



**Society of Chartered Surveyors
Irish Auctioneers and Valuers Institute**

General Election 2011

Manifesto



Key recommendations

- 1. The introduction of national databases to record and publish all residential and commercial property transactions in Ireland**
- 2. The introduction of a sustainable annual property tax as part of a total overhaul of the property taxation regime**
- 3. Immediate introduction of NPRF and private pension-funded infrastructure and utilities investment programme**
- 4. Improve the quality of Ireland's built environment through investment in green infrastructure and housing solutions, including a national energy retrofit programme**
- 5. Reform of the system of development levies and commercial rates**
- 6. Re-introduction of the Property Services (Regulation) Bill**
- 7. Improve the availability of mortgage finance**

Introduction

The construction and property markets, once a key driver of Ireland's economic growth, have suffered hugely during the recession, leading to job losses and the erosion of Ireland's economic basis. While those industries grew to unsustainable levels during the so-called Celtic Tiger economy, we have witnessed a collapse which will undermine any potential for new growth. The measures contained in this manifesto are not intended to return the construction and property sectors to those unsustainable and unhealthy heights, but to give a basis for support so that confidence and investment can return to the Irish construction and property sectors. This has clear benefits to the economy, the exchequer and employment prospects.

Across Europe, it is normal for a functioning construction sector to be worth around 12% of the GNP of the country in which it operates. At the height of the Celtic Tiger, the Irish construction sector was valued at twice that amount, leading to an unhealthy over-reliance on construction as a driver of economic activity. Since then, the sector has deteriorated and is now worth less than 9% of the Irish economy. This too is unhealthy, and is now undermining any future growth in the economy. For this reason, the SCS and IAVI make the following recommendations.

The Society of Chartered Surveyors (SCS) and the Irish Auctioneers and Valuers Institute (IAVI) hope that the general election heralds the end of a period of economic and political uncertainty which has overshadowed the Irish construction and property sectors for the last number of years. International and domestic investors are beginning to regain an appetite for investment in Irish property and that consumers are expressing interest in designing and planning new construction works. The SCS and IAVI have set out the following policy areas for action by the incoming government to restore activity in the property and construction markets.

Economic Environment

Indicators for the Irish economy are mixed. Latest estimates for Irish GDP have returned to positive growth, and GNP figures are expected to do likewise, however consumer and investor sentiment remain extremely depressed. The cost of government borrowing has increased and

since last September, this has placed new additional burdens on the Exchequer, which must be overcome before economic balance can be restored. Domestically, over 2010, a monthly pattern of falling taxation receipts and reduced public spending have emerged, widening the exchequer deficit and increasing the borrowing requirement of the State. Unemployment remains stubbornly high, undermining the potential for future economic growth.

Over 2010, the SCS and IAVI surveys of property and construction professionals has shown that while consumers and investors are interested in commencing new projects, access to finance is difficult and the stormy economic background have prevented many new projects from starting. The incoming government must use its mandate to calm this economic environment, restore the banking sector, rebuild confidence in the market and allow investors to return.

Stimulating Exchequer Revenues from Construction

In 2009, the Construction Industry Council warned that unless a series of additional funding measures were put in place to support public and private construction activity, the sector would fall below its long-term optimum size to sustain future economic growth.ⁱ Latest indicators show that the output of the construction sector has declined below its optimum size of around 12% to 15% of the economy, leading to massive job losses in the construction and property sectors. In 2011, we see little chance of any upturn, unless the new government introduces measures to support the recovery of these markets.

Both government and industry have recognised the importance of capital investment in building and civil engineering in securing employment in construction and the wider Irish economy, and stimulating private sector activity. Since 2006, employment in construction has fallen rapidly, as the scale of underspend increased.

The next Programme for Government must have an overarching aim of restoring balance to the exchequer and stimulating confidence amongst consumers and investors. Protecting existing jobs and creating new jobs by investing in public infrastructure, stimulating new economic

activity and achieving Ireland's optimum long-term economic growth should be at the heart of the next government's policy plan.

Achieving a Functioning Property Market

In a period of low international investor confidence, it is more important than ever that any entry barriers to foreign and domestic investors in Irish property are removed, and this means a fundamental reform of the property tax regime. The SCS has written to all political parties to brief them on the potential impacts on the economy, the exchequer and the Irish property market if a decision is taken to ban upward only rent reviews was applied retrospectively. The impact on the value of Irish pension funds cannot be over-stated, and any policy in this area must be carefully examined to minimise potentially very harmful second-round impacts on the wider economy. The SCS recognises that any such decision is a matter for government; however, it is essential that such a fundamental decision is taken in the full knowledge of the likely consequences, one way or the other. Consideration of an economic impact assessment may be a useful tool to assist in the decision making process.

