

# Viability and Affordability of Apartment Building in Cork City

Prepared for Construction Industry Federation and Cork Chamber

Final Report

**Reliance Restricted**

18 July 2019

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow diagonal line is positioned above the 'Y', extending from the top right towards the center.

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# Executive Summary and Policy Options



## 1 Executive Summary and Policy Options

# Cork City's future economic potential is threatened by the lack of viability of apartment construction

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**This report provides an analysis of the issues surrounding the lack of new apartment building in urban areas and the unintended consequences that arise as a result.**

It is generally accepted that a well-functioning new homebuilding market is crucial for the health of the economy as well as for potential homebuyers and renters. Yet the housing supply situation continues to be a challenge for the Irish economy. A decade on from the financial crisis, there remains an acute housing shortage, with new supply levels in urban areas well below what is required to sustain economic growth. Furthermore, the lack of new supply is a major threat to Ireland's competitiveness and has put at risk the potential to attract talent to support the expanding labour market, as well as foreign direct investment (FDI) and relocations as a result of Brexit.

While this report is focused on the lack of new apartment building in Cork City, Ireland's second largest city, it presents evidence which is relevant in a national context. The lack of viability in urban areas has adversely impacted new supply levels in recent years.

This report presents an assessment of viability in the new apartment construction market in Cork City. The viability of sites for apartment development is a prerequisite for the delivery of residential units. This means that **unless the total costs of development, including the normal costs of construction and mitigation, profit and risk, are sufficient to provide competitive returns to developers and to enable them to build at a rate which will satisfy the demand in the local market at affordable price and rental levels, development will not be delivered on viability grounds.**

The viability of four apartment schemes in total is examined, comprising three build for sale schemes and one built to rent (BTR) scheme. The findings conclude that a sub-optimal situation exists in the Cork City new apartment construction market, for the following reasons:

- The total delivery price of new apartments, taking account of the total cost of construction, site costs, financing costs, the developer's margin/risk and VAT is generally above the price which a potential first-time buyer working couple can afford
- The sales price of a 2-bedroom apartment ranges €389,000 to €486,000, depending on the location (Cork City/Docklands/Suburbs) and would require a first-time buyer working couple to have a combined income of €100,000 to 125,000 to afford the purchase price

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*For Ireland to succeed we need Cork to succeed.*

**Taoiseach, Leo Varadkar, TD November 2018 <sup>1</sup>**

<sup>1</sup> Speech by An Taoiseach Leo Varadkar T D Cork Chamber Annual Dinner, 20 November 2018

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- The BTR scheme is unviable based on an average rent of €1,600 for a 1-bed, €2,200 for a 2-bed and €2,600 for a 3-bed apartment. For the specific scheme presented, a developer would have to increase rent by around 15% to around €2,500 for a 2-bed and €3,000 for a 3-bed in order to make BTR viable. These rents would absorb between 36% and 43% of the net income of a working couple on €120,000. In a market in which rents for a 2-bed apartment in Cork City have already increased by almost 38% in the past five years, these rental levels would not be sustainable.
- The way the Cork housing market currently functions provides a set of outcomes that are less desirable from a socio-economic perspective. This is because the lack of supply of new apartments in the City is leading to a sub-optimal situation, as potential buyers and renters have to move outside the city to find accommodation. This is resulting in a series of unintended consequences in regard to quality of life, increased commuting and congestion. These can also adversely impact decisions by persons looking to move to Cork for employment. Agglomeration effects, whereby the concentration of economic activity and population add to the economic potential of an urban area, are also lost in these circumstances.
- These issues are detrimental to Cork's economic future and its potential to develop as an urban centre of national and European significance in line with Project Ireland 2040. Policy makers need to take these issues seriously if they are intent on delivering the core objectives set out for Cork City in Project Ireland 2040<sup>2</sup> and in the Draft Regional Spatial and Economic Strategy for the Southern Region<sup>3</sup>.
- Thus a more optimal solution, which would be consistent with Government policy and deliver a more efficient outcome, would be to get affordable apartment construction up and running in the City. This would ensure the retention and attraction of young talent, which is fundamental to the sustained economic growth of the City.

