CONSTRUCTION INDUSTRY FEDERATION

Construction House, Canal Road, Dublin 6. Tel: 01-4066000. Fax: 01-4966953. E-mail: cif@cif.ie. Website: www.cif.ie

Conor O'Connell, Director, Housing and Planning, Construction Industry Federation and Irish Home Builders Association (IHBA) Opening Statement.

Thank you, Chairman, Committee members.

The Irish Home Builders Association (IHBA) is a constituent association of the Construction Industry Federation (CIF) and represents hundreds of home builders of all sizes across Ireland. The association supports Irish home builders to deliver quality affordable homes to home buyers.

A priority for the IHBA is to deliver "More Homes for More People" so we can offer people the security of their own home. The past number of years have been particularly difficult for those aspiring home buyers who have struggled against the lack of supply and affordability.

Despite the challenges, housebuilders increased output by nearly 50% last year in comparison to the previous year and 30,000 new homes were constructed in 2022. There are many different reports into how many houses are needed for 2023, from 33,500 in Housing for All and up to 62,000 in a much-publicised Housing Commission report. Whatever the case the number of houses we need to supply is much greater than we are currently building.

To deliver more homes we need more zoned land, more infrastructure, more planning permissions and of course a **viable and affordable product that can be funded**.

On announcing the public consultation for the General Scheme for Land Value Sharing & Urban Development Zones Bill in May 2022, the Department of Housing stated that the LVS measure was proposed to apply to all **new** residential zoning and to designated 'Urban Development Zones'. Furthermore, it stated that the proposal was intended to be based on any increase in value which arose because of the zoning/designation and development process. Where applicable, LVS **would replace development contributions**.

In June 2022 the IHBA, in conjunction with the PII and IIP, made a submission to Indecon International Research Economists, who were appointed by the Minister of Housing to undertake an independent economic appraisal of proposed Land Value Sharing (LVS) options, outlining the key concerns for industry. Our first request was that existing zoned land should be exempt, as the applicant or owner will not have had the opportunity to price whatever incremental cost of the LVS measure may account for.

We must stress that land is a raw material for a housebuilder, and it is in the best interest of housebuilders and indeed the subsequent homeowner that land is purchased as cheaply as possible. All input costs are assessed by financiers and are ultimately passed onto the consumer. Finance will be achieved for a housing project once it is viable to finance and there is a consumer(market) to purchase the home. If input costs are stable, reasonable and sustainable, more first-time buyers will be able to afford a new home. It is in everybody's interests that there are no further input cost increases and indeed any possible reductions in cost inputs will benefit everyone.

In April 2023 the updated "General Scheme" was published which differs in several critical ways. Changes include expanding the scope of the rules, introducing transitional rules, and changing the interaction of the LVS contribution with existing costs such as Part V obligations and development levies. These are of huge concern to industry, namely;

1. LVS being retrospectively applied to existing landowners of zoned land, as opposed to newly zoned land. The tax is applicable at the point of planning for builders, therefore another input cost that will affect the viability of building and therefore the level of future housing output.
2. Whereas the *Housing for All* plan and original Bill had suggested that the charge would replace existing development levies, the updated Bill confirms that it will apply in addition to existing Part V and development levy costs. The proposal therefore is contrary to the intention of the uplift in land value being captured by the state to pay for public infrastructure.
3. Where permission is granted for social and/or affordable housing development, including development by or on behalf of a local authority, such development will not attract an LVS obligation. This is equivalent to a State Aid which will compromise future development of private housing for all those wishing to purchase their first home. This will increase the cost of land as AHB's, LDA and Local Authorities will be in a competitive advantage to private housebuilders attempting to purchase land.

These changes in the LVS proposal are significant and, in industry's view, run completely contrary to the intentions of land activation, land price stability, attracting investment for residential projects, output and ultimately housing cost stability. The consequences of the current proposals will be;

- Stalling of investment in residential land acquisitions for housing.
- Over 50% of the housing targets in "Housing for All", 186,000 units are private homes. This will require international investment that requires stability and certainty of taxation and cost measures associated with housing delivery. While there are various estimates between €5 and €10 Billion annually will be required from private sources of funding.
- An increase in output costs as the LVS is now simply another tax on housing output. Some of our members estimate the LVS proposal as currently worded could cost between €8,000 and €35,000 per unit.
- Landowners will avoid the tax on the uplift when land is rezoned.
- Increase the cost of land in many instances.

