

# DÁIL ÉIREANN

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AN COMHCHOISTE UM THITHÍOCHT, PLEANÁIL AGUS RIALTAS ÁITIÚIL

JOINT COMMITTEE ON HOUSING, PLANNING AND LOCAL GOVERNMENT

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*Dé Máirt, 20 Samhain 2018*

*Tuesday, 20 November 2018*

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The Joint Committee met at 11 a.m.

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MEMBERS PRESENT:

Deputy Pat Casey,	Senator Victor Boyhan,
Deputy Mick Barry,	Senator Martin Conway,
Deputy Eoin Ó Broin,	Senator Jennifer Murnane O'Connor.

In attendance: Deputy Shane Cassells, Senator Catherine Ardagh.

DEPUTY MARIA BAILEY IN THE CHAIR.

## **Impact of Brexit on Ireland's Housing Market: Discussion (Resumed)**

**Chairman:** Today's meeting will involve resuming consideration of the impact of Brexit on Ireland's housing market. On behalf of the committee I wish to welcome to today's meeting from the Department of Housing, Planning and Local Government Mr. David Kelly, Mr. Paul Hogan, Ms Sarah Neary, and Mr. John Wickham. I draw the attention of the witnesses to the fact that by virtue of section 17(2)(l) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to the committee. However, if they are directed to cease giving evidence on a particular matter and continue to do so, they are entitled thereafter only to qualified privilege in respect of their evidence. They are directed that only evidence connected with the subject matter of these proceedings is to be given and asked to respect the parliamentary practice to the effect that, where possible, they should not criticise or make charges against any person or entity by name or in such a way as to make him, her or it identifiable.

Members are reminded of the long-standing practice to the effect that they should not comment on, criticise or make charges against a person outside the Houses or an official, either by name or in such a way as to make him or her identifiable.

I invite Ms Sarah Neary to make her opening statement.

**Ms Sarah Neary:** I thank the committee for the invitation to attend this meeting on the subject of Brexit and the housing market. Unfortunately, Mr. Damian Allen, who manages the team within the Department of Housing, Planning and Local Government responsible for the co-ordination of all matters relating to Brexit, the European Union and international business insofar as it relates to the functions of the Department, was called away on an urgent personal matter and cannot be with us this morning. I will deliver the opening statement in his absence. I hope that we will be able to answer any questions members may have on the issues raised. I have responsibility for building standards. I am accompanied by my colleagues, Mr. John Wickham, who also has responsibility for building standards, Mr. David Kelly, who has responsibility for homelessness and housing inclusion supports, and Mr. Paul Hogan, who led the development and co-ordination of the national planning framework, NPF.

I will set out the arrangements in place in the Department for Brexit. We have a cross-divisional Brexit team, on which all of the departmental functions impacted by Brexit are represented. It provides a forum in which to discuss Brexit-related matters and is chaired by Mr. Allen. Brexit-related matters are also kept under regular review by the Department's management board. Externally, the Department participates in the co-ordination structures established to facilitate a whole-of-Government response. This includes the interdepartmental group on the EU and Brexit and the Brexit co-ordinators' group. The Department has been participating in the process of preparedness and contingency planning through these cross-departmental structures, and this process is ongoing.

Insofar as the functional responsibilities of the Department are concerned, it should be noted that Brexit issues arise primarily in relation to water, in the context of environmental co-operation and water and marine framework directives; planning, in the context of the environmental impact assessment, EIA, and strategic environmental assessment, SEA, processes; maritime spatial planning; franchise, in terms of voting arrangement; and housing, which is the subject matter today.

The extent to which Brexit will impact on the housing market is still uncertain at this point. It will be determined by the outcome of the process around the withdrawal agreement but also by the nature of the future relationship between the EU and the UK. However, our analysis to date suggests that the key issues arising for the Department in respect of Brexit and the housing market are in the areas of population and housing projections, construction materials and homelessness.

On population and housing projections, it should be noted that the national planning framework is based on mid-range long-term demographic and econometric projections that do not factor in Brexit-specific impacts, largely because these are highly uncertain. The key variables for housing demand are the scale of and distribution of population growth which, in turn, are heavily influenced by economic performance. In the long term, the NPF projects national population growth of around 1 million people by 2040 and the need for at least 550,000 new homes based on continued modest economic growth. The NPF strategy seeks to focus growth on the regions, in addition to the greater Dublin area. In the short to medium term, there will be fluctuations in population growth and distribution, as well as in economic performance, and it is possible that Brexit could impact such variability. In this regard, a long-term strategy is necessary to project growth and influence distribution based on a trajectory that can reflect the net outcome as a whole over a longer period. The key variable in population change in Ireland is net migration, which is highly volatile, even over short timescales. Average net migration was approximately 20,000 people per annum into Ireland between 1996 and 2016, but this ranged from a record high of 97,000 people in 2008 to minus 27,500 in 2010, a swing of almost 125,000 people in only three years. Clearly, Brexit has the potential to create further sharp swings in migration patterns. However, the NPF strategy is based on net migration of around 20,000 people per annum to 2040.

Capacity constraints in the economy in areas such as employment, housing and transport limit the potential for net migration to be sustained at very high levels. In the face of such uncertainty, however, the Department is currently planning based on a mid-range population growth scenario set out in the NPF, while monitoring evidence of changes in this pattern. This means the long-term housing requirement remains as projected with short-term variation, for example, to address the shortfall in national output since 2010.

I will now address construction products and materials, an area which we are also conscious is very important in regard to Brexit. Construction products and materials are regulated by EU Regulation No. 305/2011, which lays down harmonised conditions for the marketing of construction products, known as the construction products regulation, CPR. The primary purpose of the CPR is to break down technical barriers to trade to ensure the free movement of construction products across member states within the European Union. To achieve this, construction products for which a harmonised European product standard is in force or for which a European technical assessment has been issued need a declaration of performance from the manufacturer and must be affixed with the *conformité Européenne*, CE, marking before they can be placed on the internal market. In order to affix the CE marking, most construction products require the intervention of a notified body. Notified bodies are designated bodies that carry out third-party tasks, typically being product certification bodies, factory production control certification bodies and testing laboratories. The degree of intervention of a notified body in the placing of a product on the market is set out in the technical specifications. Under the CPR, notified bodies must be established in a member state and be designated by the member state's notifying authority. The Department of Housing, Planning and Local Government is the notifying authority in Ireland.

Post-Brexit, UK manufacturers, distributors and importers of construction products placing products on the Irish market will need to continue to comply with the CPR. The European Commission issued a notice under the title, withdrawal of the United Kingdom and EU rules in the field of industrial products, confirming this earlier this year. We disseminated the notice to key industry stakeholders. All product suppliers who rely on a UK-notified body to support their product declaration for CE marking purposes now need to obtain alternative EU-notified bodies in preparation for Brexit. At present the National Standards Authority of Ireland, NSAI, is the only notified body in Ireland. It provides certification services to many construction product manufacturers and is working with all the relevant stakeholders on issues arising.

As we do not yet know what the eventual outcomes of the Brexit negotiations will be, we are planning on the basis that the UK becomes a third country as of 30 March 2019. In this regard, it is important that businesses and stakeholders do the same. We will continue to liaise with colleagues in the Department of Business, Enterprise and Innovation, the National Standards Authority of Ireland, the Irish National Accreditation Board and various industry stakeholders to support them in preparing for potential outcomes of Brexit.

On homelessness, it is our strong view that significant increases in net migration would present a concern in respect of increased numbers of households having difficulty in accessing affordable accommodation. This highlights the critical importance of a number of the Department's programmes relating to increased delivery of all types of homes - social, affordable and private - as well as strengthened regulation of the private rental market and the delivery of additional emergency accommodation for households experiencing homelessness. Naturally, it is the Department's ambition that increased housing output will be sufficient to meet demand. However, we are also cognisant of the potential risk in this area and will monitor the position very closely. Budget 2019 includes significant additional funding for the provision of emergency accommodation and the Department will work closely with the local authorities, which have statutory responsibility in this area.

The Department is also working closely with other Departments, both bilaterally and through the structures of the homelessness interagency group established by the Minister last year. In Dublin, where demand for housing is highest and homelessness is at its highest level, the Dublin Regional Homeless Executive, DRHE, is responsible for the delivery of homeless services across the four local authorities. Earlier this year, the DRHE established a working group to ensure that robust responses are in place for families and single people presenting to homeless services with uncertainty around their eligibility for social housing supports. The main focus of the group is to ensure that a collaborative approach between homeless services and the other statutory agencies and Departments involved is in place across the Dublin region. Brexit is one of the chief issues under consideration by this group.

In conclusion, the Department will continue to keep matters related to Brexit and the housing market under close review and issues arising are being worked through. In addition to the issues that I have referred to, the Department is liaising with colleagues in a number of other Departments and public bodies on a range of housing issues that may be impacted by Brexit, including issues relating to construction costs, the labour market and potential skills shortages in the future. We will continue this work.

I thank the committee again for inviting the Department to today's meeting. My colleagues and I are looking forward to engaging with members on the three issues highlighted, namely, population and housing projections, construction materials, and the potential impacts on homelessness. We will be happy to answer any questions.

**Deputy Pat Casey:** If we all had a crystal ball it would make life an awful lot easier. In the context of population projections, net migration of 20,000 is predicted. In the development of the national planning framework we set a tighter population growth that was contained in the spatial strategy and there was greater headroom capacity in previous county development plans. Migration can swing from an increase of 97,000 to a decrease of 20,000 over just three years, which is a swing of some 125,000. We then have to predict what will happen with Brexit. In a hard Brexit our economy will contract, which would normally mean fewer people come into the country but it might be the opposite in this case and there might be an increase in inward migration. I think there is to be a six-year review of the national planning framework so there may be more information when that comes around.

Ms Neary focused on standards for products and their certification as they come into the country. Do we know what percentage of the products that come from the UK are used in the housing market? They are currently certified under consumer product regulations and get the CE marking as part of the wider European market. Once the UK exits, they will have to be recertified. Will this be done by Ireland or by another European country? What will the implications be? Ms Neary did not mention the effect of tariffs on the cost of materials. What tariffs will apply in the case of a hard Brexit? What will be the effect on the cost of delivering houses?

Another area that was not mentioned was the movement of labour. How will a hard Brexit impact on that and what will the implications be for the housing sector? Ms Neary mentioned homelessness and if we get higher net migration it will certainly add to the pressure on that area. I am aware that there are services to eliminate homelessness. What additional measures does Ms Neary consider could be put in place to deal with the worst-case scenario in terms of the homeless crisis being escalated as a result of a hard Brexit?