The industry and property developers wish to engage with Government and the relevant statutory agencies to find ways to address the current viability gap in order to achieve the objectives set down for Cork City. Unless and until the viability issue is addressed, there is unlikely to be any apartment construction in the city. This report sets out a suite of policy options (pages 14-15) to improve the viability of apartment construction.

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*The adequate supply of affordable accommodation to rent or purchase is still challenging and will pose socio-economic risks if not resolved.*

**Ann Doherty, Chief Executive  
Cork City Council, October 2018**

<sup>2</sup> Project Ireland 2040 <https://www.gov.ie/en/campaigns/09022006-project-ireland-2040/?referrer=/en/project-ireland-2040>

<sup>3</sup> Draft Regional Spatial & Economic Strategy for the Southern Region <https://www.southernassembly.ie/regional-planning/regional-spatial-and-economic-strategy>



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### As Ireland's second city, Cork City has an opportunity to develop as a vibrant urban centre of both national and European significance

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### Cork City at a crossroads in terms of its future

This research is being done at a pivotal moment for Cork's economy and society. While Cork City has performed strongly in economic terms over recent years, it is now at a crossroads in terms of its future. High aspirations have been set for the city which can ensure it has a successful future and can step up to the mark, acting as the engine of growth for the Southern Region and for the economy as a whole, notably:

1

Population growth targets contained in the National Planning Framework (NPF) indicate that the population of **Cork City and Suburbs** is to grow by 36% (to 283,669) by 2031, an increase of 75,000 persons on the 208,669 persons recorded in Census 2016.

2

The population of the **Cork Metropolitan Area** is projected to reach 408,800 by 2031, an increase of 34%. The City and Suburbs will be the key drivers of growth in the Metropolitan Area, which is the second largest metropolitan area in the State after Dublin and is larger in scale than the other three metropolitan areas combined.

3

**Cork City and Suburbs** is expected to grow to between 315,000 and 345,000 by 2040. This is a total annual growth of between 1.7% and 2.1% compared with an annual growth over the past decade of approximately 0.5% (old city boundary).

4

An **additional 65,000 jobs** targeted for the Cork Metropolitan Area by 2031 will require **an additional 27,300 housing units** (of all types) to accommodate that growth.

5

A core Government objective of the National Development Plan 2017-2027 and the National Planning Framework under Project Ireland 2040, also reiterated in the Draft Regional Spatial and Economic Strategy for the Southern Region (RSES) and the Metropolitan Area Strategic Plan (MASP) for Cork, **is that 50% of the population growth targeted for 2031/2040 should take place in existing urban and brownfield locations**. The implication of this target is that a significant increase in the number of apartments will be required, allowing for greater density in Cork's City and Metropolitan Area.

Catering for population growth in existing urban and brownfield locations, against a NPF which seeks compact and sustainable growth, is the challenge which needs to be urgently addressed. Policy changes will be important in driving this level of growth in the next 12 years, especially in terms of where the population growth will be accommodated.

As Ireland's second city, Cork City will play a vital role in the future sustainability of the national economy and is the best prospect to act as a counterbalance to the continued rapid growth of Dublin and the Greater Dublin Area.

However, there are a number of concerns amongst key stakeholders as to how the transition to a strong, and high profile second tier city can be achieved. Equally, there are fears that Cork City, which has ambitions to attract further indigenous growth and FDI to the city (and Region) will fail to reach its potential.

**Thus to do nothing is not an option and will ensure a failure of the National Planning Framework before it even starts.**

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*The availability and cost of residential property impacts upon our attractiveness for mobile investment and talent. IDA recognises that the Government has been proactive in making a series of policy interventions to increase the supply of housing. Additional solutions to increase the provision of city centre apartment building will be needed to support the implementation of Ireland 2040 which sets out ambitious population growth projections and identifies the need to concentrate growth in cities such as Cork.*

**Ray O'Connor, South West Regional Manager, IDA Ireland**

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# The housing supply shortage is a major obstacle to future employment, economic growth and FDI, as well as to regional tourism and quality of life in Cork City and the Region

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## There is adequate land available for housing

The changing housing landscape over the past decade sets the context for the study. Key developments noted are as follows:

- ✓ Between 2000 and 2005, just 2% of all completions in the State were located in Cork City (old city boundary) (compared with 6.3% in Dublin City) while recent data for 2018 shows that the city's contribution has fallen to 1.5% (10.2% in Dublin City).
- ✓ Further evidence is apparent from the fact that just 177 apartments were built in Cork City and County in 2018 (many of which were social housing units), compared to 1,760 completed in Dublin.
- ✓ While there has been an improvement in the number of successful planning permissions in Cork City (old city boundary), this is not converting to completions, and indicates that there may be barriers to apartment building in Cork.

