

The Society of
Chartered 
Surveyors

5 Wilton Place, Dublin 2

Pre-Budget Submission

March 2009

Introduction:

Dating back to 1895, the Society of Chartered Surveyors is the largest professional body in Ireland representing both the construction and property industries. The Society has strong links with the RICS which represents over 110,000 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.

Representing over 2,200 qualified chartered surveyors and a further 1,000 probationers who are undergoing their assessment of professional competence in order to achieve the gold standard of chartered status, members of the Society are typically professionals employed in the land, property and construction markets through private practice, in central, regional and local government, in public agencies, in academic institutions, in business organisations and in non-governmental organisations.

Their broad areas of expertise include:

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

Members' services are diverse and can include offering strategic advice on the economics, valuation, law, technology, finance and management in all aspects of the construction and property industry.

Accountable to both members and the public, the Society of Chartered Surveyors has five primary roles:

- Promoting the diverse knowledge of the profession
- Maintaining the highest educational and professional standards
- Protecting consumers through strict codes of practice
- Providing expert advice on property and built environment issues
- To act as the State Registration Body for the title of Quantity and Building Surveyor under the Building Control Act, 2007

The Society of Chartered Surveyors recognises that this Government faces into a very difficult budget and needs to lead the country through an increasingly complex economic period, both from a national and international point of view. It is important that this Government focuses on implementing tax policies and spending strategies that will guide the country through this downturn in economic activity.

The scope of this pre-budget submission will address issues of concern in both the construction and property industries and make a series of recommendations for consideration.

1. Dealing with the banking system:

The most important and immediate issue for the economic and social welfare of our economy is to put in place immediate measures to resolve the credit and banking crisis, which is critical for the State's economic recovery.

There is an immediate requirement to deal with the banks' toxic debt by independent economic experts, partly made up of those of international standing, so as to avoid perceived domestic conflicts of interest, which are now an unnecessary distraction, and encourage more effective banking regulation.

It is now evident that a clear distinction should be made between assets worth keeping for the long term and assets whose social and economic value are of minimal or short term significance. The latter asset should be placed in one 'bad bank', where they can be dealt with separately and the better assets can be worked for public betterment.

These steps would ensure that credit flows to businesses and those who need it to stem the flow of increasing unemployment.

2. The importance of infrastructure for the public benefit:

The National Competitiveness Council has stated that Ireland's infrastructure deficit still places Ireland at a material disadvantage to other EU countries. The National Development Plan 2007-2013 was designed to address this deficit but the serious deterioration in the Exchequer finances is now making it difficult to deliver on all aspects of the NDP.

The removal of infrastructure deficits in an economy is essential in our efforts to raise competitiveness and boost economic growth. Withdrawing resources from investment in this area will only damage our competitiveness further. It is with this in mind that the SCS urges the Government to as far as possible ensure that the roll out of the Public Capital Programme is fully supported throughout all Government departments.

3. Prioritisation of the public capital programme:

While the Society accepts that there is a need for a re-prioritisation of the projects within the Capital Programme, this prioritisation should be conducted on the basis of:

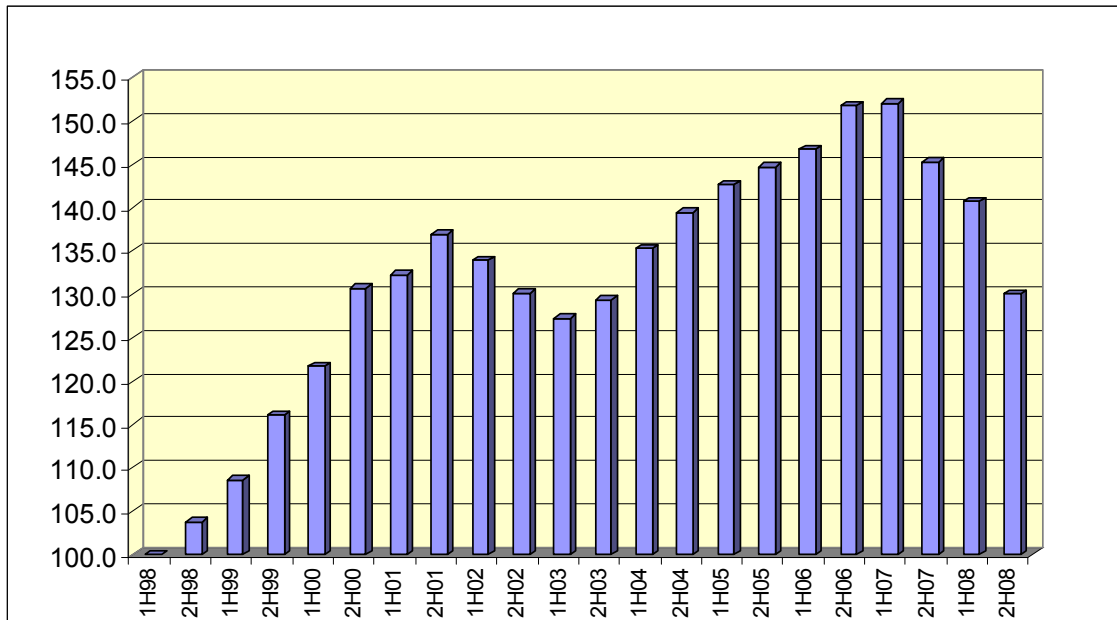
- (a) Labour intensity of capital projects and
- (b) A focus on projects that can demonstrate an economic return

4. Taking advantage of falling tender prices:

The latest Tender Price Index compiled by the Society, which is the only independent assessment of construction tender prices in Ireland, indicates that construction tender prices continue to fall. The latest Tender Price Index published by the Society of Chartered Surveyors demonstrated a further

substantial fall in the second half of 2008 showing a further decrease of 7.4% since the first half of 2008 and a decrease of 10.5% for the year as a whole.

