

# OUTLOOK

AIB's Series Of Sectoral Research Reports.  
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## RESIDENTIAL PROPERTY

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In association with:





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# SUPPORTING THE HOUSING MARKET

Welcome to the seventh in our series of reports covering key sectors within the Irish economy. The aim of these reports is to analyse key components of the Irish economic landscape and provide opinion, guidance and advice from some of the stakeholders within each sector. They also provide some important insights into how AIB is working to support these sectors. We are pleased to partner with Property Industry Ireland and Sherry FitzGerald New Homes on the publication of the Residential Property Sector Outlook Report.

An important part of these reports is the research which for this sector has been carried out independently by our partners. The research results highlight a key issue impacting the residential property sector currently which is a lack of availability of new homes in urban areas. This is attributed to a fall in the development of new housing in recent years. The research also points to there being a lack of availability of viable development sites, development finance, particularly equity finance and challenges in the planning system.

The research highlights that there is a shortage of three or more bedroom houses, particularly in urban areas, and that the building of housing developments needs to increase at pace to meet current and future needs. Market estimates suggest that between 16,000 and 20,000 houses will need to be built annually to meet current demand and population growth over the next five years. The recent Housing Agency report (April 2014) on housing supply supports the requirement for an average of 16,000 units/houses per annum across urban areas between 2014 and 2018.

Through the launch of our €350 million residential new homes fund this year, AIB is demonstrating its support for the development of homes where demand requires it. Responding to demand AIB has also mobilised three specialist new business teams in Dublin, Cork and Galway.



**JAN O'SULLIVAN TD, MINISTER OF STATE, DEPARTMENT OF ENVIRONMENT, COMMUNITY AND LOCAL GOVERNMENT; BERNARD BYRNE, DIRECTOR OF PERSONAL BUSINESS & CORPORATE BANKING, AIB AND KEN BURKE, HEAD OF BUSINESS BANKING, AIB.**

We recognise the importance of the property sector to the creation of jobs, the supply of homes and the Irish economy. Indeed it is estimated that an additional 10,000 new jobs could be created in the sector in this year alone.

AIB recognises the importance of supporting communities across the country and an integral part of this support is the provision of finance to housing associations to help them in their efforts to provide much needed social housing. Very little development of social housing has occurred in recent years and current data would suggest that there are more than 80,000 people on the social housing waiting list.

As one of the largest banks in Ireland, AIB recognises that it has an important role to play in supporting this vital sector, and its future growth potential. Through our dedicated sectoral experts and relationship managers across our branch network, business centres and corporate operations we have the knowledge and expertise to support

those looking to build homes or buy them. AIB is the market leader in mortgages and has a significant pipeline of fully approved customers looking for suitable homes.

As we go to print the Government is just launching its "Construction 2020" strategy. We welcome the strategic approach the Government is taking to the sector and look forward to working closely with Government and key stakeholders to support the planned initiatives and actions that will help the recovery of the sector and the Irish economy.

My thanks to our partners Property Industry Ireland and Sherry FitzGerald New Homes for their support on this important initiative to support the sector. My thanks also to everyone who participated and took the time to partake in the surveys. I hope you find this report useful.

**Ken Burke**  
Head of AIB Business Banking

# BUILDING THE FUTURE

With the Irish residential property sector now entering a period of growth and consumer sentiment improving, a number of factors are conspiring to inhibit the supply of much-needed new housing stock, particularly in the key urban areas where demand is at its highest according to two separate research studies carried out by Property Industry Ireland (PII) and Sherry FitzGerald, in association with AIB.

A shortage of suitable building sites around the country has been identified as one of the biggest impediments by developers to the supply of new housing according to the PII survey. Other issues identified by the PII include the availability of equity and development finance and the need for changes to the Irish planning system.

PII, which represents a wide range of firms operating in the wider construction and property industry in Ireland, also noted that developers are anticipating an uplift in overall activity once the programmed disposal of appropriate sites commences by the banks and NAMA and as developer finance becomes available. They also point to the growing appetite of international investors and the introduction of REITs as possible drivers of investment.

Likewise, consumer sentiment is also changing but with demand outstripping supply in many areas according to the Sherry FitzGerald Sentiment Survey.

This pent-up demand is largely being driven by first-time buyers who accounted for almost half of the respondents to the survey and there are small differences between the four key urban areas that were surveyed. In Galway, for example, 51% of all aspiring house-purchasers are first-time buyers while in Dublin they accounted for 47% with Limerick at 46%. The majority of first-time buyers, at 79%, are currently living in rented accommodation.

The demand for rental accommodation, due to the lack of supply of housing stock for sale, is also negatively impacting the social housing sector because more and more people are unable to afford rental

accommodation as rents continue to increase, particularly in urban centres.

There was a very large response rate to the Sherry FitzGerald survey but the participants and results are more Dublin centric as 78% of respondents are looking in Dublin, 12% in Cork, 8% in Galway and 3% in Limerick.

With house prices in many areas outside of Dublin at six year lows, investors are also keen to buy according to the survey. In Limerick, for example, 16% of the respondents indicated that they were investors while this rose to 19% in Galway, falling to 11% in Cork and 9% in Dublin. Some 35% of these investors also feel there is good value to be had in the market at the moment.



### Some of the other key findings of the Sherry FitzGerald research include the following:

- 45% of house-hunters are looking for two/three bed houses while 22% are looking for four bed houses. Just 8% are looking for houses with more than four bedrooms. Semi-detached houses are the most sought-after.
- Almost three quarters are looking to buy within the next six months.
- The biggest issue that people have is the lack of suitable housing. In Dublin, for example, 80% of respondents feel that there are too many buyers chasing the same houses.
- Over half the market have a budget of up to €350,000.
- Respondents believe that house prices are increasing and this is particularly noticeable in Dublin where 84% feel house prices are on the increase.
- 73% of all respondents believe that Irish people will always want to own their own homes.
- When it comes to choosing a bank, the general perception is that the banks are lending and the most important factor is interest rate.



# THE CHALLENGES AHEAD

**While the Irish residential property market is showing signs of recovery the sector faces a number of challenges and hurdles if the sector is to grow meaningfully over the next few years, according to a survey carried out by Property Industry Ireland.**

A shortage of suitable building sites around the country, the availability of both equity and development finance and the planning system are just some of the topics that are preying on the minds of companies operating within the wider Irish construction sub sector according to research carried out by Property Industry Ireland (PII).

PII currently represents a broad range of large and small stakeholders within the Irish construction industry including developers, estate agents, and professional service firms, including legal, architectural, accounting, planning, engineering and financial services. In many cases, these were firms that were directly impacted by the downturn, some more severely than others.

When asked about the prospect of an increase in turnover for 2014, most of the smaller contractors and developers expect to see a modest increase according to the survey. However, the mid-sized developers and contractors do not expect to see any growth in turnover during 2014 with many of them saying it will be 2015, following increased levels of activity this year, before turnover increases.

Among the largest developers, however, sentiment was a little more bearish with many

### METHODOLOGY

Between March 1st and 31st 2014, 200 businesses operating in the Irish property sector were surveyed online by Property Industry Ireland (PII). These included builders, contractors, developers, estate agents, architectural and engineering firms, asset managers and companies operating in financial, legal and accountancy services. They were asked about the nature of their business, their views of the issues shaping the Irish residential property sector, and the outlook for their business in the year ahead. A total of 55 companies completed the survey, giving a response rate of 27.5%.

businesses operating in both the development and contracting sectors expecting to see a small decline in turnover this year with a more promising outlook forecasted for 2015 as development projects get underway.

On the other hand, the country's estate agencies are a lot more optimistic according to the survey, despite the shortage of housing in key urban areas around the country. According to the survey's respondents, their businesses have already undergone substantial re-structuring over the past number of years and this year will see some growth, albeit from a low base while

agencies with operations in the main urban areas, are the most optimistic with most of them forecasting growth rates far in excess of what would be the norm in non-urban areas.

Within the property professions, architects, planners and engineers are also upbeat about the future trajectory of their own practices, with many of them believing that the changes they made to their businesses in the early years of the recession have positioned them for growth over the coming years as development and construction activity gathers momentum.

Planning practices, which tend to be some of the smaller businesses, are the most optimistic about the future as they to be involved at the early stages of the development process and are therefore early beneficiaries.

Other professional service providers, including lawyers, accountants, bankers, and asset and investment managers, meanwhile, see a similar pattern to the market as architects and planners. According to the survey they believe that, as confidence and indeed investment returns to the market turnover and business activity will increase this year.

### THE CHALLENGES

As the construction industry is large and diverse, the issues facing the individual stakeholders are many but often opinion can be split as each sub-sector has its own unique agenda and challenges.

However some consensus about the macro challenges facing the industry revolves around the lack of suitable development sites throughout the country and, in particular, key urban areas where demand is at its highest.

**"As the construction industry is large and diverse, the issues facing the individual stakeholders are many but often opinion can be split as each sub-sector has its own unique agenda and challenges."**

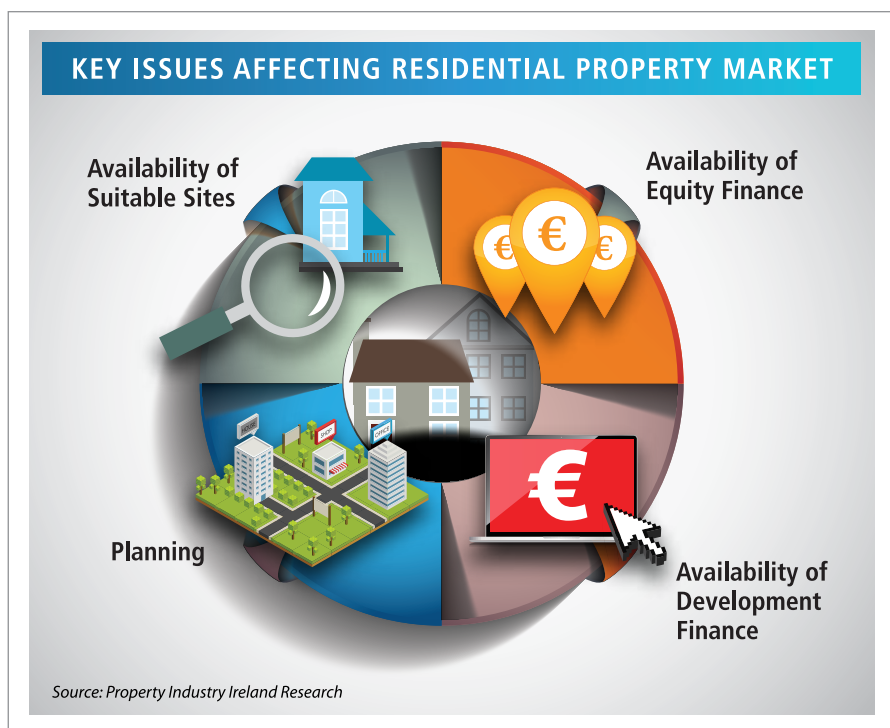
This is obviously a major issue and will have a significant impact on the flow of much needed housing stock over the coming years. It is also a topic that is touched upon by other contributors to this Outlook Report.

Other perceived impediments for developers and contractors is access to development and equity finance, an issue that is particularly unique to developers and contractors.

According to the PII Survey, 85% of the developers who responded to the survey have made an application for finance during the last 12 months. While contractors have made fewer applications for funding, the survey shows that a large number of the applications made to the banks by contractors are also still pending.

The survey also shows that of the developers who have approached banks over the past few months, there is an even split between applications which have been approved in full or in part, and those which have been declined. However, it should also be stressed that a large number of the applications made to the banks by contractors are also still pending.

Not surprisingly planning also loomed large in the responses of many respondents to the PII survey with developers in particular of the belief that the current planning system is a factor shaping the outlook for the sector. Where sites are available, and



where financing has been put in place, they are experiencing complexity and rigidity in the planning system and this is holding back development. This excess rigidity in planning is echoed by contractors, who also point to the lack of reform in the Irish planning system as a serious impediment to the growth of the sector.

The survey also noted that developers and contractors, by and large, are supportive but somewhat sceptical about the potential

impact of future Government policy towards the sector. Many believe that the Action Plan for Jobs and the Construction 2020 Strategy report have the potential to overcome some of the administrative blockages to development but wider improvement for the sector could be “marginal” or “minimal” if some of the industry recommendations are not properly implemented.

Within the property professions, meanwhile, the greatest issues facing the sector are the availability of existing property, and public perceptions towards the sector. Many real estate agents who responded to the survey, point to a lack of confidence among sellers. In some cases, they believe, sellers are holding off in anticipation of a higher price as the market continues to improve. For their part, buyers would also appear to be uncertain about the future direction of house prices.

It is also clear that while the domestic economy is growing and unemployment is falling, consumer confidence towards the residential market still lags this growth and this is also borne out in the Sherry FitzGerald Sentiment Survey that is analysed elsewhere in this publication.