A key factor driving the low level of completions in Cork City is the failure to provide for viable development lands in the city. Hence, the unintended consequences of the lack of new supply are increasing house prices and rents. The median price of a new home in Cork City (€397,900 in 2018) is now 17% higher than the national average and sustained increases in rents mean Cork City has been designated as a Rent Pressure Zone since 2016, with rents in 2018 currently 27% higher than the levels recorded in 2013.

Significant supply issues are driving prices up in the city, yet there is no large bulk of supply imminent in the short term. Whilst completions are increasing, albeit off a low base, it is widely acknowledged that the lack of new supply is continuing to create a dysfunctional residential market in the city. Determining the initiatives required to kick-start housing and, in particular, apartment building in Cork City, is at the core of this report.

The supply of housebuilding is reliant on the private sector and a well-functioning housing market, that will allow the private sector to deliver much needed housing supply at affordable prices and rents to support the future economic potential of Cork City and the wider region. This is also true in a national context.

Despite these developments, there appears to be adequate land available to provide much needed housing which could make a considerable contribution to the sustainable development of Cork City and Suburbs:

The Draft RSES for the Southern Region has identified a number of key strategic residential (including mixed uses) and regeneration areas in the Cork Metropolitan Area with a potential for **just over 1,000 residential units to be built in the city centre** with a further 12,500 residential units at the nearby City Docks and Tivoli, and potentially a **total of 48,000 housing units** across Cork's City, Suburbs and Metropolitan Area.

Cork City Council has identified an **estimated 19,000 residential units** which could be built on zoned public lands across the city, comprising over 13,000 on sites where infrastructure is required and close to 6,000 units on sites with no infrastructure impediments.

The Cork City Development Plan 2015-2021 has a **target of 20,032 housing units** to be required over the period of 2011-2022.

However, many of the current uses on these sites will need to be relocated and in many cases, this will take time to achieve. These lands are also likely to be expensive and difficult to build, due to abnormal site conditions, making the viability of apartments difficult to achieve. The availability of services to these lands will also need consideration.



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## The viability of apartment schemes in Cork City is extremely challenging

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### The assessment of viability

The assessment of viability is based on specific schemes, which use the traditional procurement method, whereby the developer manages the process and employs a building contractor to build the scheme, although this is not always the case.

A breakdown of the total construction costs for 1 and 2-bed apartments in Cork City/Docklands and in the suburbs of the city is shown in the table opposite. The key points to emerge are the following:

- ✓ The direct construction costs account for between 69% and 76% of total construction costs (74% on average), before taking account of the land cost or the developer's margin
- ✓ Fees for professionals and technical experts account for between 5% and 12% of the total
- ✓ The total amount of contributions, including related charges, payable on an average 77 square metre 2-bed apartment is c.€20,000
- ✓ Contributions range between 4% and 10% of total construction costs
- ✓ Mitigating the abnormal site conditions in Project 1 accounts for 5% of total construction costs; this figure increases to around 17% when basement car parking is included
- ✓ The viability of Build-to-Rent (BTR) schemes in Cork City is equally challenging, due to the high delivery cost and the unaffordable rental levels which are required to make schemes viable

- ❑ This viability issue presents a number of challenges for delivering on the objectives of compact and sustainable growth in the NPF, Project Ireland 2040 and the Draft RSES for the Southern Region. Moreover the policy to accommodate **50% of the population growth targeted for 2031/2040 in existing urban and brownfield locations will not be achievable** unless there is a collaborative approach between the industry, national and local policy makers, and key stakeholders, to ensure that policies do not undermine the viability of residential development.