The below graph shows how on average tender prices reduced further in the second half of 2008 and are now at similar levels to the end of 2000.



This reflects the dramatic fall off in all sectors of the construction industry including residential, commercial, public sector and civil engineering works and the fact that the output of the industry is likely to reduce to less than half of its peak of €38bn in 2007. The fall in tender prices comes despite increases in the cost of labour and material inputs and reflects the situation where contractors are bidding at or below cost in order to secure a share of the ever diminishing market. It is likely that there will be a further reduction in tender prices during 2009 but perhaps at a slower rate, as below cost tendering can only be a short term solution.

Output in the construction industry is set to record the biggest contraction in thirty years. Projections suggest the industry will already be below its optimum size of €18bn by the end of 2009 and that the industry could shrink to €12.3bn by the end of 2010. (Source: Construction Industry Council (CIC) Submission to Government)

The fall in tender prices reflects the very competitive current market conditions where contractors are bidding at or below cost in order to secure a share of the ever-diminishing number of new projects and the State should take advantage of the medium to long term benefit to the exchequer of this situation. This theory of counter cycle market intervention should be implemented to ensure that the capacity of the construction industry is fully utilised and that employment levels, high levels of skill and output are maintained. This would in turn, assist in boosting economic growth across the wider economy.

5. Commitment to identified infrastructure projects:

The SCS believes that the Government should confirm its commitment to specific infrastructure projects on the basis set out in section 2 above and give serious consideration to the recent Construction Industry Council proposal to implementing an additional stimulus package to invest in additional infrastructure projects.

The added benefit of this investment strategy would give stability to employment in the construction sector which could drop to levels below the optimum required in the absence of Government intervention and would also give rise to revenue through income tax and social insurance contributions. Improving infrastructure also generates additional benefits to competitiveness and economic growth as well as providing an important public benefit.

While the current economic climate may warrant tax increases and spending cuts, the Society believes that any savings on this front could be seriously undermined unless accompanied by measures to prioritise and accelerate the delivery of the NDP thereby stimulating economic activity and employment maintenance and creation.

6. Promote improvements in existing building stock for environmental gain:

The recent European Council (ECOFIN) decision to enable member states to apply reduced VAT rates on a permanent basis to the renovation and repairing of private dwellings should be given serious consideration in particular in the area of insulation, energy conservation upgrades and improvements to principal private residences. A reduced rate of VAT will help make energy efficiency improvements to homes cheaper, bring empty homes up to a habitable standard and boost activity in the construction sector which has been badly hit by economic conditions.

A similar initiative of repair and upgrade for commercial properties should also be considered. Many companies may decide to make such investments on the basis that they can make considerable running cost savings and maintenance cost savings in the medium term thereby improving their competitiveness in the market.

7. Stimulating the commercial property sector:

While the last budget in October 2008 made some attempt to resolve the cumbersome level of stamp duty on commercial property by implementing a reduction from 9% to 6%, the lack of transactions in the commercial property sector mean that exchequer tax receipts from stamp duty continue to decline sharply as the market slows further and the reduction applied has had little to no effect in the market.

An opportunity exists to radically adjust the level of stamp duty rates to reflect a dramatically changed market. As the Government is not generating any significant amount of revenue from this source of taxation, consideration should now be given to its abolition for a specified period of time. This initiative may

encourage activity in the market again and ease the market out of its current inactive position.

Furthermore, as the cost of stamp duty directly affects the value of property held in pension funds, a reduction in these costs will immediately add the same percentage to the value of all property in pension investment funds.

8. A downward review of VAT on residential property:

The action required in the residential market is immediate.

In terms of addressing the significant number of completed and unsold dwellings, first time buyers could be offered a VAT rebate on a new home (for a limited period of time). The VAT currently payable on a new home is 13.5%, which equates to €40,500 on a new home of €300,000. These homes are not selling at present and as such the Government is not generating much VAT income in this stagnant market.

If, for a specified limited period of time e.g. one year only, buyers could avail of a rebate or a concession of just 50% of the VAT. This would create a win-win situation where the government would be generating tax income and the first time buyers cohort would be getting exceptional value in the form of a once-off "discount" of €20,250.

9. A reduction in stamp duty on second hand property:

On second hand property, the current middle band of 7% affects the greater majority of transactions and should be reduced to no more than 4% in line with the more recent changes in the UK. Overall, we suggest:

First €125,000 Nil

Next €400,000	4%
Excess €525,000	6%

10. Expansion of the Home Choice Loan:

The “Home Choice Loan” scheme run by Local Authorities, should be expanded further, increase the limit of the number of loans available (currently approximately 4,000), and increase the maximum price limit in certain urban areas from €285,000 to €450,000. The SCS believe that the scheme should also be made available beyond the first time buyers cohort.

11. Sorting out the Housing List:

Given the number of vacant residential units, the equally long housing lists, and funding difficulties, action needs to be taken to reconcile the two.

As a number of Local Authorities cannot afford to pay market rates at present, an arrangement should be introduced between developers and a Local Authority, whereby the latter pays what they can afford now, that is what they are paying under Part V at the present or a certain percentage of the market value.

Subsequently they then pay the balance on an annual basis over for example, ten years.