In the case of asset and investment managers that are actively involved in the sector, most are concerned about the ability of



## ► AIB/PROPERTY INDUSTRY IRELAND SURVEY

developers and buyers to access financing, noting that where there is an able developer and a willing buyer, there is often an unwilling lender. Nonetheless, they look to the successful introduction of REITs into the Irish market and the growing appetite of international investors to assist in driving new investment into the Irish residential property market.

Developers and contractors, on the whole, are supportive but sceptical about the potential impact of future Government policy towards the sector. Indeed some property professionals including planners and estate agents believe that Government intervention may be too late. Other strong future considerations are expected to be lack of skilled labour, increasing costs and financial markets.

### THE OPPORTUNITIES

The property sector is extremely clear that there are a number of business opportunities that can be seized upon in the year ahead and it is notable how prepared the sector is to adapt its business models to reflect the new market realities.

The supply-chain in the residential property sector is long and complex, and as the market turns, so the business model of property and construction firms must also change. A number of developers and contractors foresee strong opportunities for the residential sector in the year ahead especially once the programmed disposal of appropriate sites commences by the banks and NAMA and when developer finance particularly equity finance becomes readily available.

A number of contractors cite specific areas in which they expect to see growth, particularly healthcare and the refurbishment of property. Contractors also point to international investment stimulating construction activity in the near future, as they are less reliant on traditional development finance, and are keen to commence on sites as soon as possible. In addition, a large number of property services firms are marketing themselves to overseas clients, and working as part of consortia to harness international work.

Elsewhere within the construction and property professions, planners and architects

see opportunities to engage in master planning and project design, as a larger number of potential clients prepare planning permission applications and commence pre-construction stages of development.

Of course businesses are not totally oblivious to the challenges which still face the sector. Many recognise that while the market is beginning to improve, there may be a significant delay before this translates into business activity. Having gone through a protracted period of what one respondent calls "crisis revenue" there are very few cash reserves in businesses left. The speed and flexibility of businesses working in property and construction is notable.

Many challenges facing the sector are beyond the control of individual businesses working within it. Few businesses are able to dictate the speed of a planning authority to grant permission for construction to commence. Likewise they have no control over the availability of suitable sites coming on stream. The challenge for these companies is to maintain their viability during a period of uncertainty. ●

### Some of the selected comments from the participants in the AIB/Property Industry Ireland survey include the following:

- "The main issue facing the sector is the release of development sites so that construction can commence. It is well-known where there is a need for new development, but the question is how to unlock them." (Contractor)
- "The banks are engaging with the sector now. If we can present a logical proposition to them, I feel we are being heard. Perhaps it's not enough, or too late, but they are key to the future of the sector, but I think they now realise how important they are." (Contractor)
- "For the housing industry to recover across the country, the difference between the selling price and the total cost of building the house is so great, costs have to be reduced or prices need to rise. As development becomes a viable business proposition, so the shortage of sites will become an issue." (Developer)
- "We need to look at the supply of apprentices and professionals, to make sure we have the capacity and skills to deliver for the public." (Contractor)
- "Planning red-tape and delays in planning decisions are holding up the supply of property onto the market." (Real estate agent)
- "Opportunities will come when we see bank disposal of sites, and bank portfolio sales." (Developer)
- "Recognition by Government of the inter-connectivity of construction and the jobs market is a positive one. The Action Plan for Jobs should help reiterate the importance of development in kick-starting and maintaining economic growth." (Developer)
- "There are limited growth opportunities until the planning system is freed-up and Government directs local authorities to be more commercial in dealing with landowners to getting zoned land to development stage." (Developer)
- "The market is strengthening and as we see more new buyers, we will also see the commencement of good refurbishment schemes." (Architect)
- "My business will return to growth rather than being reliant on "crisis revenue." This will help us invest for the future." (Architect)
- "Based outside of the Dublin area, I would be satisfied if we can keep consolidating properly, increasing production at a controllable level which we can finance." (Developer)
- "Build costs, and capacity within the construction sector to deliver are major challenges." (Developer)
- "This year, we are retaining staff by focusing on maintaining turnover." (Developer)
- "Need to reform cost of compliance with legislation and planning from a contracting perspective." (Contractor)

# IMPROVING CONSUMER SENTIMENT

**The outlook for the Irish residential property market is a lot more positive than it has been over the last seven years and while sentiment among potential buyers has also improved significantly, the market still faces a number of major challenges.**

**S**purred on by a pent-up demand for new housing stock, changing demographics and a more benign economic environment, the Irish residential property market is entering a new period of growth following a number of difficult years for the industry. While it is unlikely, nor desirable, that the market will return to the heady days of 2006/2007, most property analysts and experts agree that future growth in the market will be tempered by demand.

Not surprisingly, 78% of all respondents indicated Dublin as their preferred location to purchase a house while Cork (12%), Galway (8%) and Limerick (3%) were the next most sought-after locations. While Dublin does account for the lion's share of respondents to the survey, this is also in line with the actual demand in the capital. Indeed the Housing Agency has forecast that a minimum of 37,581 new units will be required in Dublin over the next five years with an immediate

## METHODOLOGY

The Sherry FitzGerald Property Sentiment survey was sent out to the Sherry FitzGerald Residential database of buyers around the country. The database included approximately 6,000 people in Dublin and 2,000 in Cork, Galway and Limerick. This database consists of buyers who are currently actively in the residential property market in Ireland. The overall response rate was 21% with approximately 78% or 1,122 coming from Dublin and the balance, 558, coming from Cork, Galway and Limerick.

requirement of 5,663 units by the end of 2014, rising to 8,970 units a year up until 2018.

First-time buyers account for almost half of the respondents to the survey and this is reflected in each of the four different geographic locations surveyed. In Galway, for example, 51% of the respondents indicated that they were first-time buyers while in Dublin, 47% of the respondents fell into the same category, followed by Limerick (46%) and Cork (43%).

Those trading up accounted for the next biggest cohort, a fact that is often overlooked in much of the national debate about the housing market. Around 23% of respondents in Dublin, for example wanted to trade up while this rises to 25% in Cork while it fell back to 16% in Limerick and 13% in Galway.

Another notable finding of the survey is the presence of investors in the market. In Limerick, for example, 16% of the respondents indicated that they were investors while this rose to 19% in Galway, falling to 11% in Cork and 9% in Dublin.

The survey also noted that 79% of the first-time buyers are currently living in rented accommodation while 16% of them were living with a relative.

In terms of buyers' expectations and the price brackets they fall into, almost 60% indicated that they were prepared to pay up to €350,000 while a further 27% fell into the €350,000-€549,000 bracket. Looking at the figures nationwide, it is evident that there are more buyers seeking properties in excess of €350,000 in Dublin than elsewhere. Some 52% of the sample in Dublin are looking in the €0-€350,000 price range while 31% are looking at paying between €350,000 and €549,000. This compares to Cork (19%), Galway (6%) and Limerick (3%). At the other end of the scale, some 4% of the respondents indicated that they were prepared to pay in excess of €750,000 for a house.

The survey also shows that almost three quarters of the respondents are looking to buy in the next six months. Looking back at the Sherry FitzGerald Property Sentiment Survey which was carried out in February 2012 when 40% said they were intending to purchase within the next six months, it becomes clear that not only has the level of demand increased, but so too has the urgency to buy.

In terms of house type, the majority of would-be buyers are looking for two/three bed houses. However, since the Property Sentiment survey of February 2012 the overall demand for two bed apartments has increased from 9% to 12%. This can be interpreted as a growing realisation that the ability to find a two/three

**"79% of the first-time buyers are currently living in rented accommodation while 16% of them were living with a relative."**



## ► AIB/SHERRY FITZGERALD NEW HOMES SENTIMENT SURVEY

bed house as a first home is not realistic while it is also reflective of the increasing investor and trade down buyer interest in the market.

Previous research carried out by Sherry FitzGerald would indicate that the first-time buyers, who are now older in age profile, were looking for two/three bed houses as many of them had either skipped the 'apartment stage', as a first-time buyer, or had lived in rented accommodation and now wanted to buy a 'house'. Given the lack of supply and with prices for existing houses on the increase, there is evidence that some buyers are considering all their options, including the possibility of apartment living.

On the supply side the research shows that overall 47% of the respondents feel the availability of houses is decreasing. The supply side pressure is even more evident among first-time buyers with 55% of them believing that stock is actually decreasing. By location it is clearly evident that the perception of availability of stock is tightest in Dublin with 51% saying stock is decreasing and a further 31% believing that it is staying the same. Galway is quite similar followed by Cork, and in Limerick the highest proportion at 55% feel stock is remaining the same.

In terms of prices, overall almost 80% feel prices are increasing and a further 12% say they are staying the same. Looking at Dublin, 84% feel that prices are increasing. Again, if you compare this to Property Sentiment survey February 2012, when overall only 1.5% thought prices were increasing, it shows a marked change in sentiment overall.

Not surprisingly, location is deemed to be the most important factor in selecting a property. Listed next is safety/security followed by the desire for a private garden. Accessibility, which is similar to location, is clearly of relative importance also. Obviously, criteria change depending on status and accessibility of schools is not as important to those trading down.

In terms of property sentiment, almost 80% feel that there are not enough properties in their price range and almost 60% say there are not enough in their preferred location. There is also broad agreement that 'there are no new properties coming on' and not enough 'that suit our needs', and also 'there are too many buyers chasing the same property'. When you look at this by location, 80% of those in Dublin feel there are too many buyers chasing the same property.

When asked if they believed the country's mortgage providers were lending, only 29% said no. It is also interesting to note that the figure is higher in Dublin than in the other locations with 43% of the Dublin respondents feeling that the country's banks are actually lending.

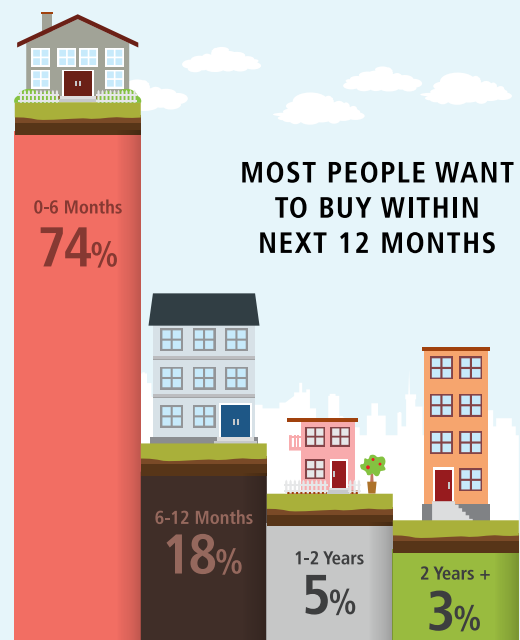
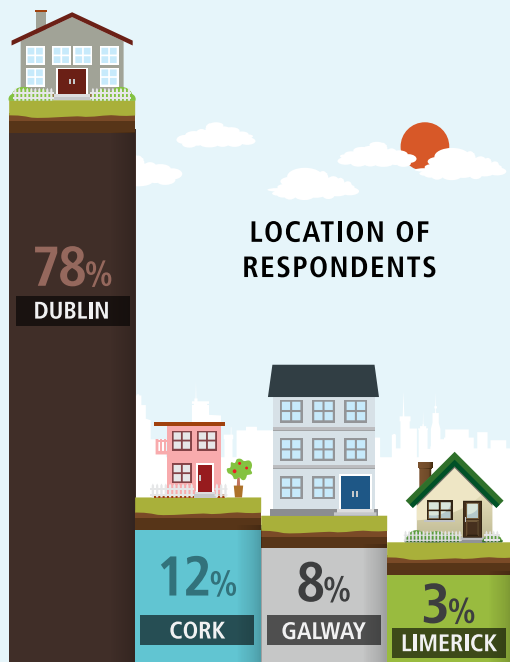
When it comes to choosing a residential mortgage provider, the issue of interest rates was the most important, followed by customer service, the time it takes to gain approval and the loan-to-value ratio that determines how much they can borrow. The existing customer relationship is the least important variable which shows that people are indeed shopping around for a mortgage.

The survey also highlights the fact that many people feel that the banks are right to be cautious and that the process is fair and efficient, while the amount of detail required was reasonable. However, people still feel it should be easier to get a mortgage!