### Breakdown of the Construction Costs of 1 and 2-bed apartments in Cork City/Docklands and City Suburbs

	City Centre/Docklands		Cork City Suburbs			
	PROJECT 1		PROJECT 2		PROJECT 3	
	1-bed	2-bed	1-bed	2-bed	1-bed	2-bed
Preliminaries	7%	7%	9%	7%	6%	7%
Contamination/Flood Protection/Other Infrastructure	5%	5%	2%	2%	4%	4%
Basement Car Parking	12%	11%	3%	2%	0%	0%
External Works/Site Development Works	11%	11%	16%	12%	20%	21%
Building Substructure	1%	1%	5%	8%	7%	7%
Building Superstructure	32%	33%	32%	38%	28%	31%
Site indirect costs *			4%	5%		
Fit out	6%	7%	4%	4%	4%	3%
<b>Sub-total Construction</b>	<b>74%</b>	<b>76%</b>	<b>74%</b>	<b>76%</b>	<b>69%</b>	<b>74%</b>
Contributions	5%	5%	6%	4%	10%	7%
Consulting/Design Fees	12%	11%	7%	8%	5%	6%
Admin & H/O Overheads	1%	1%	3%	2%	3%	2%
Marketing	0%	0%	1%	1%	1%	1%
Contingency	2%	1%	2%	2%	5%	4%
Financing cost	7%	7%	7%	8%	6%	6%
<b>Total Construction Cost</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

\* Site indirect costs, where they arise, are included with Preliminaries except for Project 2.

Source: CIF Members, EY-DKM Calculations.

The above percentages are based on the total construction cost before land, developer's margin and VAT are taking into account.



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The Viability Gap is significant for incomes of €100,000 or less

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## Assessment of Viability

The assessment of viability here is based on a working first-time buyer couple. The analysis excludes any assistance from the Help-to-Buy scheme, which provides support to first-time buyers of new properties, up to a maximum relief of €20,000 per unit. This would improve affordability somewhat, but the extent of the viability gap in the case studies presented is much more substantial than what is available under the Help-to-Buy scheme.

## Viability Gap for Apartment Construction in Cork City/Docklands and the City Suburbs

	City Centre/Docklands		Cork City Suburbs				
	PROJECT 1		PROJECT 2		PROJECT 3		
	1-bed	2-bed	1-bed	2-bed	1-bed	2-bed	
<b>Delivered Sales Price based on all costs (€000s)</b>	439	486	296	439	265	389	
FTB working couple combined earnings		Maximum affordable house price					
€80,000	€311,111	-128	-175	16	-128	45	-78
€90,000	€350,000	-89	-136	54	-89	84	-39
€100,000	€388,889	-50	-97	93	-50	123	0
€120,000	€466,667	28	-19	171	28	201	78

Source: CIF Members, EY-DKM analysis. The above assumes the potential buyer has access to the required deposit. Note: The figures in red denote there is an affordability problem as the total cost of delivery of the apartment is greater than what the potential first-time buyer on the stated income can afford.

The Table sets out the Viability Gap, based on a range of incomes. 1-bed apartments are affordable in the Cork City Suburbs for the incomes presented. Taking the example of a 2-bed apartment in the City Centre/Docklands, the gap amounts to €175,000 for a couple each earning the average income of €40,000 per annum. The gap reduces, but remains significant, as income increases. For a working couple earning €100,000, the gap amounts to €97,000 on the same apartment. There are a number of measures which could be introduced to help close this viability gap, including the following:

- The immediate extension of the Help to Buy scheme from December 2019, which would provide a rebate of up to €20,000 for first-time buyers of new properties. The Government should consider a more targeted scheme, with higher rebates, for new apartments delivered in the City Centre/Docklands and suburbs.
- Expand the Living City Initiative to provide tax relief for owners and small scale investors, to encourage apartment construction in Cork City.
- Waive the Section 48 (and 49, where applicable) development levies for city centre designated areas for a short term period of up to 2 years to encourage apartment development. This would reduce the cost of a 77 sqm apartment by around €5,300 in total.
- Reduce the cost of Irish Water's charges for apartment developments as there is less infrastructure required for apartments than for housing on greenfield sites, yet charges are the same. Government should consider contributing towards the water services costs for provision of water services to the apartment development, which amounts to €5,089 per unit, for schemes with over 100 units.
- Reduce VAT from 13.5% to 9% (although it is acknowledged that any VAT reduction would have to apply to all residential construction and a more targeted initiative would have a better impact).





