

## What Developers Need to Know: Croí Cónaithe (Cities) Scheme

### Overview

The Croí Cónaithe (Cities) Scheme provides funding to developers to bridge the viability gap for eligible new apartment block schemes in Dublin, Cork, Limerick, Galway and Waterford.

The scheme is intended to support the building of 5,000 apartments for sale to owner-occupiers. Funding of up to €120,000 per apartment is anticipated, which may increase in the four regional cities (depending on market values) up to a maximum of €144,000.

The first call for submissions for funding closed in June 2022, but a second call is expected in the coming months.

This briefing outlines the eligibility criteria for this scheme and key stages in the process.

### European Commission approval of State aid for apartments

The European Commission recently approved Ireland's State aid application in relation to the Croí Cónaithe (Cities) Scheme. This funding scheme was launched in May 2022 to promote increased supply of owner-occupied apartments in five cities in Ireland. The State aid approval paves the way for development agreements to be put in place in relation to submissions made for funding in June 2022. A second call for proposals under the scheme is expected to be announced in the coming months.

### Why is State aid funding required?

Construction costs have increased significantly since 2020, firstly due to the adverse impact on global supply chains of the COVID-19 pandemic and exacerbated by significant increases in commodity and energy prices on foot of the war in Ukraine. In 2021 it was estimated that up to 80,000 residential units in Ireland have not broken ground, despite having been granted planning permission. In many cases this is due to a "viability gap" between the cost of building apartments and the market sale price that can be achieved.

### What is the Croí Cónaithe (Cities) Scheme?

The Croí Cónaithe (Cities) Scheme was set up to provide funding to bridge the viability gap for eligible new apartment block schemes in Dublin, Cork, Limerick, Galway and Waterford. Funding for Croí Cónaithe (Cities) Scheme will only be made available for suitable apartment developments where there is a demonstrated viability gap that, unless bridged, will prevent the apartments from being built or from being built for purchase by owner-occupiers. Funding support must result in reduced cost to purchasers, and is only payable when the sale to an eligible owner-occupier is completed.

### How much funding is available?

The funding provided for successful proposals will be based on the viability gap for each apartment. The level of support will be finalised close to the date of delivery of the apartment based on the difference between the actual delivery cost (on the agreed basis) and the actual open market sales price achieved

when an apartment is sold to an eligible purchaser. Generally, the maximum funding anticipated for each apartment is €120,000, but this may be exceeded by no more than 20% in the four regional cities if (due to lower market prices in those cities) the calculated viability gap exceeds €120,000.

#### What are the eligibility criteria?

- **Location:** The apartments must be located in Dublin, Cork, Limerick, Galway or Waterford. Developments must be within walking distance (1,250m) of high capacity urban public transport stops (such as DART or Luas) or reasonably frequent (min 15 minute peak hour frequency) urban bus services.
- **Size and density:** Apartment blocks must be four or more storeys high, with a net density threshold of 35 dwellings per hectare and proposals must be for 40 units or more.
- **Planning:** Full grant of planning approval must be in place and construction of apartment blocks must not have commenced. Un-commenced apartment blocks in multi-phased developments where some phases have commenced will be eligible.
- **Viability gap:** A viability gap per apartment must be proven. This will be determined and reviewed at three stages - at time of submission, at pre-contract stage and point of sale.
- **Timescale:** For submissions made in June 2022, dwellings must be commenced on site by 31 March 2023 or a later date as agreed with the Housing Agency and delivered as new homes by the end of 2025.
- **Proven track record and project management:** Applicants must demonstrate a proven track record in delivering residential developments and outline a clear programme management timeline/approach and resources to deliver the homes.
- **Project financing:** At the time of submission it is sufficient to outline the intended funding. Confirmation of project financing will be required at Stage Three and financing is a condition precedent for entry into a Designation and Development Agreement with the Housing Agency.
- **Eligible purchaser:** Every apartment must be sold to an eligible purchaser. Anyone buying an apartment, either solely or jointly, to live in as their normal place of residence is eligible. Each purchaser will be required to confirm by affidavit that they are an eligible purchaser under the scheme.

