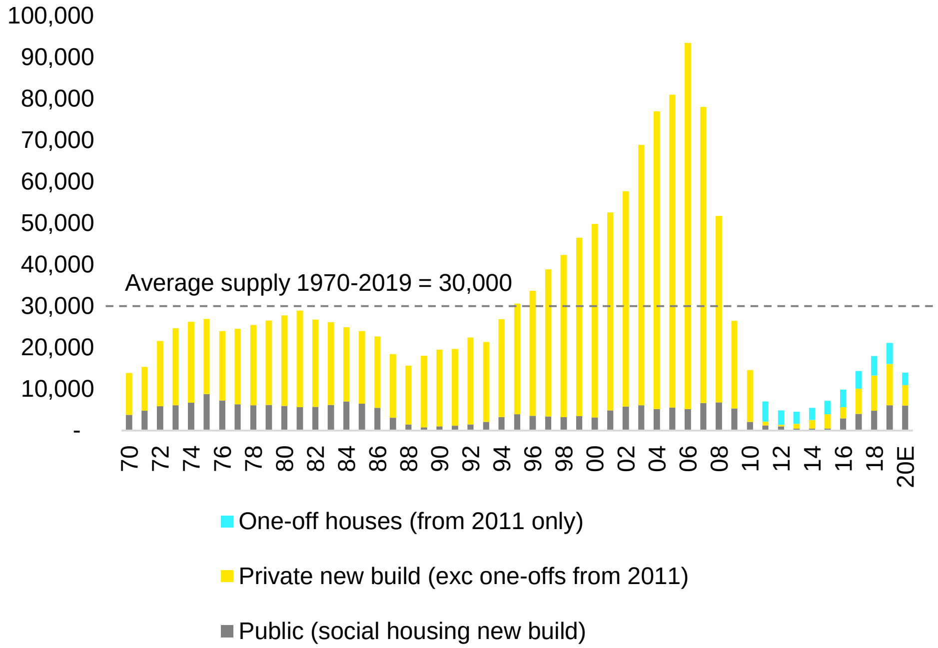
In examining the future requirement, it is useful to review historical housing supply levels. The chart opposite provides the public/private breakdown of housing supply since 1970. The data is based on ESB connections as a proxy for housing supply up to 2010 and from 2011 onwards is based on the CSO series for new dwelling completions. The number of one-off/single houses are provided, based on the CSO data, since 2011. These units are typically not offered for sale in the open market.

From the data it is evident that the public sector delivered an average of around 6,200 new units per year in the 1970s and c.4,800 new units in the 1980s. The public sector contribution fell to an average of c.2,700 throughout the 1990s and following a recovery to an average of c.5,500 in the 2000s, declined again during the financial crisis to an average of c.2,400 units in the decade commencing in 2010.

In contrast, the private sector contribution to housing supply (including one-offs) was almost three times higher than the public sector in the 1970s (average c.17,000) and almost four times higher in the 1980s (average c.19,000). The exceptional market circumstances during the 1990s and the first decade of the 2000s led to a tenfold increase in the contribution from the private sector compared with public sector building levels. Latterly, since 2010, the private sector contributed an average of around 8,800, including one-offs, or almost four times the corresponding public sector supply level in this period.

A closer analysis of the data allows a further breakdown, taking account of the different market segments which have emerged over recent years, notably the private rented sector (PRS) market, which provides much needed rented accommodation, which otherwise might not be built. In 2019, when the 6,074 social housing units, the 5,065 one-off units and the estimated 2,850 PRS units are excluded, the actual units available for owner occupation (including small scale investment demand), is around 7,150 or just one-third of the overall total units built in 2019.

Figure 7: Housing Supply over 50 Years



Source: CSO, Department of Housing, Planning and Local Government

Note: The public sector captures all new social housing supply from local authorities, approved housing bodies, Part V new build and local authority voids which were brought back into use. It is estimated, from data published from the Department of Housing, Planning and Local Government that the total number of units acquired under Part V was 18,251 between 2002 and 2019. It is assumed these are captured under the private sector contribution and thus accounted for around 4% of total private sector units over this period.

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Based on the current estimate for completions in 2020 of 17,000, the number of units available to purchase for owner occupation will be around 5,000 or 29.4% of the total.

4 Irish housing market

An estimated 80% of apartment granted planning permission in year to March are likely to represent PRS units in Dublin and Cork

A prerequisite for an expanding economy

The previous pages illustrate the significant underbuilding over recent years despite the substantial housing requirement. While there are challenges with respect to delivering an adequate, well-planned and affordable housing supply, these need to be addressed urgently. An adequate, well-planned and affordable housing supply is a prerequisite for an expanding and successful economy as it:

- Facilitates the growth in the population and supports the competitiveness of the economy
- Improves Ireland's ability to attract and retain talent and foreign direct investment
- Can deliver compact growth in urban areas, which is the cornerstone of Project Ireland 2040 and the National Planning Framework
- Can address climate change issues by delivering sustainable development, allowing people to live close to their place of work
- Improves quality of life for those who can access affordable accommodation

Key performance indicators of housing supply

The main housing supply indicators are provided from different sources and are not always consistent with each other. Planning permissions have a five year life and do not always result in completions. Assuming a one-year lag between commencements (as a proxy for housing starts) and completions, the totals for each are broadly similar. However, the number of commencements excludes local authority starts, which are captured in the total completions series.

Focusing on more recent housing supply indicators the following trends are evident:

- **Planning permissions** were granted for 47,548 units In the year to Q1 2020. This represented a 64.1% increase, when compared to the four quarters to Q1 2019. Underpinning this sharp increase was a surge in apartment units, up 180.7% YoY to 27,688 units in the most recent 12 month period. Almost three-quarters of the total apartments were granted in Dublin, or 80% if Cork is included, representing potential PRS units. This implies around 20% are likely to represent units for sale in the private market.
- There were 23,929 **commencements** in the twelve months to June 2020, representing a 1.2% decline in housing starts vis-à-vis the twelve months to June 2019.

Figure 8: Key Housing Supply Performance Indicators

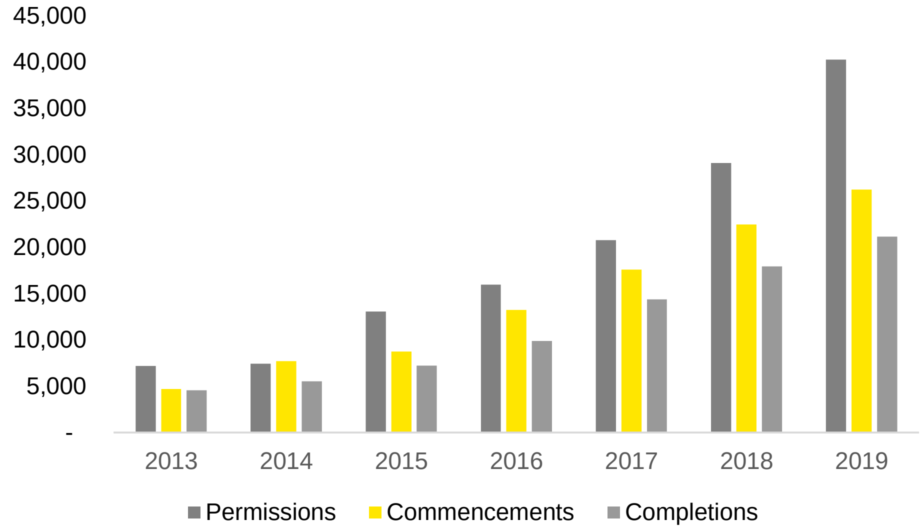


Table 1: Housing Supply Indicators

	2014	2015	2016	2017	2018	2019	Yr. to Q2 2020*
Permissions	7,411	13,044	15,950	20,776	29,102	40,252	47,548
Annual % change	2.9%	76.0%	22.3%	30.3%	40.1%	38.3%	64.1%
Commencements	7,700	8,747	13,234	17,572	22,467	26,237	23,929
Annual % change	63.6%	13.6%	51.3%	32.8%	27.9%	16.8%	-1.2%
Completions	5,518	7,219	9,886	14,353	17,944	21,133	20.309
Annual % change	20.6%	30.8%	36.9%	45.2%	25.0%	17.8%	6.0%

Source: CSO, Department of Housing, Planning and Local Government, CSO.
* Planning permissions figure is 4 quarters to Q1 2020.

4 Irish housing market

Just 29% of total supply in 2020 is expected to be available for the private owner occupier market

Review of housing supply indicators (continued)

- Total **housing completions** declined by 31.9% YoY to 3,290 units in Q2 2020, which was a lower drop that expected, given that sites were closed for seven weeks. This followed a 17.2% YoY increase in Q1 2020. Current completions are high as home builders are finishing out developments. However, the 45.7% YoY decline in commencements in Q2 2020 will have a knock on impact on completions in 2021 and beyond.
- There were 18,761 homes **available for sale** nationwide on 1 June 2020, according to Daft.ie - the lowest since October 2006. The stock of available properties to buy was down 22.4% YoY, driven primarily by 26.1% and 25.8% falls in Dublin and Munster respectively.
- The corresponding number of homes **available to rent** nationwide on 1 June 2020 was 4,089, up 3.3% on the same date a year previously. This minimal change in the rental stock nationally masked significant volatility on a regional basis – in Dublin, the availability of rental homes rose by 46.8% YoY, while in the rest of Leinster and in Munster, availability declined by 31.4% and 34.7% respectively.

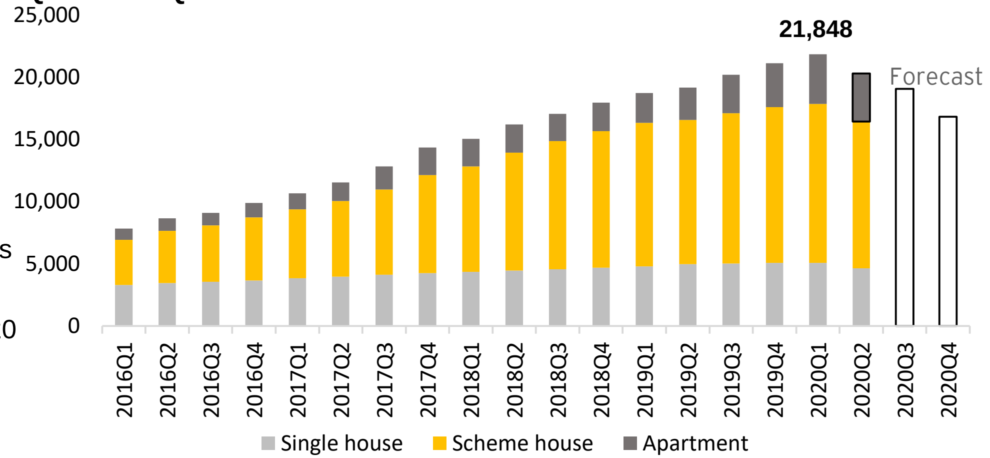
Covid-19 has meant that residential construction ceased for 7 weeks until 18 May apart from a limited number of social housing sites. This implies that housing supply in Ireland is set to significantly undershoot the 2019 total of 21,133 units and the 24,000 units initially projected by EY-DKM for 2020. EY-DKM's revised 2020 forecast expects supply to fall to around 17,000 completions in 2020, assuming no further lockdown.

When the estimated 6,000 social housing units, the 3,500 one-off units and the estimated 2,500 PRS units for rent are excluded, the actual units available for owner occupation (including small scale investment demand), is around 5,000 or 29.4% of the overall total units expected to be delivered this year.

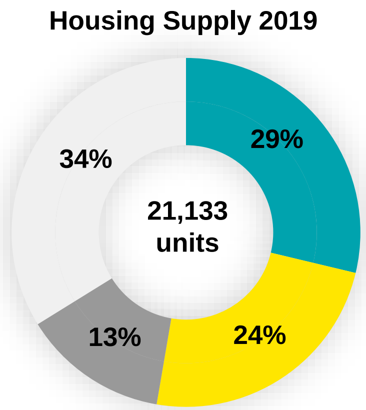
Furthermore, the outlook for housing output in 2021 is extremely uncertain. In its severe scenario, the Central Bank forecasts that housing completions will number approximately 11,000 and 13,000 units* in 2020 and 2021 respectively, with further virus containment measures, reduced credit from banks, declining house prices and heightened uncertainty all elements that are likely to adversely impact the housing market. At the time of writing and taking trends in commencements into account, the expectation is that the total supply in 2021 will be around 18,000 in a baseline scenario, assuming the virus is contained.

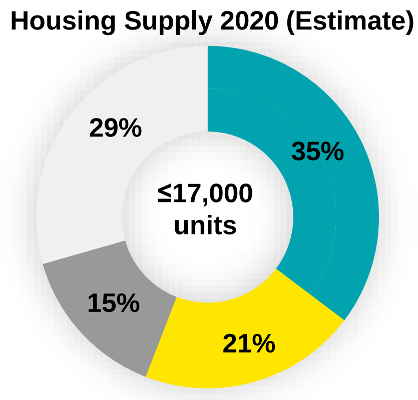
*https://www.centralbank.ie/docs/default-source/publications/quarterly-bulletins

Figure 9: Total Housing Completions by Type - running four quarter total Q1 2016 to Q4 2020



Source: CSO





Social housing units
PRS units for rent
One-off houses
Private owner occupied units for sale

Factors impacting housing demand

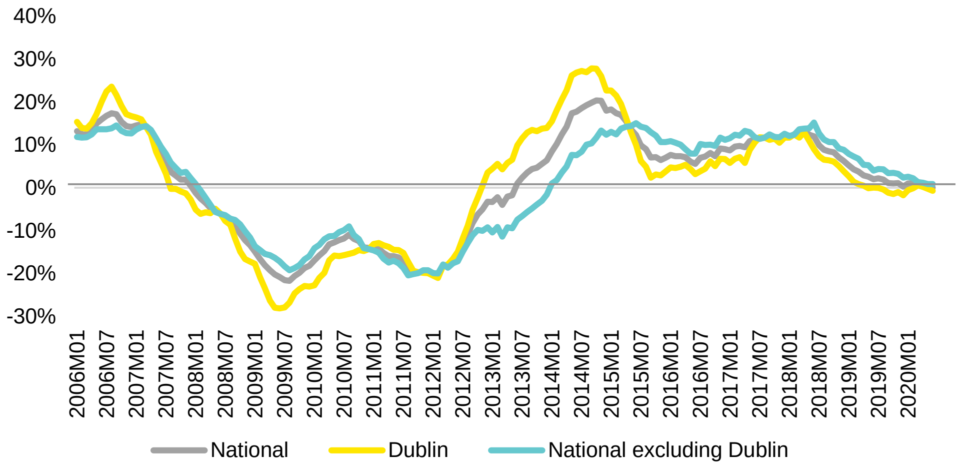
The long-term demand for housing is determined primarily by underlying household growth, which in turn, depends on the rate of population growth and changes in household size, as already stated. Housing demand in the short-term is influenced by a range of other factors which cause demand to deviate from its long term 'normal' level of demand. As the supply of housing is fixed in the short term, any changes in demand tend to be caused by these short term factors which give rise to imbalances in housing demand and supply. These short term factors will include factors such as:

- Economic activity, employment growth and incomes
- Potential buyer confidence
- Housing affordability, in terms of incomes, house prices, mortgage rates and rent
- Government housing policy measures
- Other factors, such as the demand for second homes, demand from returning emigrants, inheritance and separation/divorce.

The impact of the above factors can be examined from a review of the trends in the various demand side indicators.