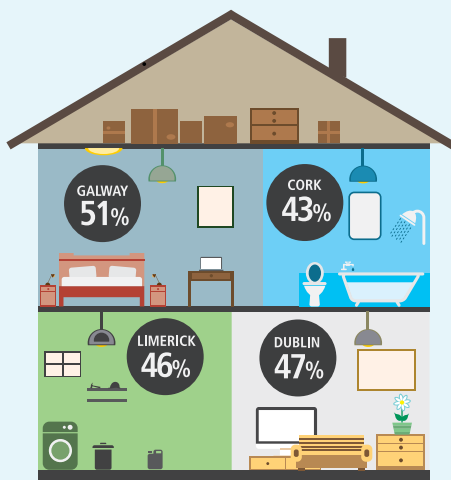
Finally in terms of overall sentiment, 73% in this Property sentiment survey agreed that Irish people will always want to own their own home, compared to 62% in February 2012. ●



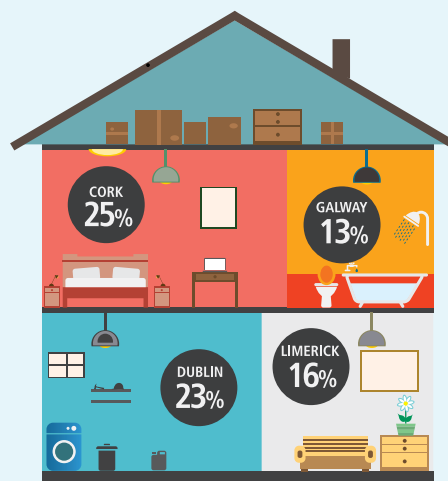
# THE RESIDENTIAL PROPERTY SECTOR



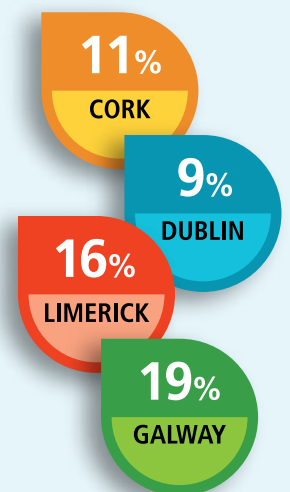
## FIRST TIME BUYERS DRIVING DEMAND IN THESE CITIES ...



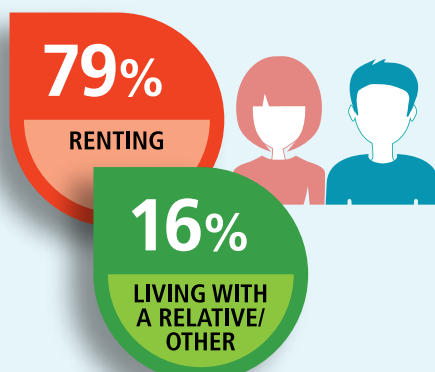
## ... BUT DEMAND IS ALSO COMING FROM PEOPLE WANTING TO TRADE UP



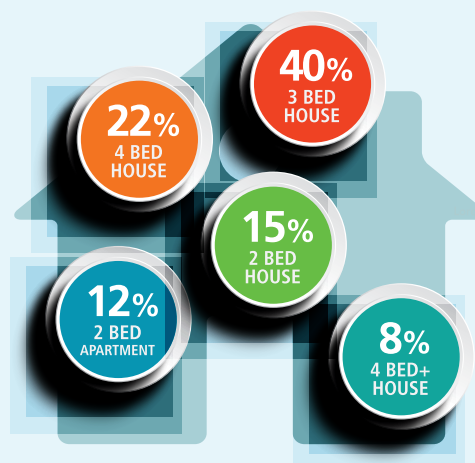
## ... WHILE INVESTORS ARE ALSO LOOKING TO BUY



## THE MAJORITY OF FIRST TIME BUYERS ARE ...



## TYPES OF PROPERTY IN DEMAND



## BUT PRICE EXPECTATIONS/BUDGETS ARE CONSTRAINED



• €0-350K	59%
• €350K-549K	27%
• €550K-749K	8%
• €750K	5%

# STABILITY RETURNS

**Notwithstanding the shortage of housing stock in key areas, a degree of stability has returned to the Irish residential property market, writes Marian Finnegan, Chief Economist, Sherry FitzGerald Group.**

After six turbulent years there is now increasing evidence of stability in the Irish housing market. Looking back on 2013, there is no doubt that it was a game-changing year for the Irish property market. The year began with a sense of cautious optimism but that gained considerable momentum as the year progressed. This trend continued to gather pace in the opening months of 2014 and is reflected in the results of the price barometer for the opening quarter.

The Sherry FitzGerald barometer reveals that the average value of residential property in Ireland

rose by 5% in the first quarter of 2014; this follows annual growth of 9.2% in 2013. Notably Dublin house prices rose by 6.5% in the first quarter of the year, following growth of 14.1% in the 12 months to the end of December 2013. That said, when Dublin is excluded from the national figure, the quarterly growth figure was 3%. The regional centres also experienced upward price movement during the first three months of the year, with positive quarterly price growth apparent in Wicklow, Kildare and Louth also.

When reviewing the performance of the market in terms of price it is important to

note the supply side influence in this strength of price growth. Approximately 30,000 properties sold in Ireland in 2013, a figure that represents 1.6% of private housing stock. Such a level of activity is low by either historical or international comparisons. As such the recovery in the housing market is not so much a story of a rapid growth in demand, rather it is one of a dysfunctional supply side response to a recovery in demand.

The topic of housing supply is the focus of considerable debate, with much discussion on the decreasing stock of property for sale in the market.

The results of the Sherry FitzGerald bi-annual census of the stock of available property for sale in the second hand market reveals a further tightening of the supply of property in most locations nationwide.

In January 2014, the total stock of available property for sale in the second hand market nationwide stood at 37,883 units. This represents a decrease of 14,649 units, or 28%, since January 2013. The overall market figure represents a housing stock market availability of 2.1% of our overall private housing stock.

Most notably, there were only 3,025 units advertised for sale in the Dublin region. This represents



MARIAN FINNEGAN

a 53% fall in the 12 months to January 2014, compared with a 4.4% reduction in the 12 months previous. Significant decreases were also evident in Galway and Cork of 32% and 33%, respectively. Limerick saw a more modest fall in stock available for sale, 5%.

Moreover, by subdividing out the cities from the county data in the regional centres, it is noteworthy that the proportion of stock available for sale in Cork city has decreased by 35%, while the volume of stock available for sale in Galway city has fallen significantly by 50%.

Some of the Dublin commuter counties have also witnessed notable reductions in the proportion of available property for sale in the market. Wicklow fell by 40% in the year to January 2014, compared with an

County	% of Second Hand Private Stock Advertised for Sale Jan 2014	County	% of Second Hand Private Stock Advertised for Sale Jan 2014
Dublin City	0.5%	Clare	2.3%
Dun Laoghaire-Rathdown	0.7%	Cork County	2.4%
South Dublin	0.7%	Longford	2.6%
Fingal	0.8%	Westmeath	2.7%
Galway City	0.9%	Limerick City	2.7%
Kildare	1.2%	Wexford	2.7%
Meath	1.4%	Tipperary	2.9%
Cork City	1.5%	Limerick County	2.8%
Kilkenny	1.8%	Sligo	3.1%
Donegal	1.8%	Waterford	3.1%
Wicklow	1.9%	Galway County	3.1%
Laois	2.1%	Leitrim	3.8%
Offaly	2.1%	Kerry	4.1%
Louth	2.2%	Mayo	4.1%
Monaghan	2.2%	Roscommon	4.7%
Carlow	2.2%	Cavan	4.8%

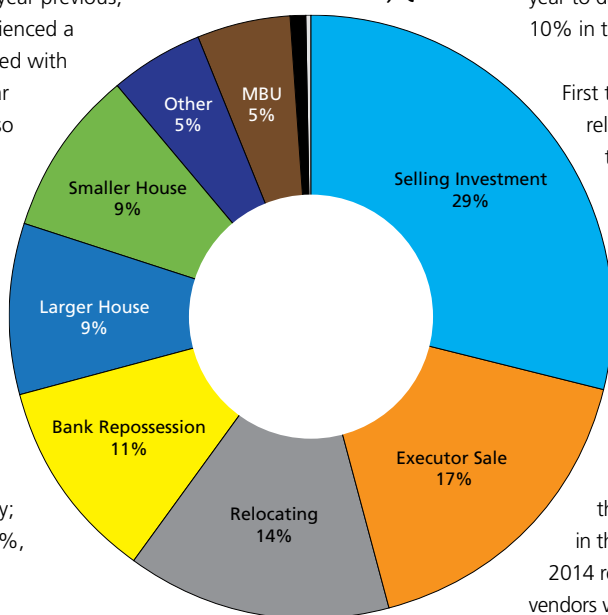
8.5% increase the year previous; while Kildare experienced a 48% drop, compared with a 9.5% rise the year previous. Meath also saw a further 23% reduction in stock, after a 20.9% fall in the previous 12 months.

Other notable reductions in the volume of stock available for sale took place in Kerry, Longford and Offaly; 82%, 49% and 42%, respectively.

Notably, just 0.6% of the Dublin private housing market is currently available for sale. This is incredibly low by either historical or comparable levels. Both Cork and Galway also suffered from a shortage of property for sale, with only 1.5% of Cork city private properties advertised for sale and only 0.9% of Galway city's private housing stock advertised for sale in January 2014.

This reduction in the quantity of property available for sale is undoubtedly the single greatest

## VENDOR ANALYSIS, Q1 2014



SOURCE: SHERRY FITZGERALD RESEARCH

factor driving price performance in the local property markets.

An analysis of transactions nationwide that closed during the opening quarter of 2014 reveals that 74% of the second hand homes sold through Sherry FitzGerald were purchased by owner occupiers; this compares to 83% in the same period in 2013.

Notably, investors bought 19% of the properties transacted in the

year to date; this compares with 10% in the same period in 2013.

First time buyers remain a relatively active cohort in the market accounting for 21% of the properties traded in the three month period; this compares with 25% in the same period last year.

An analysis of the profile of vendors who sold their property through Sherry FitzGerald in the opening quarter of 2014 revealed that 29% of vendors were selling investment properties; this remained stable year on year. Executor sales accounted for 17% of the market, while 14% of vendors were selling for relocation purposes.

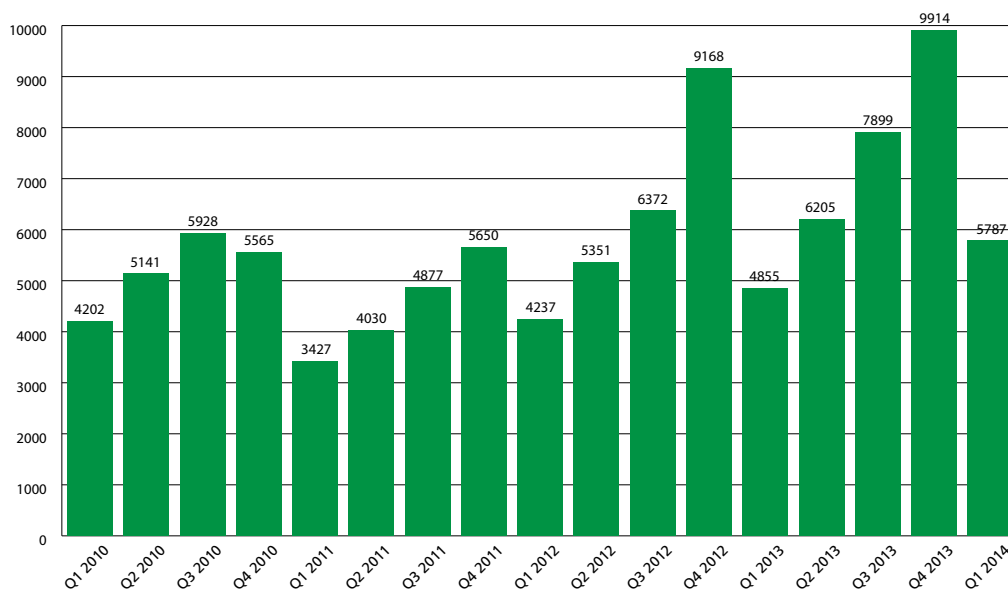
Upon examination of transaction activity in the market, there was a notable reduction in the quantity of transactions closed in the opening three months of 2014 when compared with the final quarter of 2013, with 5,787 deals transacting in the quarter. That said, these figures are

preliminary and are expected to increase significantly as the year progresses. It is also worth noting that the volume of transactions recorded to date in the first quarter of 2014 has risen by 19.2% when compared with the same period in 2013.

A total of 1,855 properties transacted in the Dublin region in Q1 2014, accounting for 32% of total transactions in the period. In comparison, 1,572 transactions were recorded in the same period in 2013, representing an 18% increase on transaction levels year on year.

Looking to the future, it seems likely that without a notable increase in the supply of properties to the market, price inflation in both Dublin and indeed all of Ireland will exceed levels achieved in 2013. That said, it is early days and supply traditionally increases in the post-Easter market. A notable increase in supply, in any location, has the potential to moderate current price trends in the months ahead. Outside the regional centres, current forecasts would suggest that 2014 will be a year of stability after six years of price deflation. ●

## VOLUME OF TRANSACTIONS – NATIONAL



SOURCE: PROPERTY PRICE REGISTER

"First time buyers remain a relatively active cohort in the market."



# THE OUTLOOK FOR HOME BUYERS

**As a key player in the Irish residential mortgage market, AIB has developed deep insights into the market as well as a number of customer-focussed solutions writes Jim O’Keeffe, Head of Mortgages, AIB.**

**T**he Irish residential property market has continued to improve over the last 12 months against the backdrop of stabilising economic conditions and improving consumer sentiment.

