TUARASCÁIL ón gComhchoiste Fiosrúcháin i dtaobh na Géarchéime Baincéireachta

An tAcht um Thithe an Oireachtais
(Fiosrúcháin, Pribhléidí agus Nósanna Imeachta), 2013

REPORT of the Joint Committee of Inquiry into the Banking Crisis

Houses of the Oireachtas
(Inquiries, Privileges and Procedures) Act, 2013

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Construction Industry Federation
CIF: Core Book 13

January 2016

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THEME: C4

Appropriateness and effectiveness of the domestic policy responses

LINE OF INQUIRY: C4b

Establishment, operation and effectiveness of National Asset Management Agency (NAMA)

Introduction

Since the announcement in the Supplementary Budget 2009 that the National Asset Management Agency (NAMA) was to be established, the CIF engaged with Government and the NTMA in relation to the scope and operation of the proposed Agency.

The Federation engaged independent U.K. based Economic Consultants, Lombard Street Research to analyse the current economic and financial crisis facing the country and to outline its recommendations in relation to the proposed NAMA. Solicitors and Senior Counsel were also engaged to examine key issues. Both the Lombard Street Research Report and legal reports were submitted to NAMA for attention.

There are major issues contained in the Bill giving NAMA such extreme powers that will ultimately be counter productive in that it is a potential discouragement to effort from borrowers. This has potential to result in NAMA objectives being much more difficult to achieve.

The requirement for interim measures to address the current vacuum being created between NAMA announcement and transfer of loans to NAMA must also be addressed.

The draft legislation in its current format is unacceptable as it fails to provide adequate redress for borrowers in relation to the extreme powers afforded to NAMA. While the authors of the draft legislation may feel that the additional extreme powers are required in situations where 'debtors' are non-cooperative with NAMA, the current draft provisions should be modified so as to protect those debtors who work with NAMA on a co-operative basis. Protection for these borrowers should be provided for in the legislation.

The Report from the Federation's legal advisors, PJ O'Driscoll Solicitors attached sets out in greater detail the legal issues arising from the Federation examination of the draft legislation. This submission should be read in conjunction with the PJ O'Driscoll Report.

A summary of the key issues is also set out below:-

1. Requirement for Efficient Functioning Property and Construction Sector

The draft legislation does not acknowledge the compelling need, for the economy and a fully functioning banking system, of an efficient functioning property and construction sector. No reference is made to the position of the borrower in any aspect of the draft legislation provision.

The need to restore an efficient functioning property and construction market should be set out as one of the compelling reasons for the purposes of the Act as set out in Section 2(b). In addition, while the facilitation of credit availability in the market is included as a function of NAMA, the draft legislation must be extended to include the procedures by which this is to be achieved.

2. Interim Solution Required

There is no reference in the draft legislation in relation to how the vacuum which has been created since the announcement in the April Supplementary Budget 2009 of the proposed establishment of NAMA and the actual transfer of loans to NAMA over the next twelve months will be addressed. The draft legislation is silent on the operational issues required to maintain activity in the economy while NAMA is being established.

Guidance and direction must be given to banks immediately and provision must be made in the proposed Bill for this vacuum to be adequately addressed. An outline of the interim solution must be provided for together with practical approach for ensuring the continuing viability of credible businesses. If adequate provision is not made in the Bill to deal with borrowers who find themselves in the vacuum over the next twelve months, the current problem in the construction and development sectors and banking sectors will continue to deteriorate making the NAMA task much more difficult to solve in the short to medium term.

Provision must be made in the legislation which can guarantee the availability and renewal of facilities to credit worthy borrowers so as to enable construction and development activity be maintained in the economy. While the draft Bill can be seen as an interim solution for Government and for the banks, it does not serve as an interim solution whatever for the construction and development industry. Due cognisance must be taken of this fact and provision made accordingly.

During the valuation process NAMA should directly take account of any outstanding creditors relating to underlying projects by deducting them from the initial draft valuation submitted by the banks. If NAMA does not do so it may overvalue the security and may be exposed down the line to funding such payments if it wishes to progress with the project. This is necessary as some of the banks are not implementing the Central Bank guidance letter with some of the borrowers.

NAMA itself may lose out if an interim solution is not put in place. Reports from CIF members indicate that if a borrower currently needs funds from the banks, even undrawn money due on foot of previously issued letters of offer, the banks are reneging on the existing contract and insisting on additional security. The fact that the loan is backed by additional security will justify the bank seeking a higher transfer value from NAMA but will leave the borrower in a weakened position whereby he may not be able to support new security requirement for future working capital requirements necessary to meet payments due to creditors, including NAMA.

3. Codes of Practice

Section 33 of the proposed legislation provides that NAMA shall prepare Codes of Practice for approval by the Minister within three months after establishment day.

While the Codes of Practice will be public documents following approval by the Minister, appropriate consultation must take place with the industry in preparation of the draft Codes of Practice. Loans should be categorized into viable loans, challenged loans, non performing loans (probably need a number of categories ranging from long term prospect of recovery to full write off).

Code of Practice should deal with lending policy. The management of the relationship with the borrower needs to be clearly defined including the portfolio size for each manager. This may be in the current bank but the bank's motivation to have enough good skilled people effectively managing the portfolios may be curtailed when the risk moves. It would be better if the management team have an incentive to provide quick decisions. They will need to define what delegated authority each manager has and the scope of this authority.

Service standards need to be set including the time taken to make decisions. The initial big decision will be what loans are taken, when will these new arrangements be operating and when will NAMA makes its decision on the loan category.

In particular, specific attention should be paid to outline NAMA's policy with respect to loans where interest continues to be paid and the circumstances under which NAMA will exercise its legislative powers in relation to such loans.