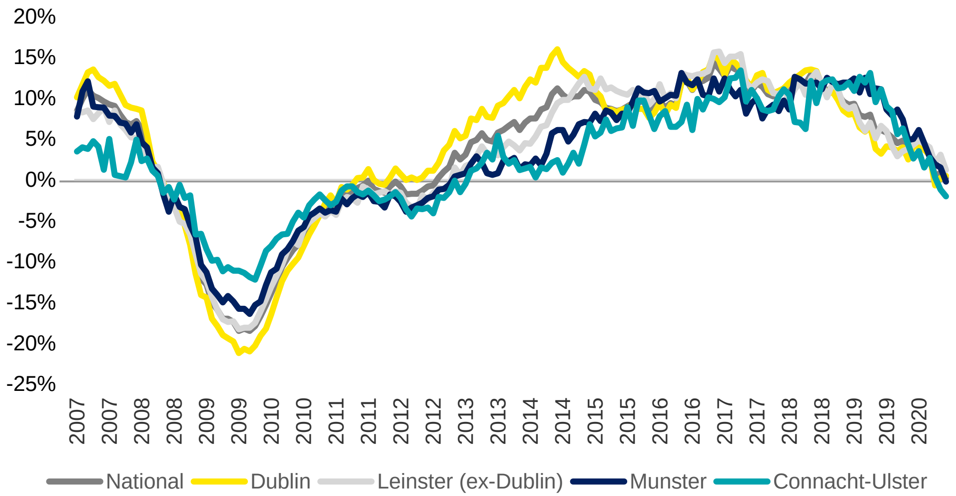
- The residential property price index nationally peaked in April 2007 and subsequently declined by 55.1% by March 2013. Prices reached a new peak in October 2019 (+85.3% since March 2013). The annual rate of house price inflation moderated to 0.1% in June 2020 from 13.4% in April 2018. By June 2020, property prices were 17.8% below their 2007 peak.
- In Dublin the corresponding property price index peaked in February 2007 and subsequently declined by 59.6% by February 2012. Prices reached a new peak in October 2018 (+97.7% since February 2012). The annual rate of house price inflation in Dublin turned negative in August 2019 (-0.4%) and was -0.7% in June 2020, after peaking at 13.0% in April 2018. By June 2020, property prices in Dublin were 22.8% below their 2007 peak.
- According to Daft.ie, the average listed monthly rent nationwide in June 2020 was €1,402 (+0.2% YoY). This represents a significant slowdown in annual rent inflation, from a peak of 14.3% in November 2016. Average monthly rents in June 2020 were highest in Dublin (€2,023), and lowest in the Connacht-Ulster region (€859).

Figure 10: Residential Property Price Index – Annual % change by month



Source: CSO (up to June 2020)

Figure 11: Average listed rental prices – YoY % change by month



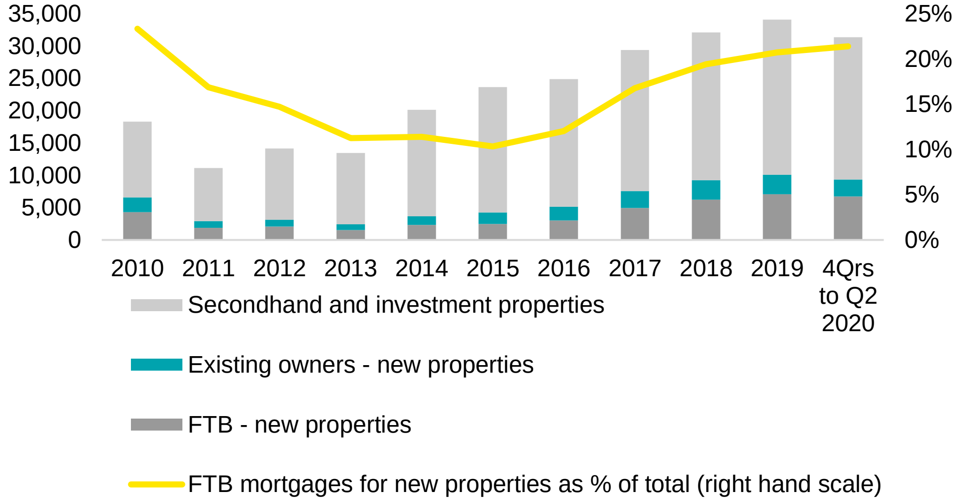
Source: Daft.ie Housing Market Report, June 2020

Sales of new properties represented 62% of all new supply nationally and less than half of new supply in Dublin in 2019

Trends in property transactions

- The total property transactions declined by 23.9% in the first five months of 2020 on the same period in 2019. This followed a total of 45,232 property transactions in 2019, up from 39,385 in 2015. Of the total, there were 8,673 (19.2% of total) sales of new properties last year, up from 4,563 (11.6% of total) new property sales in 2015. Thus the volume of new units sold increased almost twofold since 2015, the year before Rebuilding Ireland was published. These sales of new properties are equivalent to 63.2% and 62.0% of new supply in 2015 and 2019 respectively, based on property transactions data.
- Almost one-third or 14,610 of the total transactions in 2019 were in Dublin, up from 11,966 in 2015 (30.4% of total).
- There were 3,309 (22.6% of Dublin total) sales of new properties in Dublin last year, up from 1,362 (11.4% of Dublin total) in 2015. This is almost a two and a half fold increase in the volume of new properties sold in Dublin since 2015, albeit from a low base. However, the 3,309 sales of new properties in Dublin according to the CSO represented less than half (47.7%) of total new supply delivered in 2019.
- First-time buyers are key drivers of the housing market and purchased 4,392 new properties across the State in 2019, around half of the total new units transacted last year and 21% of the total new supply completed.
- In Dublin FTBs purchased 1,685 units in 2019, which also corresponded to around one-half of the total new units transacted or 24% of the total new supply delivered in Dublin last year (6,944 units).
- Taking the five main urban areas, they accounted for 8,308 of the total (new and second-hand) transactions in 2019, 18.4% of the total, up from 7,729 or 19.6% of the total in 2015. Within the five cities, there were 801 new properties transacted, of which FTBs purchased 319 units in 2019 and 69% of those were purchased in Dublin City.
- There were just 28 new properties purchased by FTBs in Cork City,47 in Waterford City and 8 in Limerick City last year, according to the CSO.
- The CSO data is based on property transactions reported on the Property Price Register and includes properties purchased with a mortgage and for cash. A more detailed analysis of properties bought by with a mortgage is available from the BPFI data which reveals further insights on FTBs.

Figure 12: Total Mortgage Drawdowns by Type of Buyer and FTB share of total



Source: BPFI

According to the BPFI

- There were 34,087 (+6.1% YoY) **mortgage drawdowns** in 2019, valued at €7.95bn (+9.5% YoY). Of this total, 7,063 FTBs took out mortgages for new properties, valued at €1.85bn, while there were 10,072 mortgages in total for new properties, with a corresponding value of €2.64bn in 2019. This total figure excludes cash based transactions which are included in the CSO data; yet the CSO reported that there were 8,673 sales of new properties in 2019 of which FTBs purchased 4,392. These figures are not consistent.
- BPFI figures show total mortgage drawdowns declined by 37% YoY in Q2 2020. The total drawdowns by FTBs declined by 34.8% to 3,285 drawdowns, and of this total, FTBs took out mortgages for 1,058 new properties in the quarter
- There is no data, however, on the number of FTBs who were not approved for a mortgage. This figure would provide useful information on the true extent of those who aspire to home ownership.

4 Irish housing market

There are a number of existing measures relating to housing affordability and housing supply

A range of measures exist in the private housing market

- Macro-prudential policy measures were introduced in 2015 to increase the resilience of banks and borrowers to negative economic and financial shocks and to dampen the pro-cyclicality of credit and house prices. Rebuilding Ireland followed in July 2016 with its five pillars aimed at addressing homelessness, the provision of social and private housing, improving the rental sector and ensuring the existing housing stock is fully utilised. Most policies in that time have focused on achieving mixed tenure housing developments and boosting housing supply, while others were intended to support demand. The main measures in the private housing market are summarised below.

Central Bank of Ireland's macroprudential rules

The rules require the home buyer to have a minimum deposit before getting a mortgage. A First Time Buyer (FTB) needs to have a minimum deposit of 10%. Second and subsequent buyers need to have a minimum deposit of 20% while Buy to Let (BTL) buyers are required to have a minimum deposit of 30%.

There are permissible exceptions to these rules where, in any given year, a lender may lend up to

- 5% of new lending to FTBs allowed above 90%
- 20% of non-FTB new lending allowed above 80%
- 10% of new lending allowed above the BTL limit

There are also Loan to Income (LTI) rules which limits the amount of money a home buyer can borrow to a maximum of 3.5 times their gross income. There are exceptions that lenders can make in any one calendar year. These include

- 20% of new lending to FTBs allowed above 3.5x limit
- 10% of non-FTB new lending allowed above 3.5x limit

The introduction of the mortgage market measures in 2015 has reduced risk and leverage in the housing market, anchoring house prices to movements in fundamentals such as supply and household incomes.

The rules are considered to be partly responsible for the moderation in the annual rate of house price inflation since April 2018. Residential property prices increased at an annual rate of 13.4% in April 2018, with inflation moderating in each subsequent month to 0.4% in May 2020. The corresponding annual rate of inflation in Dublin was -0.1% in May 2020, down from a peak of 12.9% in April 2018.

The exemption limits are relatively modest for FTBs who are the most challenged in the housing market, relative to existing owners and buy-to-let investors.

While keeping the limits intact, the Central Bank should consider allowing banks to take the rental history of potential FTBs into account when assessing loan applications.

There should be an assessment of the following impacts:

- The 5% discretion for new lending to FTBs above 90% to 10%; and
- The 20% discretion for new lending to FTBs above the 3.5x limit to 30%

The Help-to-Buy Scheme tax refund increased to maximum of €30,000 from €20,000 until 31 December 2020

Help-to-Buy Scheme

The Help-to-Buy incentive provides for a refund of Income Tax and DIRT paid over the previous four tax years, limited to a maximum of 5% of the purchase value up to a value of €500,000. The HTB refund was capped at €20,000 but was increased in the July 2020 Stimulus to 10% of the purchase price or €30,000 whichever is less until December 2020, based on the same €500,000 maximum price threshold. This incentive is available for FTBs for the period from 19 July 2016 to 31 December 2020, following which it reverts to €20,000 until 31 December 2021. The Loan-to-Value (LTV) mortgage of the applicant must be 70% or higher.

The estimated total value of approved Help-to-Buy claims to July 2020 was €287.5 million for 19,260 approved claims (out of 19,847 claims) since the scheme was introduced four years ago. * A total of 34.4% of Help-to-Buy claims have been for property values of between €301,000 and €375,000, while 35.5% have been at loan-to-value ratios of 90% and over. Almost one-quarter of claims were to self-build applicants. Almost 30% of the number of claims and one-third by value were to FTB purchasers or new property in Dublin.

The increase in the tax relief by €10,000 to €30,000 will help address affordability and alleviate uncertainty for some FTBs and home builders in the Covid-19 environment. However, with just under 3,000 or 14.5% of claims to date being for the full amount of €20,000, this increase may have very little impact. Moreover, the increase is only available until December 2020 even though the incentive is available to December 2021, leaving first-time buyers of new property with only five months to purchase a property and claim the higher amount at the maximum property price of €500,000. Consideration should be given to extending the increased refund to 31 December 2025 to provide certainty to home builders and consumers..

1 **There have been 19,260 claims approved for the Help-to-Buy Scheme in four years to June 2020 at a cost of €287.5m**

2 **A total of 4,838 or 24.3% were for self-build claimants; 30% of claims were for FTBs in Dublin**

3 **Two-thirds of claims were for properties priced in the range €226,000 to €375,000; 6.4% were for properties over €450,000**

4 **35.5% of claimants had a LTV ratio of 90% or higher**

The Rebuilding Ireland Home Loan Scheme

The Rebuilding Ireland Home Loan scheme is a Government backed mortgage for FTBs which was launched in February 2018. The total funding provided for the scheme was €563 million for the period 2018-2019. Budget 2020 saw an expansion of its loan fund by an additional €250 million. It can be used to purchase a new or second-hand property or a self-build and provides up to 90% of the market value of the property. The maximum loan amount is determined by where the property is located. The eligibility criteria for the scheme are as follows:

- The maximum market value is €320,000 in Dublin, Cork, Galway, Louth and the East Region and €250,000 in the rest of the country
- The annual gross income must be no more than €50,000 for a single applicant or not more than €75,000 where there are two earners

Loans under the scheme are subject to an interest rate of 2.745% fixed for up to 25 year or 2.995% fixed for up to 30 years.

It is reported that the Housing Agency assessed 3,036 valid applications in 2018 and recommended 1,550 for approval.** The corresponding numbers in 2019 were 2,271 valid applications and 1,133 recommendations for approval. This is a total of 2,683 approvals in almost two years.

This scheme has potential to support substantial numbers of new first-time buyers who cannot source housing loans from the private funding institutions. Government should consider providing further funding to enable a continuation of this much needed scheme and confirm an extension of the scheme. Consideration should also be given to increasing the scheme price cap nationally and for urban centres to match that of the caps proposed under the Shared Equity Scheme (page 34) based on unit type (house / apartment) and location.

The Minister for Housing, Local Government and Heritage has stated that he is considering expanding the scheme to increase the delivery of affordable homes.

* https://www.revenue.ie/en/corporate/documents/statistics/tax-expenditures/help-to-buy-stats.pdf
** https://www.oireachtas.ie/en/debates/question/2019-11-14/184/#pq-answers-184_185

4 Irish housing market
Local Property Tax revenues represent 0.1% of total housing wealth

Local Property Tax

The annual Local Property Tax (LPT) came into effect in 2013 and is a charge on all residential properties. It does not apply to development sites or farmland but is paid by all owners of residential property. The purpose of the LPT was to widen and stabilise the country's tax base. It is based on the value of property in 2013. In 2016 the taxable value was left unchanged and in 2019 the revaluation date was deferred from 1 November 2019 to 1 November 2020. Mix-adjusted house prices have increased by 64.5% since introduction of the LPT in 2013.

Local authorities may vary the rate of LPT in their administrative areas by up to 15% upwards or downwards from its base level each year. A number of councils opted to increase their LPT rate in 2020 from its base level, while others, including the four Dublin local authorities, opted to maintain the 2019 level.

The LPT is used to fund essential local services such as public parks; libraries; open spaces and leisure amenities; planning and development; fire and emergency services; maintenance and cleaning of streets and street lighting – all benefitting all citizens directly.

80% of the LPT is retained locally to fund vital public services. The remaining 20% is re-distributed to provide additional funding to local authorities that have lower property tax bases due to the variance in property values across the State.

The LPT presents an opportunity to ensure that all citizens of the State contribute to essential local services in their area. The estimated 2020 yield from LPT is €488.1 million which corresponds to 0.1% of housing wealth in Q4 2019 (€540bn, Central Bank). Research undertaken by Daft.ie found that Ireland has one of the lowest rates of annual property taxation in high-income countries, as c.1% of housing wealth is taxed each year in most of Ireland's peers.* Moreover it compares with €237.5 million collected in development contributions from residential and non-residential schemes. ** Although a split is not available, it is noted that the buyers of new homes represented 0.2% of the population using the CSO estimate of new property sales (8,673) or 0.4% using the total level of new supply in 2019 (21,133 dwellings).

A key principle of taxation is fairness. Increasing the LPT more in line with peers, for example to 1% of housing wealth, would increase LPT revenues to €5.4 billion. This would significantly boost the revenues of local authorities.

There is the separate issue as to whether a proportion of the funds collected from the LPT should be ring-fenced to provide infrastructure for the opening up of sites and the delivery of new homes as well as essential local services. The increase in supply could in turn deliver lower house prices for all.

Development levies

Development contributions are levied by planning authorities on the basis of a development contribution scheme which sets out how contributions are to be applied in their respective functional area. The charging of such development contributions is intended to partly fund the provision of essential public infrastructure and the servicing of land for private development of residential and non-residential schemes.

Development levy contributions comprise Section 48 and Section 49 contributions and can be a significant component (up to 7%) of the overall construction cost for residential schemes in some areas, which are ultimately paid for by the new home buyer.