Property Tax and the Property Professional

The government should streamline the process for the collection, retrieval and use of property data such as property valuations and rates, register of legal title and land deeds etc. through the application of computer assisted mass appraisal (CAMA) within a geographic information system (GIS). These systems are used worldwide (including Northern Ireland) – particularly for property taxation – and they have been proven to “increase efficiency, enhance currency and transparency, and ultimately facilitate a more frequent revision of the tax base.”ⁱⁱ

The implementation of a GIS means that “valuers need to spend less time collating information and inspecting properties on site and can, therefore, carry out more efficient, cost effective valuations.”ⁱⁱⁱ

Sustainability

Population growth seen in Ireland over the last decade has accelerated the urbanisation of the country. However, the growth is not spatially uniform. Many town and city centre populations are declining as our suburbs continue to sprawl and grow. It was noted in the Urban Forum 2007 manifesto that Dublin will soon occupy the same surface area as Los Angeles, but with less than a quarter of its population. The same effect can be seen in most of our towns and cities. This is not sustainable, and we therefore recommend that the incoming government puts sustainable planning at the heart of its spatial development policy.

Maintaining and improving the existing built environment is extremely important as around 60% of the buildings that will be standing in 2050 have already been built^{iv}. In order to increase the life-cycle of these buildings, whether homes, offices or industrial property, policies should be put in place to maximise the carbon-saving opportunities of retrofit and refurbishment projects.

Action 3 of the *Government Policy on Architecture* states:

“In order to strengthen the evidence base for policy, the Department of the Environment, Heritage and Local Government and the Office of Public Works will co-ordinate post occupancy evaluation studies of buildings procured through direct State funding and publish the outcomes. The Department of the Environment, Heritage and Local Government and Office of Public Works will establish within their procurement provisions mechanisms for data gathering and analysis on schemes procured through public funding and Public Private Partnership.”

With effort from all stakeholders, the existing built environment has a strong role in supporting government policy of a smart, low-carbon economy. The following data demonstrates the potential contribution of the built environment to achieving this aim:

- Total CO₂ emissions in 1990 were approximately 55 million tonnes of CO₂ Equivalent.
- The EPA state that current projections indicate that Ireland will still exceed its KYOTO Protocol limit by an average of 1.3 to 1.8 million tonnes of CO₂ equivalent annually in the period 2008 - 2012. (i.e. total of 7.2million tonnes CO₂ equivalent)

- SEI Report entitled "Ireland's Low Carbon Opportunity - An Analysis of the Costs and Benefits of Reducing Greenhouse Gas Emissions" (July 2009) states that Buildings contributed 9.7 million tonnes of CO₂ Equivalent to the overall total of 68.2 million tonnes in 2007.
- SEI report that of the 9.7 million tonnes contributed by buildings, Residential accounted for 7 million tonnes (72% of total building contribution) and commercial accounted for 2.7 million tonnes (28% of total building contribution).

Improving the Energy Efficiency of Existing Buildings

The Retrofit programme (€40m) aims to upgrade the energy efficiency of the 1.2 million least efficient Irish homes, bringing the Irish building stock to C1 rating within 12-15 years, saving each householder €1,100 per annum on energy bills. This would save 30,000 construction jobs, and mitigate 4.8m tonnes of CO₂ annually.

We recommend that occupiers or owners should be enabled to off-set up to 50% of their rates bill on selected designated capital upgrade works to their properties to comply with the highest Building Energy Rating certification levels. This proposal would encourage investment in existing property thereby reducing CO₂ omissions while also stimulating employment within trades and material suppliers involved with the upgrade works.

To improve energy efficiency, hence reduce CO₂ emissions, in existing and obsolescent buildings, the proposed technical improvement works would include:

- Retrofit of the building envelope
- High efficiency lighting and controls
- Energy efficient electronics and appliances
- Retro-fit water heating
- Retro-fit HVAC (heating, ventilation and air-conditioning systems)

We recommend that grants, even though difficult to fund at the present time, should be given to owners of properties to incentivise the completion of these

works. More energy efficient building will attract interest on the open market as occupiers are seeking to reduce their running costs, which includes heating and electricity bills.

The Institute of International and European Affairs report "A Greenprint for a National Energy Efficiency Programme" suggests an investment of around €1bn per annum to increase the national building stock to C1 rating in 12-15 years. One half of this investment relates to work and the IIEA suggests that 23,000 direct jobs can be created through an investment of €1bn.

