

Society of Chartered Surveyors Ireland

Submission to Indecon Re: Help to Buy



Context

It is generally accepted that the lack of supply of new homes is the main driver of the increased rents and house prices seen over the last four years. Government initiatives contained in *Rebuilding Ireland Action Plan for Housing and Homelessness* have aimed at increasing the supply of new, quality, affordable housing by reforming the planning system and providing funding for infrastructure.

However, policy analysis by the Tax Strategy Group and others have shown that the supply response to new initiatives has been sluggish. There is an ongoing shortage of new homes to rent or buy, both within the public and private sectors. There are many reasons for this delay including difficulties in obtaining development finance, unnecessary bureaucracy in the planning system and a general lack of capacity within the construction supply chain to deliver new housing developments. Resolving these issues will take time as the house-building sector recovers from a period of very low levels of activity, inevitably delaying the supply of new housing even further.

The SCSi is supportive of measures that will increase the supply of affordable housing in areas of high demand. It is vital that the correct type of housing (both apartments and houses) is delivered in areas where demographics, employment and economic activity show there to be a need. SCSi believes that the introduction of the Help to Buy scheme, which focused on increasing **demand** for housing, was a sub-optimal policy approach when the real crisis in the housing sector was a lack of **supply**.

The scheme ignored the fact that it is far quicker to stimulate demand for new housing than stimulate supply. The process of site acquisition, obtaining development finance, designing and planning the housing scheme, construction and fit-out of the property can take more than two years. Therefore, the short-term impact of increasing funding available to meet demand for housing is less elastic than in the medium to long term.

SCSi believes housing affordability is important for Irish society and economy. The National Competiveness Council summaries this as follows: “the supply and affordability of residential housing is a component of Ireland’s ability to compete internationally... a well-functioning housing and construction sector is critical to the overall health of society and the economy.”

The need to take policy action is correct. Whether this was the most efficient means will only be clear over a longer period of time, as the increase in additional funding makes the business case for residential projects which would previously not have come on stream do so over the coming months and years. The SCSi has received anecdotal evidence that this has been the case for some projects.

Therefore, now that the scheme is in place, SCSi recommends that Government provides certainty in housing policy by continuing with Help to Buy whilst extending this current review to include a wider and more meaningful on-going analysis of housing supply/demand issues. The introduction of review clause that would wind

down the scheme after a 2 year period would give certainty to those projects which were undertaken with the scheme in mind.

A whole of government review of housing policy would help identify policy improvements and refinements so Help to Buy can be part of a more coherent set of policies in the field of housing to (a) increase the supply of affordable new homes across all tenure types, and (b) ensure that that any Exchequer funding and taxation incentives are effective, fair and deliver their stated goals.

Housing Policy in Context

The main issue facing many people in Ireland today is the ability to purchase their own home, or to rent suitable accommodation. Recent CSO data suggests that the average age of a First Time Buyer is 35 years, up from 28 years in 2006. This reflects the challenges now facing this cohort when seeking to secure the purchase of their own home.

SCSI believes that, despite the creation of a new Department of Housing, there remains a lack of overall vision for the housing sector. At local and national level, there is no vision for the long-term built environment over many generations.

This lack of vision or long-term strategy means that developers do not know what types of property they should construct, or how long any individual policy will last. As past experience of taxation incentives show, it is vital that government policy in housing is targeted, predictable, clear and purpose-driven.

Therefore, the SCSI believes that the scheme should be refined to reflect the current housing and economic environment with purchase value limits to be reduced from €500,000 to levels more associated with multiples of real average wages.