In the case of residential schemes, Section 49 levies towards the LUAS and other infrastructure can add significantly to the price of new housing. Yet, existing property owners in the area, who are equally benefitting from these improvements, make no contribution to the improved transport infrastructure. This supports the argument for an increase in the LPT to ensure a fairer taxation system

* https://www.daft.ie/report/2019-H2-wealth-daftreport.pdf
** https://www.housing.gov.ie/sites/default/files/publications/files/amalgamation_of_audited_afs_2018_of_31_las.pdf
The income from Development Contributions of €237.5m is for 2018 the latest figure available. The Annual Financial Statement of local authorities does not differentiate between levies collected from residential and non-residential development.

4 Irish housing market

As the expected route for delivering social, affordable and cost rental units, Part V may impact viability of units for the private market

Part V requirements

The current Part V provisions in the Planning and Development Act, 2000 is a form of betterment capture as it places obligations on home builders to provide affordable housing. The rationale for Part V agreements at the time of its introduction was as a mechanism which allowed the betterment value from a grant of planning permission for residential development to be captured for the benefit of the community as a whole and in so doing, to further increase the provision of social housing. The mechanism recognises that land values can increase for a number of reasons, including the granting of planning permission.

The expansion of the Part V planning provisions to encompass affordable purchase and cost rental homes has been mooted, although it is not clear how this is intended to work. This would result in up to 20% or more of units being delivered for social and affordable units, which could potentially impact the viability of the remaining 80% of units in the scheme and the final delivery cost to the private buyer.

Capital Gains Tax

Capital Gains Tax (CGT) is charged at 33% on the capital gain made on transactions and disposal of an asset, including land. These funds go to the central Exchequer.

Local Infrastructure Housing Activation Fund (LIHAF)

The LIHAF provided €200 million in funding for the provision of large scale public infrastructure to relieve blockages and enable housing development to be built on key sites at scale. These projects funded are expected to support the delivery of up to 20,000 homes. About 40% of homes delivered under LIHAF will be sold at rates which provide a discount on market prices. Up to 3,000 will be social housing homes and the remainder will be sold at market rates.

Serviced Sites Fund

As part of the commitments in Rebuilding Ireland a total of €310 million was allocated to local authorities under the Serviced Sites Fund (SSF) over the period 2019 to 2021 to provide infrastructure to support the delivery of more affordable homes on local authority lands. The maximum funding amount is €50,000 per home and the scheme is expected to facilitate at least 6,200 affordable home for rent or purchase.

To date, a total funding of €127 million in support of 35 projects in 14 local authority areas has been provided, to support the delivery of 3,200 affordable homes. The selling price of discounted dwellings made available for purchase varies from scheme to scheme and is influenced by the overall development cost of each particular scheme (taking into account inputs such as the local authority land value and Serviced Sites Fund), the housing type/tenure mix involved and the local housing market.

Local authorities have projected indicative reductions of between 10% and 40% on open market values, according to a statement by the Minister for Housing, Local Government and Heritage. The Minister has also stated his intention to continue to use and extend the use of the SSF to support the delivery of more affordable homes on public land.

Schemes to encourage affordable homes

A new Affordable Purchase Scheme is to be announced in September by the Minister for Housing, Local Government and Heritage. This scheme is expected to involve local authorities providing discounted homes to eligible purchasers. Early indications are that the eligibility criteria will include that net mortgage repayments for the purchase of a unit on the open market should exceed 35% of net income of the FTB.

The Programme for Government has also committed to developing a Cost Rental model for tenants, which it is expected will be provided through the Part V provisions of the Planning and Development Act, 2000.

5

Housing affordability assessment

What is meant by housing affordability?

Having gained an understanding of the current state of play in the housing market from a supply and demand perspective, this section examines the evidence regarding housing affordability in Ireland. There are many complex issue which impact the delivery of housing supply and these are examined in Section 5, but it is important to ensure that what is delivered is affordable for all buyers.

The cost of accommodation in the private rented and owner occupied sectors in Dublin, for example, is the single highest expenditure item for households. Many households in urban areas are spending over 40% of their disposable/net income on housing, a level which is termed the "housing cost overburden rate" by Eurostat and the OECD.*

Housing affordability has many dimensions and will be a function of the following for a potential FTB:

- The ability to raise the required deposit
- The ability to secure a mortgage
- The ability to repay the mortgage

All of the above will be dependent on income levels. In the examples opposite for the five main urban areas, the borrower's mortgage is dependent on the 3.5x LTI ratio. The borrower's income is insufficient to purchase the median FTB new property; to do so requires a higher deposit or higher earnings. The sales price is unaffordable to the working couple on median incomes across these areas. Measures are required to reduce the sales price of new dwellings if housing is to be affordable for potential buyers.

Table 2: Earnings required to purchase the Median FTB New Property Price in Urban Areas (2019)

	Dublin	Cork	Galway	Limerick	Waterford	All Counties
Earnings - Working Couple	€78,190	€64,369	€73,556	€55,737	€58,424	€74,819
Mortgage (3.5 times earnings)	€273,665	€225,291	€257,447	€195,079	€204,486	€261,867
10% deposit	€30,407	€25,032	€28,605	€21,675	€22,721	€29,096
Affordable house price	€304,073	€250,324	€286,052	€216,754	€227,206	€290,964
Mortgage repayments as % of net income - affordable property	22.5%	21.4%	22.0%	21.0%	21.1%	22.2%
Median FTB market price	**€405,000**	**€382,500**	**€375,000**	**€329,447**	**€239,951**	**€340,000**
Mortgage repayments as % of net income for market property assuming borrowing 90% **	30.0%	32.8%	28.9%	31.9%	22.3%	25.9%
House price gap	€100,927	€132,176	€88,948	€112,693	€12,745	€49,036
Increase in deposit to buy at market price	+€10,093	+€13,218	+€8,895	+€11,269	+€1,274	+€4,904
Earnings required to purchase at the market price	€104,143	€98,357	€96,429	€84,715	€61,702	€87,429
Increase in earnings to buy at the market price	+33%	+53%	+31%	+52%	+6%	+17%

Source: CSO, EY-DKM analysis.
Note data relates to the potential buyers on median earnings in the five main cities plus the State as a whole. Mortgage repayments are based on 3.5 times income and are independent of the property price.
** This calculation assumes the borrower takes out a mortgage for 90% of the median property to illustrate the impact on net mortgage repayments as a percentage of disposable income. But in reality, to purchase this median property would require a higher deposit, as income is the only determinant of the mortgage they can raise.

* https://www.oecd.org/els/family/HC1-2-Housing-costs-over-income.pdf

5 Housing affordability assessment

The gap between the price of the median new and second-hand property purchased by a FTB was 43% in 2019

Analysis of affordability

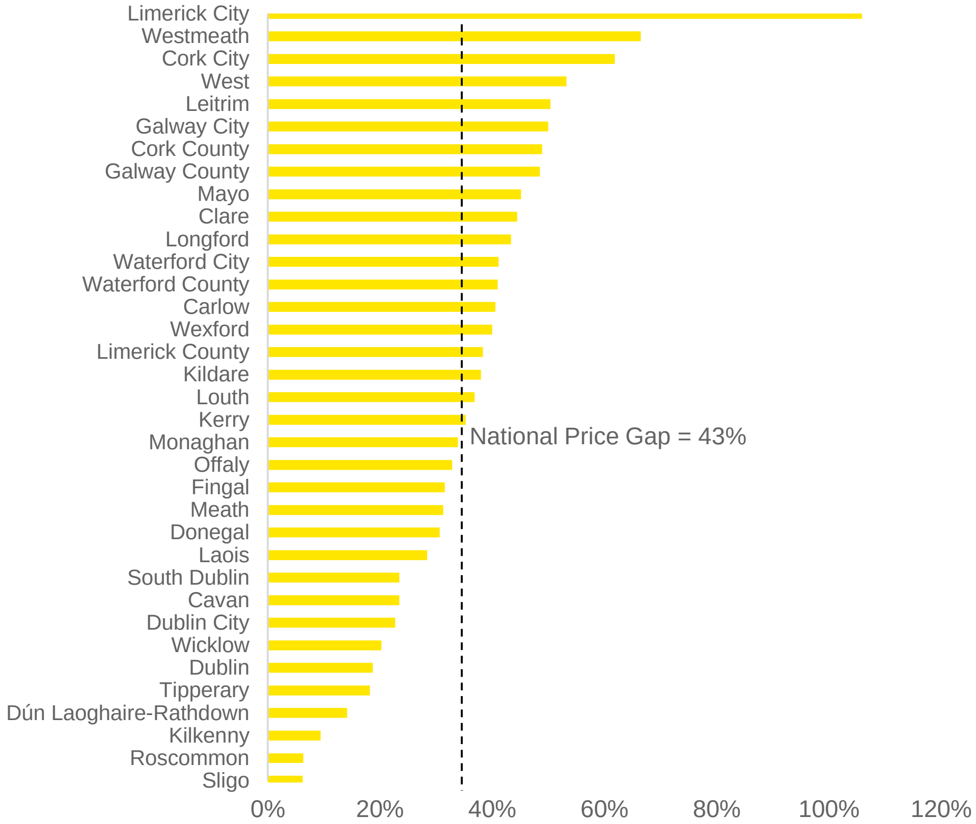
A more thorough analysis of affordability follows on the next page which considers affordability from three different perspectives:

- The affordable property price for a single person and a working couple based on median annual earnings in each county versus the market price
- The deposit required for the affordable property price versus the market price
- The earnings required to purchase the current median FTB new house price
- The % of net income required to fund mortgage repayments based on the FTB median house price for a single person and a working couple on median annual earnings after tax in each county versus the market price

Firstly, it is noted that the median FTB new house price increased by 25.9% to €340,000 between 2016, the year of Rebuilding Ireland, and 2019. The corresponding FTB second-hand property increased by 19.8% to €238,000. The gap between new and second-hand properties has been over 40% since 2018, reaching 42.9% in 2019. Although prices are not mix-adjusted, this gap ranged from less than 10% in Kilkenny, Roscommon and Sligo to in excess of 50% in Leitrim, Cork City and Westmeath and in excess of 100% in Limerick City.

These trends, in an economy in which average earnings increased by 9.2% over the same period, exacerbated the affordability problem, putting housing out of the reach of many FTBs.

Figure 13: Gap between Median FTB New and Second-Hand Property Price in 2019



Source: CSO. Price data not mix-adjusted.

> *Affordability is not simply a question of how much is too much to pay on a mortgage but of how much is too much for whom and in what circumstance? That is why this Government would rather seek to try and accommodate each household's particular family need and financial circumstance. It is why, in the first part, we will assess eligibility on the proportion of the net income a household would need to buy a house on the open market to meet their needs.*
>
> Minister for Housing, Local Government and Heritage, 7 July 2020

Median incomes in urban areas are inadequate to purchase a new home

Analysis of affordability

The main assumptions for the analysis are as follows:

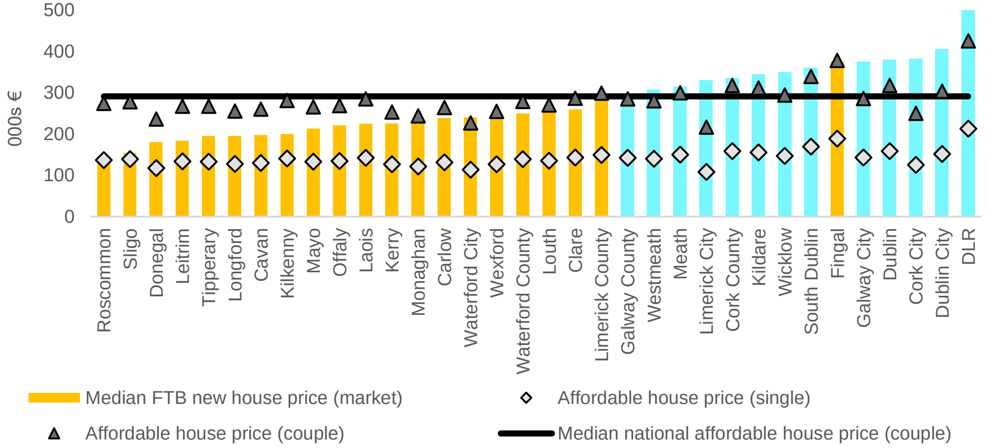
- The house price is the median FTB new house price by county in 2019; prices per county are not mix-adjusted (represented by the bars in the charts opposite).
- The median annual earnings by county is based on 2018 CSO data (latest available) and is increased to 2019 based on the annual growth in earnings in 2019 (+3.6%). For the urban areas, median annual earnings are estimated using the household median gross income by county from the Geographical Profiles of Income in Ireland 2016 release by the CSO.
- The analysis assumes a working couple, each on average earnings in their county, and a single person on average earnings in 2019.
- The triangles represent the affordable house price for a couple based on their earnings, a mortgage of 3.5x income and a 10% deposit. The diamonds are the affordable house price for a single person. When the triangles are above the bar, the bar is orange to indicate that the FTB couple can afford to buy in the market. Conversely, when the triangles are below the bar, the bar is blue, to indicate that the FTB cannot afford to buy in the market. The lower chart shows the same information for the urban areas.

Key findings

From the upper chart, an analysis of counties shows that in most areas – 21 of the 34 - housing affordability is not a problem, based on median incomes. However the median income of a FTB working couple is not sufficient to purchase the median FTB new property in the following counties: Galway County, Westmeath, Meath, Cork County, Kildare and Wicklow. A single person on median earnings cannot afford to purchase at the FTB market price, although in Roscommon and Sligo, the gap is very modest.

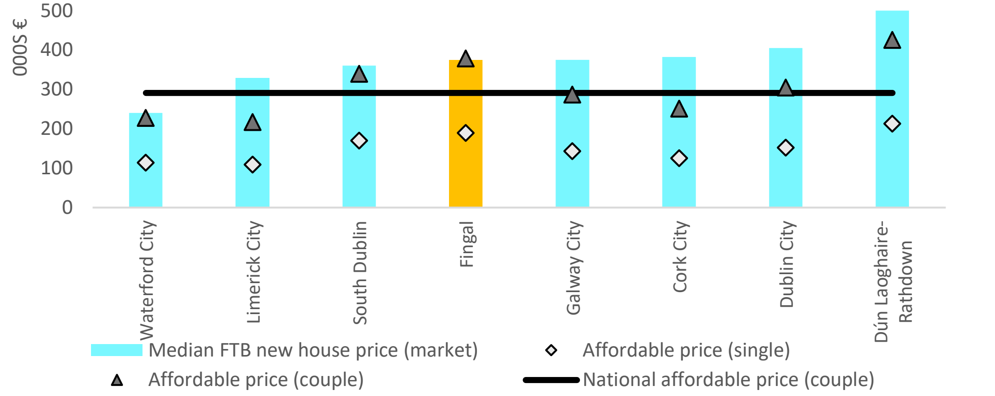
The lower chart shows that the problem is more pronounced in all urban areas. The highest median FTB new residential property price was in the Dún Laoghaire-Rathdown County Council area at €500,000, which compared with an affordable house price for FTB of €425,640. All urban areas, with the exception of Fingal are unaffordable for FTBs.

Figure 14: Median FTB new house price – affordable versus market FTB price, 2019



Sources: CSO market FTB median new house price and median earnings. Note: EY-DKM estimate of median annual earnings in the four Dublin local authorities: Cork City/County, Waterford City/County, Limerick City/County and Galway City/County areas based on CSO data. The relatively lower prices in Roscommon and Sligo are indicative of very few transactions in 2019, which were predominantly one-off new builds.

Figure 15: Median FTB new house price – affordable versus market FTB price in urban areas, 2019



Sources: Same as for Figure 14.above.

The deposit required is a key constraint for FTBs in most locations

Analysis of the earnings and deposit required

Figure 16 shows the median annual earnings per county for a working couple, which were used in the affordability analysis on the previous page.