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## The additional Exchequer revenue generated through apartment building constitutes around one-third of the total sales price

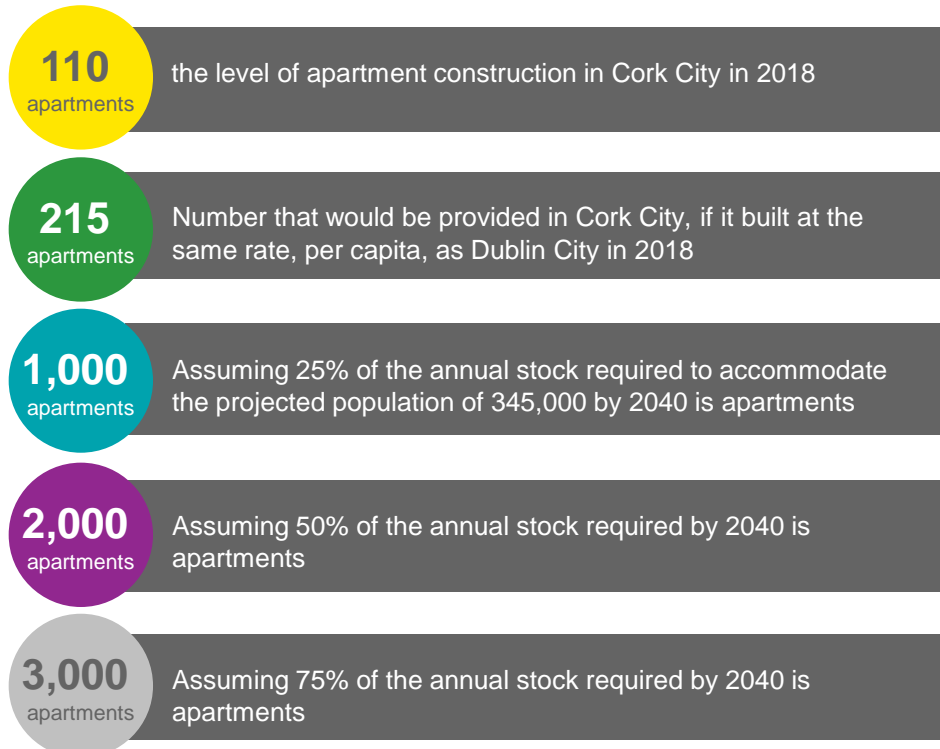
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### The Economic Impact of apartment construction

The Economic Impact of building apartments in Cork City, at a national and regional level, is calculated to determine the following:

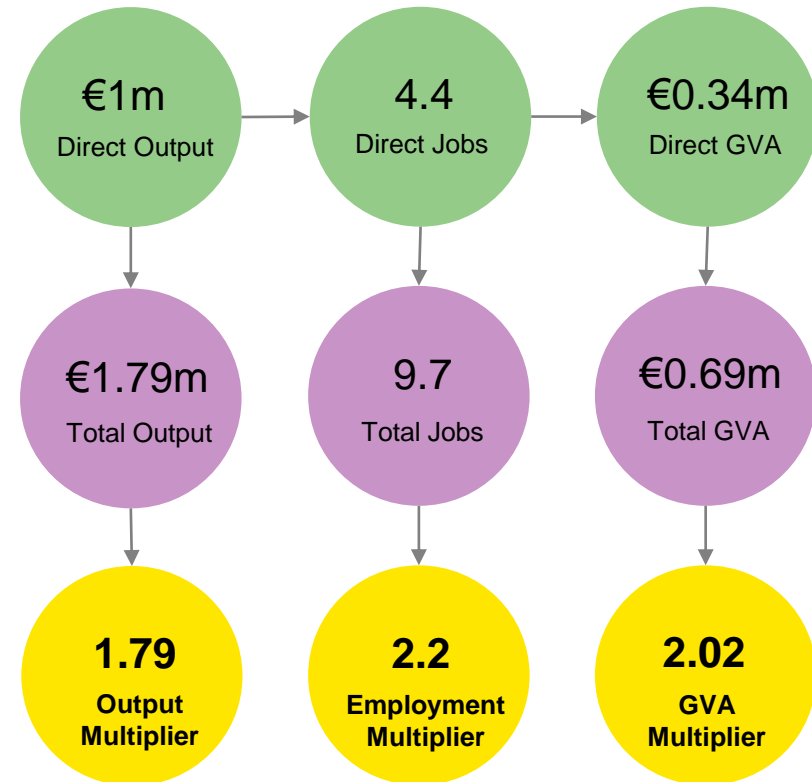
- The contribution to national GVA in terms of the additional payroll and profits generated throughout the economy as a result of the building activity
- The contribution to employment, based on the number of people employed throughout the economy in order to support the construction of apartments in Cork City
- The contribution to the Exchequer and the Local Authority from apartment building activity.