Codes of Practice should be drafted now in consultation with Banks and the industry so that, as soon as NAMA becomes operational, its staff has clear direction in relation to these issues.

4. Vesting Orders

The draft legislation proposes that NAMA will be given power to apply to Court for a Vesting Order, the effect of which will be that title passes to NAMA. The borrower's right to redeem the loan is extinguished. NAMA is not obliged to sell the property but yet the full debt remains due by the borrowers.

This is a draconian power which is capable of use by NAMA immediately in relation to almost every loan transferred to NAMA in view of the fact that most loan documents allow the lender to call in the loan at any time (giving rise to the power of sale being exercisable) and thereby triggering the right to apply for the order.

The current loan contracts will have provision for the sale of property as mortgagee in possession or under the power of a receiver. There is no need for Vesting Orders or statutory receivers.

Vesting Orders are ___ akin to foreclosure. This conflicts with the Land and Conveyance Law Reform Act 2009. The Vesting Order provisions should be removed from the legislation. At a minimum detailed policies and procedures should be set out in relation to the circumstances under which a Vesting Order would be used. As currently drafted, it can be used to acquire at today's value the property held as security for a performing loan.

5. Commercial Sensitivity of Debtor Information

Sections 45 to 51 make particular reference to preparation of annual statements, annual accounts, annual reports and other reports to the Minister. The commercial sensitivity of debtors information must be respected at all times. No commercial information should be released in respect of any debtor in any reporting requirements for NAMA, C&AG, the Committee of Public Accounts or Oireachtas committees. All debtor information should be respected by NAMA on a confidential basis akin to current Revenue Commissioners obligations in relation to their dealings with taxpayers. Confidential information should never be available for use by any party other than NAMA.

6. Definition of Eligible Bank Assets

Section 56 provides for the designation of eligible bank assets. In particular, the definition of development land should be clarified under section 56(1). In addition, section 56(1)(e) provides that the Minister may prescribe any other class of bank asset, the acquisition of which, in the opinion of the Minister, is necessary for the purposes of this Act. This is too wide-ranging a provision and is not required to enable NAMA perform its functions. This has potential to lead to uncertainty going forward for a proper functioning banking and property market.

7. Associated Debtors

This matter is very serious. There is a real danger that a decision on one debtor will be affected by the situation of another debtor even if the loan is not cross secured.

Section 56 (6) goes on to define what is an "associated debtor". The definition of associated debtor will include a person who has a credit facility with a participating institution completely unconnected with development land but who is or was in the past in partnership with a debtor or, indeed, who merely acted in the capacity of nominee or trustee in relation to a debtor. The provision does not require that there be any link between the loans or even the association with the debtor and has to be in relation to the debtors' property securing the loans transferred to NAMA. Conceivably, a solicitor or other party who acted as nominee or trustee for a developer can find his loans eligible for transfer to NAMA merely on this account. The bringing in of debtors who were associated in the past is very severe and should not be necessary.

The definition of Associated Debtor as set out in the draft legislation must be narrowed so as to remove the wide interpretation of an Associated Debtor which will lead to serious injustice in the future.

8. Notification to Borrowers and Input to Valuation Process

The draft legislation as currently presented does not include the borrower having any input into the valuation process of his loans and also denies him the right to be informed of the price paid by NAMA for relevant loans.

Provision should be made in the draft legislation that borrowers can have an input into the valuation process for his/her loan, and also be advised of the outcome of the valuation process.

Section 64 of the draft legislation provides that NAMA should identify eligible bank assets of a participating institution that it proposes to acquire and indicate a timetable for the proposed acquisition of those assets.

There is no provision in the draft legislation that debtors be notified of the proposed inclusion of its loan in the acquisition schedule when the schedule is being prepared. It is requested that a debtor be notified of the existence and the value of the asset which has been included in the acquisition schedule so that the debtor can have the same rights as the bank to object to the inclusion of the asset in the acquisition schedule directly to NAMA.

The provisions, as currently drafted, exclude the debtor from any participation in this process.

While the participating institution is required to make reasonable efforts to notify each debtor of the acquisition of the bank asset by NAMA, no timeframe has been specified for the participating institution to notify each debtor of the acquisition having taken place. The responsibility to notify the debtor should rest with NAMA and a borrower should not be subject to any of the provisions of the legislation until that notification has been given. A set timeframe should be provided for in the legislation within which each debtor should be notified of the acquisition having taken place.

Section 107 provides for servicing arrangements by participating institutions of NAMA acquired bank assets.

All debtors should be automatically notified of proposed servicing arrangements following transfer of bank asset to NAMA

9. NAMA's powers to Dispose of Assets

Section 114 sets out NAMA's powers to dispose of any acquired bank asset (including any credit facility) to any person having regard to certain criteria.

The debtor in respect of such bank assets should receive notification by NAMA of any intention to transfer, assign, sell or otherwise dispose of the relevant bank asset.

10. Conditions not to be affected by Acquisition of Bank Asset

Section 80 provides that NAMA at its discretion may determine the reference rate of interest for a bank asset that has been acquired by NAMA.

NAMA should be precluded from adversely altering terms and conditions. Where the reference rate for interest is no longer available, objective commercial criteria should be set for the determination of interest rates chargeable for such facilities.

11. Power of Entry to Protect Value or Condition of Land and Buildings

Section 116 enables NAMA apply to the Judge of the District Court for an entry and maintenance order authorising it to enter upon lands and execute certain works. There is no statutory requirement on NAMA to furnish advance notice to the debtor giving him the opportunity to carry out the required works in advance of the application being made to the District Court.