This, in turn, has led to a modest recovery in the mortgage market and 2013 concluded with over €3.1 billion in mortgage approvals in and €2.5 billion in market drawdowns. While this is some way off the peak years when we saw mortgage lending in the region of €40 billion, the general consensus now is that a normalised mortgage market where there is access to new housing supply would be closer to €7-€8 billion a year. However, we are still a long way off the type of housing supply required to support this level of mortgage lending.

The decline in housing output appears to have levelled off with total completions last year of 8,300 units versus 8,488 units recorded in 2012. This represents a fall of just over 2% compared to declines of 28% and 19% in 2011 and 2012 respectively. Meanwhile survey data such as the construction PMI are also supporting a pick up in residential construction.

Although house building is showing signs of recovery the reality is that the current levels of output are well below the household formation requirements. AIB estimates potential housing demand at 20,000 units per annum which means that a significant increase in housing output over the coming years will be required to bridge the current demand versus supply gap.

The combination of supply issues and stronger employment growth in Dublin in particular has resulted in a marked increase in property prices particularly in the greater Dublin area with a strong demand for three-four bedroom family homes in established locations and this is borne out in the findings of the Sherry Fitzgerald research for this publication.

Residential property prices, as measured by the CSO, ended 2013 with prices up 6.4% compared to a year earlier. However the real underlying story is that the two-speed property market which has emerged in the country with Dublin prices up 18% from their trough whereas the rest of the country (excluding Dublin) are up just 3.6%.

From AIB’s perspective, we have maintained our position as market leader with over 40% share in sanction activity over 2013. A significant pipeline of sanctions in principle has carried over into 2014, where the customer is fully approved, having the affordability for the mortgage but is awaiting a suitable property. We estimate that this pipeline of activity roughly equates to our lending for two quarters.



JIM O’KEEFFE

## **Economic backdrop improving:**

Recent data on the Irish housing market suggest that the market may be stabilising. House prices, rents, transactions and construction activity are either stabilising or improving. At the same time, there are increasing signs that the downturn in the domestic economy may have bottomed out, with improving labour market data, including strong job growth, providing a more supportive backdrop for the housing market going forward.

## **House prices and rental yields trending upwards:**

The CSO House Price Index for February 2014 continues to show a further overall increase in property prices nationally by 8.1%. In Dublin, residential properties dipped

**“The combination of supply issues and stronger employment growth in Dublin in particular has resulted in a marked increase in property prices particularly in the greater Dublin area.”**



slightly by 0.6% in February however were 13.3% higher than a year ago. In contrast, there was a 0.9% increase in residential properties outside Dublin (4.2% higher than February 2013).

Although prices have clearly stabilised, there is no doubt that a two-tier recovery is evident, with Dublin and other larger urban centres leading the way. Nationally, the price fall from the peak is now 47%, with Dublin at 50%.

The evidence of stock shortages (in terms of houses in particular) in Dublin and some other urban regions has resulted in an expansion of the rental market and upward price pressure also (17% off their lows).

**Cash Buyers:** We have a significant amount of evidence of the number of cash buyers currently in the residential property market with a range of 30% to 40%. In recent months,

it appears that many of these seem to be international and institutional buyers or ex-pats who see value in the current market. It has been a challenge for our mortgage customers as very often a seller will opt for the cash buyer over a mortgage buyer and this has again impacted our ability to actually drawdown mortgages for the customers we have approved.

**Buyer/Seller profile:** Buyers continue to be dominated by those purchasing a primary home, mainly first-time buyers but also by people on the move, whether they are trading up or down. Investors, meanwhile, are starting to make their presence felt again but this is coming from a very low base. A significant number of vendors are either executor sales or investors.

#### 2014 Outlook

AIB is optimistic that the market will continue to stabilise and grow. As we undertake

customer mortgage seminars throughout the country, we are evidencing a growing confidence among those interested in buying a home and this is further supported by the increased number of mortgage lenders re-entering the market. Supply of suitable stock will remain a stumbling block in the short term and a continuation of current price trends in Dublin may lead to affordability issues in some cases. First Time buyers will continue to be the largest purchasing segment but we expect increased activity in both the Mover and Investor markets.

#### AIB in the Mortgage Market

AIB continues to be very active in the mortgage market and has had an average market share of circa 40% in drawdowns over the past two years. EBS, which is owned by AIB, is also fully re-engaged while Haven has re-established itself in the intermediary market.

We operate throughout our full AIB and EBS network of offices, with fully-trained mortgage coordinators in all outlets, in addition to our direct banking and broker channels. Both the bank's credit criteria and pricing are highly competitive across all customer and product segments. ●

Lending criteria, terms and conditions apply. Allied Irish Banks, p.l.c. is an authorised agent and servicer of AIB Mortgage Bank in relation to origination and servicing of mortgage loans and mortgages. AIB Mortgage Bank is regulated by the Central Bank of Ireland. Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland.

Allied Irish Banks, p.l.c. and AIB Mortgage Bank subscribe to the Voluntary Code of Conduct on pre-contractual information for home loans. A copy of the Code is available on request.

# A BLUEPRINT FOR CHANGE

**The results of the AIB/PII Survey of companies operating in the Irish residential property industry reinforces the widely-held beliefs that the planning system in Ireland is in need of an overhaul, writes Dr. Peter Stafford, Director of Property Industry Ireland.**



DR. PETER STAFFORD

Many of the recommendations to Government made by PII in our reports “Planning a Better Future” (2012) and “Towards a National Property Strategy” (2013) have acquired a new urgency, given the shortage of residential houses in many key urban areas, and the importance of creating a functioning property sector that contributes to Ireland’s economic recovery.

On May 14th, the Government published its “Construction 2020” stimulus package. While the report contains important changes and recommendations, PII feels it misses some important opportunities to improve the supply of new property onto the market.

A key recommendation, put forward by PII, is for a renewed focus on the country’s inefficient planning system. As it currently exists, this is severely restricting the ability of the industry to grow and deliver the required level of housing that Ireland will require over the next 20 years.

PII believes that there is currently an over-supply of qualified planners in local planning authorities while at national level,

a very small number of qualified planners are endeavouring to undertake a large legislative reform programme including a review of the National Spatial Strategy and the National Development Plan.

In addition, it is the belief of PII that there is a lack of leadership in decision-making and accountability in planning. Currently decision-making, especially in relation to the provision of infrastructure, is fragmented between the local authorities and national departments and agencies. This lack of accountability, transparency and enforceable, statute-based deadlines for decisions by planning authorities and An Bord Pleanála adds uncertainty and ultimately increases the cost of property delivery.

PII would like to see strategic clarity, so that the local authorities are accountable for the implementation of development plans while An Bord Pleanála, and other agencies, are held responsible for making decisions within the periods that are set out in statute.

PII has recommended the setting up of a National Planning and

Development Board which would be made up of planners, economists and experienced international construction and property professionals who will provide a national supervisory role to local authorities in an attempt to streamline and harmonise planning processes and costs. It would also work with investors and developers to support the commencement of viable, sustainable projects that are in the national interest as well as working to overcome obstacles in a process that has clear timeframes, leadership and transparency.

PII also believes that the introduction of the Local Property Tax, as an income stream for local government, provides ample opportunities to review the development contributions and other charges which developers have to pay. In addition, there is a wide variation in policy, practice and procedure between local planning authorities in terms of costs, planning processes and levies. Uncertainty in terms of timetabling, sequencing and the basis for costs ultimately adds to the cost of delivery and erodes any savings that have been made to the cost of construction. It is now an opportune time to

evaluate the complete taxation of the delivery of property, to provide coherence across local authorities and transparency for developers, purchasers and consumers.

PII recommends the standardisation of planning fees and charges, as well as timetabling and administration through a centralised National Zoning Authority, working in tandem with a National Infrastructural Authority to centrally co-ordinate the planning and sequencing of the delivery of infrastructure. In addition the creation of a national Development Commissioner, to work with providers of strategic infrastructure, should be created to facilitate exemplar development and work to overcome obstacles to viable development.

In addition, PII believes that any gains that occur from rezoning and the provision/enhancement of infrastructure, are captured back from site owners by a combination of CGT “windfall” tax of 80%, Development Levies and Part V requirements. This is not a well thought-out system as the 80% tax acts as a serious





inhibitor to bringing viable sites forward for development.

One of the reasons for the increase in house prices and rents, particularly in urban areas, is the lack of provision of social, affordable accommodation as well as purpose-built student and active retirement accommodation. Ireland needs a supply of affordable housing not just for those who are less well-off, elderly or incapacitated but for its growing student population as well.

Government has recognised in Construction 2020 that the current Part V requirements are not delivering this accommodation in the way in which it was intended. However PII believes that there is potential for private pension funds to invest in social and affordable housing, including accommodation for elderly and actively retired people.

In addition as student population increases, an even greater demand will be placed on the private rental market which in turn will push up rents. Currently, planning processes and project financing requirements make it difficult to provide student term-time accommodation. PII believes that it would be a quick win for all the stakeholders to address the shortage of student accommodation and in doing so, it would go some way towards moderating rents.

However, teamwork is needed between universities, city councils and planning authorities to improve the planning requirements and therefore the financial viability of student accommodation and rental accommodation for post-graduates and visiting academics and their families.

As financial viability returns to many development projects,

PII also believes that there are opportunities to review the administrative provisions around them. While new mortgage products are becoming available, this is of little consequence if there are no new properties for purchasers. PII believes that there are opportunities to create a new form of deposit guarantee scheme through which the purchaser pays the developer on

a staged payment process. This would assist in the cash-flow of projects, improving their financial viability and speeding the process of delivery. The conveyancing process for supply of bridging finance should be reviewed as the current process is inefficient, especially for those who are seeking to downsize, thus further tightening the stock of available property. ●

A key recommendation, put forward by PII, is for a renewed focus on the country's inefficient planning system. As it currently exists, this is severely restricting the ability of the industry to grow and deliver the required level of housing that Ireland will require over the next 20 years.



# PLANNING FOR CHANGE

**If the Irish construction and property market is to grow and develop a sustainable long-term future with substantial employment potential, the whole Irish planning system needs a major overhaul according to Tom Phillips, one of the country's top planning consultants.**

This year marks the 50th anniversary of the Local Government (Planning & Development) Act which was enacted in October 1964. Although amended on several occasions, the Act has remained largely intact since it entered the statute books 50 years ago. While it might have been fit for purpose in 1960s Ireland, there is a general consensus within the wider construction industry that it's now time to revisit it with a view to implementing a major overhaul of how planning is managed and executed throughout Ireland, according to Tom Phillips, the well-known chartered town planner and urban designer who heads up the Dublin-based town planning consultancy Tom Phillips + Associates and is a director of Property Industry Ireland.

While the existing planning regime is inherently a good system, there are many aspects of it that could be improved with nothing that can't be overcome if the various stakeholders embrace change on a number of key fronts. There are many things wrong with the planning system in Ireland, he says, but nothing that can't be overcome if the various stakeholders embrace change on a number of key fronts. One of the most pressing issues, however is the level of resources that is currently deployed within the



local authorities around the country, compared to those available to the Department of Environment, Community and Local Government.

"For a start, the Department of Environment is seriously under-resourced while certain local authorities are over-resourced. For example, there are just three planners working in the Department of Environment and yet there are 88 planning authorities around the country, few of which have less planners than the Department. That's just wrong," he says.

"The Planning Act will be 50 years old this year and I think there is a golden opportunity to use this anniversary to get our house in order on the planning front. In terms of providing adequate resources to implement the planning recommendations of the Mahon Tribunal – including the establishment of the office of the Planning Regulator – the

restrictions on staff redeployment posed by the Employment Control Framework needs to be addressed. It doesn't have to be about looking for new planners; it's about redeploying the existing ones, particularly into the Department of the Environment. As it stands, the Department planners are doing excellent work but they are totally and utterly overworked. Meanwhile you have a planning department in this country – Templemore Town Council Planning Department – which processed just six planning applications last year and just four the previous year. I recently worked it out that Ireland has a planning authority for every 52,000 people. That's crazy and simply wrong. I welcome the fact that the Government is committed to reducing that number to 31 in 2014 under its local government reform initiatives," he adds.

"With respect, there is a real lack of leadership in decision making as well as a lack of accountability in the current planning regime. Decision making is fragmented and often split between local authorities, Government departments and agencies. We need to see some strategic clarity and accountability when it comes to the implementation of development plans and that the various planning agencies, including An Bord Pleanála, are held accountable for making

decisions within the periods set out in statute," he says.

Another key issue, according to Phillips, is the need for planners to understand and take greater cognisance of the commercial viability of development and local area plans and how they can be reconciled with the commercial needs of the industry.

"There is no point in having a plan that isn't viable. And there are several examples, I would argue, of plans which are prepared by planners in local authorities who, with the greatest respect to them, either believe that it's not their duty or don't understand the viability of certain developments. A development might look fantastic on paper, but financially it may not stack up because there is no incentive for developers to do it and there is nothing in it for them. So why would they bother? The mind-set of a planner is not the mind-set of a developer. I would argue that there has to be a much more holistic approach to planning that takes into account the needs of a community, the needs of the developer, the requirements of financial institutions and the requirements of the planners. So I'm not looking for developers to dictate what they want in plans. But saying that if you zone land, set out financial contribution development levies



or if you set density targets for certain developments, everyone, including the planners, need to be mindful of all the financial implications. And if the financial implications render the development non-viable, then you shouldn't do the plan because it's a waste of everyone's time and you have to start all over again. We need viable planned development, not just planned development," he says.

