



Gerry McDermott, Communications Officer, Fingal Council Council; Margaret Geraghty, Director of Housing, Fingal County Council; and Peter Coyne, Director, Duff & Phelps



Tina-Marie O'Neill, Property Editor, *The Sunday Business Post*; Simon Coveney TD, Minister for Housing, Planning and Local Government; and Iain Finnegan, Managing Director, Finnegan Menton



Niall Cussen, Principal Advisor (Planning), Dept Government, with Michael O'Flynn, Managing Director, Finnegan Menton

Plotting a route out of I

Property Summit 2016 hears new proposals that could pay off, writes **Edmund Heaphy**

Measures targeting first-time buyers are a "tacit acceptance by the state, and by society, that high prices are needed to induce supply", Tom Dunne, the head of DIT's construction management school, told attendees at The Sunday Business Post Residential Property Summit last week.

But the evidence, he said, suggests that much of the effect can be to increase speculation and the hoarding of development land, something that has been a feature of Ireland's property sector since the 1960s.

Across the Irish Sea, a Help to Buy scheme has "ultimately failed" due to supply constraints on British homebuilding, Davy's chief economist Conall MacCoille told the summit. And there is concern that it was a factor in the overheating of the housing market there, he said.

Yet much of the root of the problem with the Irish sector can be traced back to long-standing issues with the role of local authorities, Dunne said. The lack of independent finance, in particular, has inhibited their ability to provide infrastructure, site assembly and social housing.

The introduction of zoning also restricted land availability, driving up prices and speculation and creating pressure for the further zoning of land.

But, in the current market, it isn't the main issue, Michael O'Flynn, the managing director of the O'Flynn Group, told the conference. Zoning is not going to deliver the needed increase in supply "unless that land becomes available", he said.

Bartra Capital's Hazel Jones said there would appear to be the "thousands of acres" of land zoned for development, but that much of it was under the control of Nama, banks and receivers.

And for private receivers and banks, their duty lies in getting a return for their clients or shareholders, rather than with the economic wellbeing of the country. "Many of them are living in the 'time increases value' space, so hanging on until next year is the order of the day," she said.

Receivers have a win-win scenario: their fee clock continues to operate, she noted, and maximising their return is not really compatible with putting lands up for sale with social and affordable housing in mind.

Nama, on the other hand, does have a duty to contribute to the economic wellbeing of the state.

Now that Nama is projecting that it will deliver a surplus, there is "no reason" for it not to focus on this duty, Jones said.

The same goes for the 99 per cent state-owned AIB, which has a "huge" land portfolio which could be made available for social and affordable housing if the state so chooses, she said.

And while infrastructure alone won't spur the kind of growth needed, an increase in supply is contingent on its development. O'Flynn said that delivery of infrastructure required "joined-up thinking" from state bodies. A co-ordinated structure involving Transport Industry Ireland, Irish Water, government departments and local authorities may be needed, he said. His sentiment was echoed by another developer in attendance, Ray Grehan, who told of a recent but regular incidence of a number of separate developers forking out for similar infrastructural and viability studies in the same local area.

But addressing the overall problem requires outside-the-box thinking, Jones said. "All public lands should be immediately made available for the delivery of social and affordable housing," she said. The current public-private partnership model is flawed, however. And

in particular, the process of identifying development firms on a case-by-case basis is a "waste" of resources, she said, calling for a single process of appointment for firms deemed competent enough to deliver social and affordable housing on public land.

The only one with the power is the minister for housing, though. "That is the only one place leadership can come from."

A sustainable rental market

Buy-to-let mortgages are among some of the options available to smaller landlords when it comes to financing investments in the private rental sector in Ireland, according to Kathleen Scanlon, a research fellow at the London School of Economics, who delivered the international keynote speech to the summit.

With mortgage interest relief set to hit 80 per cent in 2017 and 100 per cent by 2021, buy-to-let lending could have a resurgence in Ireland too, MacCoille noted. At the moment, cash buyers still represent close to 50 per cent of housing transactions.

In comparison, other countries actually offer grants or tax incentives to potential landlords, with the goal of spurring a supply of affordable options, Scanlon said.

And countries like Germany and Sweden have a whole ream of regulations that give tenants indefinite leases and greater security and ultimately create a more stable rental market.