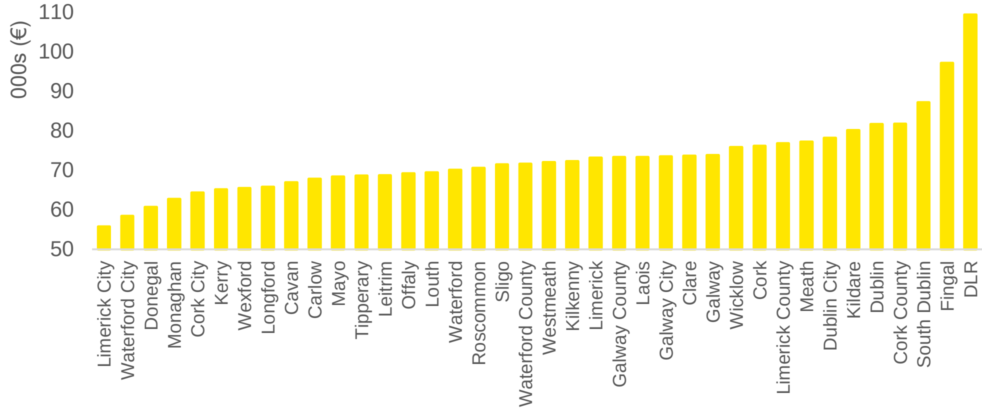
In 2019, the estimated annual earnings for a working couple ranged from €55,700 in Limerick City to €109,500 in Dún Laoghaire-Rathdown (DLR). For the working couple in Limerick City, as an example, the maximum mortgage, capped at 3.5x their income, would be €195,000. Assuming the couple can raise the required deposit of 10%, the maximum affordable house price is €216,611. However, according to the CSO, the median market price for a new FTB property in Limerick City was €329,500 in 2019, leaving the couple with a shortfall, or an affordability gap, of €113,000 (including the higher deposit) to purchase the FTB new median property in the market. The income gap is €29,300 (€55,700 versus €85,000 income to purchase at the market price).

Affordability based on net incomes

Affordability can also be assessed based on net income .i.e. income after tax, PRSI and USC. Using net income, mortgage repayments as a percentage of net income are derived for the FTB working couple. The latter depend on whether both individuals are working or just one person is working, as the 20% tax band is wider for a working couple (€70,600 max versus €44,300), and their disposable income would thus be higher for the same income. Thus a national working couple on twice median earnings (€74,800) purchasing the median FTB property for €340,000, would pay 22.2% of their net income, while a couple with only one person earning that income would pay 24.3% of their net income in a mortgage. For a single person on median earnings of €37,400, and a mortgage of 3.5x, this individual could afford a property of €145,500, but would pay 21.8% of net income in a mortgage.

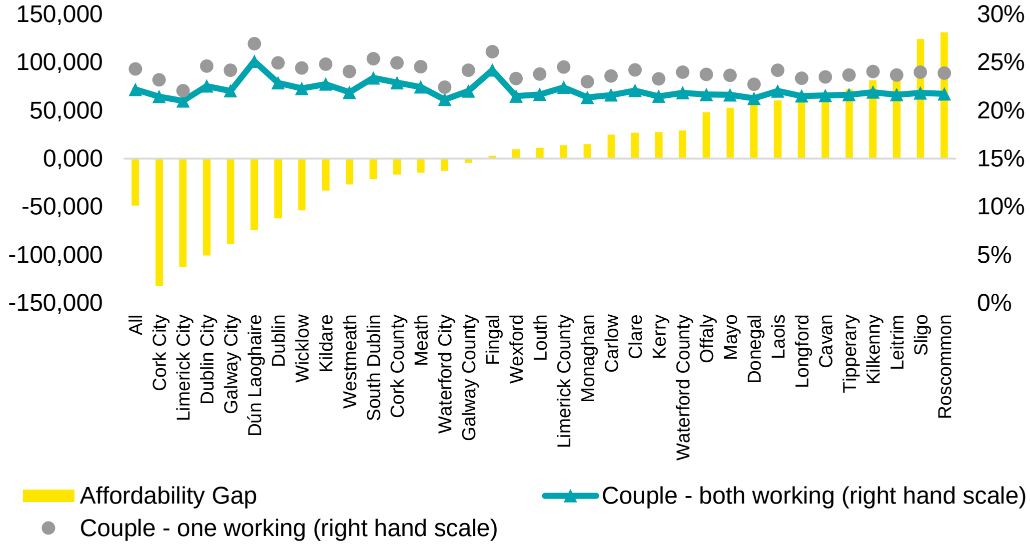
An analysis of repayments as a percentage of net income shows that a working couple earning twice median earnings or a working couple with one person working and earning the same amount, can raise the same mortgage and require the same deposit. This exercise also concludes that the 3.5x LTI is sufficient to allow working couples to purchase the median FTB property in 21 of the 34 areas. However, what changes is the mortgage as a percentage of their net income, which is higher for those couples with just one person working. The yellow bar illustrates those counties and cities where there is an affordability gap when it comes to purchasing the median FTB new property. This gap is the difference between the market price and what their income will allow them to purchase, based on the lending rules.

Figure 16: Median annual earnings, working couple, 2019



Source: CSO, EY-DKM analysis. Note: EY-DKM estimate of median annual earnings based on CSO data

Figure 17: Affordability: % of net income to fund a mortgage for the FTB median new house by county and city area and the affordability gap, 2019



Source: CSO, EY-DKM analysis. Note: EY-DKM estimate of median annual earnings based on CSO data

5 Housing affordability assessment

The time to save for the deposit ranges from less than 2 years to in excess of 15 years across the country

Minimum required deposit

Figure 18 looks at those areas where the deposit required to buy the median new FTB property is over €30,000, assuming the deposit is 10% of the property price in the market. The highest deposits and by extension, the most expensive properties, are located in Dublin (Dún Laoghaire-Rathdown, Dublin City, Fingal and South Dublin), the East region (Wicklow, Kildare and Meath), Cork (Cork City and Cork County), Galway City, Limerick City and Westmeath.

Looking at DLR more specifically, the deposit required is €50,000, as the median new-build FTB property price was €500,000 in 2019. The working couple in DLR earns €109,500 annually. By applying the Central Bank's LTI rules, the mortgage would be capped at 3.5x earnings i.e. €383,000, which including a 10% deposit, suggests the maximum affordable property price is €425,800. Thus the couple still have an affordability gap of €74,200, including the higher deposit. The income gap is €19,100 (€109,500 versus an income of €128,600 required to purchase at the market price).

While primarily confined to urban areas, this affordability gap is a significant constraint on the purchasing power of potential buyers of new properties. The other constraint can be the time it can take to raise the deposit.

Time to save for a deposit

While the previous analysis concluded that FTBs can afford to purchase the median new property in most counties, excluding urban areas, this ignored the FTB's requirement to raise the deposit, which, for those renting in particular, can take several years to accumulate. This analysis is based on research which EY-DKM published on Housing Affordability in Ireland in 2019.*

The average household income is the starting point for a FTB in rented accommodation. The total amount available for saving towards a deposit is determined by deducting living costs and rents (RTB data). Incomes are based on the 2015 Household Budget Survey (HBS) and are inflated to 2019 in line with the average wage inflation rate each year. Household incomes are used here as the HBS provided household expenditure; in the previous analysis median annual earnings are used.

Taking household expenditure and rent into account, the time it takes to save for the deposit is estimated from potential income left. The time ranges from 1.7 years in Kilkenny to in excess of 15 years in Galway City, Wicklow, Waterford City, Cork City and Dublin City.

Figure 18: Deposit required, FTB median market price new house, 2019

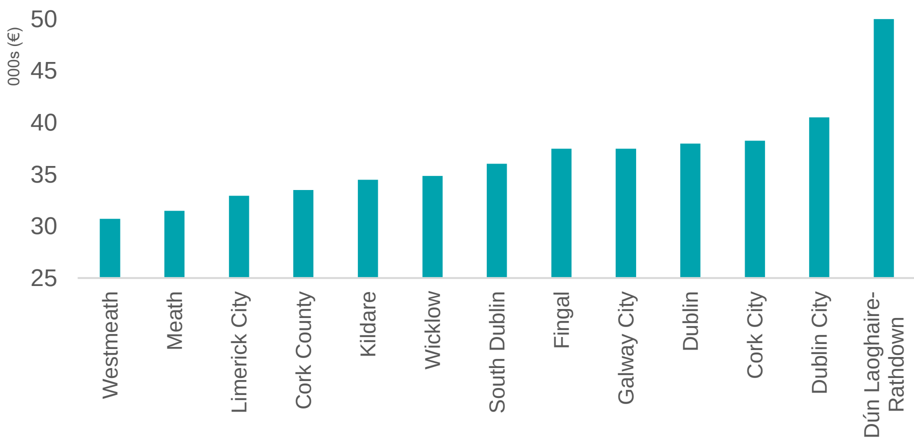
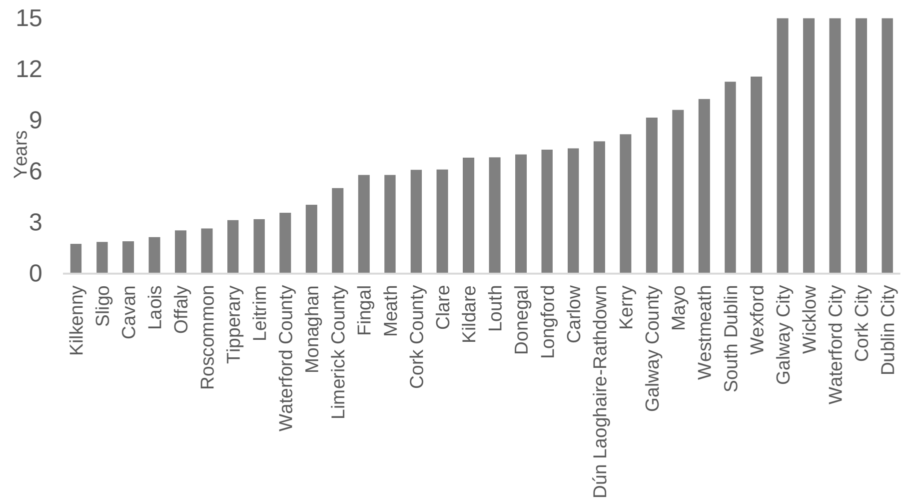


Figure 19: Time it takes to raise a deposit for an average FTB household purchasing the median FTB new property in 2019



Source: CSO, EY-DKM. Note: EY-DKM estimate of household income based on CSO data

* https://www.ey.com/en_ie/transactions/just-how-affordable-is-housing-for-ireland-s-first-time-buyers--

5 Housing affordability assessment

The average FTB income was €71,025 in 2019 and the average deposit was €36,875, which was 14% of the house price

Mortgage trends for FTBs

From a high of 79.3% in 1991, Ireland's home ownership rate fell to 67.6% in the 2016 Census of Population. This decline has been primarily driven by a decrease in urban home ownership rates, down 14 percentage points over the same period to stand at 59.2% in 2016.* It may be that attitudes to home ownership have changed, however it could also be that owning a home is no longer affordable at current market prices as the foregoing analysis demonstrates.

A key issue is the exorbitant rents which tenants are paying in the private sector, which makes it difficult to save for a deposit. The other factor is that the average rent in some instances can be higher than the corresponding mortgage on a property in some locations. The CBI should consider allowing the rental history of applicants to be taken into account as part of the mortgage application process.

FTB income levels

The final analysis examines data published by the Banking and Payments Federation Ireland on actual mortgages drawn down.

The table opposite set out the incomes of FTBs who purchased a property in 2019. The data shows that:

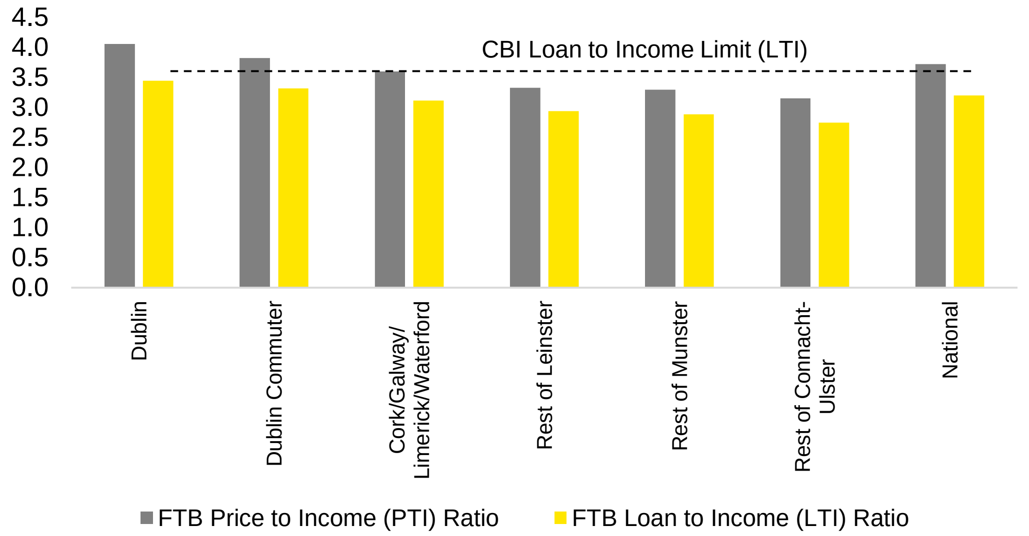
- The average income nationally was €71,025 and was almost 18% higher for FTB in Dublin. Thus income levels of those accessing mortgage credit are well above economy-wide average earnings of €40,233 for a single person in 2019
- The deposit is higher than the minimum 10% required, and ranged from 11.7% in Leinster (excluding Dublin) to 15.1% in Dublin. In absolute terms the deposit levels ranged from €23,000 to €51,200.
- The property price was €264,213 for all FTB but was 28.5% higher in Dublin at €339,708. These figures compare with the published median FTB house price (all dwellings) of €275,000 nationally and €350,000 in Dublin.
- The FTB loan to income ratio was below the 3.5 Central Bank guideline at 3.20 for national FTBs, 3.44 for Dublin FTBs and 3.22 for FTBs in the Dublin Commuter zone.

Table 3: FTB Mortgage Lending Data, 2019

	FTB incomes	FTB Deposits	House price based on PTI	FTB average mortgage	Deposit as % of House Price
Dublin	83,775	51,200	339,708	288,508	15.1%
Dublin Commuter	73,525	37,400	281,233	243,833	13.3%
Cork/Galway/ Limerick/Waterford	67,475	32,650	242,910	210,260	13.4%
Rest of Leinster	60,325	23,600	200,882	177,282	11.7%
Rest of Munster	58,600	23,850	193,087	169,237	12.4%
Rest of Connacht-Ulster	57,375	22,975	180,731	157,756	12.7%
National	**71,025**	**36,875**	**264,213**	**227,338**	**14.0%**

Source: BPFI

Figure 20: FTB Price to Income and Loan to Income Ratios, 2019



Source: BPFI

* https://www.cso.ie/en/releasesandpublications/ep/p-cp1hii/cp1hii/tr/

5 Housing affordability assessment
Affordability acting as a constraint on ability to buy for FTBs

Key findings

Housing affordability has many dimensions and is fundamentally dependant by incomes, net incomes in particular. The other key element is the property price and this analysis has established that:

- There is a notable gap between the price of new and second hand properties. This is a key factor driving demand for second-hand properties as many are purchased by FTBs because of location, proximity to work and family and for affordability reasons.
- Affordability, measured in terms of the median house price to gross income ratio, is predominantly an urban issue, as in 21 of the 34 city and county council areas examined the income of a working couple is sufficient to purchase the median property price in their area
- The main affordability crisis is in the city council areas, where median incomes are not sufficient to purchase the median FTB new home price
- Net income based analysis shows the mortgage required to purchase the median FTB new property is the same for couples with one or both working on the same earnings; the difference is the percentage of net income required to fund the mortgage repayment, as this is higher for the couple with one earner.
- Raising the required deposit is a barrier to home ownership for some households. The average deposit required is €30,000 or higher in those areas where the median FTB property price is the most expensive. However, BPFI data shows that the average deposit ranged from €23,000 in Connacht/Ulster (excluding Galway) to €51,200 in Dublin in 2019 and was higher than the minimum of 10% required. Anecdotal reports suggest that, in some case, this is only possible because FTBs may be getting support from their parents or other sources.
- Taking household expenditure and rent into account, the time it takes to save for the average deposit ranges from 1.7 years in Kilkenny to in excess of 15 years in Galway City, Wicklow, Waterford City, Cork City and Dublin City.
- A key issue is the rents which tenants are paying in the private sector make it difficult to save for a deposit. Having demonstrated the capacity and commitment to making regular rental payments, consideration should be given to taking the rental history of applicants into account in the mortgage application process. This would leave the buyer with more disposable income after monthly mortgage repayments. This measure might involve requiring a smaller deposit.