The lack of consistency in terms of fees, processes and timetable for planning approvals among local authorities is also hampering the development and creating uncertainty within the industry, according to Phillips.

"In terms of planning applications, the first thing I think that they should do is introduce a zero-tolerance approach when it comes to the invalidation of planning applications. I can name two local authorities in this country out of the 88 that have records of invalidating over 30% of all the applications they receive. How can that be? It's a single piece of legislation, 88 authorities and yet you have diametrically opposed planners interpreting the same piece of legislation. So why isn't there a situation, that, every application

that is to be made is assessed at the desk by a planner and they say, well 'that's valid or invalid', and if it's invalid, you don't even lodge it. These are situations where people actually go to the trouble of lodging an application and then it's invalidated and it can be several weeks before they are informed that it has been invalidated. So, I have a big issue about invalidation. In 2013, roughly 16% of all applications nationally were invalidated—that's almost 3,600 applications wasted. If these were hospital statistics, there would be a national outcry," he adds.

A greater working relationship between planners and developers is also needed, says Phillips.

"There is a lack of trust between the private and public sectors that has broken down over the last 10 years or so, but the reality is we both need each other. So some of the barriers need to be broken down. The Planning for a Better Future document, which was published by Property Industry Ireland led to great debate and was a good example of two sides coming together and saying, 'listen we have got some of the knowledge and expertise, let's give you our opinion and let's try and work together.

All of Tom Phillips' concerns lead to the conclusion that Ireland needs a national property strategy and one which is reviewed constantly. In addition, the establishment of a National Development Board is equally important.

"Property Industry Ireland has been pushing for a National Property Strategy, for the last two or three years and for the setting up of a National Development Board. We really do need a plan in this country and one that can be the best in the world and capable of planning for the needs of the country for the next 15 or 20 years."

"I do believe we have the collective resources and determination to change the planning system in Ireland and, to its credit, the Government is doing its bit but I also think that we need to think a bit smarter and approach it more holistically. For example, the Government

and the various county managers could agree to deploy 20 planners from the planning system and second them for, say 200 days, to carry out a thorough review of the planning system in Ireland.

These planners could come from any number of different local authorities around the country and they could also decide whether or not they want to bring in people like myself or other industry professionals to help. We could then do a thorough brainstorm about what's wrong with the system for the first 100 days. Then they could spend the next 100 days working out what has to be done and develop a framework that would create a world-class planning system in Ireland. Some people might say this is totally unrealistic and pie-in-the-sky but it's not; it's a simple solution to what is a difficult problem and if we don't address it, we will be still talking about it again in another 50 years." ●

**"The Planning Act will be 50 years old this year and I think there is a golden opportunity to use this anniversary to get our house in order on the planning front."**

# FAIL TO PLAN, PLAN TO

**The Irish Construction industry needs a long-term development plan if Ireland is to house its growing population and avoid the mistakes of the past, according to Mark FitzGerald, CEO Sherry FitzGerald Group.**

**"S**peaking about Ireland back in 1945, the Irish economist and statistician Dr Roy Geary said 'the country is badly in need of a lead in demographic policy.' Sixty nine years later, we could say the same," says Mark FitzGerald, CEO of Sherry FitzGerald Group and a Director of Property Industry Ireland.

Geary, who later went on to establish the Central Statistics Office and the Economic and Social Research Institute (ESRI) in the 1960s, may have been way ahead of his time but the general consensus within the Irish property industry is that his vision is long overdue.

"The question has to be asked – how do we plan and organise ourselves in society? We are a small country with 1.65 million dwellings. According to the ESRI, our likely requirement by the middle of the next decade will be for close to two million dwellings, so how do we manage this growth and ensure that we have a coherent construction programme to deal with these changing demographics but also

one that is in the best interests of society and its citizens? It's going to be a challenge but one that is not beyond our reach if we take appropriate action," says FitzGerald.

"The reality is that the digital world is bringing people closer and closer together. Communication is instant, our road infrastructure in Ireland has improved dramatically, everything is nearer and our cities are more connected than ever before. So we do need a national property strategy and we need a connective cities strategy if we are going to carefully manage the changes that lie ahead, not just in terms of demographics but also in terms of how businesses grow and what kind of society and environment we want to create for future generations. Because what's actually happening, particularly in the modern world is that our cities are growing much quicker than ever before and businesses, to a large extent, are driving the pace of cities. So it's important that we try and manage and plan for this growth and there's never been a better time to try

and achieve this than now, given that we've learned many lessons over the past eight years," says FitzGerald.

"So what's needed is a long-term plan that's based on evidential data with the objective of implementing social and economic policy but it should also be in keeping with a vision of an entrepreneurial and fair society that is in tune with the digital world. While the plan should be long-term, the first strand of it should address the more immediate future up to, say the end of 2017, because the shortage of housing in key areas is not going to decrease unless we take decisive action. We are three years behind where we should be."

Some of the more immediate low-hanging fruit includes the development of more student accommodation, particularly in Dublin, he says.

"I think one of the key priorities for the Government at the moment should be the whole area of student accommodation and it would be a quick win for all concerned as it would ease the pressure in the market. There's a shortage of around 6,000 bed spaces in Dublin alone and all the main third-level colleges are looking for sites. It would help our universities and it would also help our young people, who are already under

enough pressure. The most important point, however, in terms of real estate, is that it takes the pressure off the main property market and helps moderate rents. If you moderate rents, you moderate house prices and you have a more sustainable market with fewer surprises hiding around the corner," he says.

"Of course the whole issue of both local authority levies and VAT needs to be urgently considered. In Britain there is no VAT on new housing, so maybe there is a case for something like that in Ireland, certainly in the short term, as it could make building viable. At the moment, the VAT issue is impacting, in particular, on the overall viability of student accommodation and it would certainly be a win-win situation for everybody if we can get it right," he adds.

"There are also the thorny issues of Part V and windfall tax. Actual building has to be made profitable again and the irony is that housing shortages push up the price of land, whereas it's better for society that the profit is weighted as much on the building process as on the land. Doing it the right way, the individual gets the house, society gets a community and the providing company gets a decent, but not necessarily excessive, return. Risk needs to be rewarded to make things happen. Some

"The reality is that the digital world is bringing people closer and closer together."

# FAIL

legislation can have unintended consequences and not be in the common good, though I do acknowledge the motivation behind some of the legislation I've mentioned may have been well motivated and in part a response to the biggest property crash in post war Europe."

As the Sherry FitzGerald Sentiment Survey for this Outlook Report shows, demand for three to four bedroom houses in key cities is considerable but there are other areas that also need to be looked at, says FitzGerald.

"We are not building enough three bedroom houses and it's clear that the demand is there from the survey but they are not the only type of dwelling we need to build. We still need to build apartments in certain locations but also listen to what consumers want and what is therefore viable, and balance that with taking an 80 – 100 year view of what's right for our cities. Additionally, we need a new approach to open space and how it functions within communities. People are not necessarily looking for the sort of sterile open space that you can see dotted around many towns and cities with windswept football pitches.

It's our duty to ensure that we can house our people first and foremost so we have got to use our land more efficiently and yes it should be possible to have



MARK FITZGERALD

relatively high density, cleverly executed, but don't pack it all into apartment blocks in the suburbs that nobody wants to live in. The reality is that the majority of people in suburbs want to live in houses not apartments, but it's not an all or nothing debate. Of course there will always be a requirement for apartments in suburbs but apartment development should primarily be focussed in city centres," he says.

The often contentious issue of rising house prices, particularly in Dublin, is something that the market can do very little about until the supply issue is addressed, according to FitzGerald.

"What we need to do is ensure that the supply is there to meet the demand. In the case of Dublin, for example, there should always be 1,000 to 2,000 more new units around the city and county than there

is demand for. Again this helps moderate rents and goes some way towards keeping a lid on prices. So what's happening in Dublin is that we are probably 7,000 – 8,000 dwellings behind where we should be and prices are going up because there is a shortage of housing. But it doesn't have to be that way," he adds.

The issue of negative equity also looms large in many households around the country with many people unable to contemplate a move until the value of their property increases.

"Negative equity is a big issue, yes. What we have here is a generation of people between 35 and 45, many of whom have children and growing financial demands, and they are left with negative equity. And while a market recovery will help some of them, it may not help all of them and of course it's a long sentence to get out of. But the

"What we need to do is ensure that the supply is there to meet the demand."

other side of the coin is that there is a generation of people behind them, maybe the younger sisters or cousins, who have no borrowings and can now buy property a lot cheaper than it was eight or nine years ago as it is a lot more affordable. So the eldest sister may be in trouble or in negative equity, but the younger brother may have a great opportunity. It's the way the market operates whether or not we like it, which is not always fair," he says.

"Yes, of course, there's lots of things wrong with the housing market but we won't get them right until we actually do something about it. A national strategy will help us greatly in overcoming some of the real or perceived inequities in the market and also help us provide a proper and decent response to the social housing crisis. More fundamentally, however, it will allow us plan for the future and give future generations some sense of security. Unfortunately at the moment the private sector is mistrusting of the public sector and the public sector mistrusts the private sector. In any crisis these views tend to get accentuated. The reality is that both sectors need each other; they need to work together in an environment of mutual respect and trust in the knowledge that they are doing something for the good of Ireland and its citizens," he concludes. ●



# THE NEED FOR INNOVATION

**A fall off in the number of people undertaking third-level construction-related courses between 2007 and 2011 could present some challenges for the construction sector over the coming years, according to Jerry Mehigan of the PII and Peter Flynn of Arup.**

In 2012, a Forfás report entitled "Ireland's Construction Sector: Outlook and Strategic Plan to 2015" noted that the future success of the Irish construction sector hinges not only on demand for new housing, offices and public infrastructural projects but also on its ability to embrace innovation and the many opportunities and challenges that are presented by the on-going evolution of the sector at a global level.

The report also noted that construction services and products are changing as the market responds to "influential drivers" like climate change and the green agenda; technological advances in materials and construction methods; developments in ICT and new ways of working as well as changing demographics and ultimately the requirements and increasingly sophisticated demands of the end-user – the consumer.

For the Irish construction sector this report poses challenges and opportunities in areas of skills and know-how, resources and planning.

According to Jerry Mehigan, a director of Property Industry Ireland and former chairman of leading international engineering, design and consultancy company Arup, the construction sector, including house building, tends to be conservative in its approach to innovation. However, he welcomes the recommendations



JERRY MEHIGAN

in the Forfás report for the setting up of a coordinated approach involving the public and private sector to improving innovation in the industry and he stresses the important role third-level education institutions have to play.

"Arguably one of the biggest changes within the industry in terms of innovation over the last number of years has been the whole move towards building information modelling or BIM as it's known in the industry," he says.

Peter Flynn, a director in Arup explains the intricacies of BIM. "In the olden days, we drew everything on drawing boards progressing to Autocad, which is basically a 2D way of showing something. With BIM, it's essentially a 3D technology that actually allows us draw something physically in space but it also allows us generate and manage data relating to the design which can then be shared in a collaborative environment with all the stakeholders in the building project."



PETER FLYNN

He points out that BIM has become a powerful tool in driving efficiencies and increased productivity in the wider construction industry and has been embraced by many Government agencies around the world which are stipulating that BIM must be used in the delivery of key public works projects.

"There is a big effort now to standardise it in the industry and this will enable architects, engineers, builders to work collaboratively and more efficiently," says Jerry Mehigan.

While Irish construction companies are slowly but surely embracing BIM, building materials companies have been a tad slower although organisations like the Construction IT Alliance (CITA) has championed the use of BIM within the industry by providing a number of workshops and training modules.

"We would obviously expect more widespread use of BIM and we think the State should be

taking a more proactive role, not only from stimulating its uptake across the sector but from the point of view of the benefits that can be derived from BIM by way of greater savings and increased efficiencies," he adds.

While a more widespread adoption of BIM is a challenge for the sector, so too is the possible brain-drain that the sector could be facing several years down the line.

The 2012 Forfás report noted that over the period of the construction boom, apprenticeship and undergraduate courses in construction related disciplines were high in demand and in many cases over-subscribed. That trend has been reversed and in 2011, when the last Census was undertaken, the number of students applying for construction-related courses in third-level colleges had collapsed by 42% between 2007 and 2011. Forfás also noted that that entrants to building and civil engineering courses, in particular, declined by over 95% between 2008 and 2011 while the numbers of students seeking to enrol in architectural and town planning courses in third level colleges fell by around 36% over the same period. Likewise the number of apprenticeship registrations for construction related trades dropped from 7,000 in 2005 to just 650 in 2011. While the ramifications of this decline may not be

immediately felt, it could pose a problem further down the line.