In Germany, for instance, landlords can evict tenants only for reasons set out in law, and must give three to nine months' notice, depending on the length of the tenancy. While initial rent can be freely set, it can't be more than 20 to 50 per cent above local area rents. On top of that, rents can only be raised every 15 months, and only within range of the average increase in the area.

But the question is, would this work in Ireland? The market is very different, Scanlon noted. In Germany, most privately rented units are in single-ownership, rental-only blocks; tenants stay for an average of 11 years; and landlords invest with a long time horizon, rather than for short-term gain. They also typically provide minimal facilities beyond the apartment itself, so units are rented without furnishings or fittings such as kitchens.

And, over the last 30 years, inflation-adjusted house prices actually fell in Germany, too.

Britain, which broadly has a similar sector to Ireland, could teach us some lessons. There, purpose-built, single owned owned blocks have offered long leases, quick turnaround times and professional management. In London alone, 3,500 units have been built using this model, and a further 15,000 units are in the pipeline, Scanlon said.

Iain Finnegan, the managing director of property consultancy firm Finnegan Menton and one of the summit sponsors, said that this kind of large-scale, high-quality thinking was one of the keys solving Ireland's housing supply problem, something echoed by the Society of Chartered Surveyors' president Claire Solon.

But to make this work, most investors are still looking for subsidies or guarantees if they're to make a long-term commitment.

Scanlon's message, however, was that increased regulation was not always a bad thing for landlords. It can help address market failures, and reduce risks for them.

But done the wrong way, regulation can restrict the returns of landlords and have a negative effect on supply.

If the housing market is going to supply all the units the state needs, its going to have to turn to new sources of debt



finance. That was the message from the **Claire Solon, President, Society of Chartered Surveyors in Ireland and Head of Property, Friends First**



Neil Collins, Director, KPMG Corporate Finance



Niall Cussen, Chief Planning Advisor, Department of Housing, Planning, Community and Local Government



Michael Walsh, Head of Property and Construction, ByrneWallace Law Firm and Tina Marie O'Neill, Property Editor, The Sunday Business Post

expert panel at the second panel discussion, chaired by The Sunday Business Post's Business Correspondent, Jack Horgan-Jones.

According to Robert Gallagher, chief executive of the ISIF-backed Activate Capital, housing developers will need around €5 billion in "debt churn finance per year". The panel said that the banks can provide around €2 billion of this, with the remainder open for non-bank financiers, private equity firms, and other new providers. According to Fergal McAleavey, head of private equity at ISIF, who was also on the panel, the rental sector could benefit from the injection of new private sources of equity and debt financing, which will be eager to back assets with recurring revenue streams - like rentrolls from private tenants. KPMG corporate finance director Neil Collins said that the same is true for social housing programmes, where institutional financing can play a big role.

Affordable housing

The summit also included new approaches to affordable housing offerings, including a case study delivered by Hugh Brennan, chief executive of Ó Cualann Housing Co-Alliance. Brennan and Ó Cualann are currently building 49 affordable co-operative homes at Poppintree in North Dublin with the support of Dublin City Council. This, its first scheme, has been fully allocated and members are required to sign a common charter, in which they agree and draw up the terms themselves. These include their shared desire to live in a community where they get to know their neighbours before moving in; where they all look out for each other, where their mortgages do not cripple them, where the houses are built to the best international standards and energy bills are low and where they feel safe and secure. The scheme is aimed at home owners who are on incomes between €36,000 and €80,000 (which Brennan pointed out was about 40 per



Iain Finnegan, Finnegan Menton; Tina Marie O'Neill, The Sunday Business Post; Simon Coveney TD, Minister for Housing, Planning and Local Government



Simon Coveney TD, Minister for Housing, Planning and Local Government

Help to Buy scheme the right option - Coveney

BY EDMUND HEAPHY

The government's introduction of its controversial Help to Buy scheme "was the right decision", Minister for Housing Simon Coveney told *The Sunday Business Post* Residential Property Summit last week.

The Central Bank's decision to relax mortgage rules for first-time buyers is a vindication of the government's decision, he said.

"The Central Bank is essentially targeting the exact same thing we were targeting, which is looking at the capacity for first-time buyers to be able to raise a deposit, while surviving in the private rental market."

