

SAVILLS IRELAND

Pre-Budget 2025 Submission

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Foreword

Ireland's real estate sector stands at a pivotal juncture. Our Pre-Budget Submission for 2025 encapsulates the challenges and opportunities that lie ahead in the housing market, offering comprehensive recommendations designed to foster growth, stability, and sustainability.

The past few years have seen significant shifts in the real estate landscape, with the Private Rented Sector (PRS) emerging as a critical component of our housing strategy. Despite initial successes, recent regulatory changes and economic pressures have dampened investor confidence and slowed the pace of new developments. Our recommendations focus on recalibrating these policies to rejuvenate investment and ensure a steady supply of rental housing.

Student accommodation, another key area of concern, continues to face severe shortages. Addressing this gap is essential not only for the well-being of our student population but also for easing the overall housing market pressures. We propose targeted incentives and collaborative approaches to accelerate the development of high-quality, affordable student housing.

In terms of broader housing supply, the Temporary Development Contribution Waiver Scheme has been instrumental in kickstarting numerous projects. Extending this scheme, along with enhancing support for construction apprenticeships and labour force growth, will be crucial in meeting our ambitious housing targets and supporting economic vitality.

Sustainability remains a cornerstone of our vision. With increasing demands on our national electricity grid, substantial investments are required to modernise

infrastructure and promote energy-efficient practices. Our submission advocates for incentives and policies that drive sustainable development, ensuring that the real estate sector contributes positively to Ireland's environmental goals.

The Help-to-Buy scheme has provided significant support to first-time buyers, yet rising costs necessitate adjustments to keep the scheme effective. By increasing the property value threshold and extending the scheme's duration, we can continue to assist new homeowners in navigating the current market conditions.

Transaction taxes and data services also play a critical role in shaping the investment landscape. Reducing stamp duty on commercial property and enhancing the accuracy and accessibility of housing market data will bolster investor confidence and enable better decision-making.

Finally, we strongly echo Minister for Finance Michael McGrath's recent comments that Ireland must be welcoming to foreign investors to meet the €20 billion annual housing cost. This aligns with our recommendations to create a more attractive environment for international investment. Additionally, the Irish government's target of delivering 50,000 homes per year over the next five years underscores the urgency of securing substantial investment.



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Executive summary

RENTAL ACCOMMODATION SUPPLY RECOMMENDATIONS

- 1 Reassess Rental Caps: Consider the easing of rental caps.
- 2 Promote Long-term Stability: Ensure policy consistency to foster investor confidence and market stability.

STUDENT ACCOMMODATION SUPPLY RECOMMENDATIONS:

- 1 Provide Financial Incentives: Tax breaks or grants for developers constructing student housing.
- 2 Reversal of Rental Caps: Consider the easing of rental caps affecting the student accommodation market.
- 3 Foster Public-Private Partnerships: Collaboration between educational institutions, government bodies, and private developers.

HOUSING SUPPLY RECOMMENDATIONS:

Temporary Development Contribution Waiver

- 1 Extend the Temporary Development Contribution Waiver Scheme: Extend the waiver to counter high construction costs and interest rates.

Labour Demand

- 2 Resource Construction Trade Training: Increase funding to attract and train apprentices.
- 3 Enhance Apprenticeship Visibility: Promote apprenticeship opportunities in secondary schools.

Help-to-Buy Scheme

- 4 Extend the Help-to-Buy (HTB) Scheme: Continue the scheme until at least December 2028.
- 5 Increase the HTB Property Value Threshold: Adjust the cap to €614,000 in Dublin to reflect inflation.
- 6 Maintain Buy-Side Incentives: Retain the scheme alongside supply-side measures for a balanced housing market.

COMMERCIAL STAMP DUTY RECOMMENDATIONS:

- 1 Restore Stamp Duty Rate: Reduce the stamp duty rate on commercial properties from 7.5% back to 2.0% to boost investment and market activity.

ENHANCING DATA SERVICES FOR IRELAND'S HOUSING MARKET RECOMMENDATIONS:

- 1 Increase Funding: Allocate resources to improve data accuracy and timeliness.
- 2 Develop Real-Time Systems: Invest in technology for real-time data tracking.
- 3 Enhance Accessibility: Integrate data sources and improve accessibility.
- 4 Regular Audits and Updates: Ensure continuous improvement in data quality.