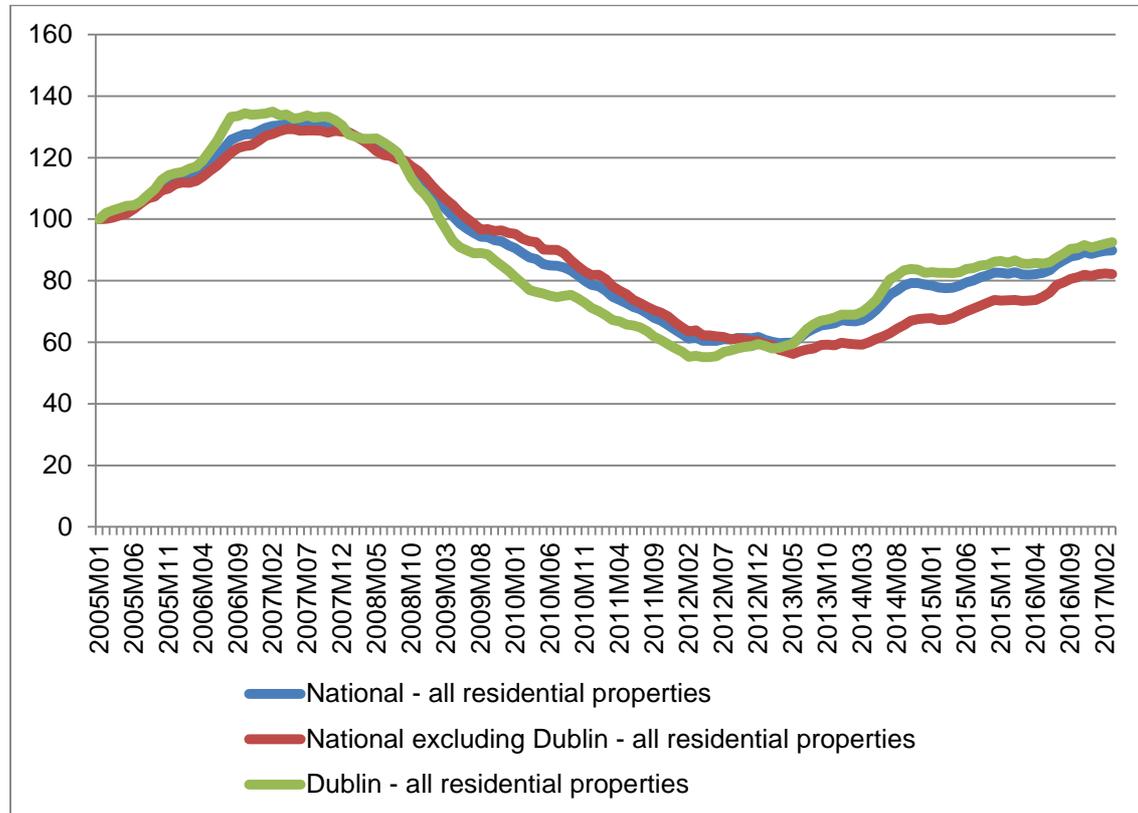
Ireland is struggling to maintain its international competitiveness. Both the European Commission and the Irish National Competitiveness Council have highlighted the increasing costs of housing as a potential weakness for Ireland.

As the National Competitiveness Council has reported the importance of residential housing “impacts upon the attractiveness of Ireland as a location for investment and directly impacts on enterprise costs through wage effects, and indirectly determines the price of Irish goods and services. The cost of housing (purchase and rent) influences labour mobility and contributes to an economy’s ability to adjust to adverse economic shocks.”

Ireland’s property market has witnessed many severe peaks and troughs, more notably so in the past decade where a lack of new housing supply during the recession has left a shortfall in our housing stock resulting in significant price rises when the economy improved. The construction industry has found it difficult to repair its supply chain and deliver for pent-up housing demand, and therefore, extra efforts should be

made to support this industry cater for demand in the most efficient and sustainable way possible. Greater stability and certainty is need to help overcome the market failure that has hampered residential housing.

CSO Residential Property Price Index 2005 – 2017



Of course, one barrier to the delivery of affordable housing is the high costs associated with the delivery of housing. SCSi’s own research regarding the cost of building new scheme housing showed that 55% of the cost of delivering a three bedroom semi-detached house consists of VAT, levies, cost of land, Part V, Finance etc. These element in residential development are the biggest barriers to the delivery of affordable housing in Ireland, and any reform of housing policy must take these issues into consideration. More information on the real cost of house building is available in SCSi’s reports on the topic. The SCSi is also preparing for publication shortly a real cost of apartment building.

In reviewing the impact of the Help to Buy scheme, it is important to look at both first- and second-round impacts on the entire housing market, not just the affordability and supply of new housing.

Assessing the Help to Buy Scheme

The introduction of the Help to Buy scheme coincided with the relaxation of the Central Bank macro-prudential lending policy. It also took place in a wider economic context of growth and reducing unemployment. House prices and economic conditions are tied, and therefore it is important that policy is flexible enough to respond to changing economic conditions. While house prices have risen at the same time as the Help to Buy scheme was introduced, inadequate housing data (prices, supply, stock, obsolescence etc.) makes it difficult to determine exactly what impact the policy had on increasing prices or stimulating supply.

It is likely that many potential home-buyers were encouraged by the Help to Buy scheme to bring forward a purchase which they were intending to make sometime in the near future once they had saved the sufficient deposit to draw down a mortgage. It therefore did not, of itself, increase demand for new housing, but rather crystallised the decision to buy for a large cohort of people. Further, as Help to Buy focused solely on the purchase of new homes, it had the consequence of encouraging the purchase of new developments over houses from the existing housing stock.

