Your key to securing supply
Unlock measures to boost delivery across the public and private housing lifecycle
Introduction

Ireland’s continued capacity to deliver economic and social progress hinges on many factors. A major challenge to our national recovery is our capacity to meet growing demand for housing. OECD estimates indicate that Ireland’s housing output has dropped more significantly than any other advanced economy in the last 15 years which has impacted all housing sectors; social, affordable and private residential. Affordable housing is also the area where Ireland has declined most in recent years on the global Social Progress Index – dropping from 15th place globally in 2014 to 55th place in 2017.

Housing and sustainable urban development is identified as a strategic investment priority in the recently published National Development Plan (2018 - 2027). Resolving the systematic factors underlying the current housing crisis is at the heart of the NDP with a major uplift in delivery volumes being targeted in existing built up areas of city and other urban areas (mainly brownfield sites).

Whilst commercial construction has risen swiftly in recent years, developments have been slower on the residential side. According to the Royal Institute of the Architects of Ireland (RIAI), it takes upwards of three years for new homes to come to market from the initial design stage. Estimates place required output at between 35,000 to 50,000 dwellings per year for the foreseeable future, far beyond the best case estimates for annual completion rates.

While rental costs continue to increase, the primary factor underpinning the rental crisis is a lack of housing supply. Residential development shortages are therefore both affecting rent costs and precluding many from purchasing their own homes, which is resulting in upward price pressure on rents. The rental property shortage is further compounded by an over-reliance by local authorities on private sector rentals for public housing and the growth of the short term rental market. This pressure of rising rental costs and property shortages is having a direct effect on the current homelessness crisis; between December 2014 and August 2017 there was a net increase in the number of people recorded as homeless of 5,412 people, an increase of 189% despite a variety of positive initiatives by government.

Government has been seeking to address supply through a range of direct interventions targeting the delivery of 50,000 additional social housing dwellings by 2021. Indirect measures have also been introduced, including new financing arrangements and planned changes to building regulations to improve density in urban areas which should improve overall housing volumes. However, the complexity of the housing development lifecycle means that a number of important inefficiencies will remain even if planned policies are fully implemented.

This paper outlines our views on how the national housing crisis could be addressed in addition to current initiatives. Our view is that there is no ‘silver bullet’ solution, however a variety of initiatives could address challenges within the sector.

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Persistent challenges to efficiency, availability, readiness and cost across the lifecycle include:

1. **Land** – while recent tax reforms may discourage land hoarding, the cost of developing enabling infrastructure and the associated development contributions are prohibitively expensive in many areas. Greater access to State owned lands for social housing delivery may increase capacity.

2. **Planning** – while the new National Planning Framework should help address inconsistencies between local authority and national planning rules, a lack of local authority resourcing and divergent administrative approaches may continue to slow decision-making.

3. **Cost** – the costs of construction, despite rising sale prices, mean it is economically unviable to develop social or affordable housing (particularly apartments) in certain parts of the country.

4. **Financing** – tighter credit requirements from banks means developers (particularly smaller developers) cannot access capital or are driven to alternative, more expensive sources of capital. Even where debt is available, high costs make it difficult to provide required minimum equity returns in line with lending ratios. Public residential development is also limited by an inability or unwillingness of local authorities to take on debt.

5. **On-site Delivery** – lengthy utility connection times and regulatory burdens slow the pace of delivery. Labour supply will also be increasingly challenging as demand for housing, infrastructure, and commercial construction increases.

6. **Sale** – time for conveyancing is on average 22 weeks, according to the Law Society\(^5\), while the global average for property transfer is 11 weeks.\(^6\)

7. **Rental** – despite upward trends in rental prices, investors continue to leave this market based on available yields.

8. **Renovation/End-of-Life** – census figures indicate there are c. 200k vacant homes in Ireland which could offer opportunities to alleviate the current deficit through renovation.