ENERGY AND SUSTAINABILITY IN THE REAL ESTATE SECTOR RECOMMENDATIONS:

- 1 Increased Investment: Invest in grid infrastructure to handle increased demand and integrate renewables.
- 2 Incentives for Upgrades: Provide tax incentives and grants for energy-efficient building upgrades.
- 3 Support Existing Building Stock: Promote renovations to improve energy performance.



Rental accommodation supply

The Private Rented Sector (PRS) in Ireland emerged strongly after 2018, when the Government successfully encouraged international investment into the sector.

Due to the time-lag of construction, this took a number of years to translate into new housing units, but we saw over 5,000 units delivered in Dublin in both 2022 and 2023 – representing the most successful segment of the residential market from a supply point of view. However, in recent years, the market has experienced a dramatic downturn, attributed primarily to government interventions such as rental caps, combined with rising interest rates and construction costs. These measures, although aimed at protecting tenants, have inadvertently discouraged international investors, leading to a decline in the development of new rental units – with Dublin PRS completions set to decline by 68% to 1,600 units in 2025, Savills' data show. This reduction is further evidenced in the CSO's planning permissions data for Q1 2024, which showed a 57% y/y

decrease in the number of apartments approved in Dublin during the quarter.

Rental caps have made the market less attractive to investors by limiting potential returns on investment. Typically, investors have an exposure of 20% of rental income that goes on operational costs. In an inflationary environment where rents are capped at 2% but costs are uncapped, costs will erode ever more into the revenue element. Because PRS investors are long term owners of real estate, this dynamic makes investment into the sector unattractive. Even as inflation falls, the risk remains that inflation will increase again into the future, so the unattractiveness will persist even if inflation is tamed. In short, this regulatory environment has created uncertainty, driving away the international capital essential for sustaining and growing the PRS sector.

Recommendations:

1 REASSESS RENTAL CAPS:

Consider the easing of rental caps to create a more favourable investment climate. This adjustment would reassure investors of the potential for reasonable returns, encouraging them to re-enter the market and once again deliver much-needed rental supply.

2 PROMOTE LONG-TERM STABILITY:

Ensure policy consistency and long-term stability to build investor confidence. Clear, predictable policies will make Ireland a more attractive and reliable destination for foreign investment.

Student accommodation supply

The demand for student accommodation in Dublin far exceeds the current supply.

According to the Higher Education Authority (HEA), there are approximately 84,000 full-time students in Dublin. Dublin currently has less than 20,000 beds, encompassing both privately owned schemes and on-campus housing, resulting in a shortfall of over 64,000 bed spaces, or a 4.2x student-to-bed (STB) ratio. However, considering some students live at home, the true shortfall may be closer to 25,000 to 30,000 beds.

This shortfall not only hampers Dublin's appeal as a leading educational hub but also impacts the overall student experience. It also displaces students into the private rented sector, adding to pressure in this segment of the market and where rents are also higher when compared with student accommodation. Addressing this issue is crucial for sustaining Dublin's educational excellence and economic vitality, and helping to smooth bottlenecks in other parts of the housing market.

Recommendations:

1 PROVIDE FINANCIAL INCENTIVES:

Offer tax breaks or grants to developers who construct student accommodation. These incentives should be linked to commitments on affordability and quality standards to ensure that the housing provided meets students' needs without exorbitant costs. Our proposal is for the introduction of interest cost deductions for student accommodation that provides a minimum of circa 50 beds and to include specific ancillary facilities such as study centres and communal spaces.

2 REVERSAL OF RENTAL CAPS:

The introduction of rental caps have had an adverse impact on the market, like they have had in the wider private rented market.

3 FOSTER PUBLIC-PRIVATE PARTNERSHIPS:

Encourage collaboration between educational institutions, government bodies, and private developers. Universities could provide land or capital, while private developers bring in the expertise and operational efficiency.

Housing supply

Temporary Development Contribution Waiver Scheme:

The Government's Temporary Development Contribution Waiver Scheme, introduced to alleviate the financial burden of development contribution levies on new housing projects, has played a critical role in facilitating housing development across Ireland. This scheme covers the full cost of development contribution levies due to local authorities, thereby encouraging the commencement and progression of numerous housing projects.

To meet the ambitious target of delivering 250,000 homes over the next five years, we believe that the waiver scheme should be extended for at least another three years. Here are the key reasons:

Recommendations:

1 SUPPORTING HOUSING TARGETS:

Extending the scheme will provide the necessary support to meet the government's target of 250,000 homes. It ensures that financial relief continues, enabling developers to plan and execute large-scale projects without the immediate pressure of levies.