"The fall off in people entering architecture and engineering is a concern particularly if we don't have the quantity or quality of graduates in three or four years' time. When things went sour and a significant number of jobs were lost in the industry, I suppose you couldn't blame the brightest and the best students for considering alternatives. There are initiatives underway to try and encourage greater take-up among these professions, one of which is with Engineers Ireland which has a very good programme called STEPS to Engineering and is aimed at primary and secondary schools. Undoubtedly there are challenges," he says. "But I think the industry will overcome them."

"The Irish have the DNA for construction," adds Peter Flynn. "Irish professionals and companies are renowned all over the world in the construction sector and we have a number of very successful Irish people in the global industry. We always misuse that horrible, 'punch above our weight' description but it's true when it comes to construction. As construction becomes more technologically complex, it will become more important, that people are able to communicate with clients and we are natural communicators. A lot of good talent within the industry emigrated during the downturn and they are likely to be working in the industry in other countries, gaining plenty of experience which hopefully they can bring back to Ireland when and if they decide to return. A lot of these people are good at keeping in contact and they already know what's happening here at the moment and I think, at the first sign of things improving, they may, if they want to, come back and that will be good for the industry and society," he concludes. ●

# IMPROVING STANDARDS

**The enactment of the Building Control (Amendment) Act will go a long way in improving the standards in the Irish building industry, while at the same time providing a degree of comfort for consumers, writes Tony Reddy.**

Ever since the tragic Stardust disaster in 1981, successive Governments have attempted to grapple with the issue of implementing an effective building control system.

While the Building Control Act 1991 went some way towards providing an appropriate system, its shortcomings were exposed by pyrites and Priory Hall debacles.

The enactment of the Building Control Amendment Act 2013, which introduced strict new measures for the control of building projects, is a genuine attempt to provide consumers with the protection they need and deserve and they herald a new era in the evolution of building control regulation in Ireland.

The new regulations require the mandatory lodgement of design documents with local authorities, the signing of certificates of compliance by the designer prior to construction and by both the designer and the builder when construction is complete for all new buildings.

These requirements place additional responsibilities on both building professionals and contractors. In addition, all architects, engineers and builders will have to introduce new

procedures, particularly in relation to inspection of construction, to comply with their obligations under the new regulations.

Additional measures which the Minister for the Environment, Community and Local Government has indicated that he will examine include "a review of construction project-related insurance"; the implementation of a "voluntary scheme of registration for builders and contractors prior to transitioning to a statutory scheme over time" and measures to allow building control authorities to "concentrate on applying a risk-based approach to an inspection and compliance checking programme".

There is currently no statutory lodgement and approval system for building control regulations in Ireland, other than a statutory lodgement and approval system for Disability Access and Fire Safety Certificates. The Building Control Authorities (BCA) are expected to carry out between 12 -15% site inspections although few inspections or enforcement procedures by the BCAs have been carried out in recent years.

The Building Control (Amendment) Act involves a



TONY REDDY

number of significant initiatives including the introduction of statutory Certificates and a Code of Practice for design and construction and the requirement that from March 1st 2014 all building types, except for extensions to domestic dwellings of less than 40 sq metres, may only be designed and certified by a Registered Architect, Chartered Engineer and Chartered Building Surveyor.

The Act will require all building owners to give a written undertaking, on a statutory forms, to the Building Control Authority (BCA) to appoint a competent design team and a competent builder who will be responsible for the design and construction of the new building in accordance with the Building Regulations. In addition

building owners will also give a written undertaking to appoint a competent Assigned Certifier who will prepare an Inspection Plan, inspect and certify, with the Builder, that the new building, when complete, is built in accordance with the Building Regulations.

The Act also has a number of new changes that apply to builders and subcontractors. One of the main changes is the establishment, by the Construction Industry Federation, of a voluntary register of builders and sub-contractors. This voluntary register will have a code of practice, a sanctions procedure whereby builders can be struck off the register. It is also proposed that a Statutory Register of Builders is to be established in 2015.

Before commencing construction, a number of procedures have to be adhered to. First of all and 14-28 days before the construction of the building starts, the building's owner has to issue a statutory Commencement Notice to the Building Control Authority. With the Commencement Notice, the design team also issues a Statutory Certificate, with back up drawings and information, confirming the building is designed in compliance with the Building Regulations. In addition, the Assigned Certifier issues an Inspection Plan to the Building Control Authority. The builder will then sign and issue a Statutory Certificate confirming it will construct in accordance with the Building Regulations.

### THE COMMENCEMENT NOTICE

The Commencement Notice is submitted electronically, together with the drawings, specification, design philosophy, Fire Safety and Disability Access Certificates. The 34 Building Control Authorities will be centralised

for the purpose of the Act and a framework of standards will be provided as guidance on how Building Control will operate, with standardised procedures for all Authorities.

The BCA will then carry out a risk analysis/inspection of the design, inspection plan, and the builder. It may also seek additional information from the owner of the building, the design team, the assigned certifier and the builder.

The BCA can also devise inspection schedules when design, construction, materials, site location are identified as being problematic. If there are design changes during the construction process, these will be uploaded electronically to the BCA file on the building project, as the changes occur. Finalised design information can be lodged up to the completion stage with the BCA.

### THE ASSIGNED CERTIFIER

The role of the Assigned Certifier is also very clear under the Act. The Assigned Certifier will implement the inspection plan with the builder and will be responsible for collating certificates, sub-certificates, ancillary certificates, warranties and tests as set out in the inspection plan with the builder. The Assigned Certifier will respond to requests for additional information by the BCA.

Having collated all the required documentation and satisfied that the building is built in accordance with the Building Regulations, the Assigned Certifier and the builder co-sign the Statutory Completion Certificate and lodge it with the BCA, three to five weeks in advance of the completion date. For its part the BCA will review the Commencement submission, any additional information

submitted during the building process and the Completion Certificate by the Assigned Certifier. If it is satisfied that all is in order, it will register the building on the BCA register.

The various professional organisations in Ireland are active in supporting their members by developing a range of educational initiatives and the preparation of template agreements, ancillary certificates as well as drawing up inspection procedures.

### A CHANGED INDUSTRY

The new Building Control Regulations involve a new highly regularised and codified building control system which will provide a sequential system of statutory procedures, statutory certificates with standardised wording, for the building owner, the Design Team, the Assigned Certifier and Builder. It will, through the digital lodgement system, enable risk management of Commencement Notice submission, and subsequent requests for clarification information from the Design Team, or Builder, via the Assigned Certifier, by the Building Control Authority.

The correlation of the certification by all those involved in the design and construction of a building will ensure that the responsibility of all concerned will be recorded at the time of Completion Certification and a building will not be permitted to be occupied, used or rented, without the building being placed on the Building Control Authority Register.

The new regulations will improve standards in the building industry for both professional and building contractors. While the majority are law-abiding and honest, there will inevitably continue to be a small minority of unscrupulous or incompetent

individuals who will expose consumers to serious problems. Indeed the role of the BCAs in carrying out random inspections will be a critical element in achieving a successful system to protect consumers.

Although the new regulations provide clear lines of responsibility and liability, the reality is that those who are responsible for defects or other issues, may not be around when the problems occur. Unless the regulations are not augmented by the other recommended measures – in particular, an effective local authority building control system and mandatory latent defects insurance – then we will almost certainly experience further Priory Hall-like debacles.

The optimum way to minimise defects arising in construction, based on international best practice, is to prevent them occurring during the building process. This involves professionals and builders regularly inspecting work as it progresses and BCAs carrying out random inspections of design documentation and construction sites to police non-compliance. Such systems are particularly rigorously enforced in North America, demonstrate the prudent way to ensure that high standards are maintained.

It is critical therefore that the Department of Environment, Community and Local Government ensures that the other initiatives that have been suggested are implemented so that the new Irish regulations delivers a system that compares favourably with international best practice.

*Tony Reddy is Chairman of Reddy Architecture+Urbanism and a Director of Property Industry Ireland. ●*

# OPEN FOR BUSINESS

## AIB is keen to support the development and construction of new homes writes Mags Brennan, Head of Sectoral Strategy with AIB.

The banks in Ireland, including AIB, have been largely absent from the residential development market for a number of years, mainly because of a legacy over-exposure to the wider construction sector. Sector confidence, financial and demand issues have led to very little residential development in Ireland being completed over the past number of years leading to a shortage of housing in key urban areas.

AIB is keen to support the construction and supply of new homes in key urban areas and the bank recently launched a €350 million New Homes Development Fund in February of this year.

It is very important that we provide development and construction finance in a structured manner to ensure we manage the risk appropriately.

AIB will support experienced developers as borrowers, however the bank is also very much aware that there are some very experienced developers without the necessary equity finance available to support a proposed development in their own right and, therefore the bank will also support developers who have partnered with an equity source.

In terms of the type of finance available, AIB will support site loan and working capital / development finance. However, the bank will only support projects where there is clear evidence of buyer demand.

Currently, the bank's market research – which is also borne out by the findings of the Sherry Fitzgerald New Homes research for this Outlook Report – would suggest that there is proven demand in multiple locations within the greater Dublin area, some locations in Cork, Galway and Limerick. The majority of applications that the bank is currently reviewing or processing are for developments in the greater Dublin area. AIB has currently approved development finance for developers in North and South Dublin, Kildare and Wicklow.

AIB will currently support the construction of three-five bedroom homes in key urban areas.

In assessing any application for finance, it is important to note that sites will require planning permission. The bank is cognisant of the fact that certain planning permissions may require amendment for density etc, however in the

interests of ensuring key developments happen, we have provided approval based on existing planning which supports a certain level of housing development on the basis that additional funding is provided subject to change in planning for what might be a second phase.

Like most lending criteria, the project will require an element of equity support and the bank will take account of a contributed site in this calculation. Potential borrowers should expect to be asked for projected financial statements including cash-flows, in addition to a comprehensive sales and marketing plan.

Security will include full debenture over the borrower which will include a first fixed charge over the site and a floating charge over work-in-progress. Collateral warranties may also be required from sub-contractors and design teams as appropriate.

Upon approval the borrower should expect all the necessary legal documentation to be outsourced to an external solicitor and that the bank will nominate an independent monitor for all projects, who would be responsible for performing a review of the project as well as ongoing monitoring of the project on behalf of the bank.

In summary, the residential development market in Ireland is systemic to the Irish economy, providing jobs but also supporting jobs with housing. In addition to putting our €350 million New Homes Development Fund in place to support new housing development, AIB has a specialist team within the bank's Corporate Banking unit to deal with larger developments where the funding requirement is greater than €10 million, while it also has regional specialist business banking teams based in Dublin, Cork and Galway looking at deals less than €10 million. The relevant contact details are below:

### SUPPORTING THE HOUSING SECTOR

An example of a residential development deal approved by AIB Business Banking recently was the support of 112 new homes in Kildare. The bank provided both site and development finance. The development is being managed by an experienced developer in partnership with a third party equity source. The development, which will take 34 months to complete, will create much-needed construction jobs, will start in June 2014 and will be built in two phases to enable planning amendments. AIB is delighted to be supporting this development as it supports growing demand for new homes in the Kildare area which has been driven by the creation of new jobs by multinationals. This deal is a typical example of the types of deals that AIB will support but it should be noted that the bank has been approving and looking at development projects ranging from small developments in Dublin for 12 homes up to multi-year developments supporting hundreds of homes.

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# FOUNDATIONS FOR GROWTH

**The Irish construction industry may have taken a hit during the downturn but now the Construction Industry Federation is looking forward to better times, explains Hubert Fitzpatrick of the Construction Industry Federation.**

At the height of the boom back in 2006/2007, the Irish construction industry employed in the region of 280,000 people. Fast forward to 2014 and the industry now employs around 106,000 people but employment in the sector is on the increase with an additional 10,000 jobs expected to be created this year as the value of construction activity in Ireland grows by a forecasted €1 billion to €11 billion, according to the Construction Industry Federation.

Of course a lot has changed in the intervening period, says Hubert Fitzpatrick, Director of Housing, Planning and Development with the CIF. New house-building regulations and standards, changing demographics, a pent-up demand for new housing and the withdrawal of some key players from the market, will ensure that the industry faces significant, though not insurmountable, challenges over the coming years.

"The industry certainly has a lot less players in the market now than it did in 2007. A significant number of builders and contractors had their loans transferred to NAMA or went into liquidation in the intervening period. Some of those builders won't be coming back into business, but there are others who want to get back into business and others who have been building right throughout the downturn. The problem for some builders is that they may

have impaired balanced sheets and this is going to affect their ability to raise development facilities and to start construction and development. Certainly, the industry still has the capacity to build, but the scope for turning on the tap and delivering construction output at the scale required, having regard to the deficit in funding facilities required and planning/market related issues is not there," he says.

There are of course other impediments to growth and this, he adds, will have an impact on the supply of housing stock coming on stream over the next few years. "For example, significant tracks of land may be owned by various landowners who may be in financial difficulty where there may be complex arrangements in place, with different partners in different consortia with mixed ownership and funding schemes pertaining to various parcels of land. This will all have to be resolved, before some of those lands can be released for development.