#### What is the process?

The Croí Cónaithe (Cities) Scheme is managed by the Housing Agency. The approval process consists of three pre-contact stages:

- Stage One: Expression of Interest (EOI)
- Stage Two: Ranking of suitable proposals
- Stage Three: Detailed due diligence process leading to eligibility

**Stages One and Two**

Following a request for Expressions of Interest, submissions are made on the EOI form through [eTenders](#) (although the EOI process is not a public tender). The submission comprises a completed EOI Application Form and accompanying EOI Excel Document with a range of information about the development for which they are seeking funding. Certain planning documents and a valuation report, prepared by a qualified valuer, must also be submitted.

In Stage Two, eligible apartment developments are ranked using the published ranking criteria which assess density, delivery timelines, quality and strategic considerations, delivery cost per apartment and proximity to core services and amenities. Proposals received for each of the five cities will be ranked separately, resulting in five ranked lists of suitable proposals. Available Croí Cónaithe (Cities) funding will be provisionally allocated to the highest ranked proposals in each city in order of ranking and the Housing Agency will notify successful applicants of provisional allocations.

**Stage Three**

Awards of funding are strictly conditional on successful completion of Stage Three due diligence, including:

- Legal and tax status of the applicant
- Title
- Review of planning conditions
- Relationship of the applicant and any third parties to the site
- Funding status of the proposed development
- Anti-Money Laundering and Terrorist Financing Compliance
- Open book delivery cost assessment
- Whether work has commenced on the proposed apartments
- Assessment of open market value of new apartments for sale in the local market area, with independent valuations required from suitably qualified valuation surveyors

The time to complete Stage Three assessment will vary from depending on a range of factors, including readiness of proposals to undergo open book assessment, interdependency of proposals to progress of other phases within developments, legal or funding uncertainty associated with a proposal. Provisional funding status will expire if Stage Three is not successfully completed within a maximum period of 12 months. If proposals with provisional funding fail to successfully complete Stage Three due diligence or are withdrawn, the next highest ranked proposal in the relevant city will be invited to Stage Three due diligence, subject to sufficient Croí Cónaithe (Cities) funding being available for the proposal.

Successful applicants will have an obligation to report to the Housing Agency on progress against agreed project milestones. Failure to achieve agreed project milestones, with a reasonable allowance for programme slippage, up to the point of signing development agreements may have the subvention reviewed and/or have their designation revoked.

**Designation and Development Agreement**

Following completion of Stage Three to the satisfaction of the Department of Housing, Local Government and Housing, the Housing Agency will enter into a Designation and Development Agreement with successful applicants for the delivery and sale of the proposed apartments to eligible purchasers. The Housing Agency will undertake to provide Croí Cónaithe (Cities) funding once the unit is sold to an eligible purchaser. Any allocation of funding remains subject to State Aid Approval (now obtained for the first call) and Ministerial approval.

The Designation and Development Agreement sets out the terms of the funding. This includes setting out the anticipated level of the subsidy and agreed costs and includes mechanisms for setting the sale price, measuring any reduction in delivery costs and calculating the subsidy. The subsidy will be paid to the applicant's solicitor and released to the applicant when the sale closes.

**Clawback**

Purchasers are expected to live in the apartment for at least five years from the date of payment of the subsidy. If the property is sold within five years of purchase, purchasers will be required to make a payment to the Housing Agency calculated pro rata as a portion of the increased value of the property referable to the subvention amount. If they sell more than five years and up to ten years after purchase, the payment required shall be 50% of the portion of the increased value of the property referable to the subvention amount. No payment is required if the property is sold after 10 years.

**Contact**

If you wish to discuss any of the issues raised in this note, please contact [Neil Dunne](#) or [Claire O'Reilly](#) from our [Property/Real Estate Team](#) or your usual ByrneWallace contact.