We recommend that the adoption of a version based on the "Pay as you save" scheme in the U.S., which applies to the retrofitting of energy efficient equipment, insulation etc to upgrade existing buildings. Owners pay for the cost of the upgrade works over an extended period of time so that the repayments are lower than their predicted energy bill savings resulting in financial and carbon savings being made from day one. Another option could be that a system of capital allowances is made available over a specified period, such as ten years, so that owners can claw back savings on an annual basis.

We recommend the introduction of a reduced or zero-rated VAT rate for upgrading works to protected structures and obsolescent buildings. This would encourage the redevelopment of existing stock, stimulate the construction sector, and create jobs while creating a net positive impact on the Exchequer. The renovation of existing properties is also a more sustainable method of development with less carbon emissions and a lesser impact on the environment.

Work by the Construction Industry Council has shown that an additional 9,200 jobs would be created indirectly, and another 9,000 jobs supported in the wider Irish economy. Roughly 50% of the capital costs of these projects would be saved through tax paid by the 32,000 people who could be employed, directly and indirectly, and savings from the social welfare which would otherwise be paid to these workers.

Replacing Development Levies

Levies that are being charged by the local authorities should also be reviewed and where possible reduced in line with the significant reduction in all costs being achieved throughout the economy. It should be noted that in many local authorities the levies are based on calculations annual increases while costs in the wider economy are now back in some cases to 1999 levels.

These uplifts in contributions are unsustainable in the current economic climate and particularly so in areas where local authorities have introduced additional levies for large infrastructural projects such as Metro. The SCS understands that the costs have not been increased to represent the 'true cost' of provision of these services in some local authorities, however the changes to the rate of the levies should reflect the Tender Price Index movements and the actual market movements in cost.

Regulation of the Property Sector

There is currently no statutory regulation in the property sector, despite property service providers being involved in significant financial transactions.

In 2005, the Auctioneering & Estate Agency review group recommended the regulation of the sector and led to the drafting of the Property Services (Regulation) Bill 2009. Despite, the fact that the Bill reached the second stage in November 2010, it was not passed into legislation before the dissolution of the Dail.

We urge the incoming administration to resume the Property Services (Regulation) Bill 2009 and ensure that it becomes legislation.

Improving Availability of Mortgage Finance

On a national level, there is a significant lack of confidence in the Irish banking sector and the supply of credit into the economy from financial institutions which have been recapitalized is hampering domestic stability and growth.

While it must be acknowledged that an oversupply of credit in the economy was a primary cause of the boom, the opposite effect of a very limited supply of credit is having devastating effects on the economy, consumer confidence and as a result, economic growth.

The lack of availability of mortgage finance is a critical issue for the property sector. The IAVI/SCS Annual Property Survey 2010 suggested that the lack of available mortgage finance for qualified buyers was having a crippling effect on the property market. Furthermore, despite several tranches of loans being acquired by NAMA, it is the experience of IAVI members that the rationale for NAMA – to improve the supply of credit in the economy – has yet to materialise at a local level.

There has also been a reduction in the number of financial institutions providing mortgage finance which is putting further downward pressure on the availability of mortgage finance to qualified buyers. There is a danger that this could compound the number of unfinished developments and result in difficulties for NAMA when properties tied to its loans are put onto the market.

We recommend that the incoming administration must ensure that a balance is restored in the banking sector and that financial institutions are given a mandate to prudently lend to businesses and people in accordance with the correct lending criteria. The IAVI/SCS also endorses the Code of Conduct on Mortgage Arrears and its provisions to assist the borrower.

Property Tax Reliefs

We have already made a submission to the Department of Finance outlining the detrimental impact that the proposed abolition of property tax reliefs would have on individuals, investors, NAMA, pension funds, financial institutions and ultimately the state should they be introduced

in their current format. It is noted that the Finance Bill has provided that an impact assessment will be undertaken immediately in advance of any abolition of reliefs.

While it is acknowledged that property tax reliefs will need to be removed, the timing of the removal of the reliefs is crucial from a tax planning perspective as well as ensuring confidence and stability in the taxation system.

IAVI/SCS are willing to provide professional expertise and assistance as appropriate in relation to the preparation of the impact assessment of the abolition of the property tax reliefs.

Transparency in the Residential & Commercial Property Markets – Introduction of a National Property Database

The ESRI/PTSB House Price Index reported that house prices had fallen by 38% since the peak. Anecdotal reports from members suggest that in certain areas, the decline is closer to 50-55%. It is clear that there is an urgent need to provide consumers with a register of transactional values for residential and commercial property which is currently prohibited due to data protection legislation.

The Commission on Taxation Report 2009 recommended that “The provision of an up-to-date valuation base for all property and land in Ireland should be addressed as a priority issue”.

In August 2010, the Minister for Justice Dermot Ahern announced that the Property Services (Regulation) Bill 2009 would be amended to facilitate the establishment of a national property database to be managed by the Property Services Regulatory Authority (PSRA).