The policy of making the purchase of new housing more attractive than the purchase of existing housing has undoubtedly had a negative impact on the sustainability of small town centres where a “donut” effect has development. It has therefore been necessary for government to create a separate policy to promote the purchase and restoration of existing buildings in key areas.

CSO Residential Property Price Index

Month	Price Index (Jan 2005=100)	Monthly % change	Annual % change
January 2017	89.3	0.7	7.9
February 2017	89.7	0.4	9.4
March 2017	89.8	0.1	9.6

When launching the scheme and other initiatives as part of Budget 2017 the Minister stated that these represented “a comprehensive package of supports for the wider housing market in terms of a significant tax rebate for first time buyers to stimulate the supply of new homes”. The impact of this will take a time to work through the system, further underlining the need for the Help to Buy scheme to continue in order for it to deliver its desired policy goal.

A properly functioning housing system should not need any particular incentives for one particular cohort of buyer or type of housing, and should have a purposeful aim of retaining and improving affordability by exploring policy reforms to reduce development costs, increase the supply of available land for new housing development and promote affordable development finance. Any policy in the field of housing must be linked to targets, i.e. once a national annual target of, say, 25,000 new units has been delivered, and each region of Ireland is broadly in sustainable supply/demand equilibrium then

the scheme is tapered off. One of the lessons of past taxation policies is that where a policy is too broad, or is kept in existence beyond the point of usefulness, it can lead to the over-supply of the wrong type of buildings in the wrong areas.

Case study: Lessons from Scotland

In January 2016, the Scottish Government launched the Help to Buy Affordable New Build and Help to Buy Smaller Developers schemes. While it has many of the same goals as the Irish equivalent, it has a number of features which may be worth considering for adoption in any amended version of Help to Buy in this jurisdiction.

The Help to Buy (Scotland) Affordable New Build Schemes comprise two schemes which help buyers who would not otherwise be able to do so to buy an affordable new build home from a participating homebuilder.

The main **Help to Buy (Scotland) Affordable New Build Scheme** is available to larger homebuilders while the Help to Buy (Scotland) Smaller Developers New Build Scheme is available to smaller homebuilders.

Help to Buy:

- Schemes are only available on new build homes from participating home builders and on homes up to a maximum value of £230,000 for purchases which complete on or before 31 March 2017, £200,000 for purchases on or before 31 March 2018, and £175,000 for purchases on or before 31 March 2019;
- Mortgage lenders require purchasers to contribute a deposit of around 5%; mortgage and deposit must cover a combined minimum 85% of the total purchase price;
- Mortgage from one of the participating lenders must be a repayment mortgage, of at least 25%, and cannot be an interest-only first mortgage;
- The Scottish Government will help buyers to purchase the property by taking an equity stake of up to a maximum 15% of the value of the property;
- No annual interest is charged on equity stake;
- The Scottish Government's equity stake can be repaid at any time and is based on the value of the property at the time of the repayment;
- The scheme is only available to those who are unable to afford to purchase the property without the Government purchasing an equity share in the property, i.e. if a purchaser is able to afford over 100% of the purchase price through a combination of available mortgage and deposit then the application will not be eligible;
- The scheme is not available to a single person who requires a mortgage of more than 4.5 times their income or couples that require a mortgage of more than 3.5 times their joint income; and
- There are currently eight participating lenders offering mortgages for the Help to Buy (Scotland) Affordable New Build schemes.

Recommendation

While the SCSi does not believe that demand-side incentive schemes alone are the answer to resolving the on-going housing crisis in Ireland, the early abolishment of the scheme in its infancy might do more harm than good for future policy. As raised in the context section, the time lag that exists between the business case for construction and the occupancy of new houses is longer than the overall life of the scheme to date. Therefore it is important that if new housing developments are being commenced with the legitimate expectation that purchasers will be able to avail of supports through Help to Buy then these developments are allowed to reach completion.

The introduction of a review clause in the legislation that sets the minimum length of the scheme would overcome any uncertainty about the future of the policy. The reform/replacement in the future must be done in a transparent and timely way so that both potential house buyers and new homes builders can be certain of the environment in which they are operating.

While the focus of Help to Buy has been on improving the supply of new homes, SCSi also believes that more must be done to encourage purchasing existing homes and bringing more derelict or vacant homes into habitable use. Therefore, the SCSi believes there is scope for a number of changes in housing policy, which it will detail in its Pre-Budget 2017 Submission to the Department of Finance and Department of Housing.