Alongside the scheme - which allows first-time buyers to reclaim tax equal to 5 per cent of the value of a new home up to a maximum of €20,000 - October's budget also increased the overall housing budget by 50 per cent.

Even before the Central Bank announced the rule change, the scheme had been met with criticism, with many economists dismissing it as something that will serve more to increase house prices than it will to increase demand.

But the combination of the rule change and the scheme - each which some economists say have merit in isolation - could be problematic and reflect a lack of joined-up thinking, experts have said.

Still, the main issue, Coveney said, is that builders "primarily are not building" for the first-time buyer. Although its starting to change, in the past "they simply made the determination that even though there's huge demand from first-time buyers for new properties, there wasn't a capacity to turn that

demand into buying power," he said. "Part of that blockage would be the ability to put large deposits together before you could even approach a bank for a mortgage, and both the Central Bank and the government have targeted that issue."

The Rebuilding Ireland action plan, launched by the government in July, is the government's response to what Coveney described as "painfully slow" growth in the sector.

In particular, the strong increase in the government's social housing programme to nearly €5.5 billion is having a "positive effect" already, he said. "The range of incentives for first-time buyers, investors and landlords is also bringing a renewed sense of confidence back to the sector, and will, I believe, be successful in bringing about the desired acceleration in activity next year and beyond."

The "essential message" he had for the summit, however, was to encourage joined-up thinking. "Whether you're a property agent, an investor, a developer, a builder, a financial provider, a local authority or an approved housing body, we must now work together to ensure that affordable quality and accessible homes across all levels are available for people who need them. That goes from social to private, to affordable rental, private rental and mortgage size."

He also addressed the homelessness crisis, noting that the solution was not the provision of more emergency shelters. "The answer is to actually change direction of the numbers coming into homelessness, and putting a much more sustainable solution in place."



Director of Housing, Planning, Community and Local Director, O'Flynn Group



Margaret Geraghty; Niall Cussen; Hazel Jones, Planning and Social/Affordable Housing Director, Bartra Capital; and Michael O'Flynn



Niall Cussen, Hazel Jones and Michael O'Flynn take part in a round-table discussion

Ireland's housing crisis



Minister for Housing; and Michael Walsh, ByrneWallace



Margaret Geraghty, Niall Cussen and Hazel Jones



James O'Halloran and Fiona Cormican of Clúid Housing



Niall Cussen with Tom Dunne, Head School of Surveying and Construction Management, DIT; and Michael O'Flynn



Michael Walsh, Head of Property and Construction, ByrneWallace



Kathleen Scanlon, Research Fellow, London School of Economics



Iain Finnegan makes a point as Michael Walsh looks on

Measures must increase both supply and demand in the housing market

BY MICHAEL WALSH

As we push further out of the dark recession years, the insufficient supply of housing in recent times has become more apparent, with rising social housing waiting lists and high levels of homelessness. It is now a national crisis.

Currently between 12,000 and 13,000 new housing units are built per year when in reality upwards of 25,000 units need to be built annually to meet the prevailing demand.

Instrumental to encouraging growth in the housing sector is to ensure effective measures are in place to encourage and increase both the supply and demand for housing. A one-sided approach to the housing market or indeed the rental market to either limb of the supply/demand equation would be damaging to the prospects of a suitable response to this crisis.

The government's commitment is set out in last July's Rebuilding Ireland - Action Plan for Housing and Homelessness. It is comprehensive, multifarious and evolving.

One key measure already launched is to make the planning approval systems more efficient. The Planning and Development (Housing) and Residential Tenancies Bill 2016 has been introduced to the Oireachtas to give effect to this proposed new system. When enacted it will create a new concept of Strategic Housing Development and provide a direct route for determination of planning consent through a new division of An Bord Pleanála. These measures are aimed at expediting the planning process for new homes, but only for larger developments of strategic importance, from an average of 84 weeks to 25 weeks. It is estimated that for each year a development is delayed, €10,000 is added to the cost of each home; so this measure should not only accelerate housing supply in real terms, it should have an impact on affordability.