"There are also still some infrastructure constraints in respective areas and these will also need to be resolved. But if you ask what's the one key impediment to actually getting new housing units commenced, then I would say it is in relation to the strategic sites, where high density development is sought, which requires a partnership approach between the owners and developers



and the local authorities. These new development areas, due to planning and funding constraints, will prove most problematic and will have a major bearing on how the market evolves in delivering the required level of new housing units over the next few years," he says.

The nature of the buyer has also changed in the intervening period and this too is putting pressure on the supply side of the market. "Back in 2006, people wanted to get a foot on the property ladder and many bought an apartment as a starter home. In many cases they hoped that the anticipated home price inflation would give them that cushion to trade up to an own door house. So now these people want to buy and want something that will meet their requirements for the longer term. The expectation is that they want to get their own front door. Purchasers' expectations today differ remarkably from those catered for by the planning policies that were developed back in the mid-2000s. In the longer term, the industry can only respond to what the market demands, and it is important that market demands and planning policies can be reconciled," he says.

While house prices may have fallen by as much as 60% since the heady days of 2006/2007, construction costs have not dropped by the same level, says Fitzpatrick.

"In fact materials, have continued to rise over the last couple of years while wage costs haven't changed significantly. The construction industry has been governed by a Registered Employment Agreement (REA) setting minimum wages and conditions for the sector.

The industry did negotiate a reduction in the REA rate by about 7.5%. However, the REAs



HUBERT FITZPATRICK

were declared unconstitutional by the Supreme Court about 12 months ago. Now, the industry is awaiting proposed legislation from Government in relation to how wage rates might be determined in the future. So input costs did not fall to the same extent as house and other property prices did. And it is now the case that it's often uneconomic to build as there is no margin available to the builder when one compares the existing sales price of new housing units to the all-inclusive build cost. The second-hand housing market, particularly in Dublin, has been performing reasonably well over the last 18 months. But the reality is that most builders would not have been able to build these kind of houses for the sales prices they have been achieving in the market. So when the margin isn't there, it is impossible for the industry to go out and build because it simply cannot be funded," he adds.

"However, if house price inflation is maintained, market values will bring us much closer to the point where we get supply and demand in equilibrium as new housing supply will kick back in when the sale price is at a level where the builder can recover his input costs and make a margin."

In addition, new building control regulations such as the Building Control (Amendment)

Regulations 2014, which became effective in March 2014 has increased the cost of compliance and oversight required for the construction process.

"Again all of these factors come at a cost. While the industry supports quality standards in house building and they are very important, there is a limit to which increased standards can be applied because the purchaser ultimately has to be able to pay for it. But yes, the cost of house building is still too high and in many cases, the various statutory costs and levies applicable around the country have not changed significantly since the downturn. These costs certainly don't reflect the reality of the current market. For example, the cost of the Part V levy for social and affordable housing can add up to €30,000 to each new housing unit, depending on the location and this is on top of the hefty development levies that the industry must contend with," he says.

According to the CIF, its members are anticipating the biggest demand for housing in the greater metropolitan areas such as the greater Dublin area, Galway and Cork. "Obviously every county is different. There is no shortage of housing supply in some counties while in the larger urban areas, there is an under-supply. This has to be addressed as quickly as possible as the population of these urban areas is continually increasing while a shortage of new housing accommodation is becoming

more evident. It's not just the CIF that is saying this. Estate agents, economists and more recently the Housing Agency have all highlighted the need for more new housing. The Housing Agency recently confirmed that an average minimum of 16,000 new housing units is required annually from 2014 to 2018. New housing supply in 2013 amounted to only 8,300 new units, with approximately 60% of these being one-off units," says Fitzpatrick.

With 134,000 fewer people working in the industry now, the CIF acknowledges that the industry must grow to effectively double its capacity to meet the requirements of a functioning economy.

"In some areas, additional up-skilling will be required. This will require a targeted response from training agencies but it's manageable. The industry was already highly skilled at the height of the boom but a lot of skilled people left the industry and left the country. I think that, over time, a lot of those highly skilled construction trades and professionals will return once they see the recovery is underway. Processes and building standards are subject to continuous change, and the requirement for updating the skills base can never be overlooked and must now be targeted for action. There are not many industries, where the general consensus is that three times more output is required," concludes Fitzpatrick. ●

"While house prices may have fallen by as much as 60% since the heady days of 2006/2007, construction costs have not dropped by the same level."

# DEVELOPING THROUGH THE DOWNTURN

**Despite the challenges facing the construction industry, Michael Pender is convinced that demand for housing has created opportunities for developers and banks with realistic expectations.**

As a shareholder and partner in the Galway-based Kenny's Commercial Holdings and the Model Investment Partnership, Michael Pender has a bird's eye view of the housing market in the west of Ireland. Between the various businesses he is involved with they have acquired lands, obtained planning permissions, developed, constructed and sold housing units across Co. Galway worth in excess of €250 million.

With a long track record in the business, he has also been involved in commercial projects in various locations in Galway city, as well as housing, industrial and commercial projects in Limerick, Cork and Dublin.

He explains that once it became clear that the property market had peaked in the second quarter of 2006, a policy of no new land-bank purchases was implemented and even shorter term development projects were shelved. Housing projects nearing completion were finished promptly so that they became saleable or rentable and projects that had planning permission were shelved or mothballed. On-site materials, plant and labour were reduced sharply.



MICHAEL PENDER

"There was a strong focus on cash-flow income generation through active management of the sales and business rental portfolio. Core staff were retained and a three-day week implemented so as to retain key skills, but redundancies were sadly inevitable. Monthly expenditures were analysed and reduced and some were then reduced again or even eliminated," he says.

The focus was on debt

reduction and servicing banking facilities and any tax refunds claimable were pursued by the business' tax advisors. Simultaneously the stakeholders were attempting to divide assets and debt on a regional basis. Debts to AIB were eventually purchased by NAMA, which has enabled Pender to explore other opportunities in the housebuilding/development sector and capitalise on the historic low cost of development land.

"The key challenge now for developers looking to activate the supply of new homes in the numbers required and to the required timelines is access to capital. Further challenges arise from the true cost of provision of required proportions of social and affordable housing and planning contributions levied by local authorities. In addition, planning authorities have insisted that developers build to a higher density to maximise the use of public infrastructure, but buyers





are generally seeking lower density, semi-detached three or four bedroomed houses."

The mortgage market is another challenge for developers, he says. However, he is encouraged by the return of demand to certain parts of Galway city, including the city centre, mature inner suburbs such as Salthill and Knocknacarra on the west as well as Roscam on the east of the city. Indeed Galway has been identified as one of the key urban areas where demand for housing is increasing by the Sherry FitzGerald Sentiment Survey for this Outlook Report, with first-time buyers, in particular, driving demand.

"The anticipated increase in value should provide the builder/investor with an equity platform from which to seek funding to supply housing product into a rising market. The key is a relatively low-cost base giving sufficient margin of comfort to the backers of the projects and their bank to take on the financial risks after careful prior appraisal."

Pender has been a customer of AIB for more than a quarter of a century and describes it as a constructive relationship.

"The bank put funding proposals to the test and, based on the results of their internal due diligence, have provided the appropriate facilities in a timely fashion in the agreed format. Sometimes variations were sought and the response has been generally supportive. On occasion, the business banking team has identified areas in a proposal that could be improved to achieve a more beneficial outcome and this type of constructive support is most welcome."

Such support was particularly helpful during the housing market downturn, even though the business had a strategic emergency plan in place and there were sufficient rental streams for its debt to be classified as performing.

"AIB renewed facilities when up for review after being provided

with detailed cash flow data. These renewals facilitated an orderly scaling back of operations commensurate with market place activity, which was reducing at a faster rate than either of us would have liked."

Pender says the rebuilding of the relationship between banks and builders, in general, is still in its infancy, with banks striving to tidy up historic debt recovery issues. However, he also observes that experienced builders and developers are the people with the skills to start meeting the pent-up demand for housing and increase supply to sustainable levels.

"Realistic lending terms need to be applied to the sector, acknowledging the general lack of equity in the housing sector," he concludes. "The difficulties which clearly exist in the present, under-supplied market place afford real opportunities for astute bankers who carefully select the people and projects to support and for shrewd and methodical investors." ●

"The anticipated increase in value should provide the builder/investor with an equity platform from which to seek funding to supply housing product into a rising market."



# SOCIALLY RESPONSIBLE

**With over 500 housing associations operating around the country, these not-for-profit organisations have now become an integral part of national housing policy. Simon Brooke from Clúid Housing explains.**

In the past, local authorities were the main providers of social housing in Ireland. However with capital spending on the provision of social housing cut by 85% between 2008 and 2013, housing associations, in partnership with local authorities, have stepped into the breach to address what is still a significant issue in the overall context of Ireland's housing needs.

According to Simon Brooke, Head of Policy at Clúid Housing Association, one of the largest housing associations in the country, there are around 90,000 people in Ireland who qualify for social housing.

"However, that figure needs to be qualified," he says. "What it actually means is that there are 90,000 households, who are eligible for social housing because their income is below a certain level and their housing is unsatisfactory in some way. If you look at these figures in more detail, up to 60,000 of them may be living in either good, or reasonably good, quality housing but can't afford it. And then

there are the 30,000 households with low income and whose housing is inadequate, for example because they are very overcrowded, or they have a disability, or their housing is sub-standard. So it's the 30,000 that we need to focus our immediate attention on and that is the big challenge for us and other housing associations around the country," he says.

"Unfortunately during the downturn, incomes dropped and many people found it difficult to afford their mortgages or their rents. So if incomes go down, then the demand for social housing goes up. However, at the same time as peoples' incomes were dropping, the supply side collapsed and this has exacerbated the problem. In 2007, for example, local authorities and housing associations bought or built 8,500 dwellings, but by the end of last year, that figure had collapsed to just less than 800 – a drop of more than 90%. So it's a big challenge," he says.

Since Clúid was set up in 1994, it has been responsible for providing 4,800 properties



to low income families and single people in need of housing all over Ireland. Brooke cites a recent example of how it works with local councils and, in this particular case, NAMA. A total of 35 new three and two bed roomed houses in Athy, Co. Kildare were recently provided to families that were on the social housing waiting list of Athy Town Council.

These houses were bought by Clúid from NAMA and were in unfinished areas of the Coneyboro estate. The transaction enabled NAMA to invest in completing the estate as well as allow the developer to complete outstanding works, including road and green areas. As part of the deal, Clúid paid NAMA €2.62 million, using a Government loan of 30% of the amount with the remaining 70% coming from private finance.

"It's a good example of how we work," he adds. "Last year we provided over 400 new dwellings. Some of them were leased, some of them were funded by borrowings. We then use income from rents and a government subsidy to service those borrowings. It's an achievement that we are proud of and while it's a very small contribution, it's still 400



households and we would hope to do better this year. The challenge is to make the new funding system work, so that we can produce more output," he says.

In the past, much housing association activity was funded by Government by way of the Capital Loan and Subsidy Scheme (CLSS). As central Government finances deteriorated, however, the funding model changed in 2011, and the CLSS was replaced with the Capital Advance Leasing Facility (CALF) and debt finance. CALF is essentially a Government loan that covers a maximum of 30% of the total funding required. In addition to this 30%, housing associations use a mixture of debt finance, mainly from the Housing Finance Agency, to fund the balance.

"Now that housing associations are a big part of the social housing landscape, we have to be a lot more creative in finding solutions not just in terms of finance and funding but also when it comes to dealing with our partners like the local authorities and also NAMA," says Brooke.

The issue of whether or not Part V of the Planning Development Act should remain an integral part of the Government's housing strategy is also a major concern for housing associations around the country. Under 'Part V', as it is widely known, up to 20% of all new housing developments can be reserved for social and affordable housing. While the general consensus within the industry is that it never really took off, Clúid believes that Part V, or whatever version of it exists in the future, should remain an important part of the Government's overall strategy for the Irish housing market.

"When house construction commences again, Part V, if it is retained, will have the potential to play a significant role in the provision of social housing," says Brooke. "A recent report from the Housing Agency estimates that an average of 16,000 new housing units will be required per year between 2014 and 2018 in urban areas. If 10% of new developments were reserved for social housing, this could generate up to 8,000 new social housing units during this period."

Brooke concludes, "Despite the challenging economic environment, Clúid is determined to continue to play a leading role in the provision of good quality affordable homes for people who need them." ●

# THE COMMUNITY BANK

**AIB will continue to play an active role in building communities across Ireland by supporting a range of progressive initiatives that will strengthen the social and economic fabric of Ireland, writes Mags Brennan, Head of Sectoral Strategy with AIB.**

**A**IB has always prided itself on being a Community Bank and has always looked to make a positive contribution to the communities in which we and our customers operate. The bank's involvement with communities around the country has extended way beyond its banking remit and it has established a culture of encouraging staff to actively support and participate in a wide variety of groups in communities the length and breadth of the country. More direct support in the form of sponsorship can be seen in the bank's long-standing sponsorship of the GAA Club Championships, which reaches into many towns and villages throughout Ireland.

I believe we need to turn the Community Bank concept on its head and look at how we can ensure that AIB's banking activities, specifically finance of new housing development, supports the building of new communities and as well as rebuilding where appropriate, existing communities.