**Ms Sarah Neary:** I will first ask my colleague, Mr. Hogan, to deal with the issue regarding population figures.

**Mr. Paul Hogan:** The projections in the national planning framework, NPF, are not that different from the national spatial strategy, NSS, in the sense in that the NSS refers to 1.2 million people over 20 years and we are talking about 1 million people over 20 years. One of the problems with the NSS is that following the 2006 census, in the absence of strong regional plans, local authorities examined the short-term trend from 2002 to 2006 and took a view that the significant growth experienced between 2002 and 2006 would continue. That then gave rise to ambitious plans in the later part of the noughties which meant that by 2010 most of the plans that were extant bore no reflection to the prevailing circumstances post-2008. That caused a mismatch that has existed up to this day regarding what local authority plans have anticipated and projected with respect to what they have based those on. They departed, to some extent, from the NSS, which was the problem. That departure was not corrected until we put the NPF in place. The NPF's perspective has sought to be longer term.

The Deputy has correctly identified there will be a formal review every six years. Given there is so much uncertainty and commentary and also, even compared to years ago, so much information, papers and reports with the latest information, we realise that we need to keep those projections under constant review. We have talked to the ESRI about putting in place an ongoing level of analysis that would cause us to have a short-term variation and then take a view as to whether it is impacting on the long term. Until strong evidence suggests otherwise, the long term will remain fixed but we will be mindful of it in the short term because we know there is the capacity for local authorities, in particular, to feel strongly about it.



On the impact of Brexit on migration, much commentary and evidence suggests that Dublin, in particular, will remain attractive for people coming to Ireland. The reality is that cities are attractive to migrants. Our strategy regarding this is twofold. We are strong in trying to support our regional cities and towns. The NPF strategy backs the other cities in addition to Dublin. It is a very fine balance. We must be careful about the fact that Dublin is globally important to Ireland but we also want to grow and expand the role of the other cities and towns. In these current weeks, we are finalising the urban regeneration fund, which will be targeted at larger towns and cities, to encourage investment to make them more competitive and more resilient to the effects of a Brexit-induced recession or a downturn. The bottom line is that there may be a more regional variation in population projections or growth. We have to target measures to address that.

We calibrate anything we do with the ESRI, or whomever, against the CSO information. We participate in an CSO expert group, which previously met regarding long-term population labour force projections and is due to meet again regarding the starting of a cycle, starting this Friday, on regional population projections. We have monitored closely and influenced the discussion on regional variation that might be impacted by Brexit because we are concerned about the risk with respect in particular to the Border and north midland counties as opposed to the cities which have proven more resilient.

**Ms Sarah Neary:** Regarding the products, Ireland is a small open economy with strong trade with UK in construction products. There are a number of different sets of statistics. The Central Statistics Office, CSO, productivity in Ireland, PII, has statistics on imports and exports between Ireland and the UK. We do not publish those numbers so I cannot give the Deputy the percentage in respect of the construction products used in the residential or housing sector alone, but it is significant. Any change to either the availability of those products or additional tariffs or currency fluctuations translates into a knock-on effect on construction costs and we are conscious of that. The tariffs, labour movement and common travel area are all key issues in the negotiation of Brexit.

The one function the Department has is that it is the notifying authority for the construction products regulation, CPR. All construction products covered by harmonised standards must be *Conformité Européenne*, CE, marked when they are put on the Irish market or any other European market. Nothing will change that. Products that are being imported by Ireland that rely on a UK third party to certify them, will have to be certified by a third party that is notified in some member state for them to continue to be exported here post Brexit. It does not have to be Ireland; it could be any member state putting products on the market in Ireland or elsewhere in the EU. There is a change for them in the event of a hard Brexit. If a UK notified body wants to establish itself in Ireland, it must apply to the Department, for example, and we rely on the Irish National Accreditation Board, INAB, to accredit it for specific standards and in specific areas, whether it is factory production control, testing or whatever it is the body wants to do. We have had a number of applications from UK bodies. INAB is working with some of them at the moment. Once they have been accredited for whatever standards they are requesting they come back to us and there are a number of conditions relating to insurance and establishment in Ireland, and other terms and conditions. Once everything is in order and we are satisfied, we recommend their notification to Europe. A process takes place there and if that is successful, the body will become a notified body in Europe, based in Ireland, and it can carry out those functions for its UK manufacturers and place the product on the Irish market.

**Deputy Pat Casey:** Have any of them been established yet?

**Ms Sarah Neary:** None of them has been but progress is good. They are going through the accreditation process at the moment. I know where Deputy Casey is going; he is wondering what will happen in the event of a hard Brexit at the end of March. That is something we are putting to the Commission in terms of a transition arrangement, separate from the withdrawal agreement. There is a precedent for this in that when the construction products directive, CPD, became a regulation in 2013, there was a similar cut-off point, and, from 1 July 2013, a new set of rules was put in place for construction products. At that time the Commission specified that if one's product did not change and the standards relating to it did not change, then one could continue to put that product on the market up until the time of one's next audit or next batch of the product. We are inquiring of the Commission at the moment as to what kind of transition arrangement may apply in the event of a hard Brexit.

**Deputy Pat Casey:** In light of a hard Brexit, would every single product have to be recertified by a notifying authority?

**Ms Sarah Neary:** It would have to rely on a certified body.

**Deputy Pat Casey:** It would have to rely on another body to certify it.

**Ms Sarah Neary:** Yes, whether that is in mainland Europe or in Ireland, it would have to be a member state.

**Deputy Pat Casey:** Whether there is a transition or a non-transition period, every single product that comes in with a CE marking will have to be recertified at some stage.

**Ms Sarah Neary:** Yes, but the rules have not changed.

**Deputy Pat Casey:** The rules have not changed but they will have to go through-----

**Ms Sarah Neary:** There are a number of bodies in the process of establishing in Ireland.

**Chairman:** On a point of clarification, what is the remit of the accreditation bodies?

**Ms Sarah Neary:** They check their processes to ISO standards to make sure they meet the requirement as set out in the construction products regulation. It is all about consistency of production. Whatever one declares in terms of the performance of the product, one can repeatedly produce that. There are varying degrees of third-party intervention depending on the safety implications of the product, and all of those are set down.

**Senator Victor Boyhan:** I thank Ms Neary and her team. Everyone says there is much uncertainty about Brexit but we are here to discuss its fallout and potential impact on the Irish property sector, which is a broad issue.

There are many challenges both in terms of Brexit but also in terms of our national issues such as housing. I want to focus on three challenges. On the need to increase housing supply, we have a national problem, not to mention an international problem. I refer also to the cost of construction, which is linked to many other issues. The constraints on infrastructure are a frustrating development *per se* across the spectrum in terms of jobs, affordable housing and so on. A lack of proper infrastructure will impact on all aspects of construction. I want to tease out those three issues by asking a few questions.

Ms Neary's presentation deals with the national planning framework, which is based on net migration of approximately 20,000 people per annum up to 2040. That is not in dispute.

However, Ms Neary then stated there are capacity constraints in our economy in areas such as employment, housing and transport, as we all know, which limit the potential for net migration to be sustained at very high levels. In the face of such uncertainty, she said, the Department is currently planning based on mid-range population growth. What does she mean by “mid-range”? What figures is she talking about? More people will want to move to cities such as Dublin and the east coast because that is where our industry is located and most of our commerce is done. The national planning framework, which I support, outlines objectives and targets for infrastructure and development across the country, but much of that is aspiration. In respect of those key areas, Ms Neary is from the Department. Can she explain to us how we will increase housing supply to meet the demand, which ties in with our current demand? I am more interested in the social and affordable aspect of that. How will we address the issue of reducing the costs of construction? We know about the potential tariffs and additional forms of taxes that may arise as a result of Brexit. We know that a high percentage of our construction and building products come from the United Kingdom. How will we address all of that because it will have a major impact? Based on our economy and the size of the country, most of those materials are coming from the UK. What is the Department’s plan in that regard.

I mean no disrespect to any of the witnesses but we know most of what is contained in the presentation. I am more interested in hearing about the proactive measures that will be taken, although I accept it is difficult to plan precisely for that because of the uncertainty of the Brexit issue.

Ms Neary’s colleagues would have knowledge of the need for a national infrastructure authority. That is an important aspect of all of that. I know they may not be prepared for all of this today, but they might revert to the committee.

These matters are critical, namely, the increase of our housing supply, the cost of construction and, more important, acknowledging and bringing down the high cost, as well as the serious impact of tariffs and additional taxes post Brexit because at the end of the day someone will have to pay for them. I will not go into any further detail on the construction of materials because it has been covered. Will the witnesses comment briefly on a few of those issues?

**Ms Sarah Neary:** Yes, but I might hand over to Mr. Hogan on the NPF and the figures thereof before I answer on the cost of construction.

**Mr. Paul Hogan:** The Senator wanted to tease out a little more what we mean by the “mid-range” of population projections and scenarios. It is not just a demographic scenario but also a econometric scenario. It looks at the mid-term economic review and the prospects for the economy, and distributes population with regard to vote demographics, the econometric modelling and places around the country. Like any model or assessment, it makes assumptions but they are grounded in the likely reality. When calibrated against the Central Statistics Office, CSO, as a mid-range scenario for long-term population and labour force growth, it more or less correlates with the CSO’s mid-range scenario, which is what would be described as the traditional, most likely scenario.

There are a couple of underlying aspects to that. First, the number of births and deaths in our population is below replacement levels. If there was zero net migration, our population would be slowly falling, and that is typical of developed economies. The birth rate needs to be approximately 2.1% for replacement, but we are at approximately 1.85% and slowly falling. We are dependent, therefore, on migration for population growth.



In general terms, approximately half of our migrants over a long period tend to be returning Irish people who have lived abroad or started their working careers abroad, while the other half tend to be from elsewhere in the EU, in general, or from the rest of the world. The capacity to accommodate people in the country, with the level of economic growth and employment we now have, is not endless. If it was to extend for a protracted period beyond the figures we are talking about, it is clear the capacity would not be there for employment, accommodation and so on for people.

There is an economic equilibrium or a limiting factor in that regard, and that is the sort of consideration that is taken into account when making assumptions for a model to make a projection into the future. The figure of 30,000, therefore, is considered to be in the upper range. We should bear in mind that, in projection terms, these are straight line figures. One presumes a figure of 20,000 or 30,000 every year for the next 20 years, but those sorts of patterns are not the reality. There will be fluctuations, where it may be lower in the short term, higher in the middle of the period and then lower again, as is the nature of our economic cycle. All of those things considered, it is a mid-range projection averaged out over the period, and that is how it works. In regard to the figure of 30,000, compared with what happened in the past, that figure was not exceeded for more than approximately six years during the previous boom, which we do not necessarily expect to be replicated, although it could be. When put into an average 20 year period, it works out at approximately 20,000. Based on the information we have, it is felt it is the most prudent way to go.