Five Scenarios in total are presented, ranging from building:



The most notable finding is that **the additional Exchequer revenue (i.e. profits taxes, payroll taxes, social insurance contributions, consumption taxes and Local Authority contributions) generated from apartment construction is equivalent to one-third of the total sales price**

### Economic multipliers associated with apartment building in Cork City



Source: EY-DKM Calculations.



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## Housing supports vary across a selection of countries

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### A brief overview of housing supports in selected countries

The policy options have been framed with reference to a high level benchmarking exercise of what measures are in place elsewhere. EY-DKM as the Irish member of Euroconstruct has consulted with members to ascertain what, if any, initiatives are in place across the network. Separately, a Housing Affordability Strategy introduced by the New South Wales (NSW) government in Australia in 2017 is highlighted.

There was a general consensus amongst respondents from France, Norway, Germany, Sweden and Denmark that housing affordability is also a challenge in their main cities. A range of measures were reported.

In **Germany**, for example, it was noted that the new residential sector has seen sharply increased construction costs due to a number of factors, including an increased number of building regulations, a lack of land supply, which is driving up prices, and an underdeveloped building information modelling and modular construction system. In the seven main cities, it was reported that residential construction is losing out in favour of office projects as developers consider the high costs and long planning approval process for housebuilding are having a negative impact on profitability. A recent initiative has been the establishment of a framework agreement by Government and the housing industry for a total of nine modular housing projects in various designs using prefabrication with construction costs fixed for some years.

Changes in the building codes, including for energy efficiency and accessibility, were also reported to be increasing building costs in **Norway**. As a result the requirements for wheelchair access and interior storage rooms have been made more flexible. The accessibility obligations on developers in **France** have also been reduced.

In certain **Belgium cities** the demolition of a building and the subsequent reconstruction of a private building is subject to a reduced VAT rate of 6%.

In **Norway**, the Norwegian real estate developer, Fredensborg Bolig, has introduced a Rent-to-Own initiative for first-time buyers without equity. It involves first-time buyers entering into a three year lease/rent contract with the right to buy the dwelling at any time during the rental period at the purchase price at the time of entering the rental agreement. Fredensborg plans to contract 1,000 dwellings with rent-to-own contracts the coming year in Oslo and the surrounding area.

In **Spain**, the lack of building land is becoming a problem in several cities. Hence the Spanish government has produced “Plan 20,000”, which is the projected number of new dwellings to be built over the next four years for the rental market at affordable prices. The formula will be a public private partnership (PPP) whereby the land will come from the public stock of a national body called Entidad Estatal de Suelo (Sepes).

In **Belgium**, there is the ‘housing bonus’, which gives a tax reduction to those who take out a loan to buy or build a home and then live in it themselves. A tax benefit is granted and varies across the regions but in the Brussels region, the housing bonus has been cancelled and replaced by an increased exemption from registration fees for the selling of existing houses.

Separately, in **Australia**, the NSW government introduced a comprehensive Housing Affordability Strategy in 2017 to improve housing affordability for first-time buyers, increase supply at affordable prices and accelerate the delivery of infrastructure to support growing communities. Some of the main measures include:

- No stamp duty on all homes up to \$650,000
- A \$10,000 grant for builders of new homes up to \$750,000 and purchasers of new homes up to \$600,000
- Accelerating rezoning and building infrastructure such as roads, schools and utilities that can enable development.
- A range of measures to help councils speed up approvals
- The NSW Government’s land development agency, Landcom, is to take an active role to support housing affordability
- Work to deliver smarter and more compact apartments in well located areas

Some other initiatives in Europe are provided in the Appendix. However, it is apparent that there is no one common solution to solving the challenge of viability and lack of affordability. A number of policy options to address the issues in Cork City are set out in the following pages.



