

Mr. Pdraig Grant,
Clerk to the Joint Committee on Housing,
Planning & Local Government,
Leinster House,
Dublin 2

Ref No. HPLG- I. 785

5th December 2018

Dear Mr. Grant,

Your letter of the 27th of November on behalf of the Joint Committee on Housing, Planning and Local Government in relation to the impact of Brexit on Ireland's Housing Market refers.

As requested, I set out hereunder views of the Construction Industry Federation in relation to the various points raised.

1. Is the current housing policy robust enough to deal with significant changes in Migration patterns?

The National Planning Framework Implementation Roadmap directly influences each of the Regional Spatial Economic Strategies (RSES) that are currently being prepared by the Regional Assemblies. These RSES's will ultimately be a determinant factor for quantum of zoned land to be included in County and City Development Plans to be adopted countrywide. Specifically, the Roadmap's transitional population figures set out the planned levels of growth that each region and county will operate within, and as a consequence, the corresponding figures for each city and urban settlement as well.

The baseline projection of population, which informs both the published NPF targets and those in the NPF implementation Roadmap, were developed by the ESRI using best practices in demographic and spatial modelling. As outlined in their publication *Prospects for Irish Regions and Counties*, (ESRI January 2018), the ESRI assume a lower than anticipated level of net inward migration which is contrary to historic and recent data published by the CSO.

Assuming no change, the baseline incorporates a net inward migration figure of just 8,000 per annum to 2021, rising to 12,500 thereafter. This is in stark contrast to the published migration data available showing a +19,800 net surplus in 2017 and a + 34,000 net surplus in 2018 (migration estimates CSO August 2018).

In the Construction Industry Federation's view, the figures underpinning the NPF are already significantly outdated. The impact of such a low level of migration and population growth is significant, particularly for urban areas in the coming years.



The Regional Spatial and Economic Strategies will determine the quantum of zoned lands available in each County City Development Plan countrywide. In the Federation's view, the CSO's assumptions for higher migration should have been given greater consideration than the ESRI's projections prepared in January 2018.

Other assumptions made in the NPF include the limitation of growth in the Eastern and Midlands Region in favour of the other regions. An increased level of migration following Brexit may continue to drive population growth particularly in the EMRA region putting further pressure on the future supply of residential accommodation in the area.

2. How will potential population changes affect the private rental market?

Generally, the first housing option for migrants arriving in any area is to seek private rental accommodation. This is likely to increase demand in an area where there is significant under supply of such accommodation at the current time. While there are a small number of entities currently addressing the Build to Rent sector, this is only applicable generally within the city cores/ suburbs. There is an acute shortage of other private rental accommodation being made available by the traditional landlord/ smaller investor throughout the country. The absence of the private investor is resulting in a deficit in supply of rental stock both in the cities and in the regional towns. It is unlikely that this deficit in supply levels will be addressed in the short to medium term. This is largely due to the taxation treatment of rental income and the view that capital appreciation will be more muted in the coming years.

Internal population movements are likely to arise as a result of Brexit as some areas are impacted more severely by Brexit than others. This could result in loss of jobs in some areas which in turn may put pressure on social housing supports or alternatively a greater movement of population to some of the city areas where prospects of securing employment will be improved. This in turn will impact housing markets in these areas, and initially, the private rental market.

3. Are there infrastructures in place to support an increase in population particularly in urban centres?

The continued investment in infrastructure including water services and transport are critical to support an increase in population in the urban centres. Water services, transport and roads are frequently deemed common inhibitors to residential construction on zoned lands. It is critical that deficits attaching to any zoned lands be addressed in the short term to bring greater certainty for the construction of residential units on those lands.

The NPF focus on development of brownfield sites in the cities and towns will result in a slower pace of development than in green field locations due to the planning complexity including title, ground conditions and restrictive nature of many of these sites.

4. What precautions are in place to protect against potential price fluctuation for homes post Brexit?

Pricing for homes, whether new or second hand, are subject to market forces, namely supply and demand.



Supply is determined by a number of factors such as availability of land including planning, all-in-construction costs, and the ultimate recovery of all costs from the sales prices achievable. There is evidence in the greater Dublin area that price inflation is moderating with a level of house price inflation in the new homes market below 5%.

At the same time, the level of house price inflation (generally second-hand houses) outside the greater Dublin area could be double digit figures. This is due to the current low base for pricing and the fact that little to no building activity is taking place due to cost of construction exceeding market value of the completed units. The key moving forward is to ensure that the supply of new homes can equal sustainable demand.

Government intervention namely the establishment of the Home Building Finance Ireland Initiative, under appropriate lending conditions, should facilitate builders secure development finance to undertake their viable building programmes.