On infrastructure and infrastructural planning, part of the logic of the NPF is to try to identify where investment can be influenced and where people and employment can be influenced by decisions about employment and housing. The Department of Finance and the Department of Public Expenditure and Reform have set a sustainable level of investment in infrastructure at approximately 3.5% of gross national product star, GNP\*, which is our gross domestic product, GDP, equivalent. That is seen as sustainable to 2027. The national development plan, NDP, is based on that level of investment. It is higher than the European average which is approximately 3% of GDP. The objective of the NDP is to target that investment where it can be most effective and where it can deliver growth that will make a difference for the regions as much as for Dublin.

**Ms Sarah Neary:** Labour and materials are market costs and any changes to those affect the cost of construction. The negotiations on trade tariffs or labour movement in respect of the common travel area are absolutely critical. In terms of the Department's role the key area is to make sure that we are helpful in the process by explaining the rules to any organisation that wants to establish itself as a notified body, whether it is a transfer from the UK or a new body, and to make sure we are clear and open about our notification procedures. That is what we have done. We have published all our notification procedures. Any queries are dealt with promptly and we work very closely with the National Standards Authority of Ireland, NSAI, the Irish National Accreditation Board, INAB, and the Department of Business, Enterprise and Innovation on that. We know that they are ramping up the delivery of their services, which is an integral part of that notification procedure. We are making our industry stakeholders as aware of whatever is developing as much as we can, and disseminating any of the information we get from Brussels to our key stakeholders. The main one was that the EU said the rules will not change the construction products regulation, CPR, which applies post-Brexit in the same way. We are disseminating as much clarity as we can so that people know what to prepare for.

We are going to have to deal with whatever effect Brexit has on cost or labour. Construc-

tion cost is one element of delivering housing, but land, financing, professional fees, levies, all make up the entire cost of delivering. We are doing several things on those factors, such as the compact growth in Dublin city and other large urban areas that Mr. Hogan spoke about. We revised the planning guidelines for apartments earlier this year. They improved the economics of apartment building and we are seeing an increase in planning permissions and delivery on that front. Several measures on affordability are being brought forward, the serviced sites fund, which also complements the delivery of affordability, the help to buy schemes and the Rebuilding Ireland home loan all support bringing down costs are part of an effort to reduce the overall delivery costs. The Land Development Agency and the strategic management of land and the State portfolio, and the Home Building Finance Ireland initiative as well are part of an effort to reduce the overall delivery costs. We are doing what we can for the broad delivery issues.

**Senator Martin Conway:** Following the answers Ms Neary gave to Deputy Casey, given that we are an island nation and we very much rely on the UK for the import of materials, how much engagement has the Department had with industry on these new accreditations? The industry understands the cost implications of it and the fact that businesses in Ireland will ultimately end up paying for this and they will suffer as a result of this new, extreme accreditation that is required.

**Ms Sarah Neary:** I will ask Mr. Wickham to answer that.

**Mr. John Wickham:** In the lead-up to the implementation of the construction products regulation, the Department had intensive engagement with industry and produced information leaflets for distribution among the professional bodies and the stakeholder groups, which would be the economic operators that are affected by the construction products regulations, which would be the manufacturers, importers and distributors. We got good coverage at the time. The rules are very clear under the construction products regulation.

We also actively work with the professionals who are specifying products, the registered architects, building surveyors and engineers who sign off on the materials which are incorporated into the construction works. What we are interested in is that those products are quality and fit for purpose. In terms of the dynamic that exists between the certification of buildings and the placing of products on the market, we have, through our regulatory system, placed a value on the declaration of performance, which is a key output from the construction products regulation. It is the obligation on the manufacturer to declare what a product can and cannot do in terms of common technical language that is readily understood by everyone involved. In targeting the end user with a lot of our seminars and information, we emphasise to them to ask their supply chain for the declaration of performance and make sure that they are prepared for eventualities because it is a declaration of performance which they will rely upon to sign off on building works. It is quite an important legal document.

The notification to stakeholders was issued earlier this year by the EU Commission and we have distributed that information to all within our contact list. We have had several individual engagements with trade associations on getting a better understanding of the impact it would have for their membership. I think the rules, as they are stated, are pretty clear in having business continuity. Those Irish manufacturers that currently engage with UK notified bodies will need to be conscious of making preparations to allow for business continuity should a hard Brexit occur. Equally, the manufacturers that come from the UK who are importing products into Ireland will also have to ensure they have a notified body that is a legal entity within an EU member state.

The NSAI has established a dedicated Brexit unit that is looking at the impacts on the construction stakeholder group, the manufacturers, and seeing where other measures are possible to expand the NSAI's service to accommodate some of the Irish manufacturers that are looking for, essentially, a re-certification. That is something the NSAI will have under review. Under the current scope of accreditation, the NSAI is the only notified body that the Department has designated. As Ms Neary mentioned previously, there is an interest from a cohort of UK notified bodies to enter the Irish market and that will be assessed in due course.

**Senator Martin Conway:** Is it the witnesses' contention that the bottom line - the costs of construction - will increase as a result of a hard Brexit?

**Ms Sarah Neary:** I do not think we can comment on that at present. We just keep monitoring the situation.

**Senator Martin Conway:** I think the witnesses from the Department should comment on it because-----

**Chairman:** That involves looking at a whole-----

**Senator Martin Conway:** Are any outside experts advising the Department? Is this all in-house or has the Department retained any experts from outside to advise it in its preparation?

**Ms Sarah Neary:** There are a lot of publications around it. We are keeping abreast of what all the stakeholders are saying but the resounding narrative is that this is all uncertain.

**Senator Martin Conway:** I accept it is uncertain but we are being told that the Government through the Department is preparing for a hard Brexit and a hard border. The logical conclusion of that is that the Department would have an endgame preparation plan with costings but it seems that it does not have such a plan.

**Chairman:** Just to let Ms Neary know, we have-----

**Senator Martin Conway:** Could Ms Neary answer the question?

**Chairman:** I just want to clarify something. Ms Neary was filling in for somebody this morning at the last minute so she might not have seen the pack. We do have some information from the Department of Business, Enterprise and Innovation in the pack that deals with competitiveness and the bulletin. I do not know if Senator Conway had a chance to examine that but we have written to the majority of Departments.

**Senator Martin Conway:** Perhaps the Department could come back to us another day. Ms Neary was talking about the economic model and the demographic model. What outside expertise has the Department retained in terms of helping it calibrate and come to its figures or do the witnesses feel there is enough expertise with the Department's structure to make an adequate and acceptable assessment?

**Mr. Paul Hogan:** We did work with the ESRI during 2016 and 2017 when the national planning framework document and the national development plan documents were being prepared. We had expertise retained from the ESRI for that period. However, we realise that this is not something we want to just leave behind or leave fixed and then come back to it in five years time. It has become very clear to us that this is something that is ongoing and that needs to be constantly kept under review. For that reason, we have gone back to the ESRI and started to re-engage with it about how this work can be continued in a useful way. That process is under

way.

**Senator Martin Conway:** I apologise for the sound quality at my end.

**Senator Jennifer Murnane O'Connor:** I agree with previous speakers. We all have a fear of Brexit now. The construction sector is a major sector in the Irish economy that employs more than 100,000 people. It needs certainty as discussions over the withdrawal agreement and future relationship agreements are ongoing. Many people have said this to me on several occasions. It is about the uncertainty. In the meantime, the Government needs to give a commitment on the public capital programme encouraging local employment. We also need to look at building local authority housing because that is non-existent.

We can do more to attract our emigrants back to Ireland by adopting policies that are not there at the moment but that would be friendly to those wishing to return. Obviously, our housing crisis impacts greatly on these emigrants as well as foreign companies seeking to locate here from London. I recently had a conversation with a member of a prominent bank in London. While many of the bank's operations have moved here, ultimately, our lack of housing has pushed it to move more operations to Frankfurt instead of here. We need to look at the Frankfurt effort, our future and our competitiveness because that is what is happening. People will move because of the housing crisis and the lack of house building. Companies will go to Frankfurt and other areas where there is a very good supply of housing they can use. That is what it will boil down to.

**Ms Sarah Neary:** On the uncertainty issue, we would all like more clarity on this. We are trying to be as clear as possible about whether the rules that are in place and what Europe is telling us remain in place. When we have clarity, such as when we got the correspondence from Europe around the CPR rules, we disseminate that to all the stakeholders. The CPR will exist post-Brexit for construction products going on the market here.

In terms of the effect on cost, anything that affects the costs of materials or products and labour will have an effect on construction costs and delivery. These, both the common travel area and any trade tariffs, are key issues in the negotiation of a withdrawal agreement.

For our particular area of responsibility in the notification process on that underlying certification of construction products, we are saying "prepare for a hard Brexit" which means one must use a notified body established in a member state, be that in Ireland or in Europe. As Mr. Wickham mentioned, we have had a number of inquiries from UK notified bodies. Some of them are in the process of going through the national accreditation body. We have a process, which we have on our website. Any queries that we get, we answer in a timely fashion in order to support that and make it as easy as possible for these bodies to establish in Ireland and to become notified bodies. That is what we can do for the process.

Did Mr. Hogan want to say something on the NDP levy?

**Mr. Paul Hogan:** In reverse of what Senator Murnane O'Connor stated, we agree that housing is a serious competitiveness issue for Ireland. That is well recognised. The issue is that we face a significant backlog that goes back some time. It is not that it happened overnight. Only five years ago, we were still dealing with ghost estates and issues around the country with regard to oversupply of housing in certain places.

There is housing available and it can be provided in other parts of the country. The Senator mentioned Frankfurt, but elsewhere in Ireland it is possible to source affordable housing. That

is partly why we are backing regional Ireland and the regional cities in terms of the national strategy towards growth.

**Senator Jennifer Murnane O'Connor:** We must be realistic. We have a massive problem with the lack of housing.

**Mr. Paul Hogan:** We acknowledge that. The Senator mentioned the Government needs a commitment in the capital programme. Project Ireland is overseen by a delivery board that cuts right across Government and all Departments are represented. That body meets monthly at this stage. There is a focus on ensuring that decisions across Departments with regard to investment are aimed at the right places that can make a difference regionally.

The Senator mentioned employment in particular being important. Obviously, that is agreed. At present, the Department of Rural and Community Development is assessing bids under the Rural Regeneration and Development Fund and there have been 300 applications from all parts of Ireland. Many of those proposals relate to local employment. That is something that being assessed right now with a view to making a decision shortly. Likewise, the Department of Housing, Planning and Local Government is assessing applications to the urban regeneration fund. Also, the Department of Business, Enterprise and Innovation has a disruptive technologies fund with some element of regional focus. There is a real effort to encourage jobs growth elsewhere other than Dublin.