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## Policy options to address the lack of viability

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## Policy Options to Address the Lack of Viability

The industry and property developers wish to engage with Government and the relevant statutory agencies, to find ways to address the current viability gap in order to achieve the objectives set down for Cork City in Project Ireland 2040 and the Draft Regional Spatial and Economic Strategy for the Southern Region. Achieving higher density on brownfield sites in Cork and other Irish cities will furthermore create a more sustainable and vibrant urban environment, by minimising commuting times, preventing sprawl and reducing carbon emissions and in this way contribute to Government's Climate Action Plan.

This report has demonstrated the substantial challenges that exist for Cork City in meeting the objectives set for it in the National Planning Framework (NPF) under Project Ireland 2040 and in the Draft Regional Spatial and Economic Strategy for the Southern Region. The ambitious vision for the development of Cork City, the Metropolitan Area and Cork County, expects the City and Suburbs to be the key driver of growth in the Metropolitan Area, with overall population growth of 34% expected by 2031. The capacity of the city alone is expected to grow to between 315,000 and 345,000 by 2040.

Policy changes will be important in driving this level of growth in the next 12 years, especially in terms of where the population growth will be accommodated. Moreover the policy to accommodate 50% of the population growth targeted for 2031/2040 in existing urban and brownfield locations will not be achievable unless Cork City has a well-functioning new apartment construction market.

This report presents evidence showing that the total costs of apartment development, including the normal costs of construction, land, profit and risk, are not sufficient to provide 1) apartments at affordable price levels to satisfy the demand in the local market; and 2) competitive returns to a developer.

**The analysis shows that developers have to charge €2,500 per month for a 2-bed apartment or a sales price between €389,000 and €486,000 if apartments are to be viable for rent and owner occupation in Cork City.**

Based on the economic impact of apartment construction, it is estimated that the Government is the largest stakeholder taking one-third of the total cost of providing new apartments through VAT, tax etc. Thus if construction activity is to commence in the city on a reasonable scale, the Government needs to either reduce its tax take, or give something back to kick start the construction of much need apartments at affordable prices. Moreover, it has been shown that aside from the Exchequer impact, apartment construction generates other substantial benefits in terms of GVA and jobs both nationally and in the region.

Against this background, a suite of policy options are proposed to address the lack of viability in the apartment construction market in **Cork City**. Particularly important in addressing the viability issue will be the industry's imperative to improve productivity by embracing new delivery mechanisms and adopting new technologies and next generation building techniques. While this will be a challenge given the fragmented nature of the construction industry, new approaches are likely to take time to bed down. In the meantime, immediate action is urgently required to kick start much needed apartment construction in urban areas. The industry is prepared to work in partnership with Government to solve this issue together.

The options are grouped under four pillars, which are designed to:

- ✓ Support **sustainable residential development** while also promoting new supply
- ✓ Support the delivery of affordable apartments
- ✓ Support the national policy objective to achieve 50% of development in urban areas, with, specifically in regard to Cork, **at least 50% of all new Cork City and suburb homes and 30% of new housing outside this area to be developed within the existing built-up footprint**
- ✓ Ensure regulations do not undermine viability



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## Support sustainable development and affordable apartments

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### Support sustainable development while also promoting new supply

1. The **Living City Initiative** is a tax incentive scheme for Special Regeneration Areas (SRA) in Dublin and in the five cities outside Dublin. A tax relief is provided for expenditure on refurbishing or converting existing residential properties. The scheme is due to end for all reliefs on 4 May 2020. It is proposed that consideration be given, subject to appropriate EU approvals, to expanding the scope (and duration) of tax relief available under the Living City Initiative in a targeted way, to incorporate newly constructed apartments in designated areas of Cork City centre where apartment accommodation is badly needed. This expanded relief could be targeted at owner occupiers, but also could be extended to small scale landlords with a limited number of buy-to-let properties. The focus of the expanded relief, again, would be to provide a buy side incentive to specifically encourage apartment construction in Cork City.

This would ensure a captive market for apartments, while also achieving a critical population mass and all of the benefits that implies for a vibrant city centre, as well as increased economic activity. Such a tax incentive would encourage people to live and rent in city centres and be close to their place of employment and amenities, which would again generate a vibrant city centre.

2. The **tax regime generally for small scale landlords** investing in the residential investment sector should be reviewed to encourage the retention and take-up of new apartments in the private rented sector.
3. With a view to improving the productivity of the industry in the medium-term, consideration should be given to the provision of tax-breaks for investing in innovation and the adoption of new technologies to advance future design and building techniques.

