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Oifig an Árd Rúnaí | Office of the Secretary General

16<sup>th</sup> November 2018

Pádraig Grant  
Clerk to the Joint Committee  
Joint Committee on Housing, Planning and Local Government,  
Leinster House,  
Dublin 2.  
D02 XR20

Dear Pádraig,

**Department of Business, Enterprise and Innovation's Written Submission to the Joint Committee on Housing Planning and Local Government**

Thank you for the opportunity to submit evidence to the Joint Committee on Housing, Planning and Local Government's discussion on the impact of Brexit on Ireland's housing market.

Housing is a central focus of Government policy, and is addressed explicitly in the objectives of the National Planning Framework, as well as many policy interventions under the Rebuilding Ireland strategy. It is clear that a higher level of housing output is needed in the short- to medium-term to respond to the existing deficit that has given rise to the housing crisis.

The Department of Business, Enterprise and Innovation's written submission is attached, and I hope that the Committee finds it of assistance.

Yours sincerely,

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Dr Orlaigh Quinn,

Secretary General,

Department of Business, Enterprise and Innovation

## **Department of Business, Enterprise and Innovation's Written Submission to the Joint Committee on Housing Planning and Local Government**

While the Department of Business, Enterprise and Innovation (DBEI) does not have policy responsibility for housing, the Department has undertaken, and published, a range of Brexit research projects. These include the implications of Brexit for: Irish SME's; on the most exposed sectors; skills; competitiveness; the changing EU-UK trading relationship, impact of WTO tariffs on cross border trade, and the implications on intermediary goods input from the UK on Irish exports (see Annex I for a list of the Department's Brexit analysis).

DBEI's analysis – while not specifically focused on housing, or house prices - may be of interest to the Committee in their deliberations, especially where it touches on the construction sector. The first section of this submission sets out some of the analysis that the Department has undertaken. The remaining sections of this submission look at: some of the mitigation actions that DBEI and the Government have put in place in response to Brexit; the work of the National Competitiveness Council (NCC) on housing affordability; and, finally, a response to the Committee's question on the relationship between Foreign Direct Investment (FDI), the population, and housing demand.

### **1. DBEI Brexit Analysis**

DBEI's Brexit research projects provide an extensive evidence base to inform and guide the Government response to Brexit. These include:

#### **A) Strategic Implications for Ireland arising from changing EU-UK trading relations<sup>1</sup>**

In February 2018, DBEI published *Strategic Implications for Ireland arising from Changing EU-UK Trading Relations*, an independent expert study commissioned by the Department and undertaken by Copenhagen Economics. The study examines the implications of Brexit for the Irish economy and trade, and quantifies the impact of possible new barriers to trade, which might emerge as a result of Brexit.

The study considers four possible Brexit scenarios - an EEA-type scenario, a customs union-type scenario, and FTA scenario, and a worst case, WTO scenario. The analysis is conducted on the basis of no policy change (i.e. if no mitigation measures were taken by Government or firms). In reality, of course, detailed work is continuing to prepare for the UK's exit from the EU, in parallel to work on negotiations in Brussels.

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<sup>1</sup> The full report can be found on the DBEI website at <https://dbei.gov.ie/en/Publications/Publication-files/Ireland-and-the-Impacts-of-Brexit.pdf>

The results show that, while the Irish economy is expected to record strong growth out to 2030, Brexit will result in a lower growth rate than would otherwise have occurred. An EEA scenario would be the least damaging outcome, gradually reducing the level of GDP by 2.8% relative to a non-Brexit baseline scenario by 2030. On the other hand, a WTO scenario would have the largest impact, resulting in the level of GDP being 7% lower relative to a non-Brexit scenario by 2030.

The study also analyses the impact of these scenarios across 24 sectors of the Irish economy. Five sectors (agri-food; pharma-chemicals; electrical machinery; wholesale and retail; and, air transport) account for approximately 90 per cent of the total economic impact.

## **B) Findings and Insights of the firm-level impact of Brexit on Most Exposed Sectors<sup>2</sup>**

In June 2018, the Department published the *Findings and Insights of the firm-level impact of Brexit on Most Exposed Sectors*, which sets out the work of DBEI and Deloitte. DBEI and Deloitte undertook detailed engagement with almost 170 firms to get a clear understanding of how firms in exposed sectors perceived Brexit risks.

It focuses on the 15 sectors deemed to be the most exposed to the implications of Brexit – identified through analysis conducted by the Department of Finance and the *Strategic Implications for Ireland arising from Changing EU-UK Trading relations* paper outlined above.