Prior to commencement of the application process to the District Court, the owner and occupier of such land should receive a minimum of 21 days notice enabling him carry out such works. This should take place prior to application being made to the District Court by NAMA so as to avoid unnecessary legal expense and litigation.

12. Effect of Certain Assurances on Land

It is crucial that, once the property market starts to recover, sales can proceed quickly. Section 119 is considered unnecessary and likely to give rise to uncertainty in relation to rights affecting land in the ownership of developers (and indeed all landowners) and will cause conveyancing difficulties. The conveyancing difficulties identified in our legal submissions will need to be addressed.

NAMA has adequate CPO powers in the legislation to deal with the acquisition of any necessary easements. No purchase in good faith and for value should be capable of being rendered void. Removal of this section will avoid unnecessary delays in conveyancing as a matter of course in the future. Furthermore there is no provision for compensation if the land becomes subject to rights by virtue of S.119. A timeframe for NAMA challenging any assurance should also be included in the legislation.

13. Compulsory Acquisition of Land

Sections 133 to 144 provide a somewhat streamlined approach for NAMA to compulsorily acquire lands. However, provision should be made in the legislation whereby interest should be payable by NAMA from date of entry on lands which applies under current compulsory purchase order provisions in other legislation. Notification to landowners should be an absolute requirement.

14. General Powers in relation to Land

Section 145 provides that notice is to be given to NAMA of certain dealings in land etc. The provision states that a person, who owns lands that is an acquired bank asset, who also has an interest/option in other land, will not deal with that other land, interest or option without giving reasonable written notice to NAMA where the charged land would be unable to realise its full value unless the relevant land or interest was owned or held by NAMA.

This provision is vague and not workable and will cause significant difficulties for convenyancing of all lands. This provision should be removed from the draft legislation.

15. Verbal Representation/Undertaking

Verbal Representation/Undertakings given by banks to borrowers must be enforceable against NAMA – at a minimum the borrower should be given a right to put NAMA on notice of them. The borrower should not be put at a disadvantage in enforcing his right to secure performance under undertakings from the bank because of the fact that the bank (participating institution) failed to notify NAMA of such undertakings.

16. Legal Proceedings

This entire section is a serious concern to the construction and development sector as it curtails the right of access to the Courts for those adversely affected by the immense powers provided for in the legislation. There is no precedent in Irish law for any organisation/state body to have such legal powers.

An aggrieved party has access to the court only where he can show that his own interest is greater than the public interest. That is an unacceptably high threshold.

His right to obtain an Injunction is severely curtailed. The time limits for initiating proceedings are too short.

Section 153(8) provides that there is no cause of action against NAMA for any injury caused to any third party as a result of NAMA's failure to perform any of the functions conferred on it. This is considered an extremely onerous provision in the legislation and due regard must be had to any aggrieved party in relation to NAMA activities.

The requirement to provide an undertaking for damages supported by security before any action (other than a claim for damages) can be taken could operate to deny the constitutional right of access to Court to persons who are not in a financial position to comply with the requirement. The restrictions on legal challenges are such that a legal remedy will not be available to many.

17. Dispute Resolution Option

Provision should be made in this section whereby a special division of the High Court such as a NAMA Court akin to the Commercial Court or an Ombudsman facility should be available to adjudicate on disputes arising in relation to NAMA activities and its interaction with debtors.

18. Avoidance of certain Transactions

Section 178 provides that the Court may, on application by NAMA, declare certain dispositions to be void where it is satisfied that any assets of a debtor were disposed of in anyway and the effect of the disposition was to defeat, delay or hinder the acquisition by NAMA of the eligible bank asset or to impair the value of the eligible bank asset.

This is a conveyancing nightmare and gives NAMA unreasonable powers over lands that are not charged in favour of NAMA. This provision should be excluded from the draft legislation. At a minimum, it should be revised so that no purchase in good faith and for value should be capable of being rendered void and time limits should apply to the right of NAMA to seek to set aside any disposal.

19. Taxation Provisions

To comply with existing competition policy and to ensure a long term equality of operation in the property industry, the favourable tax advantages given to NAMA under the draft legislation, particularly with respect to income tax, corporation tax and capital gains tax, should be removed. If implemented they will create an unfair advantage for NAMA versus all other players.

20. Representation of Construction Sector on Membership of the Board

Section 18 of the proposed legislation outlines the suggested Board membership of NAMA. As the construction and property sector is a key sector that will be impacted by NAMA operations, the industry requests that two independent representatives for the sector should be nominated to the Board by the Minister. This may require an increase in the Board numbers to nine.

21. NAMA's relationship with NTMA

Chapter 4 of the proposed legislation deals with NAMA's relationship with the NTMA. On point of clarification, will NAMA report or will it be subservient to the NTMA, the Minister or the Houses of the Oireachtas? It would be appreciated if this clarification could be supplied.

22. Expert Advisers and Service Providers

Section 42 of the proposal refers to contracted service providers and the ability of NAMA to engage expert advisers and service providers.

It is difficult to envisage why the services of the National Building Agency are specifically referred to within this provision. NAMA in its own right has adequate powers to engage such expert providers as it sees fit. It is accordingly suggested that all references to the National Building Agency should be excluded from the draft legislation.

Other Issues Not Addressed in the Draft Legislation

23. Identification of Bottlenecks for Enhancement of Asset Values

Provision should be made in the legislation enabling NAMA formally identify bottlenecks for realisation and/or enhancement of long-term economic value of assets in development land. NAMA should also publicly report on this matter as an integral part of normal reporting requirements.

24. Power to Direct Statutory Agencies

NAMA should be enabled direct statutory agencies modify and/or implement schemes to facilitate development in a timely and orderly manner. These directions should be capable of applying not just where NAMA has taken possession of lands but also for the benefit of land the subject of a charge assigned to NAMA.