**Deputy Eoin Ó Broin:** Apologies for being late.

In some sense, none of us knows what will happen. We could spend a great deal of time speculating but our conversation - as with NERI and the ESRI last week - is, accepting the fact that we do not know and considering what contingency plans can be put in place so that if X happens, B can be the response, and if Y happens, C can be the response. In particular, I was struck by what the ESRI stated last week. It gave the committee clear warnings in terms of the impact, particularly on private sector supply, if negotiations go particularly badly, hard Brexit or not. It gave us figures such as, for example, 50% of key building products like electrical components and 30% of timber products pass through Britain. Obviously there are also the issues of the flow and cost of labour and the potential disruption to the cost of finance. If I understood the presentation last week correctly, for us they were saying the biggest warning was factors that could slow down the supply of private sector housing.

The departmental officials clearly cannot tell us how much that supply is going to be slowed down until we see it. What I am not seeing in the written presentation or hearing in the answers I have heard so far is that if supply starts to slow down, as we move through the Rebuilding Ireland and national development plan, NDP, targets, what contingency plans could be put in place or are being prepared to address that. For example, a portion of the social housing targets in Rebuilding Ireland are local authority or approved housing body builds and acquisitions, and a very large proportion are private sector short or long-term leased. Meeting those targets requires the Rebuilding Ireland targets to proceed as written in the document. If private sector supply starts to slow down, that means meeting the housing assistance payment, HAP, rental accommodation scheme, RAS, and leasing targets could be affected. Is the Department discussing, in that eventuality, shifting funding priorities to ramp up the direct provision of social housing by local authorities and approved housing bodies by a larger quantum than is in Rebuilding Ireland? That is my first question.

Likewise, in the overall housing system, while I do not necessarily agree with this way of



looking at it, it is the Government's policy that increasing supply overall will reduce cost and increase affordability. If private sector supply is reducing, are there contingency plans, for example, to increase the level of investment in the delivery of affordable housing above and beyond what has already been agreed to absorb some of that shortfall in straight private sector supply? While I appreciate that some of those contingency planning discussions are Government decisions rather than departmental considerations because they would require increased resources or shifting the allocation of resources, can the Department give the committee any comfort that those are the sort of contingency planning conversations that are happening within the Department and between Departments?

My big fear is that whatever about people's views about Rebuilding Ireland, and we have different views on this committee which we discussed last week, it is not Brexit-proofed. It was produced at a time such that it is relatively blind to Brexit, and I believe that is a fair point. Likewise, Mr. Allen's submission today makes clear that population targets in the national planning framework do not take a hard Brexit or a significant Brexit related increase in population movements into account, and it is also likewise with Construction 2020. Perhaps it is too harsh a phrase to say the core policy documents governing housing delivery are blind in this regard, but they were drafted irrespective of what happens with Brexit. As I came in, Ms Neary was commenting on Department guidelines and standards, land development agents etc., saying these are all things that would happen anyway. They are policy objectives in and of themselves as opposed to things that are being produced to Brexit-proof some of the negative scenarios.

My core question is whether contingency plans are being discussed and developed. Is there a particular focus on what the State will do if private sector supply is disrupted and whether the State can step in, either on the social or affordable side, and increase investment to pick up the slack there? What comfort can the Department give us that this is where the discussion is at? I fully appreciate that everything is hypothetical, but the Department and the Government still have to prepare for those hypothetical scenarios, particularly given the very negative impacts they could have on supply.

**Chairman:** If Deputy Ó Broin does not mind I will tag my question on to the end of his because I have to go to the Chamber at 12.30 p.m. and then to the Business Committee at 1 p.m.

Mr. Tom Healy of the Nevin Economic Research Institute, NERI, mentioned to us last week - I am not quoting him word for word - that in general we have had nearly two decades of a dysfunctional housing market. The lack of supply in recent years did not just happen. It came from a blanket dysfunctional housing market. We cannot just ramp it up in one year or two years. It is taking time. Bearing that in mind and in respect of the Rebuilding Ireland plan, we cannot wait for the UK to make up its mind. We have to plough on with our intention for this country, and this plan is a moving document and presumably adaptable throughout this time.

We did a lot of work in this committee on the costs of construction and on universal design, especially when we talked about housing options for older people. We estimated that the increase in cost of universal design was approximately 3%. We are doing a lot of work to offset that later. The cost of materials may go up if tariffs are introduced or maybe they will not. It is a hypothetical question. I presume we are looking at other measures to offset costs elsewhere in construction. We mentioned that many materials are imported from and exported to the UK, specifically 50% of wet materials and, as Deputy Ó Broin said, 30% of wood. Dr. Tom Healy also said that we need to diversify more quickly away from oil and fossil fuels. When it comes to the 2040 plan, I ask Mr. Hogan in particular what key infrastructural plans he thinks are important to push ahead with more quickly than previously planned? What projects are under way

that he thinks will help us through this transition period?

Other matters are probably not within the remit of the Department of Housing, Planning and Local Government. I will ask the committee if we can write to the Department of Justice and Equality about work permits. Have we looked at the processing time to get a work permit for anybody who is from outside the EU? With regard to the skill shortages that we know we will have into 2020 and 2021, we have looked at many new construction technologies to try to diminish the number of cranes or Manitou equipment or whatever might be on site. A smaller workforce might be required on site with newer technologies that are available. I was on site last week though I will not mention where or what. Are we looking at a wide range of technologies to speed up the process of construction? Are we putting much into research on construction? Are we looking at technology in other countries? While this is probably the business of the Department of Education and Skills, further investment is needed in apprenticeships.

We had the Society of Chartered Surveyors Ireland at a meeting and its representatives mentioned the ongoing engagement they have with their members here, in Australia, and in Canada, keeping them abreast with what is happening here and, it is hoped, encouraging them to come back here. What work are we doing to retain talent that we currently have? It all comes down to viability in the construction sector and providing certainty and consistency for the next ten to 20 years. I know Project Ireland 2040 is trying to provide it. Will the witnesses elaborate on that? I know there was a lot of public consultation for the 2040 plan for over a year. I know the Department of Foreign Affairs and Trade has a lot of regular engagement with stakeholders. What work is the Department of Housing, Planning and Local Government doing, such as roadshows, to engage with the relevant stakeholders or the Construction Industry Federation?

Unfortunately, I have to leave but I will read the Official Report. My two queries relate to key infrastructure projects and the cost of construction. I know the latter is a hypothetical question but it relates to however much we can prepare for this. I know the Department has prepared for the worst-case scenario and there is a whole-of-Government approach to this. I would love to hear more on key infrastructure projects.

**Ms Sarah Neary:** Deputy Ó Broin asked about the reduction of the private sector supply. The Department is analysing that. We have an internal, cross-divisional group in the Department which discusses these matters and sees where policy might go. I am not really in a position to say what specific actions will be taken, but we are considering these issues and reviewing the material produced by bodies such as the ESRI. We are constantly trying to build capacity in the local authority and approved housing body sectors to build more. Rebuilding Ireland shows that commitment and ambition. That will be helpful in a hard Brexit and, if that translates into the private sector, then at least the capacity is going in the right direction and it allows us the flexibility to shift around, if necessary. Rebuilding Ireland is a live document rather than a set of actions that remains stagnant over time.

*Deputy Pat Casey took the Chair.*

**Deputy Eoin Ó Broin:** This might be a question for the Minister rather than the officials. I accept that, for example, the capital construction targets are set through to 2021 and the leased and private sector subsidised are set to 2021. Therefore, we know their quantum. Were things to become more difficult, has there been discussion on whether there can be a shift between the two? Let us say 89,000 private sector units were subsidised by the State though the course of Rebuilding Ireland through HAP, RAS and leasing. We will have around 40,000 real social houses delivered by approved housing bodies and local authorities through builds and acqui-

sitions. If Brexit starts to get very negative, when we are in 2020 and private sector supply is slowing, that will immediately reduce the capacity of Rebuilding Ireland to meet its social housing targets in the subsidised private rental sector. Is there discussion on the possibility of increasing the capital spend on real social housing to build and buy rather than relying on the private sector were that to happen?

**Ms Sarah Neary:** That is definitely being discussed in the internal groups, but any impact on capital expenditure is a matter for Government.

**Deputy Eoin Ó Broin:** Sure, I accept that.

**Ms Sarah Neary:** The Chairman referred to new technologies in the construction industry as a whole. There is a broad picture and there are areas for which we have a direct responsibility or on which we have a direct impact. We are supporting the new technologies being developed for speedier delivery both through the rapid delivery framework, which was established last year by the Office of Government Procurement, and also a tendering process that is under way through Dublin City Council for volumetric or rapid delivery apartments. Through pull measures, we support the industry moving forward to delivering a greater degree of prefabrication onto the construction site so that we get a speedier delivery. There is a developing market there and a good response to that process, both in Ireland in our neighbouring countries. Mr. Hogan might care to speak about Project 2040 and its commitments.

**Mr. Paul Hogan:** It is very difficult to isolate supply from demand. We have a requirement to increase supply. The main thing is that the commitments that are there to do that are protected. That is the starting point. On how that might be developed or accelerated, there is the Land Development Agency. I had not intended to get into a big discussion about it as it has been the subject of other meetings. However, the Land Development Agency will increasingly effect that change over time. It will not necessarily be this year. It will take time to ramp up, but by the time these types of issues manifest, we would expect that, particularly in the area of affordable housing, the Land Development Agency would start to make a difference.

The Chairman mentioned key infrastructure plans.

Part of the overall NDP and Project Ireland 2040 strategy and something that seems more likely, despite all the uncertainty of Brexit, is that we need to build up the capacity for increased housing supply in our cities and large towns. There is an issue with mobility. The biggest influence on the capacity for densification or higher density of housing and the ability to provide more housing while maintaining a degree of amenity for people is urban mobility, public transport, walking and cycling. I know these things are very easily said, but we can see the tremendous success of something like the Luas where people will use it and travel some distance to use it, as well as other reliable forms of public transport. We need to ramp up our capacity to move people within our cities because that underpins the strategies we have for any increased demand for housing and our capacity to provide more of the type that is needed in the places it is required. If we do not, we will be left with the option of going even further out.

**Deputy Mick Barry:** I have a question on rent for both the Department and Property Industry Ireland. I understand that, if there is increased FDI into Ireland, particularly the cities and more particularly Dublin, the tendency of staff in those workplaces is to rent, leading to an increased demand for rental property. Unless there is a corresponding increase in supply and if it is left to the market without rent controls, it will lead to increases in rent.

The forecasts for jobs and wages tend to cover a range of potential job losses or a range of wage cuts. We will get reports that there could be between 20,000 and 40,000 job losses in the event of a hard Brexit etc. Anything we have heard so far on rent increases has tended to be very broad brushstroke suggesting that rents will increase. However, there have been no indications as to whether rents will increase by 5%, 10% or 20%. Will any of the witnesses give a more specific indication over and above the idea that they think there will be general upward pressure on rent?