- Increase the cost of housing and if the tax is not recoverable in the house price then new private housing output may stall with many housebuilders simply going out of business.

While there was an 'in principle' support and a historical call for land activation measures from industry, there needs to be a coherent strategy in place for such measures to work in the way they are intended, supported by a fully resourced and functioning planning system. Currently, this is not the case. The commercial viability of residential development has become increasingly challenging.

The LVS proposal cannot be considered in isolation. Of equal consideration in relation to land cost and activation are the following;

- The upcoming review of the National Planning Framework. The longstanding position of housebuilders is that there is simply not enough land zoned in Ireland to cater for changes in immigration, household formation, population growth and access to services. It is simply the case that a lack of zoned and serviced land in conjunction with exceptional demand is the real factor behind high land prices in certain locations.
- The backlog in planning decisions from An Bord Pleannala and the High Court. We estimate there is somewhere between 60,000 to 70,000 delayed. A new Planning and Development Bill is progressing through the statutory process.
- There are a significant number of housing projects currently stalled due to infrastructural issues such as connection to water services, electricity supply, access to roads & public transport, route selection studies and capacity constraints within existing transport and water services.
- The exceptional cost increases in materials due to the war in Ukraine, Brexit, Covid shutdowns, etc.
- The rising cost of residential development finance.

Housing delivery is therefore being impeded by all the above factors. Introducing yet more changes in public policy in relation to housing is leading to a significant impact on confidence and investment into housing. It is not the right time due to all the above constraints and this proposal will introduce yet more uncertainty.

As outlined in the LVS Memorandum, "a key challenge in implementing LVS is ensuring that the mechanism captures fair value for the State but avoids disincentivising housing supply. This risk should not be underestimated particularly if the LVS results in higher costs to housebuilders, rather than reduced land prices."

This incentivisation of the reduction in land prices cannot be applied to land that is be retrospectively taxed. The transaction is complete, the contracts signed, and a price paid. It is not an exaggeration to state that many housebuilders trying to deliver housing units are concerned they may find themselves with sites they can no longer develop due to viability and/or a market that can no longer absorb the cost of these taxes.

Housing supply does not happen in isolation and many of the supply determinants are outside the control or resourcing of the housebuilder. The Construction sector provides the necessary infrastructure for Ireland and relies on the state to resource adequately the planning system and in some cases the legal system to provide the planning permissions that will be ultimately supply more homes.

The current issues with development plans and delays in the planning system is resulting in the LVS tax becoming applicable to sites that would have been brought forward for development were it not for these impediments.

Member Examples include:

- Tier two lands which one cannot advance planning on until it is proven that all the Tier One lands capable of being developed are developed and therefore these Tier Two lands will only be brought forward later in the Development Plan Cycle which means the LVS tax will apply.

- Lands which are dependent on infrastructural / services / road upgrades, which have been zoned for several Development Plans however the delay in delivering the infrastructure will now mean that the LVS tax will apply to these lands. This has arisen because of the delay in the infrastructure, and not because of land hoarding.

The LVS Explanatory Memorandum states that "the main purpose of the proposal is to allow the State to more effectively provide the key infrastructure required to support development, including housing. The measure is therefore closely related to the existing development contributions scheme arrangements connected to the grant of planning permission for development."

Finally, since the Kenny report was published the following land capture mechanisms have been introduced by the state:

- VAT of 13.5% on new homes
- Development Contribution Scheme Charges (Section 48) and Special Contribution Scheme Charges (Section 49)
- Capital Gains Tax of 33%
- Part V Housing requirements, recently increased to 20% of all units on new housing schemes.

Consideration should be given to the Stamp Duty payable on the purchase of lands at 7%.

As a result, we would request the implementation of this measure is 'paused' and reviewed in careful detail, to avoid unnecessary consequences; discriminatory measures between public and private industry; added costs to the home buyer; and further delays to the delivery of much needed homes. This measure must be seen ion the context of other factors such as the RZLT, NPF review, Material Cost increases and Infrastructure. It is utterly pointless and counterproductive to introduce yet another taxation on housing output.

Thank You