> *Over the next five years we will put affordability at the heart of the housing system.*
>
> **Programme for Government, June 2020**

6

“Root cause” analysis

6 "Root cause" analysis

There is no single issue responsible for the housing affordability problem

The residential development process is complex

The previous sections have identified and analysed the affordability problems in the housing market. This section examines the root causes responsible in order to identify appropriate solutions and solve the underlying issues. It is acknowledged that the issues are many and complex and there is no single reason responsible. The residential development process is demanding and there are many steps involved which are time consuming and lead to unnecessary delays, which increase the final cost of delivery:

- The identification and purchase of a suitable site which is zoned for residential development
- The identification of the infrastructural deficit on sites
- Undertaking the financial viability of the scheme and arranging the necessary finance/international capital with one or more funders
- Undertaking the design of the scheme and ensuring adherence with regulations
- Dealing with the development management process, including pre-planning, lodgement of planning application, requests for further information and appeals, where these arise
- Consultation with the relevant local authority regarding Part V and other issues. Delays in the process of agreeing costs and closing sales can often add further to costs.
- Building the scheme, if undertaking the development, or organising a contractor to build out the scheme and managing that process
- Delays in acceptance of pre-commencement and compliance conditions by local authorities
- Arranging the marketing and sale of units in the scheme on completion of the build

This complex process has many risks associated with it and can take many years to complete. All of the costs incurred through the process go towards determining the final delivery price which is what the potential home buyer ultimately pays, where they have adequate financial resources to purchase the property and conditions in the market are favourable to making a transaction.

One of the core problems from the foregoing analysis of prices appears to be that home builders cannot deliver residential units at affordable prices in urban areas (mostly). This is due to the fact that the total costs of development, including the normal costs of planning, design, construction, profit and risk, are not sufficient to provide the feasible returns required to ensure viability. This issue of viability is a prerequisite for the delivery of residential units and is addressed later in this section.

> *"We will seek to address the challenges in this sector, including viability, access to finance, land availability, the delivery of infrastructure, building quality, building standards and regulation and an adequate supply of skilled labour."*
>
> **Programme for Government, June 2020**

> *We will ensure that the Planning Regulator is adequately resourced and proactively engages with all stakeholders in the planning system, including informing and assisting the general public in inputting into local and regional development plans.*
>
> **Programme for Government, June 2020**

6 “Root cause” analysis

The determination time for planning permission averaged 18.4 weeks in 2019

In this section, the following topics are discussed:

- The planning system, notably the Development Management process, the issue of planning delays and the operation of the Strategic Housing Development (SHD) initiative
- Land management
- Density guidelines
- Construction costs
- Macroeconomic issues impacting the market

The discussion and analysis in this section is based on a separate report “*Planning Reform to Address the Perception of Land Hoarding”* commissioned by the IHBA from Tom Phillips & Associates (“TPA”) in June 2020.

The planning system

To understand the factors that can delay the delivery of housing, it is important to understand the development management process, which is the process followed in determining a planning application. There are several stages, which are set out below.

Explanation of the Development Management Process

1. Pre-planning (including Feasibility)
2. Lodgement (including Validation)
3. Assessment by the Planning Authority including review of third party submissions lodged within the initial five weeks
4. Week 8: Planning Authority Decision

In 2019, of the 29,117 applications (across all “use classes” from residential to industrial) some 18,215 (or 62.6%) were determined within eight weeks. Accordingly, 37.4% received Requests for Further Information (RFI). Preparation of the replies to those can take up to six months.

If the Decision was made within eight weeks (or longer following an RFI) there was a 7% chance of appeal to An Bord Pleanála in 2018

5. If appealed to An Bord Pleanála in 2018, some 24% of Planning Authority decisions were confirmed, 53% varied, and 23% reversed.
6. **The determination time was an average of 18.4 weeks in 2019.**
7. Following decision, all permissions have conditions, many of which require further compliance submissions. Such submissions can take several weeks or months to prepare, with development delayed in the interim.
8. Despite being included in the 2018 Planning Act, the Commencement Order for section 23(4) that would compel planning authorities to reply to pre-commencement conditions in a timely fashion has not yet been signed.

Some 15% of planning applications were declared invalid in 2019

Planning delays

According to the TPA analysis, one of the main reasons for planning delays is the number of planning applications that are declared invalid by local authorities. Of 364,302 applications (all types including residential) lodged with Ireland's planning authorities in the 11-year period of 2009 – 2019, some 15.1% (55,098) were invalidated and thus delayed.*

Planning applications can be declared invalid for many reasons. Invalidations are generally the result of an inflexible administrative approach rather than the objective or subjective planning merits of an application.

These invalidations are inefficient for applicants and planning authority staff, while imposing avoidable financial costs and delays on the planning process. Ultimately, these costs are passed on to the homebuyer in an inflated house price. Furthermore, the risk of encountering these delays can act as a disincentive for home builders to build residential units, thereby hindering supply in the future.

Invalidations and the delays they generate could be eliminated by the introduction of a simple, equitable over-the-counter system.

* https://www.radiokerry.ie/wp-content/uploads/sites/16/Tom-Phillips-Associates-Zero-Tolerance-for-Invalidations.-A-review-of-Irish-Planning-Statistics-2009-2019.pdf

Planning - The Strategic Housing Development Initiative

The Rebuilding Ireland Action Plan noted that

> "the planning process has a major role to play in providing a clear path to meeting the housing needs of citizens and giving certainty for the providers of that housing"

The experience with the Strategic Housing Development ("SHD") initiative, which established a fast-track planning process in July 2017 for certain types of residential development (mainly schemes of 100+ units or 200+ student/shared accommodation bed spaces) is examined below.

Under the SHD scheme, these developments no longer have to apply to county or city councils for planning permission, but instead can make their application directly to An Bord Pleanála (ABP), once they have completed the necessary pre-planning consultations at a local level.

Of the 175 applications determined since the initiative's commencement in July 2017, some 136 (77.7%) were granted and 39 (22.3%) refused (this equates to a 4:1 grant:refusal rate).

In 2019, according to ABP's Planning Casework Summary Review for 2019, planning permissions were granted for a total of 16,771 residential units (4,327 houses and 12,444 apartments), 4,331 student bed spaces and 200 shared accommodation bed spaces* Furthermore, all applications were determined within the 16-week determination period since the outset.

Consequently, it should be acknowledged that the introduction of the SHD initiative has had a positive impact on housing supply and its extension until 2021 is to be welcomed. However, there remains some scope for improvement:

- Significant time is required to prepare applications prior to their submission to ABP for determination. Indeed, the degree of supporting documentation required has grown considerably – in part due to the 'thoroughness' required to defend against subsequent Judicial Reviews on points of detail.

** http://www.pleanala.ie/news/An%20Bord%20Plean%C3%A1la%202019%20Casework%20Review.pdf

6 “Root cause” analysis

The SHD process a positive initiative but scope for improvement

The SHD impact could be enhanced

- Judicial Review is a significant risk factor, with legislation (as currently drafted) enabling ready access to the Courts, occasionally on innocuous administrative issues rather than on the merits (or otherwise) of individual schemes. A further issue is that the court proceedings, where they arise, are not connected to a planning reference which makes it impossible to ascertain quickly if a complaint has been lodged.
- The SHD Review Group Operation of the SHD process 2017-2019 (September 2019) found that the activation rate – the proportion of successful SHD applications that have commenced works on site – was less than 60%. This was viewed as less than might reasonably be expected and the Review Group recommended that the activation rate be monitored for a further period. Notwithstanding this recommendation however, the Minister for Housing, Planning and Local Government at the time introduced a “use it or lose it” measure, which requires home builders in receipt of an SHD planning permission to commence a certain level of development works within 18 months of the grant of permission, otherwise the permission will lapse.

While the lack of SHD commencements is undoubtedly a problem, it is questionable as to whether the “use it or lose it” approach is a solution, as no comprehensive review of the reasons for the delays has been undertaken. Indeed the SHD Review Group itself stopped short of recommending a “use it or lose it” approach. Given the financial and time investment required by the home builder to bring their application through the planning permission process, it would seem unlikely that they would deliberately stall the commencement process.

Other options are available to the State which could expedite the number of building starts. For instance, the State has not yet enacted Section 23 (4) of the Planning and Development Act 2018 which proposed to introduce eight-week time limits within which Planning Authorities must sign off on compliance submissions attached to any kind of planning permissions. While it is within the prerogative of any Government to introduce a “use it or lose it” measure, it should be matched by a commitment at national and/or local level to remove any unnecessary bureaucratic impediments to housing delivery.

It should be acknowledged that some improvements to the planning system have been made. SHD applications, by their nature, are significantly more complex than “conventional” applications, yet ABP have managed to put in place administrative procedures to facilitate such applications. This is an approach which could be adopted by other local planning authorities to bring greater efficiency and certainty to the process of handling applications. For example, of the 194 SHD applications lodged between January 2018 and June 2020, just three (1.5%) were deemed invalid.*

However, Action Item 3.10 of the Rebuilding Ireland Action Plan called for a “”root and branch” review” of Ireland’s planning processes “to ensure a more effective, responsive and accessible planning system”. This assessment was due to be completed by Q1 2017, but such a review has yet to be carried out.

*https://www.radiokerry.ie/wp-content/uploads/sites/16/Tom-Phillips-Associates-Zero-Tolerance-for-Invalidations.-A-review-of-Irish-Planning-Statistics-2009-2019.pdf

Planning – the lack of a streamlined electronic planning process is particularly pertinent due to Covid-19

The lack of a streamlined online planning system

Action Item 3.9 of the Government’s Rebuilding Ireland Action Plan (2016)* promised that

> “we will support the development of online planning services for the local authority sector and An Bord Pleanála”.

It was envisaged that an accelerated roll-out of this online planning system would have been implemented across Ireland’s 31 planning authorities and ABP by Q4 2017. However, that has not been the case. Instead, the Department of Housing, Planning and Local Government’s current proposal is to trial a system in Tipperary County Council and if successful, to roll it out across the country over an 18-month period. In England, by contrast, applicants are encouraged to apply electronically as a default position.

Against the backdrop of the COVID-19 pandemic outbreak, this lack of a streamlined, electronic planning process is particularly pertinent. For example, for developments located in the Cherrywood Strategic Development Zone (SDZ), local authority planners insist on the submission of 23 physical copies of all documents. For drawings over A3 size, this gives rise to significant difficulties for most applicants.

In addition, three different planning portals – ‘’APAS’’ (in the four Dublin authorities and Wexford); ‘’iPlan’’ in the two Cork authorities; and ‘’ePlan’’ (provided by the Local Government Management Agency on behalf of local authorities) elsewhere – are in operation for Ireland’s 31 planning authorities. None of these are linked to ABP’s planning portal.** Consequently, Ireland has one suite of planning acts and regulations, but four disconnected planning search systems and many counties have no online platform.**

Indeed, the lack of an e-planning system has long been recognised as an issue. In 2008, The Department of the Environment, Heritage and Local Government’s ‘Resourcing the Planning System - Consultation Paper’ stated that:

> “e-planning can provide planning authorities with the potential to deliver further service improvements through streamlining the number of manual transactions and process timeframes associated with the development management process.” (Page 20.)***

The document envisaged that planning regulations “would be amended in 2008 to remove any regulatory barriers to e-planning.” Twelve years later, and the absence of a fully-functioning electronic planning system continues to delay the planning process, particularly in the midst of a pandemic.

The added costs associated with a slow, bureaucratic, paper-based application process (be they through higher land holding costs, increased time completing applications, or the risk of not being successful) are all ultimately passed on to the home buyer. Furthermore, the inefficiency and uncertainty associated with the current planning system acts as a disincentive to potential applicants when deciding on whether to go ahead with a proposed development that would have the capacity to increase housing supply.

*https://rebuildingireland.ie/wp-content/uploads/2016/07/Rebuilding-Ireland_Action-Plan.pdf
** https://www.radiokerry.ie/wp-content/uploads/sites/16/Tom-Phillips-Associates-Zero-Tolerance-for-Invalidations.-A-review-of-Irish-Planning-Statistics-2009-2019.pdf
***https://www.housing.gov.ie/sites/default/files/migrated-files/en/Publications/DevelopmentandHousing/Planning/FileDownLoad%2C17072%2Cen.pdf

6 "Root cause" analysis

The potential residential delivery capacity of State-owned lands can only be estimated with a complete data set of public lands

Land management

The Land Development Agency (LDA) was created in September 2018 to coordinate lands within State control for the provision of affordable housing. The Programme for Government sets out a range of areas and powers which will be legislated for to ensure the LDA can deliver on its core objective of delivering "sustainable, climate resilient, low carbon housing" in sustainable communities. These include Compulsory Purchase Order (CPO) powers of public lands, including small parcels of land which may be blocking the development of larger sites.

To date, the agency has identified 12 State-owned sites and is in the process of advancing agreements with various State bodies in relation to these sites, some of which have been agreed. Further sites are likely to be targeted over the medium-term

The task of identifying further appropriate State lands for regeneration and development will be challenging for the LDA without a complete data set of public lands. The LDA has recognised this lack of a single registry of all State-owned lands as an issue and is in the process of compiling a State Land Database. * This comprehensive dataset is necessary to ascertain the potential residential delivery capacity of State-owned lands.

The LDA plans to build 150,000 new homes in 20 years which corresponds to between 20% and 33% of the total housing requirement over the period (page 23). LDA lands currently have the potential to deliver up to 5,000 new dwellings beyond 2022. These are to be a mix of social (10%) and affordable (30%) housing, comprising discounted homes for eligible purchasers under an affordable house purchase scheme as well as cost rental for tenants. To provide new units efficiently and cost-effectively, the LDA should consider harnessing the expertise and scale of the private construction sector in the provision of this mixed-tenure housing.

The LDA should assess whether segmenting their larger schemes into smaller lots to create competition for smaller home builders, would support the delivery of more affordable units more quickly. On some of its larger projects, such as the Central Mental Hospital site in Dundrum, the LDA could potentially break up the delivery of the c.1,200 units planned into six smaller lots of 200 units. In a situation where all lots on the land are active at the same time, there may be scope for efficiencies, as opposed to one single builder controlling the whole site.