**Ms Sarah Neary:** I do not have anything to add to that, but we can come back to the Deputy if he likes.

**Deputy Mick Barry:** Sure. I ask that question of the Department also.

**Vice Chairman:** Ms Neary is from the Department.

**Deputy Mick Barry:** Sorry. I also ask the question of representatives of the Property Industry Ireland.

**Vice Chairman:** They have not spoken yet. They will be in the next session.

**Deputy Mick Barry:** I apologise.

**Vice Chairman:** Before we finish, I return to something Deputy Ó Broin mentioned. In the event of a hard Brexit, the economy will contract. At the same time we are talking about net immigration increasing, possibly above 20% because Ireland will be seen as attractive for people from the UK. This means we will be getting a double whammy. With a contracting economy, the fiscal space tightens and the private sector delivery will also contract, which puts greater onus on the State to deliver social and affordable housing.

Given that we will be in a contracting fiscal space, have we put any emphasis on trying to resolve the State's failure to find an off-balance sheet model to deliver both social and affordable housing? The great contradiction with Brexit is that, according to predictions, we should have 40,000 job losses in a hard Brexit, so we should resolve our skills shortages in the construction industry fairly quickly. The whole thing is so hard to predict, but a few things are coming through. Everybody is saying that if a hard Brexit happens, our economy is going to contract and we could see net migration increasing. Those two issues would have a negative impact on the housing market, specifically in regard to the private sector, so the State needs to ramp up its delivery in a tightening fiscal space. The only way to do that is off-balance sheet and we have failed to deliver a sustainable off-balance sheet model to date. Will Mr. Hogan comment?

**Mr. Paul Hogan:** I suppose it is the least desirable scenario. That is what I meant by not separating supply from demand. In a contracting economy, one would not necessarily expect net migration to increase to the extent that is perhaps assumed. The reality is the attractiveness of somewhere like Dublin, for example, and maybe the other cities, if we are successful, which we intend to be, could be counteracted by a greater impact in, say, the north midlands or the Border region. One scenario we are likely to see is that, rather than having an overall issue for the State, there will be greater regional disparity, which is what we are trying to counteract or work against. In other words, the cities remain resilient and attractive but more peripheral parts of the country, particularly the Border regions, become more challenged. There is a lot of evidence from the downturn of 2008 onwards that many lower skilled workers migrated elsewhere, not necessarily to the UK but to places like Canada, the Middle East and Australia. We have 100,000 fewer construction workers now in the country than we had in 2007 and those

people still have not come back and are obviously happy living elsewhere. I do not think we can make assumptions that it will be even across the State.

One of the things that will be important to us post-2020 is the new EU cohesion framework, which is obviously something we have an interest in, as a State, particularly post-Brexit. One of the key themes of European cohesion is the focus on border regions because, even if there is not something like Brexit between other states, the performance of border regions or peripheral regions tends to be lower than the rest of the state, and that is true in places like France and Germany as much as it is in our own situation. When one considers the fact we are dealing with what will essentially be a third country as well as our own Border region, we have a strong case for increased cohesion funding under the ERDF.

Another aspect of this post-2020 is that the EU wants to focus on metropolitan regions, which ties in very well with its spatial strategy, and it also wants to focus on tying what it calls territorial strategies - in other words, regional planning as we would know it - to funding. We have already had the right sort of thinking around that. In regional development terms, we are trying to look to other sources to counteract the likely uneven impact of something like Brexit in the future, which everything we are doing is trying to work against.

**Vice Chairman:** I thank the witnesses for attending today and for engaging with the committee. I propose we suspend to allow the next group of witnesses to take their seats.

*Sitting suspended at 12.44 p.m. until 12.48 p.m.*

**Vice Chairman:** This session is examining the impact of Brexit on the housing market. In our second session today we will meet representatives of Property Industry Ireland. On behalf of the committee I wish to welcome Mr. Tom Phillips, Dr. David Duffy and Mr. Mark FitzGerald.

I will set out the position on privilege for witnesses before we proceed further. I wish to draw your attention to the fact that by virtue of section 17(2)(I) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to this committee. However, if you are directed by the committee to cease giving evidence on a particular matter and you continue to so do, you are entitled thereafter to a qualified privilege in respect of your evidence. You are directed that only evidence connected with the subject matter of these proceedings is to be given and you are asked to respect the parliamentary practice to that effect. Where possible, you should not criticise or make charges against any person, persons or entity by name or in such a way as to make him, her or it identifiable.

Members are reminded of the long-standing parliamentary practice to the effect that they should not comment on, criticise or make charges against a person outside the House or an official either by name or in such a way as to make him or her identifiable.

I call on Dr. Duffy to make his opening statement.

**Dr. David Duffy:** I thank the committee members for inviting Property Industry Ireland to attend the meeting today. I am accompanied by Tom Phillips, who is the chairman of Property Industry Ireland, and Mark FitzGerald, who is a member of the PII council.

Property Industry Ireland was established in 2011. One of the reasons for establishing PII was to have an independent and inclusive representative organisation for all sub-sectors of the Irish property industry. There are also many different stakeholders involved in the delivery of



property, from professionals who design and plan development and developers and construction experts who build property to funding bodies, such as banks and investors, and agents who sell and manage properties. All of these stakeholders are represented in the membership of PII and since the start of 2015, PII has been a sectoral association of IBEC. Our main mission is to be the trusted partner and provider of evidence-based information, policies and strategies for the property industry at national level.

Effective co-operation between the public and private sectors will be an important means of addressing the deficit in housing supply. PII estimates that annual average housing demand will be 36,000 units each year for the next 33 years. I have attached details of how we reached that estimate in the appendix to this submission and we are preparing a briefing document also. Due to substantial pent-up demand, there is a need to reach an annual output of 50,000 units in the short term. This estimate is higher than the projection underpinning Rebuilding Ireland 2040 and is based on age and gender specific headship rates from census data which suggest that the number of households in 2051 will be close to 2.8 million, a 60% increase on the 2018 level of 1.75 million. We are currently building fewer than 20,000 units per annum and this deficit in supply is resulting in issues of affordability and availability of accommodation. These difficulties are not confined to one segment of the market, but are across all tenures, including owner-occupancy, rental and social housing. It is the view of PII that the issues facing the housing market are independent of Brexit and need to be addressed regardless.

It is often difficult to assess history as it is evolving but it is our view that the Brexit vote of June 2016 has already had an impact on the Irish property market. In 2016, Ireland was grappling with a housing crisis that had been accentuated by a failure in 2012 to appreciate the bulge in demographic demand that was likely to occur because of the combination of two separate trends. The first of these was population growth since 2006 as evidenced in the 2011 census and the second was the economic recovery resulting from the swift administration of austerity policies. In January 2018, PII published the report entitled, Brexit and Ireland's Property Sector, and the impacts on housing and the property market that we have observed since the Brexit vote are as follows. There has been a significant increase in overseas companies, in particular from the USA, seeking to locate offices in Ireland and, in particular, Dublin. This is leading to a further increase in demand for residential rental property. There has been an increase in net migration levels into Ireland beyond what had been anticipated. On the other hand, Irish people who at a generational point normally move back from the UK have encountered difficulties in selling their houses and apartments in Britain, resulting in some tempering of the rise of Dublin house prices. The analysis of the ESRI and others suggests that the impact of Brexit will be negative on the overall economy and we have seen that activity in the housing market tends to follow that of the overall economy.

One of the main unknowns is what form Brexit and the future relationship between the EU and the UK will take. This adds to the uncertainty about any impact on migration flows. If net migration reduces, this will reduce the demand for housing and slow the growth in prices and rents. However, this does not mean that our housing crisis will be resolved or that prices and rents will fall as such uncertainties in future demand may lead to a decline in confidence, meaning less investment and less overall supply of new homes. However, higher net inflows would increase demand. Brexit, including a softer form of Brexit, presents some opportunities for Ireland to attract businesses seeking to maintain access to the EU's Single Market. This has the potential to be both an opportunity for the property sector in Ireland, as well as a challenge with an ongoing housing crisis and increasing house prices and rents.

Increased foreign direct investment flows highlight the link between the commercial and the residential property sectors. A concern is that an increase in the demand for residential accommodation will result in higher prices and higher rents in the short run. Research has found that non-Irish nationals are more likely to rent accommodation when they first arrive in Ireland and that the cost of accommodation is a key factor in the decision of workers to locate here. Businesses need urgently to see a better functioning rental market. However, the effect will not be the same across the country. Brexit-related foreign direct investment represents an opportunity to locate companies in the regions. While sentiment is difficult to measure, the international political environment may increase Ireland's attractiveness as a location. As a small country, we have in the past endured many of our citizens being drawn to make their lives outside the State. However, despite a potentially adverse Brexit and existing shortcomings in housing and healthcare, Ireland has become a desirable country to return to or to come to live in. That may have a bigger impact on regional Ireland than that envisaged. The national planning framework is a critically important document which provides a vision that will facilitate spatially balanced economic activity in Ireland. The availability of funding to support the investment in infrastructure envisaged in the national development plan will be crucial to the success of the national planning framework. Analysis by PII and IBEC in the report entitled, *Better Housing*, which we published in June argues that a comprehensive policy response is needed to ensure the supply of a minimum of 80,000 workers which the construction sector will need in the coming years. More resources are needed to promote and develop apprenticeship opportunities, while the work permit system will need to facilitate increased migration of skilled construction workers from outside the European Union. Ireland will need to put more effort into attracting workers from European countries and encouraging emigrants to return. Increased build of new social housing would help to offset some of the uncertainty surrounding the market in the face of Brexit and deliver much better value for money. It would also help to deliver a more stable market and avoid the volatility seen in the past.

Uncertainty caused by Brexit and uncertainty and caution during any transition period will have a negative impact in the supply of housing. In order to build, the construction of new homes needs to be viable, but home builders also need some certainty about demand levels. In the short run, any increase in uncertainty may heighten caution and have a negative impact on supply. In addition, Brexit-related uncertainty may heighten funders' caution and reduce access to funding for home building, also impacting negatively on supply. Depending on the shape of the final agreement, there are possible cost implications in the supply of construction materials due to the impact on the supply chain. Business models may no longer be able to rely on just-in-time delivery. That, combined with potential additional tariffs, will add to cost of construction.

To summarise, our research paints a challenging outlook for the housing sector, even without having to deal with Brexit. We accept that it will take a number of years for the market to reach equilibrium. Lack of supply in the residential property market, both rental and owner-occupancy, represents a key constraint in attracting foreign direct investment into Dublin and the rest of the country. Improving the viability of home provision is important for the broader economy. The viability of construction remains an important issue in many locations. Ireland's housing problems have clearly moved beyond being the social issue of our time and become a risk to future economic prosperity. A properly functioning housing market is needed to underpin national competitiveness, improve quality of life and address the plight of people in need of homes. Ireland's housing market has not functioned normally for more than two decades. Price and supply volatility have negative implications for home buyers, renters and the property development sector. The attraction and retention of talent is now the single biggest challenge fac-

ing Irish businesses. It concerns business leaders in most regions and sectors of the economy and is particularly acute in the main cities. Inadequate supply of affordable and quality housing is one of the main factors impacting on the availability of talent.

