CHAMBERS IRELAND

IN BUSINESS FOR BUSINESS

Chambers Ireland Submission to Department of Finance
re
The Potential Use of Taxation Measures to Encourage Development of Zoned and Serviced Land

08 May 2015

Introduction

Chambers Ireland is the largest business network in the State. With members in every geographic region and economic sector in Ireland, we are well positioned to understand the concerns of businesses from all areas in the country and represent their views.

We welcome the opportunity to feed into this consultation and look forward to further engagement with the Department on this matter.

Summary of Chambers Ireland's position

Chambers Ireland is not in principle opposed to taxation measures encouraging the development of zoned and serviced land. The application of a tax on undeveloped land could, as part of wider suite of policy measures, incentivise the efficient supply of land for residential and commercial development. However, the application of such a tax must be carefully considered given the potential for adverse outcomes and unintended consequences.

The use of taxation measures to encourage development

Despite significant levels of overdevelopment during the property boom, in a number of areas a lack of supply of land appears to be inhibiting the provision of residential and commercial development. For example, last year property prices rose by 16.3 per cent nationally and by 23 per cent in Dublin, with the price raises in urban areas being blamed on a lack of supply of housing. The ESRI recently estimated that almost 60,000 houses and apartments are in need of being built in Dublin by 2021 to meet predicted demand. We also note the recent finding of the Dublin Housing Supply Taskforce, which identified enough zoned land in Dublin to provide 45,000 new homes. If the supply is unable to match demand in an area of growing population and population density, this problem will be exacerbated. Taking this observation into account, we accept that market incentives in form of a tax on undeveloped zoned and serviced land could form part of a solution to an issue of a lack of supply.

However, we would highlight a number of points that we believe are worth considering in the development or implementation of such a tax:

- The potential for the introduction of any major regulatory change may have the effect in stifling any development in the short term as land owners and developers adopt a 'wait and see' approach. As the main actors await the decisions around legislation, development stalls. Some evidence of this was seen with the introduction of the Central Bank of Ireland mortgage regulations which slowed the residential house market. This will compound the problem of short term lack of supply. Consequently, decisions as to whether a tax will be introduced should be communicated to the market as quickly as possible.
- Similarly, if any measures are to be introduced to incentivise the market, these should be introduced simultaneously and with due regard for the how they may mutually impact. Of particular relevance here are measures that may be taken in any forthcoming Planning and Development Acts. It is important that measures are mutually reinforcing.
- A 'one-size' fits all approach will not be appropriate. Parcels of zoned and serviced land will be subject to many localised market conditions such as local demand, local development plans, location of infrastructure and amenities etc. In the application of any tax,

consideration should be given to allowing Local Authorities decide as to whether the levying of such a tax in any given year is appropriate.

- The threat of a tax could lead to suboptimal development. Landowners and developers may opt to avoid the impact of an annual tax by moving to meet the criteria of 'developing' the land. This may result in poorly planned or premature developments.

Additional barriers in need of being addressed

The scale of underdevelopment of zoned land in some areas suggests that the barriers to development are deeper than a cohort of landowners waiting for their asset price to increase. Chambers Ireland would like to highlight a number of these barriers that should be addressed to help ensure a more effectively functioning market.

- Changes in planning regulations in some areas have made development not commercially viable. Regulatory and planning conditions attached to residential construction make it prohibitively expensive to construct residential developments particularly in urban areas. Until greater flexibility is granted within construction standards, developers will not be in a position to respond to market need. The unsustainable impact of onerous regulations are illustrated by the fact that developers now must generate €300,000 from the sale of a new one bedroom apartment in Dublin city centre to justify building to the latest council standards. Previously, building had been feasible at value targets of €200,000 each. In order to ensure that development is economically viable, we suggest that urban density standards are revisited, that size and design standards for apartments are relaxed, and that financial penalties arising from social housing contributions in new developments are carefully considered.
- The disparity between between the VAT rates on commercial and residential property development may contribute to dampening residential property construction. VAT cannot be claimed back for student accommodation or other accommodation built to rent. VAT rates on residential property militate against the development of residential housing versus commercial property.
- Lastly, the fall in property prices undoubtedly had major consequences for the halt in development of land since 2008. Linked hereto are the effects of the financial crisis which resulted in many developers being unable to access the finance required to undertake or complete new developments. For developers specifically, the financial crisis has resulted in a fundamental change to the financial model in which they operate. While banks may have previously provided one hundred per cent debt financing for development projects, they currently only offer a maximum of 60% finance. Developers are consequently either priced out of the market or forced to seek financial support from third party lenders in order to begin new projects. This reduced availability of appropriate finance is another impediment to supply that should be considered.

Chambers Ireland's recommendation

Chambers Ireland believes that there are two approaches that need to be taken in order to address the issue of a lack of supply of suitable commercial and residential property. In the long term adjustments to the wider policy environment should be made to allow a strategic approach to the management of land as an important asset and factor in Ireland's economic development. A tax on zoned and serviced land could be an important component of a policy framework in the future. In the short term however, measures could be implemented on a temporary basis to alleviate blockages and bottlenecks that are preventing a resolution of the lack of supply problem in the immediate future. These could include a two year moratorium on development levies within specific local authorities, or a temporary amelioration of specific planning regulations around residential apartment developments.