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5  [https://www.lawsociety.ie/News/Media/Press-Releases/eConveyancing/](https://www.lawsociety.ie/News/Media/Press-Releases/eConveyancing/)
6  World Bank Doing Business 2018
Drawing on Deloitte’s interactions with a wide range of stakeholders along with our own professional insights, this paper highlights ways to boost delivery across the public and private housing delivery lifecycle via improvements to:

**Efficiency**  
improving a range of processes

**Availability**  
encouraging more land and stock onto the market

**Readiness**  
avoiding unnecessary delays to starting building post-approval

**Cost**  
reducing cost and improving overall economics
Property Lifecycle

Recommendations:
Improving efficiency, availability, readiness and cost across the public and private delivery lifecycle

- Rental
- Sale
- Renovation/End of Life
- Land
- Planning
- Cost
- On-site delivery
- Financing
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Land

- **Ramp-up infrastructure funds** – Expand the Local Infrastructure Housing Activation Fund (LIHAF) beyond the current €300 million. To date, local authorities have sought €800 million (based on LIHAF applications), indicating that the fund is simply not large enough.

- **Offset any enabling works or site costs** completed by the developer against development contributions chargeable. To qualify for this relief, the developer would need to prove that any savings made are passed through to the end customer.

- **Examine allocation of funding** – Budget 2018 saw the establishment of Home Building Finance Ireland (“HBFI”), a €750m private sector lending vehicle. While it is welcome that the Government is committing resources to address the creation of an additional lender, it may not lead to an increase in output without cost issues being resolved. Redirection of some of those funds towards the LIHAF or as funding for smaller developers may be a more effective use of resources.

- **Make the case for State Aid** – Government should make a strong case to the EU that direct State funding is required to fund enabling works at key State-owned sites or sites under NAMA control. These works would make sites ready for private development and go some way towards solving the cost problems as outlined in the draft National Planning Framework.

- **Utilise state-owned land** – All land owned by the State or State-owned entities should be identified and, where practical, utilised.

- **Discourage land-hoarding** – the vacant site levy was introduced by Government as a measure to dissuade the hoarding of private land. The levy, which will be chargeable at a rate of 3% for undeveloped land included on a vacant sites register in 2018, rising to 7% in 2019, will be payable by the landowner one year after the chargeable period. The effectiveness of the levy to promote utilisation of land will become apparent over the next 24 months. It should however be recognised that in “certain” cases the land cannot be developed without some Local Authority Investment - further underpinning the need to advance evolving infrastructure investment.

- **Develop a brownfield and high density strategy** – Government should identify all brownfield sites and areas of low density within the boundaries of Ireland’s five cities and develop a strategy through CPOs, Section 23, Build to Rent and other means to encourage densification. This will also support longer term brownfield development targets. This particular strategy is raised as a priority in the NDP.
Planning

- **Explore feasibility of shared services in planning** – new service delivery models, such as shared services, should be explored for some aspects of the planning application and inspection process (e.g. initial validation of submissions)

- **Amend planning requirements** – (e.g. parking, height, dual aspect requirements) to incentivise urban residential and apartment development

Cost

- **Promote offsite construction** – Actively encourage the development of this industry to deliver lower cost housing both domestically and internationally (see over for more detail)

- **Consider introducing rollover relief for capital gains tax for a residential investor** who sells a residential property and reinvests the proceeds in residential property

- **Reduce the VAT rate from 13.5% to 9%** for all construction type services

- **Develop framework agreements for social housing** – Government should procure social housing via large, high volume, long spanning framework agreements delivering economies of scale for developers

Financing

- **Increase clarity around funding platforms** – With the expansion in the number of State funding platforms, it is important that a framework is implemented which outlines clearly the mandate for each State backed funder, the process for loan applications and any requirements from applicants up front. Given the requirement for speed of housing delivery in the market, this would help expedite the funding process

- **Asset recycling** – the use of State-owned land could provide the required equity element to catalyse private sector development, reducing cost, increasing leverage and potentially speed of delivery. E.g. consider development alongside transport assets to unlock value

- **Incentivise technology adoption** – such as Building Information Modelling (BIM) to drive efficiencies in operations and delivery

- **Promote viability of regional development** – provide tax incentives for investors to buy and develop land in urban areas outside Dublin, aligning with the draft National Planning Framework