The Action Plan also recognises the importance of providing effective funding measures with the establishment of the Local Infrastructure Housing Activation Fund to fund off-site infrastructure normally provided by local authorities. This is a welcome move, recognising that while vacant land may be zoned

residential there are often infrastructure issues that cannot be addressed by the land owner. It seems the Fund was over-subscribed by a factor of more than three, indicating further central resources will be needed to be invested in this area next year. But it is a big step in the right direction.

Land supply is a major issue. Under the Urban Regeneration and Housing Act 2015 each local authority must compile a register of lands in its area that are "suitable for housing" but are not coming forward for development. These sites are potentially liable to annual tax at the rate of up to 3 per cent of the market value until put to use. The tax will come into effect in 2018 and will be charged a year in arrears. While it may be seen by some to be a blunt instrument, it should stimulate an increased supply of sites.

The introduction of the Help To Buy Scheme under the 2016 Budget is an important step to help create additional demand for houses, in the hope that increased demand will lead to increased supply. The scheme will take the form of a rebate of Irish income tax paid over the previous four years, which could serve as a contribution to the deposit needed to fund the purchase or self-build of a new home worth under €600,000. Relief of up to 5 per cent of the home value will be available to the first time buyer, owner occupier, capped at €20,000.

A potential lost opportunity may be the proposed limited expansion of the Living City Initiative. The proposed expansion of the scheme under the Finance Bill 2016 to include landlords as well as owner occupiers and other measures is welcome. However, it is submitted that the scheme should be extended, even if on a limited basis to properties built more recently than 1915 that are not in use. Why not cast the net wider, providing a potential boost to the construction sector, and get younger (say, pre-'63) out of use stock into ship shape and active use?

Michael Walsh is head of property and construction at award-winning law firm ByrneWallace, one of the sponsors of The Sunday Business Post Residential Property Summit



Conall MacCoille, Chief Economist, Davy Research and the author of the MyHome.ie quarterly property report

Property Summit 2016: the key points

Land

The cost and availability of land for development recurred throughout the Summit. The high cost of land remains an issue. Two suggestions arose: a call on the state to be audited in terms of the land it owns, and a call for development lands under the control of receivers, banks and Nama to be put on the open market. There was also a suggestion of giving 'produced' development land to local authorities.

Costs and taxes

Cost burdens remain a major problem. They include the cost of land, materials, labour and exorbitant taxes and levies applied to developing sites. Calls for incentives such as living above the shop or shorter-term. Section-23 type tax incentives need to be considered. Incentives for landlords must also

be explored to retain private landlords.

Centralised control

Echoing issues raised 12 months ago, attendees at the Summit again called the government's reaction to housing needs as generally being knee-jerk reactions and a call was made to return control of funding to local authorities to deal with local housing issues rather than having to apply to central government for funding on an ad hoc basis.

Urban height restrictions

Limited building heights, or height restrictions, proved another persistent issue throughout the summit. Density in relation to urban requirements, infrastructure and viability needs to be revisited, and construction scales need to be increased in designated urban areas.

Unused space

General agreement was reached that more work needs to be done to convert and use unused space in urban areas, and that initiatives such as the Living City initiative need to be pushed.

cent of the population many of whom do not qualify for social housing but cannot afford to buy on the open market). The homes at Poppintree are priced between about €145,000 and €219,000 with a three-bedroom semi-detached house priced at about €170,000.

Unpalatable truths

The government and the media tend to take a helicopter view of current housing problems and should look at long term

strategic planning, rather than the current approach which moves from issue to issue, according to Enda McGuane, managing director of Winters Property Management, who sat on the lock-note panel at the summit.

"Greater flexibility in design and planning is required to reflect different demographic lifestyles and needs, such as student, professional and downsizer apartment requirements, which are all completely different yet in Dublin this one size fits all," said McGuane. "This

approach will help to make more infill/Living City initiative sites viable without compromising on quality."

The SCSi's Claire Solon also said: "Supply is the issue in terms of housing problems and it is not helped by the availability of credit and other constraints. A recent SCSi survey revealed that the cost of building a house is higher in many areas than the prevailing market value, making it unfeasible to build. We also

need to allow greater heights in certain areas and higher densities next to public transport where people want to live, particularly in urban areas or pockets of suburban areas around good infrastructural links and transport services. Inner cities need further assistance in bringing dilapidated buildings back into use, such as the Living City Initiative, which is so underutilised and the build-to-rent model should be progressed."

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