"

- *Task the LDA with driving strategic land assembly and providing homes for affordable purchase, cost rental and social housing.*
- *Ensure the LDA Board includes a cross spectrum of housing, financial, governance and other independent experts needed to fulfil its remit.*
- *Allocate Compulsory Purchase Order powers to the LDA.*
- *Complete the audit of State lands, identifying land banks in public ownership which are suitable for housing and other purposes.*
- *Mandate the LDA to work with local authorities, State agencies and other stakeholders to develop masterplans for strategic sites.*
- *Ensure that the LDA is subject to Freedom of Information.*
- *Require the LDA to give regular updates to the Oireachtas and review the legislation underpinning the LDA after a three-year period.*
- *Ensure the LDA uses modern methods of construction, including offsite construction to deliver high quality sustainable homes quickly and at scale. Local supply chains and labour should be used to increase community gain.*
- *Ensure that any State lands being offered for sale, whether owned by a local authority, government department, commercial or non-commercial semi-state agency or any other agency, would automatically first be offered to the LDA.*
- *Ensure the public housing rental stock on public lands is under the control of local authorities, Approved Housing Bodies or other similar bodies.*

Programme for Government, June 2020

* https://lda.ie/state-asset-database/

Densities required are not always appropriate and need reassessment

Density

Under Project Ireland 2040, the Government identified compact growth as a key mechanism to support the future sustainable development of Ireland’s cities and towns, addressing issues such as regional development, urban sprawl, long-distance commuting, housing supply and climate action.

The Sustainable Residential Development in Urban Areas Guidelines for Planning Authorities (2009) generally require net housing densities in the range of 35-50 dwellings per hectare (dph) in urban areas and over 50 dph in more central urban areas or on sites served by high frequency public transport.* Furthermore, densities between 20-35 dph are deemed appropriate in areas at the edge of smaller towns and villages to enable the successful transition from central areas, in order to incorporate a wide variety of housing types from detached dwellings to terraced and apartment style accommodation.

Among the issues which cause concern are the following:

- Blanket densities are promoted at rates that are at odds with the market and are often unviable outside of high-demand metropolitan centre
- On some sites, due to a number of factors such as location, the nature of the design, and capital costs, home builders can find it difficult to justify the development of apartment schemes
- Often the most appropriate solution in terms of buildability and viability for certain sites is housing, given the location of the site and the market forces driving demand. However, the density guidelines may not allow for housing

By imposing rigid densities, as opposed to bespoke densities tailored to the specific nature of an area’s housing demand, it can be difficult to justify the viability of certain projects where the higher cost to deliver the high concentration of units is deemed prohibitive. Furthermore, because there is no standardised policy, different planning bodies can apply the density guidelines in different ways. Anecdotal evidence suggest that local authorities might refuse planning on grounds of excessive density, while ABP might refuse planning on the same site due to there being insufficient density – or vice versa. This lack of uniformity of message creates uncertainty for the home builder, and ultimately leads to higher land holding costs for the applicant while they navigate through the system. These additional costs are then passed on to the home buyer – otherwise they act as a deterrent from developing the site in the first place, thereby further restricting the supply of housing in the market.

Analysis of density within SHD applications

Tom Phillips & Associates conducted an analysis of An Bord Pleanála’s approach to density in the context of Strategic Housing Development (SHD) schemes. Of the 175 SHD applications determined to date, 39 were refused. Of these 39 refusals, six were made on the grounds (exclusively or cumulatively) of insufficient density. Details on those six, which accounted for 1,689 units, are set out below.

1. ABP 300009: Trusky East, Bearna, Co. Galway – 20 dph on site of 7.2 hectares - insufficient density (and other reasons).
2. ABP 300558: Kill Hill/Earl’s Court, Kill, Co. Kildare - 26 dph on site of 6.3 hectares - insufficient density (and other reasons).
3. ABP 301961: Ballyleary, Great Island, Cobh, Co. Cork - 34 dph on site of 13.7 hectares – density not sufficiently high to provide for an acceptable efficiency in serviceable land usage in light of public transport (and other reasons).
4. ABP 301371: Former Magee Barracks Site, Kildare (Town) - 34 dph on site of 11.4 hectares – density not high enough (and other reasons).
5. ABP 300731: Glenamuck Road, Enniskerry Road, Kilternan, Dublin 18 - 37 dph on site of 4.5 hectares – insufficient density (and other reasons).
6. ABP 302336: Golf Lane, Glenamuck Road South, Carrickmines, Dublin 18 - 139 dph on site of 2.60 hectares – the Inspector had recommended refusal on the grounds of the density being too low, but the Board disagreed, but refused it on the grounds of design.

The lowest permitted densities were ones of 23 dph on a site of 8.5 hectares (Rolestown, Co. Dublin) and 26 dph on a site of 5.76 hectares at Ballygaddy Road, Tuam, Co. Galway. The Bearna site ultimately received permission with a density of 35 dph.

For the above reasons, it appears that minimum density requirements are placing a constraint on the delivery of new residential units. Based on this analysis, the minimum standard of 35 dwellings per hectare needs reassessment as there may be a valid case where 25-30 units per hectare (location dependant) is more appropriate.

* https://www.housing.gov.ie/sites/default/files/migrated-files/en/Publications/DevelopmentandHousing/Planning/FileDownLoad%2C19164%2Cen.pdf

6 “Root cause” analysis

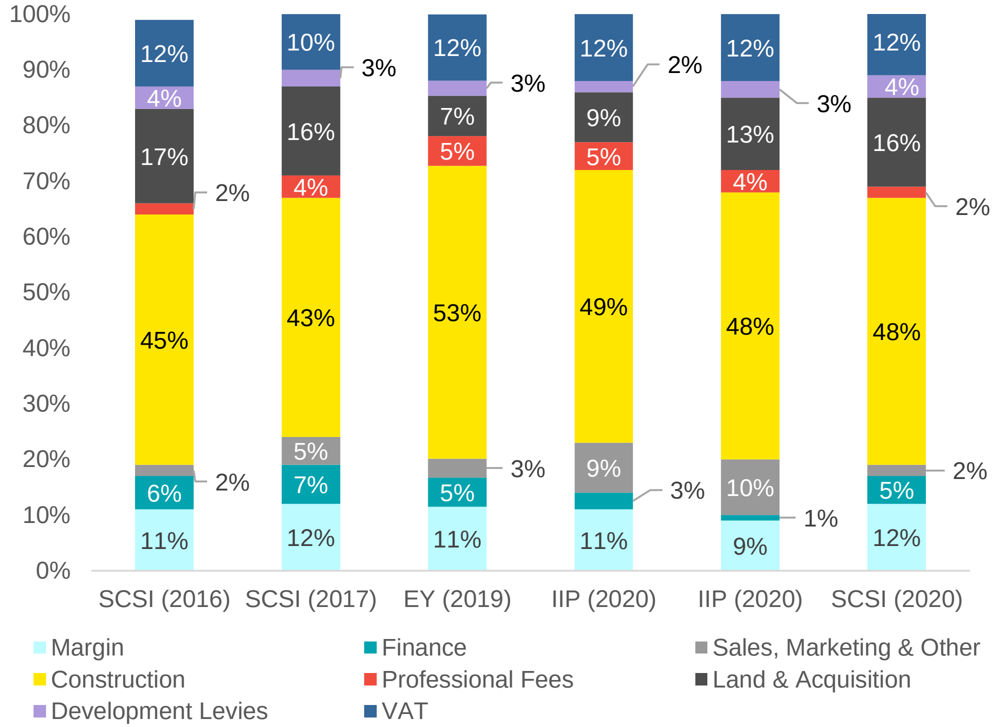
“Hard“ construction costs make up the largest component of residential delivery costs

Construction costs

A considerable amount of research has been undertaken in recent years on the composition of the delivery costs for new housing, including by the Department of Housing, the Society of Chartered Surveyors Ireland (SCSI), Irish Institutional Property (IIP) and EY-DKM. Figure 21 illustrates the breakdown in delivery costs between their constituent parts from the research available. The main points for the analysis are as follows:

- Estimates for the total delivery (pre-Covid-19) cost in 2020 ranged from €330,300 for a 2-bed townhouse in Dublin (IIP), €371,311 for a 3 bed-semi-detached house in the Greater Dublin Area (SCSI) to €463,100 for a 2-bed apartment in Dublin (IIP).
- One significant cost, outside of the builder’s control is VAT which is applied at a rate of 13.5% and ranges from €39,000 to €55,000 per unit.
- “Hard” construction (“bricks and mortar”) costs make up the largest component of the delivery cost of a residential unit, comprising between 43% to 53% of the total. These costs include the cost of labour, materials, plant and machinery, site specific conditions, Part V obligations, compliance with regulatory and environmental requirements and building control regulations, many of which are controlled by Government.
- This leaves between 47% and 57% representing the ‘soft’ costs, which comprise sales and marketing, consulting and design fees, development contributions, financing costs, site acquisition costs, builder’s margin, VAT and contingency.
- The SCSI (2020) estimate land and acquisition costs at 16% of the average price of a 3-bed semi-detached house in the Greater Dublin Area, but note that there can be a significant variance in land values throughout the country. As well as locational factors (i.e. access to amenities and public transport), other factors influencing land costs are density, risk, topography and demand, according to the SCSI.

Figure 21: The composition of the sales price of residential units for selected house types



Notes:

- SCSI (2016): 3-bed semi-detached house, Greater Dublin Area, Selling Price: €330,493
- SCSI (2017): 2-bed apartment, Dublin, Selling Price: €442,938
- EY-DKM (2019): 2-bed apartment, Cork city suburbs, Selling Price: €438,752
- IIP (2020): 2-bed town house, Dublin, Selling Price: €330,300
- IIP (2020): 2-bed apartment, Dublin, Selling Price: €463,100
- SCSI (2020): 3-bed semi-detached house, Greater Dublin Area, Selling Price: €371,311
- Other costs capture contingency costs, development staff, legal and admin costs, Part V costs and Irish Water and other utility connections.

6 “Root cause” analysis

Finance costs typically involve a combination of debt and equity from the promoter and the funder/lender, ranging from 1% and 7% of total cost

Construction costs (continued)

- Other studies also acknowledge that land is a highly volatile cost, depending on, among other variables, the size and location of the site. There is a high degree of variability with regard to land and acquisition costs, which range from 7% to 17% of the total delivery price – IIP included land acquisition costs at €43,400 or 13% of the delivery of a 2-bed town house and 9% of a 2-bed apartment located in Dublin. EY-DKM used an average site acquisition cost of €31,800 for a 2-bed apartment in the Cork City suburbs, which corresponded to 7% of the total delivery costs.
- Residential development projects tend to be funded by a combination of senior debt, mezzanine debt and equity. The typical scheme will involve a combination of debt and equity from the promoter and the funder/lender. Industry sources suggest that apartment construction is considered by some lenders to be high risk, unless being provided in attractive locations and at the upper end of the market. This is a further issue in regard to the viability of apartment construction. More generally, finance costs ranged between 1% and 7% of the total delivery cost for the examples illustrated.
- The developer’s margin/risk typically accounts for between 9% and 12% of the total delivery cost and is the typical industry requirement with funders. This margin is intended to provide the developer with a return for undertaking the project. It covers the builder’s risk as well as the cost of overheads and other input costs, including land. The margin has to cover all costs and risk incurred by the developer who generally manages the entire process.

An estimated one-third of the value of residential construction is returned to the Exchequer in taxation, social insurance, VAT and associated revenues

Economic impact of residential construction

The previous analysis set out the specific cost items within the overall residential construction process.

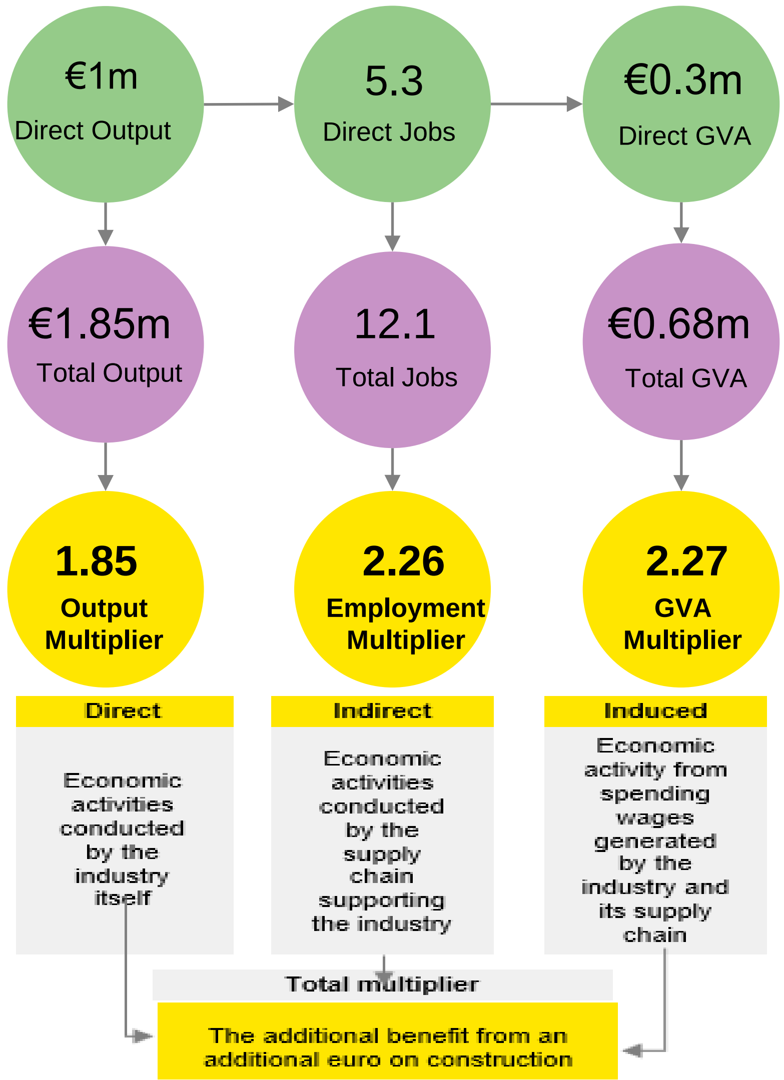
However, any spending during construction, or in the supply chain, will have a considerably larger effect on the economy than the initial amount spent. This is because there is an entire supply chain being supported by the residential construction process, not only in the construction industry but across a wide range of sectors such as energy and building material suppliers. It is therefore important to estimate the total economic impact of housebuilding activities, rather than just estimating the total amount that the industry and its suppliers spend directly in the economy.

EY-DKM prepared an Economic Impact Assessment of the Construction Industry for the CIF (July 2020) which estimated the direct, indirect and induced impacts of the activities of the construction industry. The results are summarised in the diagram opposite and show the various economic multipliers associated with a €1m spend on construction throughout the economy. While these multipliers relate to all construction, they are equally applicable to investment in residential construction.

In a previous study examining the viability of apartment building in Cork City by EY-DKM (2019), it was estimated that the additional Exchequer revenue (i.e. profits taxes, payroll taxes, social insurance contributions, consumption taxes and Local Authority contributions) generated from apartment construction is equivalent to one-third of the total sales price. A similar impact can be assumed for housebuilding. **Thus taking the national median new house price in 2019 of €350,000, every 1,000 new dwellings completed would deliver €115.5 million in additional Exchequer revenues.**

We estimate that every €1m increase in residential construction would deliver an additional €1.85m of economic output and 12.1 full-time equivalent (FTE) jobs, after all direct, indirect and induced economic impacts are taken into account. This output would generate a total Gross Value Added (GVA) of €2.27m. This would represent the industry’s contribution to Irish GDP (or the profits and wages generated) in the year of the investment.

Figure 22: Economic multipliers associated with construction



Source CSO, EY-DKM calculations. Note: Total refers to direct, indirect and induced impacts

6 “Root cause” analysis

Covid-19 has fundamentally shifted the Irish economic landscape

Macroeconomic performance

Covid-19 caused a sudden and severe contraction in economic activity. Ireland’s GDP expanded by 5.1% YoY and by 11.2% QoQ in Q1 2020. The labour market is the most visible indicator of the real time damage caused by Covid-19. With the standard measure of unemployment edging up to 5.0% in July 2020 from 4.7% in December 2019, this rate increases to 16.7% when those not working due to Covid-19 related absences are included. Including those on the Temporary Wage Subsidy scheme as well as those on the Covid-19 related payment (Pandemic Unemployment Payment), there were some 800,000 persons or 32% of the workforce in receipt of some form of income support from Government in July. This disruption in the labour market is impacting every sector of the economy.