- **Value Capture** – every effort should be made by the Public Sector to capture a share of enhanced values generated (directly or indirectly) from State investments or use of State assets
On-site delivery

- **Measuring housing completions** – Capture all new residential development through the commencement and completion notice process under the Building Control Management System to accurately track new housing output
- **Utilities connection** – Create a central utilities department to centrally manage the connections of utilities per site rather than requiring project managers to liaise with multiple bodies
- **Sustainability is critical** – The Capital Investment Plan must be robust enough to withstand a downturn and ensure sustainability within the sector
- **Actively promote and encourage apprenticeships** – a lack of labour is becoming critical and leading to cost escalation

Sale

- **Conveyancing** – provide the requisite support to ensure that the Law Society’s e-conveyancing project is implemented as swiftly as possible

Rental

- **Sustainable tenure** – longer term tenures should be promoted to provide sustainable rental options for citizens as an alternative to owner-occupancy. This could be facilitated by encouraging greater levels of institutional investment to the sector. Reduced uncertainty and fluctuation would help promote an attitudinal shift towards long-term renting, as is accepted practice in other European countries
- **Waiver of VAT Exemption** – Allow VAT recovery on acquisition or development of rental investment residential property. VAT is chargeable on the rent. The investor pays VAT over the period of time, with a cut-off when VAT charged on rent equals VAT recovered. This would mean that there is no requirement to finance VAT up-front. This could be an alternative to income tax credit
- **Targeted “Section 23” relief** for a defined period of time with no High Income Earners Restriction for the private rented sector
- **Capital gains** – For those renting properties, reduce the capital gains rate for long-term ownership e.g. 10% rate if owned for ten years

Renovation/End of Life

- **Vacant property levy** – Bring forward the previously mooted levy on vacant properties, to complement incentives for renovations
Focus on

**Off-site Construction**
Instead of delivering construction projects in the traditional manner, off-site construction has the ability to deliver the majority of the project in controlled factories which enables standardisation, quality control modularisation and prefabrication. This can increase efficiencies and speed of output and thereby reduce costs.

At its optimum in large scale, uniform projects, off-site construction can deliver significant savings. Industry estimates indicate the potential for off-site construction to speed up delivery by up to 30%\(^7\). Even in one-off, complex projects it can still reduce the construction programme and therefore reduce builders’ indirect costs, yielding a better return to the client (i.e. less construction preliminaries, plus the client can start using the building earlier than might otherwise have been the case).

In addition, given the modular nature of production, off-site construction provides new opportunities to develop export growth, particularly in times of softer domestic demand. There is evidence of some export activity from Ireland already, but the industry has yet to scale.

Finally, a domestic off-site construction industry, serving both Irish and international markets, can offer an alternative, sustainable career path for young people seeking to enter the construction industry in Ireland. This, in turn, can serve to boost Ireland’s construction workforce in the near term.

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\(^7\) Housing White Paper, UK Department for Communities and Local Government, 2017
Centralised Utility Connection Management
Efficiency and improved speed in housing output could be gained by a coordinated approach to utility connection management. Recent reports from both public and private sector residential developers have highlighted that hold ups on utility installations can delay completions by months.

Government could consider the creation of a centralised body responsible for ensuring utility connections are made in a timely manner. This will also allow authorities and developers to work via one point of contact rather than dealing with several utilities bodies at the same time.

An important element of any new system should be the creation of an early notification system (alongside commencements notices), providing a deadline for utilities installation in line with planned completion dates.

Value Capture
There is an onus on the Public Sector, including State Bodies, to ensure the value of State owned assets and infrastructure is identified and leveraged to support residential development. A key area where this might be utilised is in the national transport grid. As evidenced by residential property values, there is an inherent value in proximity to a public transport hub. CIE, as one of the largest public landowners in the State, should aim to capture some of that value in promoting real estate development within its network. A prime example of this concept in action is the over-site redevelopment of Euston Station in London which represents a 3 million sq ft mixed use development comprising residential, office and retail space.
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