

Help-to-Buy scheme extended

The main property related measures announced in the Budget 2020 were:

- The Help-to-Buy Scheme was extended for another two years, with no change to the detail of the scheme.
- €2.5 billion allocated to the Housing Programme in 2020.
- Increase in stamp duty for commercial real estate from 6% to 7.5%. The private rented sector (PRS) is excluded from this definition and the stamp duty for PRS remains unchanged at 2%.
- Amendments to the taxation of IREFs, Sec110s and REITS.

Help-to-Buy scheme

The Minister announced an extension to the Help-To-Buy (HTB) scheme for another two years to the end of 2021.

As the HTB scheme is a demand-side incentive scheme there were concerns when this scheme was introduced that it would fuel residential property price inflation and do little to help first-time-buyers (FTBs) get on the property ladder.

However, based on the experience of the last three years since its inception, the level of FTB new home transactions has increased markedly, with a modest acceleration in the rate of inflation.

- Since the introduction of the HTB in October 2016, there has been a 119% increase in the level of FTB new homes transactions compared with a 50% increase in new homes sales to non FTBs.

Demand side of the market still facing constraints

One of the reasons why the HTB scheme has proven effective is because the demand side of the market is still faced with many constraints and is not functioning freely. The combination of the cost to build starter homes and the loan-to-income (LTI) limits on incomes of the typical first time buyer has caused an affordability wedge that is not easily resolved. The HTB scheme has helped first time buyers to accumulate a deposit and helped FTB's bridge this affordability gap. This in turn has provided confidence to the new homes industry that underlying demand can be transformed into actual levels of transactional activity.

The HTB scheme should not be a permanent feature of the new homes market in Ireland its usefulness in time will be eroded by rising wages and improved affordability - nascent signs of which are just emerging in the market. However, we believe the removal of the HTB at the end of the year would have been premature as the market dynamics in the FTB market are still not robust and its removal would have disrupted supply and undermine industry confidence.

€2.5 billion Housing Programme in 2020

The Minister announced a €200m increase in the Housing Programme for 2020, up from €2.3 billion in 2019. This comes on top of the €6.6 billion the government has allocated to the housing sector over the previous four years.

Of the €2.5 billion allocated for the Housing Programme in 2020, €1.1 billion is to support the delivery of over 11,000 new social homes in 2020 which will take the form of construction, acquisition and leasing. This amount is slightly down on the €1.25 billion allocated in 2019. However, it is planned that there will be a greater emphasis on construction and leasing rather than acquisitions and this is expected to see the delivery of new social homes increase from 10,000 in 2019. 12,000 new social homes are expected to be delivered in 2021.

To further assist the delivery of new homes, the Minister allocated a further €186m for the Serviced Site Fund and for the Local Infrastructure Housing Activation Fund in 2020.



Increase in Stamp Duty

In something of a surprise move – although it was leaked to the press this morning – the Minister increased the level of Stamp Duty on commercial real estate properties from 6% to 7.5%. This increase will obviously impact underlying property valuations and will knock an estimated 1.4% off of property values.

However, stamp duty for residential property was left unchanged, which means the PRS sector has avoided this increase in stamp duty and remains at 2% (for properties with a value in excess of €1 million).

We believe it is critically important that the residential sector in general, and the PRS sector in particular, avoid any unnecessary increase in costs. The viability of large scale apartment construction in Ireland is already hugely challenged and any increase in costs would further damage future supply.

Irish Real Estate Funds and Real Estate Investment Trust – technical tax changes

The Minister announced a number of changes to the tax treatment of Irish Real Estate Funds (IREFs) and Real Estate Investment Trusts (REITs).

- IREFs and Sec110s - new limitations on interest expenses to prevent over-leveraging and a measure to combat the artificial avoidance of gains on redemption of IREF units.
- REITS – changes to capital gains taxation calculations.

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Pat O'Sullivan
Pat.p.o'sullivan@aib.ie

Rory McGuckin
Rory.x.mcguckin@aib.ie

Real Estate Finance
3rd floor
10 Molesworth Street
Dublin 2