For example, NAMA directions could relate to:

- funding of major infrastructural schemes where the short and medium term economic values can be maintained and/or enhanced;
- required revision by planning authorities of Development Contribution Schemes and Supplementary Development Contribution Schemes where these are found to be an impediment to timely development; and
- power to direct timely preparation of Local Area Plans, Strategic Development Zones and other Local Area Framework Plans

25. NAMA Rationale for Dealing with the Non Participating Institutions

The NAMA rationale for dealing with the non participating institutions should be outlined in some detail. The scope for non participating institutions compromising NAMA objectives should be addressed in the legislation so that the resolution of the current financial crisis and recovery of the economy cannot be put at risk by activities of the non participating institutions pursuing their own agenda.

The Federation will be happy to supply any elaborations on clarification required in relation to the foregoing: Addressing these concerns will aid NAMA successfully pursue its objective with the co-operation of stakeholders going forward.

Hubert Fitzpatrick
Director

24 August 2009

Meeting with Construction Industry Federation – NAMA

Date:	28 September 2009	
In attendance:	NTMA	Brendan McDonagh, Aideen O Reilly, John Mulcahy
	DoF	Kevin Cardiff, Derek Moran, Sean Kinsella
	CIF	Hubert Fitzpatrick, Joe Cosgrave, Michael O Flynn, Tom Parlon, Alex Brett

A Operational Issues

A1 Pre - Establishment Issues

(a) CIF queried whether the CBFSAI letter issued in May was still in effect. The letter stated that, where additional funds were lent to a borrower following the announcement to establish NAMA, a haircut would not be applied on these amounts provided funds were lent on a sound commercial basis. CIF noted that the banks were indicating that this was no longer the case following the formal publication of the Bill, and members were finding it very difficult to secure working capital. DoF/NTMA stated that the letter was still in force. In addition, NTMA was not in a position to micro manage credit decisions which were a matter for the institutions but would raise the issue generally with them.

(b) CIF also suggested that the institutions were engaging in other activity which was negatively affecting borrowers and which could also prejudice NAMA's future position. CIF indicated that institutions were seeking (for example, by withholding working capital) to maximise the transfer value of relevant loans by securing additional security by way of further cross collateralisation or the addition of personal guarantees. By requiring these actions now, CIF believe the institutions will harm the position of the borrower and limit their flexibility and ability to repay NAMA over time.

(c) A third issue raised by CIF related to the position of outstanding creditors of property companies whose loans transfer to NAMA. NAMA should factor this into valuation process, as outstanding creditors will attach to the borrower on transfer.

(d) It was indicated to CIF that the banks had appointed NAMA liaison officers.

A2 NAMA Business Plan & Budgeting

NTMA indicated that a preliminary business plan was currently being drafted but was subject to change following the establishment of NAMA and the appointment of the NAMA Board. CIF were keen to see NAMA operating as a bank as well as an asset management agency and queried what level of funds would be made available to fund project completions and commercial loans. DoF/NTMA indicated that NAMA had a lot of flexibility to manage and fund its own assets but its primary function was as a workout vehicle for loans transferred. The objective was to leave behind a cleansed and functional banking system in a position to finance new developments.

The reduction in NAMA's ability to borrow to €5 billion was also a matter of concern for CIF. They queried whether this amount could cover the undrawn facilities on the projected NAMA portfolio, and whether it was enough to fund project completion and performing loans. DoF indicated that the control on borrowing was a mechanism of Oireachtas control, common to all public bodies. Should it become clear that NAMA required additional funding, the Bill permits the Minister to return to the Oireachtas to seek this funding.

A3 Realisation of Assets

CIF expressed concerns over indications that NAMA would seek to realise, by enforcing security, a significant proportion of assets in the short term. NTMA indicated that NAMA's role was to work out these loans on a case by case basis to achieve the maximum return for the taxpayer. This involved taking a longer term approach to these assets and no targets in terms of asset realisation had been set down.

A4 Personal Assets & Liabilities of Borrowers

CIF were concerned that banks were consolidating borrower's corporate and personal assets and liabilities. This would have the impact of undoing efforts by borrowers to separate their business and private operations. CIF were also concerned that NAMA would engage in this activity, and have stronger powers than a bank when the definition of 'associated debtor' in the Bill was factored in.

DoF/NTMA indicated NAMA would be in the same position as the banks following the transfer of the borrower's loans and would manage the loans in order to ensure the best return. It was important that the transfer of loans dealt with the borrower's complete exposure across the institutions in order to create confidence in NAMA's operation.

A5 NAMA Board

CIF support the appointment of a non-conflicted retired industry professional to the Board. DoF/NTMA indicated CIF should send in their suggestions.

A6 Transfer of Borrowers

CIF queried when this would begin. NTMA/DoF indicated they expected the top 10 exposures to transfer by Christmas, the top 100 by February 2010 and all loans by June 2010. This was dependent on a number of issues including the finalisation of the legislation and the adequacy and efficiency of the preparation work being undertaken by the institutions.

A7 Borrower Business Plans

CIF sought guidance on what NAMA would like to see in borrower business plans that NAMA was likely to require following the transfer of loans. DoF/NTMA indicated that this would become clearer following the appointment of the NAMA Board and when the legislation was finalised.

A8 Codes of Practice

CIF enquired whether any progress had been made in drafting the Codes of Practice provided for in the legislation. NTMA indicated that the Codes would be published within 3 months of establishment as provided for in the legislation, but that no progress had been made on these currently.

A9 Stimulus

CIF put forward the merits of a Government stimulus for the property market. CIF indicated that it would unlock substantial tax revenues and be beneficial for the Exchequer.