Predicting the scale of the economic impact of Covid-19 is challenging, with many adopting a scenario based approach. Table 4 presents the latest GDP growth projections for 2020 and 2021, with a baseline scenario (a planned phased easing in containment measure) and a severe scenario (containment measures remain in place due to the risk of a resurgence in the virus) to allow for the increased uncertainty. One noticeable feature of the forecasts available is that with each revision, they are getting progressively worse, as the scale of the unprecedented economic shock becomes increasingly clear.

Ultimately, the relaxation of the containment measures is subject to several downside risks (such as a second wave, a virus mutation or delays in vaccine development) which could result in larger ‘scarring’ effects, whereby productive capacity would be permanently lost.

The Government’s July Stimulus package response to the crisis was over €7bn and more will be forthcoming in the Budget 2021 and the National Economic Plan later this year. The scale of the overall policy response is expected to lead to a sharp deterioration in the deficit position for 2020.

While the assumed gradual economic recovery (in the baseline scenarios) will help to reduce the fiscal imbalance, the State will be reliant on interest rates remaining exceptionally low to sustain its desired level of public investment without having to raise income taxes. Lastly, a ‘no-deal Brexit’, which remains a possibility, could have severe implications for the Irish economy and public finances, especially within the context of a pandemic-induced recession.

Table 4: ROI forecasts (Real GDP % change YoY)

	2020		2021		
Source	**Baseline**	**Severe**	**Baseline**	**Severe**	**Release date**
EY	-10.8%	-15.3%	6.6%		August
European Commission	-8.5%		6.3%		July
Central Bank	-9.0%	-13.8%	5.7%	4.9%	July
OECD	-6.8%	-8.7%	4.8%	-0.2%	June
ESRI	-12.4%	-17.0%			May
Dept. of Finance	-10.5%	-15.3%	6.0%		April
IMF	-6.8%		6.3%		April

6 "Root cause" analysis

Longer term prospects for the housing market are uncertain due to Covid-19

Impact of COVID-19 on the housing market

COVID-19 has precipitated both a supply and demand shock in the Irish housing market. On the supply-side, the impact of the pandemic and economic shutdown is evident from an analysis of the supply of new-build homes and the functioning of the sales market. In the construction sector activity was suspended from mid-March to mid-May and is unlikely to return to the pre-pandemic levels in the short-run. As of the week ending 9 August, 12,677 former construction workers were still receiving the Government's Pandemic Unemployment Payment, a decline from 52,100 in early May, shortly before the sector was permitted to begin operating once more. This elevated level of unemployment in the sector points to a significant reduction in output versus pre-pandemic levels.

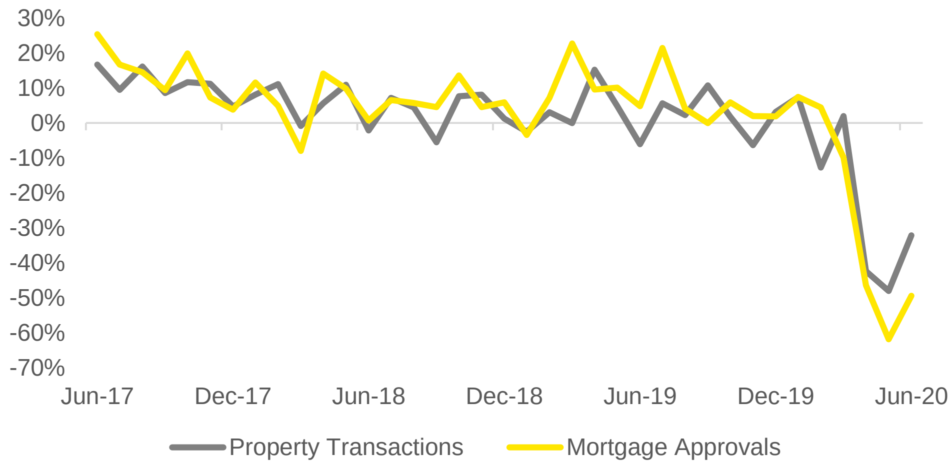
Activity levels are set out on page 26 and show how the housebuilding sector was growing strongly in Q1 2020, ahead of the shutdown. Completions held up well in Q2 2020 and declined by less than expected, with a 31.9% decline YoY to 3,290 units. However, they broke the momentum which had seen total supply increase every quarter in 2019 to reach 6,390 units in Q4 2019.

In the sales market, the supply of new homes for sale collapsed during the initial phase of the lockdown. Data from Daft.ie reported a 74% fall in new listings in April and May, although the number of homes advertised rebounded somewhat in June, where new listings were down 15% versus a year ago. 19,510 homes were listed for sale at the beginning of July 2020, down 25% vis-à-vis the corresponding month in 2019 and the lowest July total since 2006

On the demand-side, mortgage lending and property transactions have been severely curtailed by public health restrictions. According to the CSO, total property transactions contracted sharply in April (-42% YoY), May (-48%) and June (-32%). Mortgage approvals (excluding re-mortgage and top-ups) declined by a similar magnitude YoY in April (-51% YoY) and May (-67%) and in June (-54%). Total mortgage drawdowns were down by 37% YoY in Q2 2020. The trends to date in these indicators point to a further contraction in mortgage drawdowns and housing transactions throughout the remainder of 2020.

While house prices might fall during the current recession, incomes are similarly at risk, and the fundamental imbalance in supply and demand in the housing market is unlikely to shift significantly in the near term. The longer-term prospects for the market are highly uncertain, with the potential for a resurgence of COVID-19, an evolving fiscal response and fragile consumer confidence, all likely to be key determinants for the housing market.

Figure 23: Indicators of Housing Demand (Annual % change)



Source: CSO, Banking & Payments Federation

6 "Root cause" analysis

Finance issues continue to be complex and a negative impact

Mortgage Lenders have tightened credit standards

Following the onset of the economic crises, mortgage lenders have extended significant forbearance measures to customers. According to BPFI, lenders had extended payment breaks to 78,000 accounts at the end of May, equivalent to 8% of the mortgage stock*.

In tandem with these forbearance measures, lenders have also tightened credit standards significantly due to the economic uncertainty and widescale job losses in the economy. The ECB's latest quarterly bank lending survey shows that Irish lenders planned to tighten credit standards in Q2 2020 to the greatest extent seen since 2008. Lenders also expect mortgage demand to decline at the fastest pace since Q4 2008 in the coming quarter.

The approach to mortgage lending has not been consistent across the sector with some lenders adopting a case-by-case approach to mortgage applicants, while others have withdrawn approvals to households in receipt of pandemic income supports. Although the COVID-19 adjusted unemployment rate fell back to 16.7% in July, it is expected to remain elevated in the near term. Consequently, lenders are unlikely to ease credit standards substantially in the near term.

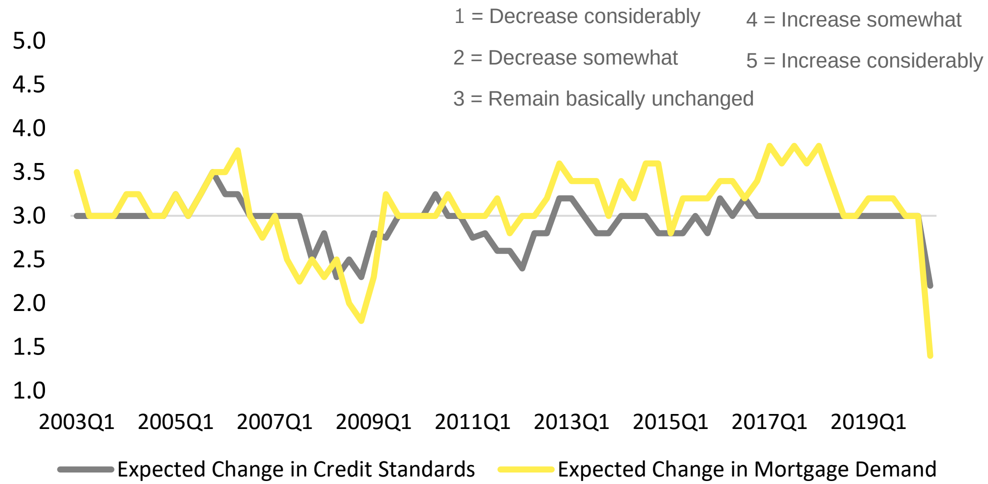
Construction Costs

Relatively high construction costs have been an impediment to the delivery of housing supply in recent years. The impact of Covid-19 on the housebuilding sector has increased costs with enhanced health and safety measures, including social distancing, materials, work practices and productivity impacts likely to increase costs in the near term. However, it is too early to estimate the overall impact. Of the data sources available, the CSO's wholesale price index suggests inflation in materials has eased so far in 2020, with annual inflation easing from 1.5% in December 2019 to 0.9% in June 2020.

However, the cost of finance for home builders has continued to increase in 2020. The average interest rate on new lending to SMEs in the construction sector was 4.64% in Q1 2020 compared to 4.04% in Q1 2019. Overall, the interest rate on the stock of lending to construction sector SMEs remains elevated at 4.42% versus an average of 3.60% for all SMEs. **

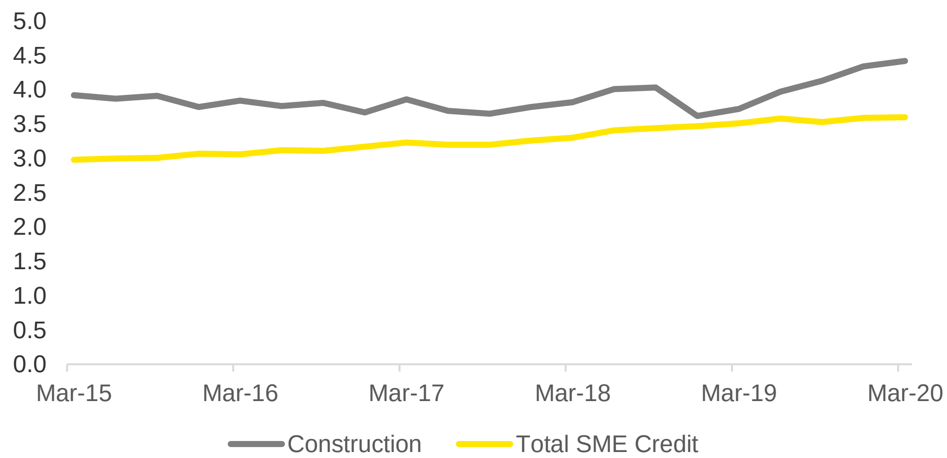
*https://www.bpfi.ie/news/banks-undertaking-significant-engagement-140000-customers-currently-payment-breaks/
** https://www.centralbank.ie/statistics/data-and-analysis/credit-and-banking-statistics/sme-large-enterprise-credit-and-deposits

Figure 24: Credit standards and Mortgage demand



Source: ECB Bank Lending Survey

Figure 25: Interest rate on outstanding SME credit



Source: Central Bank of Ireland

7

Affordability options

7 Affordability options

All actions to address the housing challenges must be focused on reducing the financial burden for FTBs

Introduction

The foregoing analysis sets out the complexities of the housing challenge, both from a supply and demand perspective. It is clear that there are many reasons why the market is not functioning as it should be. Historically, there is the lack of new supply, including the much reduced contribution to new building from the public sector since 2010. The lack of new supply has resulted in potential FTBs having to compete with the public sector which has been acquiring second-hand properties and incentivising property owners and home builders with vacant properties to make them available for use as social housing. More recently, the growth in the Build-to-Rent sector has meant that FTBs are excluded from an estimated 14% of the new build market.

It is completely reasonable to adopt a housing policy which seeks to accommodate all tenures, but the policy over recent years may have shifted in favour of the rented sector, given the focus on developing a range of state supported schemes such as Cost Rental, the Rental Accommodation Scheme (RAS) and other long-term leasing schemes. While demand across all tenures should be accommodated, new supply is fundamental to meeting that demand. There remains a strong pent-up demand for owner occupation as is evident from the numbers of buyers chasing each property than comes for sale in the second-hand market, which is putting property prices out of the reach of many first-time buyers.

As a result of all of these factors and the buoyant economy over recent years (pre-Covid-19) the median second-hand property price nationally increased by 51.6% between 2013 and 2019, while the median new property price has increased by 129% over the same period. The analysis in Section 5 illustrates the many elements which make up the delivery costs of new housing and no one element can be identified as being solely responsible. Yet the situation has arisen that housing is unaffordable for buyers in many urban areas while the time to raise the required deposit can be substantial for some potential FTBs.

The July Stimulus provided a welcome boost for upgrading the existing housing stock. A total of €100 million of investment was provided for the Energy Efficiency National Retrofit Programme to kick start the commitment in the Programme for Government to upgrade at least 500,000 homes by 2030. This will improve the quality of the existing stock and should extend to the estimated 91,000 vacant residential units across the State (GeoView Report Q2 2020), which would provide new supply more quickly than any new build.

Options to address affordability and increase housing supply

A number of actions could be introduced immediately and over the short and medium-term to reduce the cost of delivery of new housing and increase supply, and ultimately improve affordability. As with any business, additional costs are likely to be passed on to the final customer and thus all measures should have as their objective reducing the financial burden on FTBs. The proposals in the following pages include those which should be implemented with immediate effect together with a number of other measures which can be implemented in the short to medium term. The next page considers a specific measure in detail. All are grouped under the following headings and address the steps in the delivery of housing supply:

- ✓ **Supporting FTB and NHP affordability and increasing supply**
- ✓ **Densities**
- ✓ **The cost of construction**
- ✓ **Planning system**
- ✓ **Land management - Servicing of lands and the delivery on State owned lands**
- ✓ **Access to and cost of funding**
- ✓ **Regulation**
- ✓ **Taxation**

Many of the proposals which follow will also facilitate an improvement in the productivity of the residential development process by a combination of the following:

- The availability of better information on the quantum of zoned lands in the private and public sector which can better inform a programme for the servicing of zoned lands
- A greater collaboration between Government, the Land Development Agency, the private housebuilding industry and other stakeholders
- The range of improvements proposed for the planning system
- Measures to reduce the cost of construction by improving the use of technology, off-site manufacturing and modern construction methods where funding is available to permit same, and
- Ensuring a public procurement process and access to funding which do not disadvantage smaller home builders

7 Affordability options

A State Backed Shared Equity Scheme could bridge the affordability gap in areas where affordability is an issue for FTBs

A State Backed Shared Equity Scheme

A specific measure which could be quickly implemented is the introduction of a State backed Shared Equity Scheme (SES) to provide affordable housing on private lands. Such a scheme would involve the provision of support from Government for FTBs in the form of an equity loan for 25-30% of the house price, depending on property type and location. The scheme design could be modelled on the key features of the Help to Buy Equity Loan Scheme in England. Over the last seven years, the total value of equity loans represented 22% of the total value of properties sold under the scheme in the UK. The scheme has enabled buyers on modest earnings to purchase homes which were previously not viable for them. It increased confidence amongst financial institutions and home builders to finance and deliver supply in the knowledge that it generated an increase in demand across the country.

The Shared Equity Loan scheme would bridge the affordability gap for potential FTBs. While a demand led scheme, it will incentivise new supply until such time as a properly functioning market returns. The following structure is proposed:

- FTBs would purchase a new property as their principal private residence up to a certain price (to be determined)
- The borrower would be subject to Central Bank of Ireland macroprudential rules of borrowing up to 3.5 times income and having up to a 10% deposit for the principal mortgage
- The borrower would be subject to certain income qualifying criteria (to be determined)
- The value of the equity loan would be up 25-30% of the dwelling price depending on property type and location
- The State equity loan would be registered as a second charge on the property
- There would be no interest or principal on the equity loan in Years 1-5
- Interest would be charged from Year 6 at a low interest rate
- The borrower can pay back part or all of the equity loan at any time, and would be repayable if the property was sold during the term of the loan.