I thank the committee for inviting us. We are happy to deal with questions members may have.

**Senator Victor Boyhan:** I thank the delegates for coming and giving of their time. I am particularly interested in PII, of which I am a great supporter. I have met Dr. Duffy on many occasions, which gives me a slight advantage because he posed a lot of questions in the past year or two on the occasions I came across him and I have also read some of his publications and corresponded with him. On behalf of PII, earlier this year he sent key messages and solutions. I am more interested in hearing how we have progressed in that regard. I will touch on a few issues, but, first, I acknowledge the important work that he does. I know that he is affiliated to IBEC as a partner. As an organisation, IBEC has taken a responsible view in advocating, talking about and dealing with the challenges presented by Brexit across the wide gambit of areas it looks after. That is important and it plays an important role. Some people do not always recognise the work it does.

I will focus on five key issues, the ones raised by Dr. Duffy in his presentation and of which I am well aware. The first is how to facilitate an increase in the supply of housing. Dr. Duffy made a valid and important comment when he said, regardless of the Brexit-proofing of Rebuilding Ireland, that we knew we had a national housing crisis. That is a problem he addressed. To facilitate an increased housing supply a point has been made about lowering the cost of construction. The delegates would have heard the Department's lack of a specific response.

On infrastructural constraints, what are the delegates' views on a national infrastructure authority similar to the bodies in place in New Zealand, Australia and Canada? Infrastructure constantly comes up as an issue when one talks to IBEC about the roll-out of construction projects, be it industrial or housing.

How does regional development and spatial planning fit into the national planning framework? I reckon Dr. Duffy is an advocate of the framework from what he has said in the past few months.

Increased competition is an important factor. What is Dr. Duffy's view on it?

Another issue about which we have not heard much is the shortage of skills in the construction sector. It brings challenges with new people coming in, movement in the labour market and the creation of apprenticeships. What are the delegates' views on the challenges presented?

**Deputy Eoin Ó Broin:** I thank the delegates for their presentations and submissions.

Accepting the fact that we do not know how things are going to pan out and that we could spend a large amount of time in speculating, the real issue is that there are potential negatives. Like the ESRI and the Nevin Economic Research Institute, Dr. Duffy has, rightly, pointed to the potential impact on costs, including the cost of finance, materials and the supply of labour and, as a result, the supply of homes by the private sector. I am encouraged by several of his recommendations, including increasing the supply of new social housing. However, it is not just the supply of social housing but affordable housing that we need to increase. If there is a reduction in the supply by the private sector in any way, it will also impact on affordability, irrespective of one's views on the relationship between the two.

From Dr. Duffy's engagement with the Government, does he get the sense that contingency planning for Brexit in the context of the supply of housing has been given the same priority as jobs, trade and other aspects? My own sense is that there has been less of a focus on housing and the disruption Brexit could cause. Has Dr. Duffy been involved in discussions with the Department or other sectoral organisations on contingency planning? What changes would need to be made to deal with the matter?

The attached paper highlights the need to reduce construction costs. Our construction costs are not bad. The Housing Agency study published earlier this year showed that they were broadly comparable with those in other EU member states. It is non-construction development costs which are causing us difficulty, whether it be the price of land, the cost of finance, taxes, etc. The report of the Society of Chartered Surveyors Ireland on apartment costs made seven recommendations aimed at reducing costs. Even if they were all to be implemented, we would still have a viability problem in delivering apartments at prices that would be affordable for families earning less than €80,000 a year. Which cocktail of policies would Dr. Duffy prefer to see to reduce costs? Does he believe they would deal with the issue of viability in a benign post-Brexit scenario and, more importantly, a malign post-Brexit scenario?

**Mr. David Duffy:** Many of the issues raised in the questions are interlinked. It is important, given the projections we have prepared and what we are seeing in terms of output, that we increase housing supply, meaning increase affordable housing supply. That in itself is interlinked, not with the cost of construction but the cost of delivery, as the Deputy says. The Housing Agency work shows that Irish construction costs are very similar to European construction costs, and that it is the additional costs on top of that that impact on affordability and viability. Our view is that, in reducing the cost of delivery, given that the costs of construction are broadly similar, we have to look at those additional costs and be prepared to tackle some of them. We should look at whether measures can be put in place in terms of the cost of funding and whether something can happen on the issue of levies. We should also look at the impact of VAT on the cost of delivery and whether it could be reduced, even for a time-limited period, to help the viability of homes and to allow affordable homes to come onto the market. We have also been supportive of the idea of a national infrastructure authority. Perhaps Mr. Phillips will speak on that at the end.

Ireland as an economy is facing increased competition. Brexit, to some extent, is highlighting that because Ireland is being looked at as a possible location for business and being compared with other EU locations. It is always considered a possible location for businesses, but that is particularly the case at the moment. The impact of rent and house prices on competitiveness is probably particularly in focus at the moment as people consider where they are going to locate their functions and jobs.

On contingency plans, much of the focus has been on the cost of materials and skills and the impact Brexit will have on those. The housing market issues are there independent of Brexit. There is a focus on the housing market issues, and that focus will have to remain regardless of whether Brexit happens.

**Mr. Tom Phillips:** Infrastructure was mentioned. We have been promoting a policy for this area for some time. Australia, which is 110 times bigger than Ireland in terms of land mass and a population five times our own, has a single infrastructure authority. We have myriad competing forces looking for different funding, be it the second runway at Dublin Airport or the national children's hospital. A book was released in Australia in February 2017. On page 7 it says that the most important piece of infrastructure Australia needs is the M4 between Sydney

and Parramatta. That book does not exist in Ireland. We have too many agencies here, each of which makes legitimate claims on our infrastructure. We need one co-ordinating force to bring it together. I am not saying that we should create a quango, but rather the bringing together of all the various resources.

**Deputy Eoin Ó Broin:** How does the overall level of investment in infrastructure in Australia, as a percentage of GDP, compare with ours? Is it the case that Australia has a more efficient mechanism for delivery or does it invest more, or a comparable amount?

**Mr. Tom Phillips:** I do not have the costs to hand, but Australia does undertake cost-benefit analysis with each of the top 100 issues. The issues are actually listed. It declares what the greatest return of investment is. I do not know the actual quantum of the investment.

**Mr. Mark FitzGerald:** On the housing supply issue, the first problem is that not enough land has been zoned. We need to reduce the price of land and increase the amount of land that has been zoned. There are obviously infrastructure and service costs associated with that, but generally, looking back over the past 20 years, there has been a very cautious approach to public policy and planning. Obviously there has been a lot of dysfunctionality during that period, but it is clear that we have to bring down the price of land. If healthcare in general affects the grandparents of this country, housing affects the futures of their grandchildren. We have to do everything we can to bring in affordable rents and make housing affordable.

We also need to have one body which owns this target. The country needs a national target for delivery. Mr. Duffy spoke about how we may need to build up to 50,000 houses per annum. His projections, based on the 2016 census that is attached to the opening statement and the appendix of this document, is an interesting analysis. It shows that, 200 years on from the Famine, we will have approximately the same population on the island but will need 60% more houses than we currently have. I would like to see a body such as the national planning regulator own the target for the annual delivery of housing and be accountable for it. We need a planning system that works from the bottom up, of course, but also one that works from the top down. I would like to see those things implemented in terms of housing supply.

On other incentives that might increase supply and moderate prices, the interesting thing is the help to buy scheme. I can understand that commentators greeted it with a deep degree of scepticism because they thought it might inflate house prices. The evidence is that it is not increasing house prices but rather is increasing supply. The average price of a house that people are using this scheme for is now €375,000 or lower.

There are other issues, including VAT. I would not have advocated moves in that area, but the crisis is so great that if we can reduce VAT to help make house building more viable, particularly apartment building, it would be useful. The macroprudential rules set down by the Central Bank are a check on any possible inflationary aspects of that. We need to encourage private, well-behaved landlords to stay in the market and to enter the market. While the interest relief initiative in the recent budget is to be welcomed, there are other things that could be done. For instance, property tax might be offset against income. More private landlords are needed, especially in regional Ireland, and initiatives such as those I have outlined would be welcome at this point.

We have to think bigger. I agree with the Deputy that public policy takes a cautious approach. Job creation has tended to dominate the narrative of public policy here rather than house building in recent years. That is beginning to change now. Taking a very pessimistic



view about Brexit, my fear is that the cautious approach of public policy might become more cautious and we may miss the bigger prize. If in the year 2000 we had been able to predict what Ireland would be like in 2006, we would have been all the better for it. If in 2006 we had been able to predict what 2012 would be like, we would have been all the better for it. If in 2012 we had been able to predict what 2018 would be like, we would have been all the better for it. We need to look six years and more hence, beyond the immediacy of Brexit, and try to produce a country that has affordable housing for the younger generation coming through.

**Mr. Tom Phillips:** The skills shortage is a big issue for us. It is not just bricklayers and builders, but other skills that are required for the construction industry, including people like planners. I lecture in the planning department in UCD. We went from 50 students a year to five because parents were discouraging their children from getting involved in the construction industry. There are also people who were builders who were perhaps 48 when the recession happened. Those people are now 60, and they are not going to return to the building trade. The skills shortage right across the construction industry is a big challenge. It is one thing to say that we have to build more houses. If we get things right on the financial side, it might be the case that we have nobody to build those houses. We have to ensure that we have the correct educational facilities in place and that the correct encouragement is given to get people back into the trades. In this I include not just younger people but also older people who have the skill sets and can mentor the younger people. They might be bricklayers, carpenters, planning consultants, architects or others. We have to look at this across all ages and take an intergenerational approach to solving the skills shortage.

**Mr. Mark FitzGerald:** We very much welcome the idea of the Land Development Agency. It is something we want to work with and support, and we concur with the kind of thinking behind it. We see it very much as a social housing delivery agency that works in collaboration and in conjunction with the private sector. We also need to consider that, for house building in the private sector to increase, we have to encourage medium and small house builders to enter the market. Access to finance is a problem for that cohort, and it is a significant issue. The larger entrants to the market are to be welcomed because they can deliver capacity and output. However, we will not solve the problem with larger builders alone. We need medium-sized and small builders as well. It is incredibly important that we work at that, and finance is a big challenge for them. There is a degree of conservatism built into both the public and private sector as a response to the crisis we had. We need to work to ameliorate that conservatism and for people to be a little bit more forward-looking.