B NAMA Bill Issues

B1 Social Dividend

CIF expressed concerns that NAMA's commercial focus might be distracted by the inclusion of social policy related provisions, which would incentivise foreclosures and impact valuation. DoF/NTMA indicated that the use of property for socially beneficial purposes would only be an issue where NAMA had foreclosed. It would not make sense for NAMA to foreclose on a borrower where they were in a position to meet their obligations over time.

B2 Lending Targets

CIF queried whether lending targets would be inserted into the NAMA Bill. DoF indicated that this issue and measures to ensure the supply of credit following the establishment were being examined in detail by Government.

B3 Tax Issues

DoF outlined the Government's policy on the proposed windfall tax on rezoned land and indicated that detailed proposals were currently being prepared. It was agreed that DoF would meet CIF to discuss their views on the detailed operation of the proposal while noting that the policy and tax rate had been agreed at Government and was not for discussion. Some other minor tax issues were also clarified.

B4 Borrower Confidentiality & Default

CIF expressed concerns about certain media commentary proposing the publication of all NAMA borrowers. DoF/NTMA noted that the Minister indicated that where a borrower was continuing to meet their obligations no details would be disclosed. Where a default arose, details would become public in the normal way.

CIF also expressed concerns that the transfer of a borrower's loan to NAMA would in itself be seen as a default by the borrower and prejudice their future dealings. CIF requested that consideration be given to including a provision in the Bill indicating that this was not the case. DoF/NTMA indicated that this was not the intention [and would consider the inclusion of a provision.]

B5 Borrowers Reacquiring Assets

CIF were concerned that the legislation was too restrictive in terms of allowing NAMA borrowers to reacquire assets. DoF/NTMA indicated that for NAMA to realise its objectives it would have to develop and complete projects as well as sell properties. However, the position of developers who defaulted to a significant extent would have to be taken into account including the outstanding debt.

B6 Vesting Orders

CIF were concerned with this power and considered the powers included in loan contracts sufficient to allow NAMA to enforce security. NTMA/DoF indicated that this was a limited power as set out in the legislation and necessary to protect NAMA's position in a restricted number of situations.

CIF noted that the provision in the Vesting Order chapter, excluding their application to principal private residences was not in the Bill as initiated. DoF/NTMA agreed to follow up and revert to CIF.

B7 Provision of Information to Revenue

CIF raised concerns with the section that allows Revenue to seek information from NAMA. DoF/NTMA indicated that this was a limited provision, to be used on an ad-hoc basis, but was necessary to protect the State and prevent the duplication of resources.

To: Mr Cardiff
From: Sean Kinsella

Date: 29 September 2009

Re: Meeting with CIF Re NAMA

As discussed, see attached relatively detailed draft note of yesterday's meeting.

NAMA responds to Construction Industry Federation report

30/11/2010

The National Asset Management Agency completely rejects the flawed and one-sided analysis of the Agency published today by the Construction Industry Federation (CIF).

NAMA's key points in response to CIF Report are:

- The Report is not objective.
- CIF would prefer NAMA to help developers deal with their problem loans at the expense of the taxpayer while allowing them siphon off and profit from their performing loans.
- Report is factually incorrect in respect of many of its criticisms of NAMA (NAMA has never said it is unwilling to bring in external finance. NAMA has never said it is unwilling to provide working capital etc)
- Report blithely ignores the fact that NAMA is implementing policy of Oireachtas and terms of approval by EU.
- Current plans to expand role of NAMA testifies to international confidence and credibility in its operations.

The CIF has engaged in regular criticism of the Agency since it was first conceived. That criticism has been grounded in a naive expectation by the CIF that NAMA would protect the developers and the broader construction sector from the impact of the excesses of the property bubble and its subsequent collapse in which some members of the CIF played a significant role.

Central to the CIF's argument over the past 18 months or so has been the notion that NAMA should take problem loans off the hands of developers and banks while leaving both these parties to benefit from their portfolio of performing loans at the expense of the taxpayer. This was never the intention of NAMA which has to deal with the borrower on a holistic basis to optimise the potential recovery.

A further conceit on the part of the CIF is the notion that NAMA is an independent entity which can make up its own rules as it proceeds. In fact NAMA is bound to implement a clearly defined policy set out by the Oireachtas and approved by the EU Commission. This specifically requires NAMA to deal with borrowers and banks holistically so that they cannot walk away from the consequences of their poor decision making and continue to profit from those investments which are profitable or performing.

Beyond that there are a number of inaccuracies in the Report which should be highlighted.

- NAMA does not discourage external capital. NAMA has worked with borrowers to enable joint venture projects to be pursued with third parties where it made commercial sense for all parties.

- NAMA has no problem with accepting bids in excess of what the Agency paid for assets. The bids have been for loans. To suggest otherwise is a nonsense. This is at variance with the CIF previous position when they sought assurances from NAMA that loans would not be sold to third parties.
- NAMA has worked with borrowers and other Non NAMA banks to dispose of €1 billion of property assets since March 2010.
- NAMA has approved advances of close to €400 million since March 2010 to enable the completion of developments where it makes commercial sense to do so. The Agency does not advance monies on speculative developments such as developers experienced before the crisis.

Finally, it is worth pointing out that in recent days, the remit of NAMA has been expanded by request of the Government and Regulators in Ireland and the troika of international agencies including the IMF, the ECB and the European Union.

In addition the EU has yesterday approved the valuations made by NAMA in respect of the second tranche of loans acquired by the Agency. This means that the EU has now approved the valuations for some 11,000 loans acquired by NAMA.