The following example illustrates a working couple purchasing a home in Dublin. Average earnings in Dublin are €48,900 which is c.20% above the national average. The example assumes the working couple earns between €75,000 (the max income for eligibility for the RIHLS*) and €96,000 and is purchasing at the median new house price in Dublin (€396,700 in the first six months of 2020). Applying the macroprudential rules and assuming eligibility under the Help to Buy scheme, the maximum funds raised are calculated in each case. The couple on €75,000 can avail of the RIHLS, but the gap remains significant for earnings above €75,000 and remains until earnings reach €96,400. Under the SES, the government would provide a loan for the shortfall, which would be a second charge on the property.

State Backed Shared Equity Scheme for potential FTB couple in Dublin – Equity Loan required from State

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Earnings - Principal earner	45,000	48,900	48,900	48,900
Earnings - Second earner	30,000	30,000	35,000	47,442
Combined earnings	75,000	78,900	83,900	96,342
Mortgage LTI (3.5x earnings)	262,500	276,150	293,650	337,195
10% deposit	39,670	39,670	39,670	39,670
Maximum funding raised	302,170	315,820	333,320	376,865
Help-to-Buy (5% of property price)	19,835	19,835	19,835	19,835
Total funds available	**322,005**	**335,655**	**353,155**	**396,700**
Median FTB new home	*396,700*	*396,700*	*396,700*	*396,700*
Shortfall	-74,695	-61,045	-43,545	0
Equity Loan to make up shortfall (% of house price)	-18.8%	-15.4%	-11.0%	0.0%

* Rebuilding Ireland Home Loan Scheme

7 Affordability options

Supporting FTB affordability and increasing housing supply

Options	Summary of Options	Timeframe	Impact
	SUPPORTING FTB AFFORDABILITY		
Introduce a State backed Shared Equity Scheme	▪ Introduce a State Backed Shared Equity Scheme for affordable units on private lands, supported by a Government funded equity loan, for 25-30% of the price, depending on property type and location. This would be modelled on the Help to Buy Equity Loan Scheme in England which was a key driver of the increase in supply due to the additional demand created from buyers who could not buy without the scheme	Immediate	Allows buyers on modest earnings to become home owners. Increases confidence amongst financial institutions and home builders.
Extend the Help-to-Buy relief	▪ Extend the increased tax relief of up to €30,000 announced in the July Stimulus from 31 December 2020 to 31 December 2025 in light of the recent events with Covid-19. This will provide support to potential buyers in the coming years.	Immediate	Provide support to potential new home buyers and more certainty for home builders
Rental history	▪ Consideration should be given to taking the rental payment history of applicants into account in the mortgage application process to allow for a smaller deposit.	Immediate	Accommodates more FTBs to purchase a home more quickly than they otherwise would
Increase FTB discretion proportions	▪ An assessment of the impact of allowing banks to increase the 5% discretion for new lending to FTBs to 10% above 90%; and the 20% discretion for new lending to FTBs to 30% above the 3.5x limit	Immediate	
	INCREASING HOUSING SUPPLY		
Restore vacant properties to residential stock	▪ Encouraging the conversion and restoration of vacant properties through some form of retrofitting incentive would help return some of the estimated 91,000 (Geoview Residential Report, Q2 2020) vacant properties back to the market.	Immediate	Ensure maximum utilisation of the existing stock while also increasing supply
Vacant space over shops	▪ Investigate the potential to facilitate the use of space above shops for use as living space	Immediate	
Use proceeds from higher LPT to service lands	▪ Increasing the Local Property Tax and use the proceeds to service zoned lands. Buyers of new homes paying development contributions should not be subjected to LPT for a defined period.	Short/ medium term	

7 Affordability options

Densities and reducing the cost of construction

Options	Summary of Options	Timeframe	Impact
	DENSITIES		
Reassess guidelines	▪ Prepare a review of all planning guidelines. For example, streamline design standards nationally in terms of garden sizes, garden walls, bin stores, bike stores etc. all adding unnecessary costs and affecting the amount of space available for development. Many guidelines are outdated or still in draft, and a review and finalisation of them will ensure that they are fit for purpose.	Immediate	More developments would commence if densities were more appropriate
Reassess densities	▪ Current density guidelines result in densities being promoted in areas that are not viable. Decisions are forcing the design of higher density in locations where 1) there is no market; and 2) it is uneconomical to deliver homes. A holistic review is required of levels of appropriate density in the context of location and proximity to public transport corridors, private and public open spaces, parking and privacy. The minimum standard of 35 dwellings per hectare needs reassessment as there may be a valid case (location dependant) where 25-30 units per hectare is more appropriate.	immediate	
	REDUCING THE COST OF CONSTRUCTION		
Reducing cost of Irish Water and other utility charges	▪ Consideration should be given to reducing the connection charges for Irish Water and other utilities (ESB, Gas Networks) for housing and apartment developments.	Short/medium term	Improves viability and affordability
Waive contribution fees	▪ Section 48 development levies should be waived for designated areas for a short term period of up to 2 years to encourage apartment development (similarly Section 49 levies could be reduced/waived).	Immediate	
Consider reducing the State take of 20%	▪ On the basis that the State takes 20% of the average delivery cost of a new home, consideration should be given to reducing this component for FTBs		
Offset mechanism for provision of services	▪ There is a need to review the current arrangement where the first builder in a particular location funds the delivery of services which are significantly above their requirement and which subsequent builders do not contribute to. Alternately, there should be an offset mechanism for recovery at a later stage when other builders come into the same area.	Immediate	
Develop modern methods of house building	▪ The private housebuilding industry should prioritise new house building methods to reduce costs (e.g. use of technology and off-site manufacturing), in consultation with Government, the wider construction industry, construction and research professionals and other stakeholders, where funding is made available to support such innovations.	Medium term	

7 Affordability options

Streamlining the planning system

Options	Summary of Options	Timeframe	Impact
STREAMLINING THE PLANNING SYSTEM			
"Root and Branch review"	▪ Commit to a root-and-branch review of the Irish planning system within 100 days. Rebuilding Ireland envisaged that this would be undertaken and completed by Q1 2017 but this has yet to occur and is significantly overdue.	Immediate	All improvements to the planning system would reduce delays and ensure developments are delivered more speedily and at a lower cost
Online planning service	▪ Expedite the delivery of an electronic planning system in order to streamline and speed up the planning process.	Immediate	
Local authorities to offer a full pre-validation service	▪ Introduce a (compulsory or opt-in) pre-lodgement validation check by the planning authority. It should provide for a more customer-centric planning system by reducing the risk of invalidation. This would ensure planning applications are validated as quickly as possible to minimise the amount of time and effort that otherwise has to go into returning the planning application. ▪ Over a defined metric, a planning application should include an economic assessment. Current density guidelines are overly prescriptive, especially in highly-populated areas. Viability should ultimately determine whether a proposed development goes ahead.	Immediate	
Provide outline planning permission early in the process	▪ Restructuring the planning process so that an outline planning permission can, where appropriate, be obtained early in the process which agrees the general parameters for development, such as, use, height, density, roads, services, open space. Public consultation and objections can be fleshed out at this early stage. This will reduce the cost of design and reduce the timeframe for delivery, along with de-risking projects earlier in the development process, which could reduce the cost of financing. When a project is altered or refused at the final hurdle in the planning process it is costly for home builders and inefficient for local authorities.	Immediate	
Funding and resources of local authorities	▪ Provide further resources and funding to local authorities and An Bord Pleanála to improve process efficiency and address internal training and upskilling.	Short/Medium term	

7 Affordability options

Land Management - Servicing of lands

Options	Summary of Options	Timeframe	Impact
SERVICING OF LANDS			
Register of all lands	▪ The DHPLG should work in conjunction with the Land Development Agency to establish a register of all lands zoned (public and private) by local authority functional area which should identify the land use and the deficit with respect to services. For lands where the provision of services cannot be accommodated to meet areas where there is a housing demand, the local authority should rezone additional lands to meet the housing need while they are waiting for the services to be brought on stream for the longer term lands. The register should be fully transparent for everyone to review and update as necessary.	Immediate	This would facilitate a programme (timeline and funding) to be put in place for the delivery of services.
Programme for servicing of lands	▪ Once land is zoned, local authorities should be tasked with a programme to deliver services to facilitate the development of the lands.	Short/medium term	
Servicing of zoned lands	▪ Providing services to zoned land will increase the supply of zoned and serviced land in the market. The current system is promoting higher land values by virtue of the fact that the lands which can be serviced and get through the planning system are commanding a premium. In addition, providing these services will incentivise landowners to sell their lands as they are now more attractive to home builders and are at a more advanced stage in the development process, shortening the period to secure planning permission.	Immediate	The servicing of zoned lands would open up enhanced funding options and certainty of delivery
Funding of Irish Water	▪ Irish Water need to be adequately funded and given set timelines for the upgrading of services to ensure a faster servicing of lands. An alternative is that the private sector to undertake this work and have the cost offset against contributions.	Immediate	Ensure a faster delivery of supply
Evidence based zoning decisions	▪ Zoning land based on evidence of forecast population growth will ensure a supply of housing in areas of the country where the greatest demand exists.	Short/medium term	Ensure housing is provided where it is needed

7 Affordability options

Land Management - delivery on State owned lands

Options	Summary of Options	Timeframe	Impact
	DELIVERY ON STATE OWNED LANDS		
State Land Database	▪ The LDA should work with the DHPLG to make the State Land database available, thereby enabling it to identify all State-owned lands under a set of agreed definitions and parameters, in conjunction with the support of local authorities and other State bodies and agencies.	Short/ Medium term	Would allow estimate of the potential of State lands to be quantified
LDA to link with the private industry for delivery and use their expertise	▪ The LDA should be drawing from the resources and skill sets of the private sector to bring efficiencies to the schemes they are developing. The private sector will design units which the market wants in a more cost-effective way. This would create more choice for the consumer.	Immediate	Deliver a more efficient housing system and more consumer choice
LDA to open up sites to smaller home builders	▪ Once planning permission is secured on larger sites, the LDA should assess whether segmenting their larger schemes into smaller lots to create competition for smaller home builders would support the delivery of more affordable units more quickly. In a situation where all lots on the land are active at the same time, there may be scope for efficiencies, as opposed to one single builder controlling the whole site.	Immediate	Increase competition

7 Affordability options

Taxation, Regulation and Access to and cost of Funding

Options	Summary of Options	Timeframe	Impact
ACCESS TO AND COST OF FUNDING			
Assessment of cost of funding	The cost and availability of development finance is a major factor that is contributing to the delay and supply of housing. An assessment should be undertaken on how small home builders can be funded at an economic rate to allow development to proceed across the country. ▪ Provide accessible funding to all parts of the country at competitive rates equal to / or competitive with the pillar banks ▪ The State (through HBFI) should access lending from the EU and lend at a rate which will facilitate new developments to commence ▪ Utilise the platform of HBFI to lend on licence agreements where home builders do not have first charge on land ▪ Expand the 'Momentum Fund' beyond the initial period of Covid-19 into 2025 as a minimum. ▪ Reduce, defer or waive fees for drawdown and repayment	Immediate	Would support residential development outside of the main urban area
REGULATION			
New regulations	▪ Any new regulations should be carefully evaluated against their impact on the viability of residential construction and subject to a cost benefit analysis to ensure they do not undermine the deliverability of new housing supply.	Immediate	Would ensure they do not undermine viability
TAXATION			
Review Vacant Site Levy	▪ The Vacant Site Levy (VSL) can be punitive to those genuinely seeking to develop lands, with some sites appearing on the Register shortly after agents and home builders approach planning authorities in pre-application discussions, or being delayed due to a lack of services or infrastructure which are the responsibility of the State/local authority. The VSL should be reviewed nationally to ensure the tax is equitable and reflective of the reasons why there might be delays in progressing with the development of sites (e.g. planning delay, viability or land assembly). Where the tax of 7% arises, it is likely to be passed on to the potential home buyer.	Short/Medium term	

Options	Summary of Options	Timeframe	Impact
TAXATION			
Local Property Tax	▪ Rebase the Local Property Tax to be more in line with European peers and ring fence the increased proceeds for the servicing of zoned lands. This should be done in the wider context of how LPT impacts taxpayers alongside other direct (income and capital) taxation measures	Short/medium term	Would ensure more funding available for infrastructure
Rebate for FTBs	▪ In a situation where development contributions are not replaced by a more equitable Local Property Tax for all property owners, a rebate of contributions paid should be provided to FTBs over a defined period and banks should factor this rebate into the mortgage repayment model	Immediate	
Tax regime of small scale landlords	▪ To ensure retention of small scale landlords/investors, there should be a level playing field with respect to tax treatment. Hence measures should be assessed to ensure small and largescale landlords are taxed on an equivalent basis	Immediate	Ensure a level playing field with other businesses
Support sustainable development while promoting new supply	▪ Consideration be given, subject to EU approval if required, to expanding the scope (and duration) of tax relief available under the Living City Initiative in a targeted way, to incorporate newly constructed apartments in designated urban areas where apartment accommodation is needed. This expanded relief could be targeted at owner occupiers, but also could be extended to owners of vacant properties and small scale landlords with a limited number of buy-to-let properties. The focus of the expanded relief would be to provide a buy side incentive to specifically encourage apartment construction and the return of vacant properties in urban areas, thereby supporting national policy objectives on sustainable compact growth and achieving a critical population mass, with all of the benefits that implies for vibrant city living.	Immediate	Would support the delivery of compact growth while also delivering sustainable development in cities

8

Appendix

Scenario assumptions used by CSO to determine household formation forecasts for Ireland

The CSO have six population scenarios which are based on varying assumptions for fertility (F) and net migration M)

1. Method - M1F1
2. Method - M1F2
3. Method - M2F1
4. Method - M2F2
5. Method - M3F1
6. Method - M3F2

- F1: TFR to remain at its 2016 level of 1.8 for the lifetime of the projections
- F2: TFR to decrease to 1.6 by 2031 and to remain constant thereafter
- M1: High net inward migration; +30,000 per annum in 2017/2051
- M2: Net inward migration continuing at more moderate levels: +20,000 per annum in 2017/2015
- M3: Low net inward migration; +10,000 per annum in 2017/51

Source: https://www.cso.ie/en/releasesandpublications/ep/p-rpp/regionalpopulationprojections2017-2036/

8 Appendix
Glossary of terms

ABP	An Board Pleanála
BPFI	Banking & Payments Federation Ireland
BTL	Buy to Let
CBI	Central Bank of Ireland
CGT	Capital Gains Tax
CIF	Construction Industry Federation
CPO	Compulsory Purchase Order
CSO	Central Statistics Office
DHPLG	Department of Housing, Planning and Local Government
DLR	Dún Laoghaire-Rathdown
dph	dwelling per hectare
ESB	Electricity Supply Board
ESRI	Economic & Social Research Institute
FTB	First Time Buyer
FTE	Full-Time Equivalent
GDP	Gross Domestic Product
GVA	Gross Value Added
HBFI	House Building Finance Ireland
HTB	Help to Buy
IHBA	Irish Home Builders Association
IIP	Irish Institutional Property
LDA	Land Development Agency
LIHAF	Local Infrastructure Housing Activation Fund

LPT	Local Property Tax
LTI	Loan to Income
LTV	Loan to Value
NHP	New Home Purchaser
NPF	National Planning Framework
OECD	Organisation for Economic Co-operation and Development
PfG	Programme for Government
PRS	Private Rented Sector
PRSI	Pay Related Social Insurance
RAS	Rental Accommodation Scheme
RFI	Request for Further Information
RIHLS	Rebuilding Ireland Home Loan Scheme
RTB	Residential Tenancies Board
SCSI	Society of Chartered Surveyors Ireland
SES	Shared Equity Scheme
SHD	Strategic Housing Development
SSF	Serviced Sites Fund
TFR	Total Fertility Rate
TPA	Tom Phillips & Associates
USC	Universal Social Charge
VAT	Value Added Tax
VSL	Vacant Site Levy

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