2 ADDRESSING HIGH CONSTRUCTION COSTS AND INTEREST RATES:

The current economic environment is characterised by high construction costs and interest rates. Extending the waiver scheme will help mitigate these financial challenges, making housing projects more viable and attractive to developers.

3 ENCOURAGING CONTINUED HOUSING COMMENCEMENTS:

Analysis has shown that the waiver scheme has contributed significantly to increased housing commencements. For instance, there were an additional 8,878 residential units commenced between March 2023 and February 2024 compared to the previous year. Continuing the scheme will sustain this momentum and prevent a potential drop in new housing projects.

4 STABILISING THE HOUSING MARKET:

A longer-term extension will help create a more stable and predictable housing market. It will provide developers with the confidence needed to invest in new projects, knowing that they have a supportive fiscal environment.

Housing supply

Labour demand:

The Expert Group on Future Skills Needs estimates that total labour demand of around 67,250 by 2025 and in excess of 82,300 by 2030 is required to meet the annual target of 33,000 housing units delivered per year. The source of this labour demand could include net inward migration via changes to the employment permit system, as well as increases in education and training outputs. The ESRI suggests that a reallocation of resources from the commercial section of the construction sector to the residential section could help alleviate some of the potential labour constraints on today's housing delivery.

Savills would strongly caution against such a reallocation however, given the economic importance of commercial development to attracting FDI. Without this development activity,

Ireland risks losing its position as a global leader in attracting FDI. As such, we recommend focusing on policies that seek to grow the construction labour force, rather than displacing resources from one segment of the market to another.

The Dublin office vacancy rate is currently 15.0% and thus at a level which makes new speculative development unviable. In this respect, the market is self-correcting with virtually no new speculative office developments starting in Dublin. While there may appear to be a lot of office construction underway in the city, these are developments which would have started a number of years ago, or are else pre-let developments by occupiers who wish to upgrade their offices to modern, energy efficient offices as part of their ESG targets.

Recommendations:

1 PROPERLY RESOURCE CONSTRUCTION TRADE TRAINING:

The difficulty in getting apprenticeships has been well documented this year. We need to make sure that adequate funding is in place to attract the training personnel to increase student apprentice numbers and reduce training times.

2 ENHANCE THE VISIBILITY OF APPRENTICESHIPS:

Savills recognises the important work being done to attract more young people into construction services. Nevertheless, there is the potential to broaden this reach by enhancing the visibility of apprenticeship opportunities at senior level within secondary schools.

Housing supply

Help-to-Buy:

The Help-to-Buy (HTB) scheme, introduced in January 2017, is a government initiative designed to assist first-time buyers in raising the deposit needed to purchase a new home. It provides buyers with a tax rebate of up to €30,000, or 5% of the purchase price, whichever is lower. This initiative has been instrumental in enabling many first-time buyers to enter the housing market, addressing the deposit gap that often poses a significant barrier.

Since its inception, the HTB scheme has been highly successful and popular among first-time buyers and the housing industry (to date, of the 48,454 HTB claims made, 47,356 have been approved). It has provided critical financial support to thousands of buyers, facilitating homeownership, and stimulating demand in the housing market. The scheme has also

played a role in driving new housing developments, contributing positively to the overall housing supply.

The Help-to-Buy scheme is popular with buyers and developers alike and has been an example of a successful policy. However, with rising construction costs, inflation, and the cost of borrowing, the current HTB scheme threshold of €500,000 is no longer adequate. Consumer inflation has increased by 22.8% since 2017, suggesting the threshold should be raised to at least €614,000 to maintain its effectiveness. Furthermore, Dublin house price inflation, has grown by 44% since 2017, which would put the new threshold at €720,000. Additionally, construction cost inflation has outpaced general inflation, further limiting the number of eligible properties under the current cap.

Recommendations:

1 EXTEND THE HTB SCHEME FOR 3 YEARS:

To ensure continued support for first-time buyers and stability in the housing market, we recommend extending the HTB scheme until at least December 2028.

2 INCREASE THE PROPERTY VALUE THRESHOLD TO AT LEAST €614,000 IN DUBLIN:

Adjust the property value cap to at least €614,000 to reflect inflationary trends and rising construction costs, thus maintaining the scheme's relevance and effectiveness.