Speaking today a spokesman for NAMA said:"The construction industry has an important role to play in our recovery but self-serving reports like this suggest that the leaders of that industry are continuing to live in denial of the crisis that NAMA is dealing with. NAMA did not cause the problems in the construction sector or the banks but we are trying to find solutions and fix them in a way which does not penalise the taxpayer. The CIF needs to realise that the world has changed and they would be better off helping their members deal with that changed world and working constructively with NAMA rather than criticising how this Agency works."

A report on NAMA by Lombard Street Research

Introduction

In May 2009 Lombard Street Research Ltd was commissioned by the Construction Industry Federation (CIF) to produce a report on the Irish government's proposal for a National Asset Management Agency (NAMA) to deal with the Irish financial and banking crisis.

Upon completion of the report, the CIF passed it on directly to the government rather than make it public. Much of the analysis has since been proven to be correct. Had the warnings and recommendations been accepted and implemented they might have assisted in further alleviating the fall-out from the crisis.

As a result, in September 2010, we were commissioned to follow up on the original report with a review of how NAMA has progressed over the course of the past year. This review highlights what the alternative solutions might have been – and indeed might still be – as well as recommending improvements to fulfil NAMA's current mandate.

The 2009 Report

In assessing the NAMA proposal in May 2009, it was assumed that the government's goal must be that Ireland requires a banking system that enjoys the confidence of the public and of the international investment community; and also needs to retain a viable property sector in the future.

<u>The main recommendations and warnings were:</u>

<u>1. General recommendations – assuming the implementation of NAMA</u>

- *Establish political consensus before embarking on any action.*

This is one of the key lessons from the Swedish episode of the early 1990s. While rapid action in a crisis is important, it is equally important to establish political consensus before embarking on any more long-term strategy such as NAMA. Otherwise, the political debate risks quickly derailing the strategy, prolonging the uncertainty in the sectors involved. Moreover, establishing consensus avoids the risk of a new government reversing the policy within a couple of years.

We understand that the NAMA proposal was not preceded by consultation, either with the political opposition or with any of the sectors concerned. Given the substantial and complex changes that NAMA would bring to the Irish economy – and the downside risks of getting it wrong – the need for ongoing consultation and achieving at least a modicum of consensus is obvious.

- *Only shift bad loans to NAMA.*

NAMA is not intended as 'a 'bad bank' but as an asset manager. NAMA is therefore different from the Swedish Securum or the American Resolution Trust Corp, both of which were clearly bad banks, not asset managers.

By taking over good loans as well as bad, NAMA actually impairs the banking system's potential recovery. This would be a departure from previous best practice as experienced in other countries. It would add to the workload and complexity of NAMA at a time when speed and efficacy are of the essence.

- *Set up individual bad banks for each participating bank and/or let the originating bank administer the loan work-out under NAMA supervision*

Letting NAMA take over and administer loans means that the borrowers lose their bank contacts. Since loans taken over by NAMA will by definition be perceived as tainted, it may be difficult for them to find other banks. In turn, this complicates developing projects to the point of sale. By contrast, letting banks administer impaired assets makes use of the skills inherent in the banking sector; as well as individual banks' knowledge about individual clients. This could ideally be done by letting each participating bank set up its own bad bank under NAMA supervision (somewhat similar to the Swedish experience); or by NAMA returning impaired loans to each originating bank on an agency basis. In this situation, NAMA would act as an overseer, rather than directly be involved in the work-out process. While this seems to be the preferred strategy as of late 2010, it is not the one envisaged in the Bacon Report or in the original draft business plan of October 2009. An added advantage with this set-up is that it makes it easier to include loans to Irish property developers originated by foreign banks or syndicated loans with foreign banks included.

It is important that this strategy not only involve an upside for the taxpayer – the more important consideration – but also for the banks, in order to give them a further incentive to finance projects to completion instead of succumbing to the temptation of a fire sale.

- *Actively encourage private participation*

A subsidiary goal in the NAMA proposal is to cap the Irish government's liability. As part of this, NAMA should consider actively encouraging private developers to buy loans off its books and proceed with the development without taxpayer financing. **However, such deals need to be structured so that any sale of the underlying collateral involves a firm commitment to development within a clearly stated timetable.** This should be part of NAMA's exit strategy (see also below).

- *Set a clear exit strategy.*

NAMA will severely distort the Irish property/real estate sector. In order to avoid the temptation for a near-monopoly to perpetuate itself, the government should from the start set out an exit strategy, including a time-frame – eg, 5-7 years – after which NAMA will be wound up.

<u>Possible other options</u>

- ***Temporarily nationalise failing banks.***

The Irish banks need to be restored to health and – crucially – to be seen to be healthy. The complications involved in valuing banks' assets in a rapidly changing economic environment are such that it is difficult to guarantee that all impaired assets have been removed. In addition, there are substantial legal pitfalls involved. Full nationalisation of the banks, with subsequent carve-out and rapid privatisation of cleansed banks could be a better approach. It permits speed and assured inclusion of all the bad loans, plus the skilled personnel to deal with them. The compensation of stakeholders is feasible as the stock market capitalisation of Irish banks is readily affordable by the Irish state. Subsequent profits on work-out and privatisation of "clean banks" could be shared, to the extent they exceed the book values implied by the original stakeholder compensation. It needs to be stressed that the banks should be government-owned for the minimum time possible.

Nationalisation is a contentious option. Governments do not have an impressive track record when it comes to running banks – or other businesses. That being said, the measures already implemented – the deposit guarantee, the recapitalisations – amount to a *de facto* nationalisation of Allied Irish Banks, in addition to the already *de jure* nationalised Anglo Irish Bank. The rationale behind moving to a full – if temporary – nationalisation is to enable a more thorough cleansing of the Irish banking system, as well as avoiding the negative effects of attempting to put a value on banks' assets at a time when their market value is at its most depressed.