**Mr. Tom Phillips:** In response to the Deputy's question about interaction I note that we have a very good interaction with the Department of Housing, Planning and Local Government, and we always have done. Some of its officials have met us. We meet them several times a year. When the Rebuilding Ireland document first came out we were invited onto various committees. Along with the Construction Industry Federation, CIF, Property Industry Ireland, PII, was the only private sector organisation involved. We have had quite a lot of consultation, including in the drafting. It was Property Industry Ireland that came up with the concept of strategic housing development in the first place. We promoted it to the then Minister, Deputy Simon Coveney, and he went with it, albeit in a slightly modified version. It was PII that made the case and we were listened to. The issue about an "us and them" attitude is largely gone. There is a lot of good collaboration between the private and public sector. We need to encourage that. It is the only solution. If there is silo thinking in the public or private sector it will not work. Tackling these issues requires not only a whole-of-Government approach but a whole-of-society approach.

**Senator Victor Boyhan:** I have three very short follow-up questions. Dr. Duffy spoke about affordable housing supply and the impact on it. He mentioned something about development levies but did not go into any great detail. There are building costs and then there are profits for builders and developers. We clearly have to find the line between those. I hope Dr. Duffy is not suggesting any reduction in development levies. Development levies are ring-fenced with specific purposes in mind. That does not necessarily relate to the development itself. The witnesses know how the development levy scheme works and is apportioned. I know people have difficulty with it, but the other side of that is that local authorities rely on development levies. We could have a whole session about development levies and the people who have not paid them. If one looks at the Dublin local authorities one sees that vast debts of outstanding development levies are owed to them. There are a variety of reasons for that. The levies are there for a purpose, namely the common good. The overall development of sustainable communities is really important. It is a tricky issue and one that concerns me. Perhaps Dr. Duffy might touch on and outline what he meant. Is he talking about a temporary suspension or various reliefs for specific projects? I would be interested to hear what he says about that.

Mr. Fitzgerald talks about not enough land being zoned. I was a councillor for many years in Dún Laoghaire-Rathdown and we were constantly told that too much land was zoned. They were preventing land from being zoned. I am talking about land between the N11 and the M50, not beyond the M50 or below that area. These were what we would today call major infrastructure or transport corridors, places that made a lot of sense. I cannot understand it when people talk about a lack of zoned land. Most local authorities, certainly those in Dublin, Galway and Cork, have vast tracts of land. There are vast tracts of land in State ownership. We have touched on the State's portfolio before. There is a real need for a very in-depth analysis of the State's real estate portfolio. Every day I am involved in this I realise that the State does not know its own assets. Local authorities seem to have a difficulty in identifying them, as do the State and the Department. That is a major concern. The witnesses might touch on this. I do not know where Mr. Fitzgerald gets the idea that not enough land is being zoned. Professional planners are told there is enough. The Department tells some local authorities they have more than enough land. Whenever a councillor proposes rezoning there is a suggestion they are up to something shady. That is the way it has gone. We now have a situation where local authority members are finding it very difficult to propose zoning. All sorts of motives are attributed or suggestions made about their commitment to forward planning. Mr. Fitzgerald might talk about that briefly.

Finally, I am very interested in what Mr. Fitzgerald has to say about a single body for the delivery of the social housing targets. I would have thought that was the Department itself. We do not need to reinvent the wheel. Why is the Department insisting on that? Ultimately, the Department of Housing, Planning and Local Government is the key Department that drives this. It is the Department that comes before this committee and goes on national media to talk about rebuilding Ireland and setting targets. The problem is that no one is quantifying. We have no independent validation of the figures and statistics on construction and the roll-out of social and affordable housing, or any housing construction. Do the witnesses have anything in mind? Have they seen a model anywhere else? Could they tease out the situation a little bit more? It makes sense that we have accountability. Why are we not delivering? Why are we hearing day in and day out about targets but no one is delivering them? What model or what body is Mr. Phillips thinking about? I invite him to share that with us.

**Deputy Eoin Ó Broin:** I thank the witnesses for the answers. In response to Mr. Phillips, my question was not so much about the quality of PII's relationship with the Department, be-

cause we would hope it is the way he described, as it should be with all external bodies, it was more specifically about whether in those conversations there had been a discussion of the contingency plans to try to deal with some of the risk we are talking about. While it is very important for us all to monitor those risks and be aware of the sliding scale of risk, the real question then is for those Departments and Ministers who have responsibility as to what contingency plans they are putting in place.

With respect to what Mr. FitzGerald said about land, there are two concerns. There is a growing body of work around housing by land economists that would suggest that increasing the supply of land would not do anything to reduce the cost. Because land is always finite, the cost is more determined by the availability of finance and the desire of finance to seek out certain kinds of secure investments. Therefore, we could significantly increase the zoning of land and have the opposite effect, that one would start to push up the cost of land because speculative investment would get involved. Is there evidence to counter that view that is now held by many economists?

Like Senator Boyhan, I am in South Dublin County Council and we have more than enough residentially zoned land to meet current and future housing need as projected under the census targets. That is both public and private land. In fact, if we were to accede to zoning more land in that local authority area it would be contrary to Government policy, which is about trying to focus residential development back into town and city centres, for all sorts of very positive reasons. I am not against zoning land if there is a credible argument for it, in particular to boost housing supply, but I would caution against it.

Is there a concern about the Land Development Agency, given that the Government's main vehicle for addressing the need for finance by the small and medium sized builder, namely, Home Building Finance Ireland, is still delayed and we have not seen any lending from it? That does seem to be the primary policy response.

I wish to refer again to the two studies of construction and development costs by the Society of Chartered Surveyors Ireland. In the second one about apartments, it identified a suite of policy measures which it believes the Government should consider to reduce costs. If we were to introduce all of those, namely, reducing car parking, reducing apartment size, reducing development levies and VAT, reducing the cost of finance and reducing the cost of land, it still would not fix the viability gap that the society identified in terms of the overall development costs of apartments, and providing homes at affordable prices for working families. When I hear people talk about reducing VAT I would be more than open to supporting it if I thought it would genuinely reduce the cost of units. However, in the very best case scenario, it might take €10,000 or €12,000 or €18,000 at the very most off the cost of a residential unit in Dublin, one which is already costing between €320,000 and €340,000. It does not improve its affordability for the working families that are locked out of private sector purchasing at the moment. There is also no legally enforceable way of ensuring the developer passes that on. One cannot give a VAT reduction under EU law to houses of a certain price. One can only do it, for example, for a new house rather than a second hand house.

In this committee we look at all of the proposals, but I have still not heard how we deal with the situation other than how we tackle, for example, the cost of land. Unlike Senator Boyhan, I am more than happy to waive development levies if that is knocked off the purchase price of a house and somebody can buy a genuinely affordable home. That is what happened with Ó Cualann in Poppintree and it was part of the cocktail of financing that made those homes affordable, but those homes were being sold at €170,000 to €225,000, so it is in that context that

I think there is a public good to be got in return. I would have lots of sympathy with Senator Boyhan if it was being said that the development levies were to be knocked off a house that is €320,000 because one is only knocking €12,000 off the cost of the house and one is not getting any public good in return. More work needs to be done by the likes of the witnesses who are advocating cost reductions because when one looks at the detail of them, I am not convinced they stack up. Help-to-buy is the same. A more generous interpretation of the scheme in the Indecon report states the jury is out on whether it has contributed to house price inflation. Even from this report, we know at least 60% of those who availed of the scheme did not need it. They already had deposits and were already buying houses at a price that they did not need the 5% tax refund. I am not convinced from the limited evidence available, as it is a relatively new scheme, that it contributes to affordability for those who need it or it has not contributed to house price inflation which is a concern.

**Vice Chairman:** Mr. Tom Phillips said he has a good interaction with the Department and input into Rebuilding Ireland. How are the figures for the required delivery of housing so different then? The Department claims 25,000 units are needed while Property Industry Ireland claims 50,000 are needed in the short term, double the Department's figure. Even at that, we are not getting anywhere close to the Government's figures. This shortfall will have a significant impact in the future and the Brexit situation will add to that.

The regional spatial and economic strategy for the Eastern and Midland Region Assembly has just been published. There were problems with the Department regarding population targets and, as a result, the zoning of land. It took a significant consultation with the Department which then sent an email on the Friday the strategy was published stating there was no need to downzone land. This was a factor in Wicklow town. The Department saw a large reduction in headroom in the town which would lead to a significant dezoning of land in areas which had the infrastructure in place to deliver housing. In Wicklow town, €100 million was already invested in infrastructure. In fairness, the Department counteracted that.

Senator Boyhan raised the issue of the collection of development levies. However, in Wicklow there is a system in place where the council will not sign off on planning or occupation until all development levies have been paid.

I was a benefactor of the VAT decrease in the tourism sector myself. At the time it was introduced it made my business viable. I do not believe I would have survived the crash without it. Does Mr. Mark FitzGerald believe the proposed reduction of VAT for the construction sector should be on a viability basis or for making housing more affordable? Housing is demand led. The greater the demand, the higher the price. VAT does not make an impact for the house purchaser when there is high demand. For small and medium-sized construction companies, the 4.5% margin from a reduction from 13.5% to 9% would have an impact as they cannot access any credit, particularly those building outside Dublin. There are small and medium-sized enterprises around the country which could deliver 20 or 30 houses tomorrow morning if they could get access to credit and increase their margins to make it more viable. Would the witnesses look at a reduction in VAT from the point of view of viability rather than affordability?

**Dr. David Duffy:** We have not specifically had interaction with the Department on Brexit contingency plans, though we have had significant interaction on what measures are needed to address the issues in the housing market. We are also concerned that Home Building Finance Ireland still has not come to market because we need small and medium-sized builders to deliver houses into the market. Large-scale developments are not a solution on their own.

On the measures needed to improve the cost of delivery, the surveyors' report illustrated clearly that there is no silver bullet. A range of measures across funding, finance and the cost of land is needed to address the cost of delivery. In the housing market, which is sentiment-driven, the help-to-buy scheme is playing an important role by giving more confidence about the demand levels that are there. Confidence about demand results in confidence about supply and because homebuilders know demand is there, they are prepared to deliver houses. Moving from phase one to phase two has been quicker as a result. The other impact of the scheme, about which I heard through interaction with some of our members, is in the way certainty of demand has brought about certainty of funding, which has helped deliver supply. The scheme could be a demand-side measure but it is probably having more of an impact on the supply side by bringing that certainty.

There are probably a number of reasons for the difference in population projections. The 2025 estimate was probably based on the 2011 census while the 36,000 is based on the 2016 census. It is just a question of the passage of time between the preparation of the two sets of estimates.

**Mr. Tom Phillips:** Senator Boyhan asked about levies. We are not looking for a blanket omission of levies but equitable levies. There are 31 planning authorities and 31 different sets of levies. Sometimes, different sides of a road have different authorities for levies, such as at Walkinstown roundabout in Dublin. Those levies are passed on to the purchaser and the developer has to make a profit margin to get bank finance. He or she will not get 100% finance as they did in the past. Any levies that are applied by the local authority end up going onto the cost of a house and it is not just a matter of a €13,000 reduction. The levies are at 13.5% so a house costing €300,000 will have a VAT levy of nearly €40,000. All this money adds to the cost of housing.