At the same time, the Help to Buy Scheme (HTB) which was introduced by Government 2 years ago has had the impact of increasing the supply of new housing as industry responded to willing purchasers who now had the required deposit in place to secure the necessary mortgage finance. Over 75% of our housebuilding members indicated that the HTB scheme was instrumental in enabling the building of first-time buyer homes. The increase in the number of this type of houses is large proportion of the circa 30% increases in supply year on year over the past two years.

This measure has other positive knock-on effects for Irish people. The increase in starter homes enabled by the Help to Buy scheme took many first time buyers out of the second hand homes market.

What is required is a clear statement from Government that the Help to Buy Scheme will be retained. Government analysis should be brought forward so a definitive statement on continuation of the Scheme can be made at an early date. Housebuilders will horizon scan for expected demand two to three years out. Without certainty around the HTB, builders will not see the anticipated demand and neither will the banks that provide development finance. In other words, this will stymie supply at a time when the ESRI, the Department of Housing, the IDA, foreign multinationals and every other organisation in Ireland is calling for an increase in housing supply.

However, the proposed ending of the Help to Buy Scheme on the 31st of December 2019 has the potential to create significant upset within the new building sector as development funders will not fund schemes where future purchasers may have difficulty in assembling the required deposit to secure their mortgage.

The ending of the Help to Buy on 31st December 2019 will result in a slowdown in the recovery of housebuilding activity. This will impact the commencement of a number of first-time buyer starter homes that are at advanced planning at this stage as uncertainty in relation to the potential purchaser's ability to secure mortgages under the Central Bank Macro Prudential Rules will prevail.



5 & 6. What challenges will the construction industry face following Brexit? What potential affects, if any, will Brexit have on the movement of construction materials between Ireland, the UK and the rest of the EU?

Challenges that the construction industry will face following Brexit will depend on the nature of the Brexit deal. There is a significant level of imported materials from the UK. In accordance with the CSO input output tables for 2015, 28.5% of the gross inputs used by the construction industry were imported from the UK in 2015. Many of these products bore the CE mark relying on the approval of a UK notified body to support their declaration. Following Brexit, construction products manufactured in the UK which are imported to Ireland will be obliged to comply with the EU Construction Products Regulation. Suppliers, of these products will have to seek approval from an alternative EU notified body in order for their products to be offered for sale and use in Ireland and indeed in any other EU country. The acceptability of products manufactured in the UK which bore the CE mark with approval of a UK notified body in the Irish and the Euro Standards environment will create uncertainty until such time as the future use of the UK CE mark or alternative is clarified.

Delays in the importation of goods from the UK including the possible imposition of tariffs by the EU authorities will have consequential delay and cost implications with the Irish construction industry and an increase in costs. Other materials may be imported from other European jurisdictions through the UK. Alternative channels for importation of these goods may have to be sought and secured.

There is also the issue of construction products moving from Ireland to the UK. For example, Irish manufactured pre-cast materials, insulation products etc are regularly exported directly to the UK. Delays at ports, additional transport costs, delays in delivery and possible imposition of UK tariffs could have a very damaging effect on these industries. The dangers for the Irish economy arising from these impediments could include an element of relocation of the industries diverting to the UK with a loss of Irish jobs.

The situation in relation to insurance companies providing services in Ireland who may be regulated in the UK is as yet uncertain. This could pose some difficulties for UK regulated entities providing services to the residential building industry in Ireland.

7. What affects could Brexit have on building costs and completion times? Particularly if the UK were to leave the single market and /or customs union?

As outlined above, the impact of Brexit on building costs and completion times are all on the downside, i.e. rising costs and delays in building programmes.

8. Are we at risk of losing workers in construction and related industries following Brexit?

Response under this heading can be twofold.

Firstly, there is the possibility that Ireland will become more attractive as an EU country for workers currently working in the UK who wish to remain in the EU. Such workers may decide to relocate to Ireland which will be welcome for the construction industry. At the same time, these workers who relocate will require accommodation.



In addition, many Irish based contractors currently secure construction work in the UK. It is as yet unknown what the implications of Brexit will be for such contractors and their ability to maintain existing contracts and secure new contracts. This will have implications for the maintenance of employment for some of these contractors.

On the other hand, workers engaged in the manufacture of construction related products which export to the UK market could be impacted as their market will be affected by Brexit. Ireland is unlikely to lose its Irish based construction workers directly engaged on Irish construction projects who wish to move to the UK following Brexit. However, the displacement of other workers throughout Ireland as a result of the Brexit fall-out will create housing challenges as housing accommodation must be provided in the right location to meet the new demands of the mobile work force.

Should you require any clarification or have any further queries in relation to the above, we will be happy to respond.

Yours sincerely,



Hubert Fitzpatrick
Director