### Support the delivery of affordable apartments

4. The Government's **Help-to-Buy** initiative for first time buyers came into effect on 1 January 2017. It takes the form of a rebate of income tax paid over the four tax years prior to purchasing or building a new home, up to a maximum of €20,000. Homes valued over €500,000 are not entitled to this relief. This scheme is available to First Time Buyers of new homes and is due to run until 31 December 2019. The estimated total value of approved Help-to-Buy claims to date is €186.5 million (1 July 2019). One-third (32.8%) of Help-to-Buy claims have been for property values of between €301,000 and €375,000 while 34.4% have been at loan-to-value ratios of 90% and over. A decision on the scheme's future is expected to be announced in Budget 2020 in October. Consideration should be given to 1) extending the Help-to-Buy scheme beyond 31 December 2019; and 2) introducing a more targeted scheme, with higher rebates, for buyers of new apartments delivered in the City Centre/Docklands and suburbs, to support affordability for first-time buyers in urban areas. There is a risk that a removal of the scheme would damage first-time buyer confidence.
5. **Section 48 development levies should be waived** for city centre designated areas for a short term period of up to 2 years to encourage apartment development (Similarly Section 49 levies could be reduced/waived).
6. Pay **market value for the Part V** (for social housing) element of the development rather than excluding market value for the site costs of the Part V units. Also the Part V payment should be made on a staged payment basis as the units are built rather than at closure stage.
7. Where it is clear from economic analysis that apartment development is unsustainable to build due to viability issues, consideration should be given to **allocating a proportion of the Local Property Tax in the form of a rebate** to builders of apartments in city centres subject to meeting certain criteria (e.g. affordable pricing).
8. Consideration should be given to **reducing the cost of Irish Water's charges for apartment developments** as there is less infrastructure required for apartments than for housing on greenfield sites, yet charges are the same.

# 1 Executive Summary and Policy Options

## Supporting the targets for infill/brownfield development

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## Achieving the targets for infill/brownfield development

Support from Government and local authorities in regard to the viability of infill/brownfield sites is considered necessary to ensure the policy of providing 50% of development in urban areas on infill/brownfield sites can be achieved. Such support could involve the following:

9. Site assembly to be progressed by Government and/or local authorities, or
10. Site clearance to be progressed by Government and/or local authorities
11. The Department of Housing's Review of Delivery Costs and Viability for Affordable Residential Developments (April 2018) recommended that a review of local authority development contribution schemes be undertaken with a view to achieving affordable apartment delivery, with particular consideration given to brownfield/infill type urban development sites and a **capped contribution charge at a certain height or above a certain site density**. It is further recommended here that the Section 48 development levies be waived for city centre designated areas for a short term period of up to two years to encourage apartment development.
12. Consideration be given to earmarking a proportion of the Local Property Tax to forward fund any necessary infrastructure required to service infill/brownfield sites within designated urban areas.
13. Reduced VAT rate for construction on infill/brownfield sites for a limited period of time.
14. The **Urban Regeneration and Development Fund (URDF)** has been established to support more compact and sustainable development. In total €2 billion has been allocated for the 10 years to 2027. Consideration should be given to revisiting some of the more successful urban regeneration schemes of the 1980s and 1990s to boost property development in targeted locations in the major cities using some of the URDF funds to fund the initiative.

## Regulations

15. Carry out an assessment of the effectiveness of current regulations.
16. Any new regulations should be carefully evaluated against their impact on viability and subject to a cost benefit analysis to ensure they do not undermine the deliverability of much needed apartment schemes.

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*Viability in affordable home building is essential as the sector recovers and the Government continues to implement solutions in this area. Indeed, what we see in these reports, now published, is not unexpected and my Department has been working to address issues raised for some time.*

*We know from the 'Delivery Costs' report and from evidence in the sector that building affordable apartments has been a challenge from a cost point of view. And yet if we are to resolve the current housing shortage, as well as to plan smartly for our future under Project Ireland 2040, we need to build thousands more affordable apartments in our urban centres.*

**Mr. Eoghan Murphy, T.D., Minister for Housing, Planning and Local Government** at the launch of the report on the **Review of Delivery Costs and Viability for Affordable Residential Development**, 12 April 2018