The study sought firm responses in relation to the four freedoms currently afforded by membership of the EU: freedom to move goods; freedom to provide services; free movement of labour; and free movement of capital. The report found that at the time the research was conducted (March – September 2017), many firms had only taken preliminary steps towards understanding the implications for their own organisation. The study also indicated a degree of 'salience' bias in firm responses, suggesting that firms expressed more concern about Brexit impacts that had been prominent in media coverage at the time of responding.

By its nature, the information presented in the Report is a **point-in-time** analysis. The research highlighted that a 'no deal' outcome of the negotiations would have serious implications across many aspects of the business. The study also revealed that the impacts of Brexit are likely to be firm-specific – rather than consistent across firms within a sector.

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<sup>2</sup> The full report is available on the DBEI website here: <https://dbei.gov.ie/en/Publications/Publication-files/Report-firm-level-impact-of-Brexit.pdf>

The house-building sector was not independently assessed as one of the 15 sectors reviewed – however, firms in the construction industry would have formed part of the sectors grouped into a 'Construction, Energy, Water and Waste' category. The principal concern raised by firms identified in this broad sector was the imposition of a 'hard' border between Ireland and Northern Ireland. Many respondents explained that this would have implications for their supply chains, including access to equipment, raw materials and particular services – any delays or administrative burden arising from traversing a physical border being likely to increase their costs.

This report has been used by the Department in the preparation of its Brexit supports and wider research into the potential impacts of Brexit. The meaningful contribution of this research is primarily the qualitative, firm-level perspectives on the complexities of Brexit as they understand it, the impacts they see for their businesses and their assessments of particular 'pinch-points' or substantial issues that may arise for their particular business or industry sector. Such firm level insights complement the range of macro-economic analyses and findings from representative surveys undertaken by DBEI, other Government Departments and research bodies over the last two years.

## **2. DBEI's Brexit Response**

From a domestic policy perspective, the above analysis highlighted a number of Brexit-related challenges – and opportunities – and has contributed to the continuing development of mitigation strategies within firms and sectors.

DBEI is seeking to maximise opportunities, and minimise risks, by ensuring the growth and resilience of Irish enterprise post-Brexit. DBEI's approach can be summarised under four pillars as follows:

- (i) helping firms to compete;
- (ii) enabling firms to innovate;
- (iii) supporting firms to trade; and,
- (iv) negotiating for the best possible outcome.

These four pillars are reflected in *Building Stronger Business – Responding to Brexit by Competing, Innovating and Trading*<sup>3</sup>. Within this framework, a range of supports are available.

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<sup>3</sup> This paper can be found on the DBEI website at <https://dbei.gov.ie/en/Publications/Building-Stronger-Business-Responding-to-Brexit-by-competing-innovating-and-trading.html>

**Budget 2019** introduced measures to assist companies in light of Brexit, including:

- the **Future Growth Loan Scheme**, jointly funded by DBEI and the Department of Agriculture, Food and the Marine (DAFM), which provides a longer-term scheme facility of up to €300 million to support capital investments by business;
- an additional €5 million to the **Local Enterprise Offices** (LEOs) to enhance their programme of supports, which represents an increase of 22% from 2018;
- an additional €8 million to the enterprise agencies and regulatory bodies – which includes €3 million to **Enterprise Ireland** and €2 million to **IDA Ireland** to enhance Ireland's **Global Footprint**;
- an additional €1 million in capital funding to **InterTrade Ireland**, and increase of 17.5% from 2018; and,
- Doubling the **Retail Online Pilot Scheme** to €1.25 million.

These measures build on a range of measures announced in **Budget 2018**, including:

- a new €300 million **Brexit Loan Scheme** for Business;
- doubling of additional Brexit-related agency staff to 100;
- the roll out of €60 million '**Regional Enterprise Development Fund**' run by Enterprise Ireland, with a 2<sup>nd</sup> call for proposals and funding of €30 million announced in April 2018;
- a tax package to support enterprise and investment to attract jobs to the regions;
- investment in PhD & Research Masters Programmes to meet enterprise skill needs; and,
- Science Foundation Ireland (SFI) Research Centres to increase from 12 to 17 with new capital funding.

### **3. National Competitiveness Council analysis on Housing Affordability**

The work of the National Competitiveness Council (NCC) – which reports to the Taoiseach and the Government, through the Minister for Business, Enterprise and Innovation, on key competitiveness issues facing the Irish economy – may also be of interest to the Committee. Specifically, the Committee may be interested in the NCC's study on affordability of housing<sup>4</sup>.