During the 'Celtic Tiger' new home developments were often driven by tax



MAGS BRENNAN

incentives and sometimes with not enough thought for community planning or building to the highest standards. As a result we have ended up with an over-supply of housing in certain locations and an under-supply in urban areas where the population was growing. Unfortunately, some of the over-supply have become 'ghost estates' and are not fit for people to live in.

New Building Regulations should ensure that the homes of 2014 and beyond are both safe and energy efficient and AIB, and indeed other banks, have a key role in ensuring that they are funding developments that adhere to the new regulations. AIB's structured approach to lending to new homes developments should provide comfort that it is also checking that appropriate regulations are adhered to. An important part of our approval process is the engagement of a monitor or technical advisor to review the development during the build-out phase.

AIB is already leading the way in support of Energy Efficiency projects. AIB is keen to make available mortgage and personal loans

## ► SOCIAL HOUSING

to consumers for retrofitting homes to more energy efficient levels which should support cost savings for the consumer and increased activity for the sector.

AIB also has a role to play in ensuring that the sector is building homes to support demand. Development lending is now on a structured basis and a key consideration for the bank is a clear and demonstrable demand for housing in a particular location before it lends to a development.

For example, the bank will now look at market metrics that clearly shows demand and supply levels across the country as part of our own due diligence process. The bank will also look at development plans in the context of how a development is supported by key services such as schools and transportation. In other words, the bank wants to support the building of new communities in appropriate locations where demand supports it.

The bank also recognises that communities across Ireland are being formed as a result of jobs being made available by both indigenous and foreign direct investment into Ireland, largely as a result of good work done over many years by the IDA and Enterprise Ireland. Again I would see AIB's role in supporting the financing of commercial property

development, again on a non-speculative basis, as crucial to ensuring the build out of new communities and indeed existing communities across Ireland. Providing the new housing to support these jobs will also be important because it is a key area that multi nationals examine when deciding to base their business or indeed expand their business in Ireland.

Communities are not just about families but also include lots of other important stakeholders who need the support of the greater community and indeed a "Community Bank". With this in mind AIB is also focussed on ensuring that it supports the provision of social housing for assisted living for the elderly, physically and mentally challenged as well as for those people who are less well-off and do not have the capacity to support a home mortgage.

Unfortunately, there is a nationwide shortage of social housing, as a result of lack of development over the past six years within the sector. This has also been compounded by the fact that the residential rental market has also become too expensive in some urban areas partly as a result of the high numbers of first time buyers currently renting because they are unable to find a property to buy even though they have finance in place.

Budgetary cutbacks and a change in the funding model for social housing now means that bank finance is now a key requirement to support social housing development into the future. AIB is now working closely with different housing associations around the country to support social housing development. Recently, the bank provided debt finance to Respond!, one of Ireland's largest housing associations in Ireland, which was used to part fund the supply of over 100 social housing units/homes in Waterford, Carlow and Kildare (see panel). In addition, the bank has also supported other housing associations in Cork and Limerick with finance in 2014.

Given the importance of social housing to communities around the country as well as other community-based not for profit initiatives that AIB wants to support, we have appointed a Not for Profit Sector Specialist (Maura Moore – 01 6411803 maura.b.moore@aib.ie) whose role is to engage with the various stakeholders within the sector to ensure this bank understands the sector, and therefore is better informed as to how this bank can better serve the sector.

AIB sees itself as Ireland's Community Bank and will continue to play an active role in supporting the development of communities across Ireland. ●

### CASE STUDY: AIB SUPPORTING SOCIAL HOUSING AND RESPOND! IN THE SOUTH EAST

AIB recently provided financial support to the housing association Respond!, for the development of three significant social housing initiatives in Waterford, Carlow and Kildare.

Founded in 1981, Respond! has since provided 5,341 units/homes for families, homeless and disabled persons, older persons and those in need, right across the country and it expects to provide another 400 dwelling units at least over the next couple of years.

When complete the proposed €12 million development at St John's College, Waterford will contain 21 self-contained apartments for older persons with a supporting day centre. This development was made possible by €8m in finance from Waterford City Council through the Department of the Environment, Community and Local Government. The remaining €4 million is coming from Respond! and includes €2.25 million in finance which is being provided by AIB.



AT THE LAUNCH OF THE ST. JOHN'S COLLEGE DEVELOPMENT WERE (L-R) MORGAN DOYLE, HEAD OF SOUTH EAST BUSINESS CENTRE, AIB; FR. PATRICK COGAN, CEO RESPOND! AND WATERFORD CITY MAYOR JOHN CUMMINS.

In addition to the finance package being provided for the St. John's College development, AIB is also supporting a number of other initiatives by Respond! including the refurbishment of "ghost estates" in Tullow and Kill. The total investment on the three projects, including the St John's College development is €17.5 million of which AIB is providing €5.8 million.

In addition to the developments being funded by AIB, Respond! is constructing 36 one-bed apartments on a site at The Folly Road, Waterford, also for older persons.

"AIB is delighted to provide funding to assist Respond! in delivering a high quality project which in the short term will provide employment for 100 people in Waterford and in the long term will provide high quality housing and support for older citizens in Waterford city and beyond. Respond! provides a vital community service and AIB is pleased to assist it in achieving its goals," said Morgan Doyle, Head of South East Business Centre, AIB.

# THE RECOVERY IS UNDERWAY

**A number of leading economic indicators all point towards a recovery for Ireland's economy, writes Oliver Mangan, AIB's Chief Economist.**



OLIVER MANGAN

**G**NP data for 2013 shows a strong performance by the economy last year, with growth of 3.4%. What is particularly encouraging is the clear evidence of a recovery in domestic demand, with domestic spending growing by close to 2.5% year-on-year in the second half of 2013.

There was a particularly strong rebound in investment activity last year, which grew by 16.5%, led by a marked pick-up in both business investment and non-residential construction. Consumer spending also recovered after a weak start to the year, while Government spending fell by just 0.5% in 2013, having declined by an average of 4.2% in the four previous years.

These trends are in keeping with other data pointing to a strong performance by the economy last year, in particular employment, which grew by 2.4%. The gains in employment during 2013 were broad based. The main exceptions were the public sector and financial services, where the numbers employed continue to contract, with both sectors shedding over 5,000 jobs last year.

Apart from these two sectors, every other part of the economy

registered either job growth or broadly stable employment in 2013. There were particularly large employment rises in agriculture, manufacturing, the hospitality sector (hotels, restaurants, bars) and in professional/technical activities. Overall, by the fourth quarter of 2013, total private sector employment was up by a very robust 4.5% on the same period in 2012.

The strong job growth contributed to a marked fall in unemployment during 2013. The jobless rate fell to 12.1% in the final quarter, down from 14.2% a year earlier. The number of unemployed stood at 264,000 in the fourth quarter, a fall of over 40,000 in the year.

## **GOOD DATA IN OPENING QUARTER OF 2014**

Overall then, both GNP and labour market data suggest that the economy moved on to a strong growth path last year. The figures published to date for 2014 suggest that this trend is being maintained.

The strength of PMI surveys for the manufacturing, services and construction sectors in the first three months of 2014 has been very encouraging, pointing to continued strong output growth in the economy. Meanwhile, the OECD leading activity index for Ireland hit its best level in early 2014 since the start of 2008.

On the consumer spending side, new car sales were up by 27% in the opening quarter of the year, with core retail sales growing by 2.7% year-on-year in the first two months of 2014. Consumer confidence reached its best level since mid-2007 in the opening months of 2014.

The downtrend in unemployment has continued, with the Live Register falling further in the opening three months of the year and the unemployment rate declining to 11.8% by March.

Exchequer Returns for the first quarter of the year show a continuing positive trend on the public finances. Tax revenue is ahead of target thanks to the buoyancy of income and spending taxes. Meanwhile, Government spending is lower than forecast. As a result, the budget deficit is falling at a quicker than expected pace.





### IMPROVING EXTERNAL ENVIRONMENT

The prospects are favorable for the Irish economy for the rest of 2014 and 2015. Given the importance of exports to Ireland, the outlook for the global economy is a key factor, in particular for our three main exports markets, namely the Eurozone, UK and US.

The IMF struck a cautiously optimistic tone in its most recent World Economic Outlook (WEO) report. It notes that global activity has strengthened and is expected to register a further improvement in 2014-15, with much of the growth dynamic coming from advanced economies. For these countries, the IMF is pencilling in a growth rate of 2.25% over the period 2014-15, after registering growth of just 1.3% last year and 1.4% in 2012.

This improved growth in advanced economies is expected to be driven by an acceleration in the US economy, a reduced drag from fiscal consolidation, low inflation, which in turn will help consumer spending power, and the on-going accommodative stance of monetary policy.

In the US, strong growth in residential investment, a pick-up in business investment, solid performance from consumer spending and a reduced fiscal drag should provide a supportive backdrop for the world's largest economy. GDP growth is expected to average around 3% both this year and next, up from less than 2% in 2013.

For the UK, 2013 saw the economy experience a marked improvement, growing by 1.7%, compared to just 0.3% in 2012. Signs that the recovery is reducing its reliance on the consumer sector and is broadening out to business

investment, improving labour market trends, easing inflationary pressures, as well as a pick-up in growth in its key trading partners, are encouraging signs for the UK economy. On this basis, UK GDP growth is expected to average close to 3% this year and in 2015.

The Eurozone economy is lagging elsewhere in the recovery. However, leading indicators show that activity has picked up in the early months of 2014. Stronger global growth, some improvement in private sector demand on the back of very low inflation, the accommodative stance of monetary policy and improving confidence should provide positive dynamics for the region's growth prospects.

The IMF expects the Eurozone economy to grow by 1.2% this year and 1.5% in 2015, after having contracted in both 2012 and 2013. Importantly, though, ECB interest rates are still expected to remain near zero over the next couple of years, given the outlook for just moderate growth and very low inflation in the Eurozone.

### HOUSE BUILDING TO REBOUND

This improvement in global growth forms a positive backdrop for Irish exports in 2014-15. A sharp decline in output in the pharmaceutical sector in 2012-13, as a result of the expiry of patents on a number of key products manufactured here, depressed Irish exports in the past two years.

This factor is expected to wane in 2014, allowing exports to recover, a trend that will be helped by stronger external demand. The strong competitiveness gains made by Ireland in recent years as a result of downward pressure on prices and wages, as well as

the strong inflows of new foreign direct investment, also augur well for Irish exports.

Indeed, an improving trend is already evident in service exports which now account for over half of total Irish exports. These picked up during the course of 2013 although they still only grew by less than 4% for the year as a whole.

Meanwhile, on the home front, the strengthening of domestic spending last year occurred even though the Government sector continued to contract while there was no recovery in house building activity.

However, the scale of fiscal tightening required in 2014-15 is much less than in recent years. There is even speculation that there may be scope for income tax cuts in the next Budget, while still bringing the budget deficit down as planned to below 3% of GDP. Overall, the fiscal drag on the economy is now lessening appreciably.

House building activity needs to rise from the current very depressed levels, with housing completions running at just 8,500 units per annum in recent years. Ireland has a young and growing population. The big overhang of unsold properties left after the boom years, has been largely eliminated at this stage. Indeed, a shortage of housing has resulted in upward pressures on house prices over the last year or more, most notably in the main urban centres.

Demand for new housing is estimated at around 20,000 units per year, after allowing for net outward migration. There are signs that the sector is beginning to pick up, with a rise in new housing registrations and commencements in recent months, although they still remain at very low levels.

There are a number of supply-side constraints, but a pick-up in housebuilding from its current very subdued levels still seems likely over the next few years. This would provide a significant boost to the domestic economy and employment.

### GROWTH OF 3.5% FORECAST

The ESRI, in its latest quarterly update on the Irish economy, is quite optimistic on the growth prospects for the country. It says that the economy is recovering quite vigorously. It sees GNP growing by 3.5% this year and 3.7% in 2015, aided by strengthening domestic demand and stronger exports.

Both the Central Bank and Dept of Finance are somewhat more cautious, looking for GNP growth of around 2.5-2.7% in the next couple of years. All three agree, though, that there will be further strong growth in employment over the next two years.

As a result of this growth in output and employment, unemployment will continue to decline. The ESRI is forecasting that the jobless rate will fall to comfortably below the 10% level during 2015. While this is still a high rate, it would mark a much quicker fall than had been expected from the peak rate of over 15% reached in the first half of 2012.

Overall then, while risks remain from both the uncertain external environment and internal factors as the economy continues to rebalance, it appears that Ireland is moving onto a solid growth path. We expect the economy to perform well over the next couple of years and believe that a growth rate of around 3.5% is achievable, as long as the external environment remains reasonably favourable. ●

# OUTLOOK

Outlook is a series of AIB reports that examine and analyse the key issues affecting particular sectors and sub-sectors within the Irish economy.

To download the reports and view videos with industry experts visit **[www.aib.ie/outlook](http://www.aib.ie/outlook)**



Our next report (Issue 8) will focus on Export Finance.

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