3 MAINTAIN BUY-SIDE INCENTIVES ALONGSIDE SUPPLY-SIDE MEASURES:

With the government's commitment to deliver 250,000 new homes over the next five years, it is crucial to retain the HTB scheme alongside any new supply-side initiatives to ensure a balanced approach to housing market challenges.

Commercial Stamp Duty

The rate of stamp duty on commercial property has increased substantially in recent years.

In Budget 2012, stamp duty was lowered to 2% as part of a market stimulus package to great effect. This 2% rate remained in place up until the end of 2017, then as part of Budget 2018 the rate was increased to 6%, while a subsequent increase to 7.5% became effective from October 2019 as part of Budget 2020. It has remained at this elevated level ever since, with Ireland now having one of the highest real estate transfer taxes in Europe.

Additionally, there are considerations for the wider economy. Fewer commercial development will lead to slower economic growth, as fewer businesses have the option of establishing or expanding their operations in Ireland. Less transactional activity might also ultimately mean a reduction in government tax revenues, which is counter to the objective of transaction taxes.

Recommendations:

1 RESTORE STAMP DUTY FROM CURRENT RATE OF 7.5% BACK TO 2.0%:

This would help to restore investor confidence in Irish real estate.

Enhancing **data services** for Ireland's housing market

Accurate, timely data is fundamental to making informed public policy and business decisions. However, current data systems are insufficient, often lagging significantly behind real-time developments. To address this, we advocate for increased resources to enhance the provision of data services, ensuring up-to-date and robust information systems.

Recommendations:

1 INCREASE FUNDING FOR DATA SERVICES:

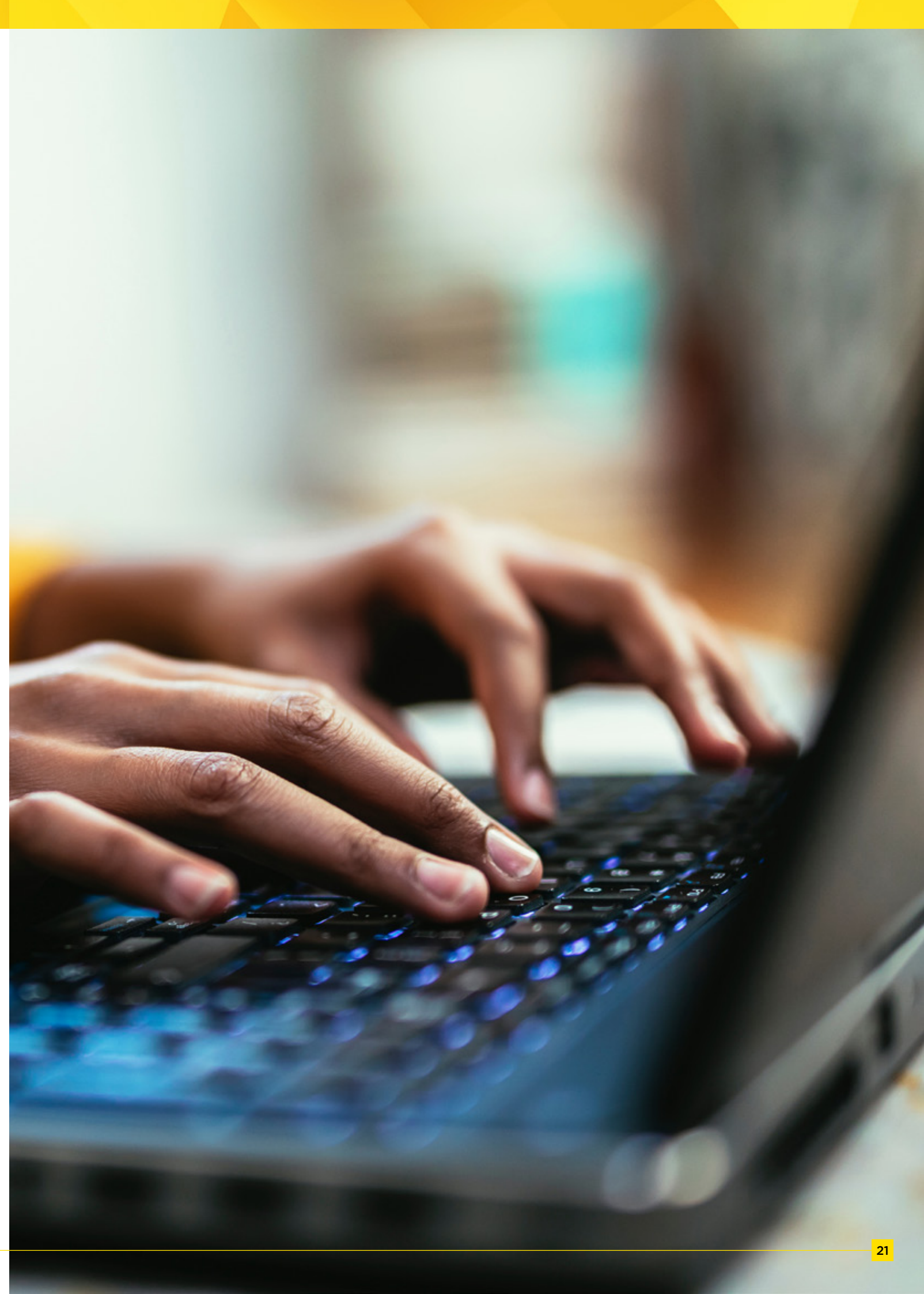
Allocate additional resources to the agencies responsible for housing market data, such as the Residential Tenancies Board (RTB). This will ensure they can produce timely and accurate reports. For instance, the RTB's rental report is currently six months out of date, with Q4 2023 data being the latest available with the Q1 report not due until September.