- ***Put failing banks into conservatorship***

If nationalisation is rejected, a possible alternative option could be to put the failing banks into conservatorship. Essentially, this can be described as 'nationalisation lite'. It is similar to what was done in the US by the RTC, and also to what more recently has been done with Fannie Mae and Freddie Mac. It involves taking the banks under the government wing without changes in governance structure and, without risking the creation of a monopoly. But the government owns the shares and is clearly in control of the top management appointments, meaning that is it has complete flexibility to identify, isolate and work out bad loans.

For Ireland, this enables the current, already-accepted responsibility for the banks' actions (via liability-side guarantees) to be matched by such proactive power as is necessary, without the government being on the hook for every commercial decision, etc., in the banks (ie, no attempt to 'pick winners' in the property sector). Government due diligence on the loan book can then be done with urgency, but without specific deadline pressure. Clearly, healthy sections of the banks can be hived off and privatised.

Under this method, once the bad loans are deemed to have been stabilised, remaining good ones can be sold off on the domestic or even international market. Even the bad loans may well then be sold off, at a deep discount. The government should not need to raise new money at all to develop projects further – to the extent such projects are deemed economic for further loans (ie, marginal future revenue vs. marginal future costs yielding a positive discounted present value) the asset should be discounted out of the door as fast as possible if it cannot be funded from within the "conserved" bank as part of normal operations. The real problem will be in the hard core of loans that are to dead projects, not ones that have some (even limited) future life.

NAMA – one year on

The CIF brief for the latest 2010 Report is as follows

- Recommendations for NAMA, its targets and operations

- An assessment of NAMA in relation to its establishment and progress to date in addressing key issues that it was established to resolve including setting out where NAMA is now in relation to its task.

- Operation of NAMA:
    - Assess adequacies/deficiencies in current NAMA structure and operations to deliver upon its objectives;
    - What are potential pitfalls for NAMA;

- An analysis of the adequacy of the €5bn working capital available to NAMA and the impact this will have for review of borrower Business Plans and targets set by the NAMA board to pay down NAMA debt.

- An assessment of the macro market issues that will impact upon NAMA;
    - The general economic background of the economy and the requirement to stimulate economic activity;
    - An assessment of sustainable demand for commercial and residential developments in the short to medium term;
    - Role for NAMA in ensuring that a viable development industry exists to address macro issues for future;
    - Impact of current NAMA Business Plan Targets in supporting longer term viable development companies.

Recommendations for NAMA

"Recommendations for NAMA, its targets and operations"

Recent financial turmoil has resulted in some changes to NAMA's mode of operation. However, it also provides the opportunity to take a step back and make a broader judgement on NAMA and its role. Based on the analysis in this report, we make the following recommendations:

- **NAMA should be a developer not just a liquidator**

  The best way for the Irish government and taxpayer to avoid losing money through NAMA is for the construction sector to stabilize and recover. The impression gained by developers is that NAMA currently sees itself as a liquidator much more than as a developer – certainly so when it comes to projects longer than three to five years. By acting in this fashion, NAMA is destroying value at a time when it is crucial to try to put a floor under property prices in order to stop the downward spiral in valuations. The current position undermines values and prolongs the uncertainty over the Irish real estate sector, thus exacerbating the losses that may ultimately be suffered by the Irish taxpayer. It also has a knock-on effect beyond the construction sector by hurting companies supplying the sector.

- **NAMA should accept an element of debt restructuring**.

  By continuing to insist that it will pursue debtors for every cent, NAMA is helping to drive down the value of its assets, denying a return to taxpayers. NAMA should welcome investors prepared to pay more than NAMA has paid for loans, the more so since NAMA's payments presumably represent the estimated long-term economic value of the asset. The refusal to accept that some loans will not be repaid in full risks a destructive two-stage outcome. Stage one is a paralysis where NAMA rejects bids because they do not cover the full nominal loan value. Stage two is a fire-sale when it turns out that this goal was never possible. This would exacerbate the loss for Irish taxpayers and work against NAMA's stated objectives. While it is true that recent statements, eg, by Mr Frank Daly, the Chairman of NAMA to the Committee of Public Accounts on 18th November 2010, show a readiness to contemplate some debt restructuring and/or rescheduling, this is still couched in relatively uncompromising language.

- **NAMA should be more receptive to outside capital.**

  NAMA has limited resources considering its current dominant role in the construction sector. While there is a strong case for NAMA's working capital to be increased, the poor state of the public finances makes this difficult at present. But there will be a need for further capital. If this can be sourced elsewhere, it should be seen as positive for Ireland and for the Irish taxpayer. There is no doubt that there will be very limited need for significant house building over the next few years. However, there is a clear need for commercial and industrial development. Indeed if Ireland is to successfully rebalance its economy towards industry and exports as its competitiveness improves, then the industrial capacity to facilitate this shift will have to be supplied. In turn this will require a flow of capital to be maintained to the construction sector, However, there is a fundamental contradiction here between NAMA's attitude of refusing to accept any debt restructuring and foreign investors, who are unlikely to provide capital unless some such restructuring is in place.

- **NAMA should cease to acquire unimpaired loans.**

  Since NAMA's acquisition process will be completed by the end of 2010, this point is now moot. However, we consider it important enough as a partial explanation to the current troubles of Irish banks to reiterate it. Moreover, there is still a case to be made for unimpaired loans to be managed by banks, leaving NAMA to concentrate its resources on managing impaired loans. By acquiring unimpaired – ie, 'good' – loans as well as impaired – 'bad' – NAMA undermines the Irish banking system that it is ostensibly set up to save. It also has an incentive to underpay for such loans, which exacerbates the situation by further eroding banks' balance sheets. Finally, it means that NAMA is wasting part of its limited resources on something that is not a problem. Worse, it risks destroying value in these assets as well. By contrast, concentrating on impaired loans would potentially speed up NAMA's work – whether liquidating projects or developing them to completion – further saving the Irish taxpayer money.