#### **A) NCC Paper on Housing Affordability**

In July 2016, the NCC published its report on the affordability of Irish housing as the cost of housing was emerging as a competitiveness issue. The report assessed the

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<sup>4</sup> 'A Study to Examine the Affordability of Irish Housing' (2016) prepared by Indecon International Consultants on behalf of the National Competitiveness Council. This report can be found at <http://www.competitiveness.ie/Publications/2016/Study-to-examine-the-affordability-of-Irish-housing.pdf>

affordability of residential property in Ireland relative to a number of international locations. The study developed two indices: the Mortgage Affordability Index (MAI), which captures the cost of a newly purchased dwelling to a household earning the average household income for that region; and, the Rent Affordability Index (RAI), which captures the cost of rent to a household with the average household for that region. However, the impact that Brexit would have on housing affordability was outside the scope of this research.

The NCC MAI showed that, at that time, while five international regions<sup>5</sup> had a higher price-to-income ratio than Dublin, the cost of mortgage finance in Ireland meant that only two regions (Amsterdam and London) had a higher calculated MAI. The NCC RAI showed that a total of three of the international regions measured had a higher ranking than Dublin in terms of rent as a percentage of income, while eight had a lower ranking.

The findings from this NCC research are summarised in the NCC's bulletin on this issue (which is attached), and were fed into the Rebuilding Ireland Strategy which was being developed at that time.

#### **4. Committee's Question on FDI and Housing**

The Department has also been asked to respond to a question on whether, if Ireland were to receive additional FDI because of Brexit, would the FDI increase the population, and therefore the demand on housing?

Ireland has experienced significant economic growth in recent years, on account of the performance of both indigenous and overseas firms. However, it is widely acknowledged that the principal reason that demand for housing has been so pronounced is because of insufficient supply. The Government recognises the critical importance of increasing the supply of quality, appropriate housing for the people of the country. That is why a dedicated plan – Rebuilding Ireland – is in place that is aimed at increasing the delivery of homes nationwide.

It should be remembered as well that not all overseas investment is situated in areas where there is limited housing supply. The IDA, in fact, is focused on securing FDI for regional locations, where there is generally less pressure on the housing markets than in the country's main urban areas. The Agency actively brings regional locations and suitable sites to the attention of all its clients, whether existing companies that are looking to expand or first-time

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<sup>5</sup> The international regions that this report looked at were: Atlanta, Singapore, Manchester, Belfast, Prague, Copenhagen, Helsinki, Brussels, Berlin, Amsterdam, and London.

overseas clients. In the first three quarters of 2018, for example, there were 461 visits by IDA client companies to potential investment sites, with over half to regional locations.

It is the case that a strong economy can result in increased pressures on infrastructure in certain locations. The best way to address those pressures, however, is twofold: improve, and invest in, infrastructural capacity; and to ensure that economic growth is as evenly spread as possible across the country. The Government is focused on those twin objectives, as demonstrated by the goals of Project Ireland 2040, while also working to attract and sustain further investment into Ireland by overseas firms.

## Annex I. DBEI's Completed Brexit Analysis

Completed DBEI Research	Published
Benchmarking Competitiveness: Ireland and the UK 2017 (National Competitiveness Council)	12 April 2017
Understanding the Implications of Brexit for Irish SME's	8 May 2017
Potential Impact of WTO Tariffs on Cross-Border Trade (Phase 1) (Intertrade Ireland)	9 June 2017
Understanding the Implications of Brexit for Irish SME's (Update)	22 January 2018
Ireland and the Impacts of Brexit: Strategic Implications for Ireland arising from Changing EU-UK Trading Relations	21 February 2018
Cross-Border Trade and Supply Chain Linkages (Phase 2) (Intertrade Ireland)	6 March 2018
Brexit and Irish Consumers (CCPC)	21 March 2018
An Assessment of the Firm-Level Impact of Brexit on Most Exposed Sectors	13 June 2018
Addressing the Skills Needs Arising from the Potential Implications of Brexit (EGFSN)	14 June 2018
Intermediate Goods Inputs and the UK Content of Irish Goods Exports	6 July 2018
Irish-UK Services Trade and Brexit	6 July 2018
Export Participation and Performance of Firms on the Island of Ireland (Phase 3) (InterTrade Ireland)	5 September 2018