However, as the Property Services (Regulation) Bill 2009 did not become legislation and thus the Property Services Regulatory Authority was not established on a statutory basis, the proposed introduction of the property price register has been undermined.

A national property price database is crucial to the residential and commercial property markets and providing a level of transparency for consumers which is readily available in the UK and internationally.

We recommend that the data protection legislation preventing the publication of commercial and residential property transaction prices is amended immediately and that an existing state body such as the Department of Environment, Heritage and Local Government or the Land Registry be given the task to collating the information to create the Property Price Database.

Unfinished Housing Developments

In 2010, the Department of the Environment, Heritage and Local Government completed a National Housing Development Survey which found 2,800 unfinished developments nationwide. It found that there were around 33,000 new units completed and vacant Nationwide.

The IAVI and SCS took part on the Expert Group on Unfinished Developments which produced a Guidance Manual for Managing and Resolving Unfinished Developments which included Site Resolution Plans (SRP's), Building Controls and security measures.

We recommend that the recommendations for the Expert Group contained in the guidance manual is published and implemented in full.

Commercial Property Rates

For commercial property owners and occupiers rates previously comprised approximately 10-15% of occupation costs as a percentage of rental value. However, the significant changes in the general economy and the market over the past 24 months have effectively increased this figure to approximately 40-50% whilst trading conditions have declined. The impact can be greater in local authority areas where a general revaluation has been undertaken.

A revaluation of commercial property was commenced four years ago and its purpose was to bring more equity and fairness to the local authority rating system and a much closer and uniform relationship between the rental values of properties and their commercial rates liability. This process is taking too long to achieve, particularly when businesses are in a difficult financial environment together with widespread valuation anomalies between certain local authority areas. Only three local authorities will have completed the revaluation by this year-end – South Dublin, Fingal and Dun Laoghaire- Rathdown.

The current position whereby the revaluation is referenced to a base date of September 2005 i.e. approaching the height of the market is also predominantly skewing the increased liability towards retailing.

We recommend that the base valuation date should be revisited and updated to a more current level and that an assessment should be carried out as to the potential cost and time efficiencies of outsourcing some of the revaluation work to the private sector.

Conclusion

Ireland urgently needs a period of economic stability in order to return the construction and property markets to appropriate and healthy levels of growth. The forthcoming election, the opportunity to reform the tax base in Ireland, and sustainable investment initiatives are the best ways for a new government to promote a healthy economic backdrop to facilitate new investor and consumer activity.

The Society of Chartered Surveyors

The Society of Chartered Surveyors (SCS) is the Professional Body for Chartered Surveyors in Ireland. Members of the Society are typically professionals employed in the land, property and construction sector through private practice, in central, regional and local government, in public agencies, in academic institutions, in business organisations and in non-governmental organisations. Membership of the Society is approximately 3,000 in number and also has strong links with the RICS which represents over 140,000 members across 120 countries worldwide and is one of the most respected and high profile global standards and membership organisations for professionals involved in land, valuation, property, construction and environmental issues.

As the members of the SCS are fully professionally qualified personnel from a range of backgrounds, the Society has the necessary skills to advise on deliverable aims and market expectations.

Their broad areas of expertise include:

- Quantity Surveying
- Building Surveying
- Valuations surveying
- Planning & Development
- Geomatics & Land surveying

Irish Auctioneers and Valuers Institute

Founded in 1922, the Irish Auctioneers & Valuers Institute (IAVI) represents c. 1,800 fully qualified property professionals in all 32 counties of Ireland and promotes the highest professional, ethical and educational standards in the property industry.

Members of the IAVI operate in every sector of the property market including agricultural, residential, commercial, industrial, development, licensed premises and hotels, professional services, planning and taxation, marketing and valuation.

The Society of Chartered Surveyors and the Irish Auctioneers and Valuers Institute will merge on 31st March 2011 to form the Society of Chartered Surveyors Ireland (SCSI).

References:

ⁱ Construction Industry Council “Jobs and Infrastructure: A Plan for National Recovery” Submission to the Government. April 2009

ⁱⁱ McCluskey, W., Deddis, W., Mannis, A., McBurney, D., Borst, R. (1997) “Interactive Application of Computer Assisted Mass Appraisal and Geographic Information Systems” in Journal of Property Valuation and Investment (Vol. 15, No. 5, pp. 448 – 465)

ⁱⁱⁱ Treddon, D. (2007) “Where is the world of property valuation for taxation purposes going?” in Journal of Property Investment and Finance (Vol. 25, No. 5, pp. 482 – 514)

^{iv} Carbon Trust Research, UK