2 DEVELOP REAL-TIME DATA SYSTEMS:

Invest in technology to develop real-time data tracking and reporting systems. This would allow stakeholders to access current market conditions and trends, facilitating better decision-making.

3 ENHANCE DATA INTEGRATION AND ACCESSIBILITY

Improve the integration of various data sources and make them more accessible to policymakers, researchers, and the public. This can be achieved through standardised formats and centralised databases.



Energy & sustainability in the real estate sector

According to the Irish Green Building Council, better use of existing building stock and high-quality energy upgrades are essential for sustainability.

According to the Irish Green Building Council, better use of existing building stock and high-quality energy upgrades are essential for sustainability. The real estate sector plays a crucial role in Ireland's push towards sustainability and energy efficiency. With the increasing pressure on the country's electricity grid, substantial investments are necessary to accommodate the rising electricity demand. This is particularly relevant as we upgrade or retrofit buildings, especially in the commercial real estate sector.

Current Challenges and Future Demands:

Electricity Grid Strain:

Ireland's electricity grid is already under significant pressure, and this is expected to intensify. Upgrading and retrofitting buildings will initially increase the demand on the grid. However, once energy-efficient systems are installed, the overall demand from these buildings will decrease due to improved energy efficiency.

Investment Needs:

Significant investment is required to modernise the grid infrastructure. This includes enhancing capacity, integrating renewable energy sources, and improving grid resilience.

Recommendations:

1 INCREASED INVESTMENT IN GRID INFRASTRUCTURE:

Advocate for substantial government and private sector investment in the electricity grid to handle increased demands and support the integration of renewable energy sources.

2 INCENTIVES FOR RETROFITTING AND UPGRADING BUILDINGS:

Implement tax incentives and grants for property owners who invest in energy-efficient upgrades and retrofits. This not only reduces long-term energy demand but also promotes sustainable practices within the sector. Key to achieving this will be an effective communication strategy highlighting the tangible advantages of investing in such upgrades for property owners.

Public Procurement and Green Building Standards

The recently published Green Public Procurement Strategy for 2024 to 2027 aligns closely with the objectives of the Energy Performance of Buildings Directive (EPBD). However, it is essential to address the gaps related to the Energy Efficiency Directive (EED) requirements, particularly concerning new rental agreements for the public sector. The mandate for nearly Zero-Energy Buildings (nZEB) should be more explicitly defined, including specific clauses aimed at achieving nZEB standards.

Recommendations:

1 DEVELOP A ROADMAP FOR PUBLIC SECTOR BUILDINGS:

A comprehensive roadmap should be established, outlining the specific energy and sustainability requirements for public sector buildings. This roadmap should detail the steps needed to meet nZEB standards and include timelines and milestones for implementation.

2 INCENTIVISE SUSTAINABLE RETROFITS:

Provide financial incentives for the retrofit of existing buildings to enhance energy efficiency. Examples from other regions show that subsidies and tax breaks significantly increase the uptake of sustainable building practices.

3 SUPPORT FOR EXISTING BUILDING STOCK:

Encourage the better use of existing building stock by supporting renovations and upgrades that improve energy performance. According to the Irish Green Building Council, improved use of existing structures can lead to substantial energy savings and reduced emissions.



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