We advocate a holistic approach and recommend looking at whether the approach is equitable among all the local authorities in terms of their quantum. In Dún Laoghaire-Rathdown, the levies for an apartment in Kiltarnan or Glenamuck were nearly €60,000. One has to buy the land, get finance from the bank and pay one's team of builders and then, on top of it all, pay €60,000 to the local authority per unit, which rendered projects non-viable.

**Senator Victor Boyhan:** And nothing happened.

**Mr. Tom Phillips:** Nothing happened. In the UK, they have a system, the Harman report about the viability testing of local area plans. We do not do it in this country. For a long time, the planning system set aside the issue of economics and only looked at the social and physical side of it, but all three are legs of the same stool. We have to look at how we deliver housing and have an eye on the market because it informs how we should be doing policies, and the planning system has its eyes closed, to a degree, to the market. We need to see how we can make it viable and look at all these costs and levers and say, if we just reduced or omitted those for a while, what effect would it have?

**Senator Victor Boyhan:** Has Property Industry Ireland done a paper on that? Are the witnesses working on something?

**Mr. Tom Phillips:** We are working on it, and we have-----

**Senator Victor Boyhan:** The witnesses might keep the committee informed because it is an interesting proposition.



**Mr. Mark FitzGerald:** If I could come in on a few of those points, we represent an industry and Property Industry Ireland came about in response to the crisis. If a person is part of an industry, he or she has to go through the red door, as it were, and say he or she has something to declare. That is self-apparent. Where we are trying very much to come from is in the public good. The context of the way we are approaching this problem is that we are looking backwards, and we only look backwards to learn what we should do in the future. In the 1971 census, I think, there were 700,000 houses in Ireland and, according to Dr. Duffy's figures, we have about 1.7 million occupied houses in Ireland and, again by Dr. Duffy's figures, we will go to 2.8 million by 2051. In the next 25 to 30 years, we need to see as much change in housing in Ireland as we have in the past 50 years. That is the context of the proposed initiatives we are suggesting.

Philosophically, looking at the public good, at the moment we have a policy of controlled containment. What we probably need is a policy of controlled enablement. On the zoned land issue and why more land should be zoned, there is fairly good international research from a New Zealand body, which I can share with the committee, that studied many global cities and shows that zoning more land actually does work. It is an 80 page document that is worth reading because we would hope it answers some of the questions the committee is talking about.

Looking back even five years, at the end of 2012, Property Industry Ireland was asked by the Secretary General of the Government to attend a meeting with representatives of NAMA and local authorities about the housing crisis that was emerging. It was not perceived to be the crisis that it is now, but it was emerging. At the time, the Minister of State had made a speech saying we had enough land zoned to build. In advance of that meeting, we went around Dublin and looked at every scheme that we thought could be built the following year, comparing the theory with the reality. We turned up at the meeting and showed the difference between the theory and reality of what was going to be built. Unfortunately, what we predicted came to pass. At the time, part of the initial figures was that 2,000 houses could be built in 2012 and 2013 in Adamstown. It was not physically possible to build 2,000 houses in 2013 in Adamstown and, even if a person did, he or she would not be able to sell them. That is the difference between theory and reality. One has to look.

We are interested in bringing the price of land down because we think it will bring the price of housing down. If a profit is going to be made in the private sector, it is probably more in the public good that the profit is made on the building of the house rather than on the land. We probably all agree on that.

In terms of owning a target, we live in a world where people have to take responsibility and those who do need to be held to account, while the people who do the holding to account need to behave responsibly. I really do not mind who owns the target, but my point is that somebody should own the target. The reason I mentioned the national planning regulator was in light of the National Roads Authority, NRA - it is called a different name now - which was quite successful in owning and delivering something. Somebody has to own it.

**Senator Victor Boyhan:** Is Mr. FitzGerald suggesting the national planning regulator is potentially someone who might----

**Mr. Mark FitzGerald:** The national planning regulator could potentially own it, but the Department could own it as well, absolutely.

On the VAT issue, in terms of viability and affordability, my point is we have a major prob-

lem and need to build a lot of apartments in our cities. There is a problem about the viability of apartments in our cities. Why is there a problem? There is a problem because the VAT rate is high, the construction costs are complex, and compliance, which is rightly part and parcel of modern day building, costs money. We need to make those apartments more viable. My point is if one brings down the VAT, particularly on apartments, it will help make them more viable. If one builds more apartments, it will then make them more affordable. That is the theory of it. I think it would turn into reality. Those are the responses to the questions raised.

**Deputy Eoin Ó Broin:** I have a brief follow-on question, and it is more to do with the economics of land. In looking at land markets, for example, in European or OECD countries over the past 30, 40 or 50 years, the less taxes we placed on land and the less restrictive the markets in land, the greater the price rises and price volatility. It seems we have forgotten that part of the reason we have, for example, development levies as distinct from VAT is that they are a way for the local authority, and therefore the population, to capture some of the value increase in land that comes from everything surrounding it.

There is also a value in thinking about how we constrain the rising values of land. For example, in Adamstown, and Clonburris beside it, there is no shortage of residentially zoned land. Our difficulty has been either lack of finance or lack of purchasers because of lack of income to meet the cost. Part of the difficulty in those areas is land prices. A significant developer has bought a very large piece of agriculturally zoned land in the same local authority area just across the road from Clonburris and Adamstown. While the argument will be that this is about increasing the supply what we will see is the value of that land, and therefore the ultimate price of the houses, will rise rather than reduce if that land is rezoned. That is not an argument against zoning. It is merely that one of the bits of the economy we understand least is land. We have lost the ability to understand what influences the price.

It is the same with supply. There are growing bodies of evidence that show increasing the supply of housing, in and of itself, does not reduce the cost because the cost of housing units is not only determined by the numbers of buyers. It is also determined by the cost of land, the cost of finance etc. In the Celtic tiger period, when housing output was at the highest level in the history of the State, the number of families on the local authority waiting list and the number of families dependent on subsidised private rental accommodation also dramatically increased. This was because, despite the fact that we were producing between 60,000 and 90,000 houses over three years, the price of housing, both in terms of renting and buying, also increased. I am not saying supply is not important. I am saying the simplified idea that merely increasing the supply, as a result of making it more viable for developers, will automatically result in affordability is flawed and we need a more informed debate about how we make sure we not only increase supply but at the same time increase affordability. Here is the problem. If we do not do that, the other section of the organisation these guys work for will have a different problem, which is, because they cannot get affordable housing, they will be demanding increased wages which will affect the viability of businesses and the competitiveness of the economy as well. That is why some of these debates are too limited.

Deputy Casey is correct. Of course, reducing VAT increases the viability of the development because if one knocks €10,000 or €15,000 off the VAT of that €320,000 price, that goes into the pocket of the developer, if that is the way the developer plays the reduction. In fairness, the Central Bank and some of the larger banks have advocated this as a supply viability measure, not as an affordability measure. My concern is, if we keep reducing the ability of the State to invest in the infrastructure that people need around those houses by reducing the tax

take and at the same time there is no increase in affordability, that is not a good deal for the public overall. While it might be a good deal for individual developers and increase supply, it is not necessarily the kind of supply that we need.

**Mr. Mark FitzGerald:** I see the way the market works and the way different markets intersect with each other. I will give a practical example. If we were to proceed to build more houses in Naas, the increase in supply in houses in Naas would have the impact of making houses on the ring-road of Dublin a bit more affordable because people would have an option that bit further out. Then if we keep the houses on the ring-road more affordable, it means that when we develop in the inner city where we want to try to develop, the price on the ring-road, because it will be an option for people, will keep the price in the inner city more affordable instead of having very expensive houses. How the markets intersect with each other is important. Public policy does not quite get that.

I accept that there is a risk that, if not managed properly, an increase in zoning can have inflationary impacts on certain services. When I began taking an interest in housing at approximately 15 years of age in the late 1960s or early 1970s, I used to look at the *Evening Press*, which was full of ads for houses all over the country. The prices of houses across the country, whether in Ballincollig in County Cork, Salthill in County Galway or Lucan in County Dublin, were approximately the same. There was a significant amount of supply because the land was zoned. The process may not have been what it ought, but there was a significant amount of supply and choice. At that time, the market worked and people were able to get a house and a mortgage and have a family.

The zoning of more land could be managed in a clever way such that while a development plan would be put in place, a person could still put forward a business case for the rezoning of ten, 20 or 30 acres which were not zoned but were close to services. That would allow a certain amount of flexibility in that such logical zoning could be granted. That would impact on the inflation of other land in the contiguous area. That is how it should work. The way it is managed is important. I accept that it is quite difficult to manage markets in an efficient and equitable way in a public process system. However, that would be a reasonably clever and adroit way to increase land supply while achieving the objective of helping to reduce the price of land.

**Vice Chairman:** What happens between the time land is zoned and a development is completed is key. If land was zoned and construction on it was immediate, the price inflation that currently occurs would probably not arise. Land is zoned and then flipped so many times that, by the time it is developed, the cost of a single housing unit on it has escalated significantly. The granting of planning permission may increase the value of land, after which it may be flipped. Although I agree that the zoning of land should be examined, we should also consider how zoned land is developed and whether there should be timeframes in that regard or significant penalties for landowners who flip land rather than developing it.

I acknowledge Mr. FitzGerald's comments on development levies. There are many local authorities with different development contribution schemes, all of which are based on different infrastructure in the county development plan of each authority. The current process was put in place in 2004. It identified a significant historical lack of infrastructure which it attempted to compensate for, as well as the infrastructure that would be required in the future. That led to development levies of approximately €25,000 if one was building in Greystones or Wicklow town in County Wicklow because we were trying to deal with historical deficiencies in infrastructure and also plan for the future. Some crazy infrastructural projects that would never happen in our lifetimes were put forward to be delivered under development plans.

**Mr. Mark FitzGerald:** One of the reasons land prices go up is that the market and those buying land bet on dysfunctionality because they do not think the houses will be delivered. If we increased the supply of land, there would be more competition and land held by speculators would be less scarce. When increasing land zoning, we must ensure a parallel increase in housing supply and that the whole policy is cohesive and coherent. If we do that, we will achieve our goals. If we do not approach such a policy in a coherent way, it could have unintended consequences. Currently, we are not building houses and the price of land is going up. What is being done is not working. I suggest that we move to a controlled enablement policy rather than a controlled containment policy.

**Vice Chairman:** We have drifted somewhat from the topic we are here to discuss, namely, the impact of Brexit on the housing market, which shows the level of interest of all present in trying to deal with the different scenarios involved in housing. I thank the witnesses for their attendance and engagement. The committee will publish its report in the near future.

The joint committee adjourned at 1.50 p.m. until 9.30 a.m. on Thursday, 22 November 2018.