- **NAMA should drop its "objective" of radically restructuring the Irish construction industry.**

This is, needless to say, not an openly stated objective of NAMA. Yet, as this report will show, it is implicit in much of NAMA's set-up and operation. Like any country, Ireland will in the medium- and long-term need a viable construction industry. Attempting a root and branch restructuring of the existing industry is not necessarily in Ireland's long-term interest.

THEME: R1

Effectiveness of the regulatory, supervisory and governmental regime structure

LINE OF INQUIRY: R1c

Appropriateness of the macro economic and prudential policy

Executive Summary

During the Celtic Tiger boom Ireland experienced a phenomenal growth in property construction and house prices. Construction became a major component and driver of the Irish economy. Both development and its underlying finances were allowed to become massively over-extended, creating an enormous property bubble. Rather than the much hoped for 'soft landing', the bubble popped in spectacular fashion leading to a radical transformation of the property market, with tumbling house prices and widespread negative equity, and a collapse in construction activity.

Government has two principle levers through which it can seek to regulate property development. The first is through fiscal policy with respect to regulating access to credit and determining taxation rates. The second is through planning policy and the zoning of land and the granting of planning permissions. Explanations of the Irish property bubble have focused almost exclusively on the former, and the role of the banks, tax incentive schemes, and the failures of financial regulators. **To date, the role of the planning system in creating the property bubble has been little considered.** And yet, the banks could have lent all the money they desired, but if zonings and planning permissions were not forthcoming then development could not have occurred in the way that it did.

As well as a catastrophic failure in Ireland's banking and financial regulatory system, **there has been a catastrophic failure of the planning system**. In a housing boom planning should act as a counter-balance to the pressures of development in order to maintain a stable housing market and try to prevent boom and bust cycles. Planning should provide checks and balances to the excesses of development and act for the common good, even if that means taking unpopular decisions. However, during the Celtic Tiger period a laissez-faire approach to planning predominated at all levels of governance that was insufficiently evidence-informed with respect to long-term demographic demand, market conditions and issues of sustainability, and which marginalised and ignored more cautious voices. Both the fiscal and planning levers of development were overly pro-growth. As a result, not only was there an unsustainable growth in property prices, but this was accompanied by a property building frenzy that led to a significant oversupply of housing (as well as offices, retail units and hotels) in almost all parts of the country. The level of over-development that has occurred will take years to correct and seriously hamper the recovery of the housing market and the operation of NAMA. Indeed, **there are legitimate questions as to whether NAMA can succeed** in its aims over its intended life-span.

It is our contention that an independent review of the operation of the planning system during the Celtic Tiger years be undertaken to consider fully the role of planning in the creation of the property bubble, similar to the Honohan (2010) and the Regling and Watson (2010) reports on banking and financial regulation. The review would examine planning policy formation and application, and the organisation, operation and regulation of planning within and across different agencies and at all scales in Ireland. It would investigate all aspects of the planning system and its operation, including charges of localism, cronyism and clientelism where appropriate. The inquiry should not take the form of a witch hunt or a blame game, but rather constitute a systemic review of how the planning system failed to counter and control the excesses of the boom and provide a more stable and sustainable pattern of development.

In this working paper, we examine the creation of 'a haunted landscape' – the recent boom and the bust of the Irish housing market, and the creation of a new phenomenon, 'ghost estates'. We draw on and analyze numerous different government and industry datasets to provide a rigorous evidence base for our conclusions. **What the data reveal is a pattern of development that ran counter to what one would have expected or hoped for - those local authorities that had the most vacant stock in 2006, subsequently built the most new housing, now have the highest surpluses of stock, and have the most land zoned for future use.** Essentially, a number of local authorities did not heed good planning guidelines and regional and national objectives; conduct sensible demographic profiling of potential demand; or take account of the fact that much of the land zoned lacks essential services such as water and sewerage treatment plants, energy supply, public transport or roads. Instead, permissions and zoning have been facilitated by the abandonment of basic planning principles by elected representatives on the local and national stage and driven by the demands of local people, developers and speculators, and ambitious, localised growth plans framed within a zero-sum game of potentially being left behind with respect to development. Further, central government not only failed to adequately oversee, regulate and direct local planning, but actively encouraged its excesses through tax incentive schemes and the flaunting of its own principles as set out in the National Spatial Strategy through policies such as decentralisation.

Rather than simply describe what has occurred with respect to housing development over the past twenty years, we seek to provide a detailed explanation of why the bubble was created and the effects of it bursting. We also provide a critique of the government's response to the crisis, and in particular the creation of NAMA. We suggest that seven key issues will need to be addressed before consumers regain confidence, property prices bottom out, and the housing market starts to function properly. First, supply and demand will need to be harmonized. Second, there has to be a sustained growth in the economy with an associated fall in unemployment. Third, house prices have to align more closely to average industrial earnings. Fourth, affordable credit has to be available for first time buyers and those trading up. Fifth, the uncertainties concerning NAMA and its operation have to dispelled, especially since it will be controlling a sizable share of property and land. This necessitates full transparency of the agency's workings and the assets it is managing. Sixth, consumers have to be satisfied that the banking crisis is truly over and that financial institutions are properly regulated. Seventh, substantive changes need to occur in the planning system to ensure that it works for the common good and produces sustainable development.

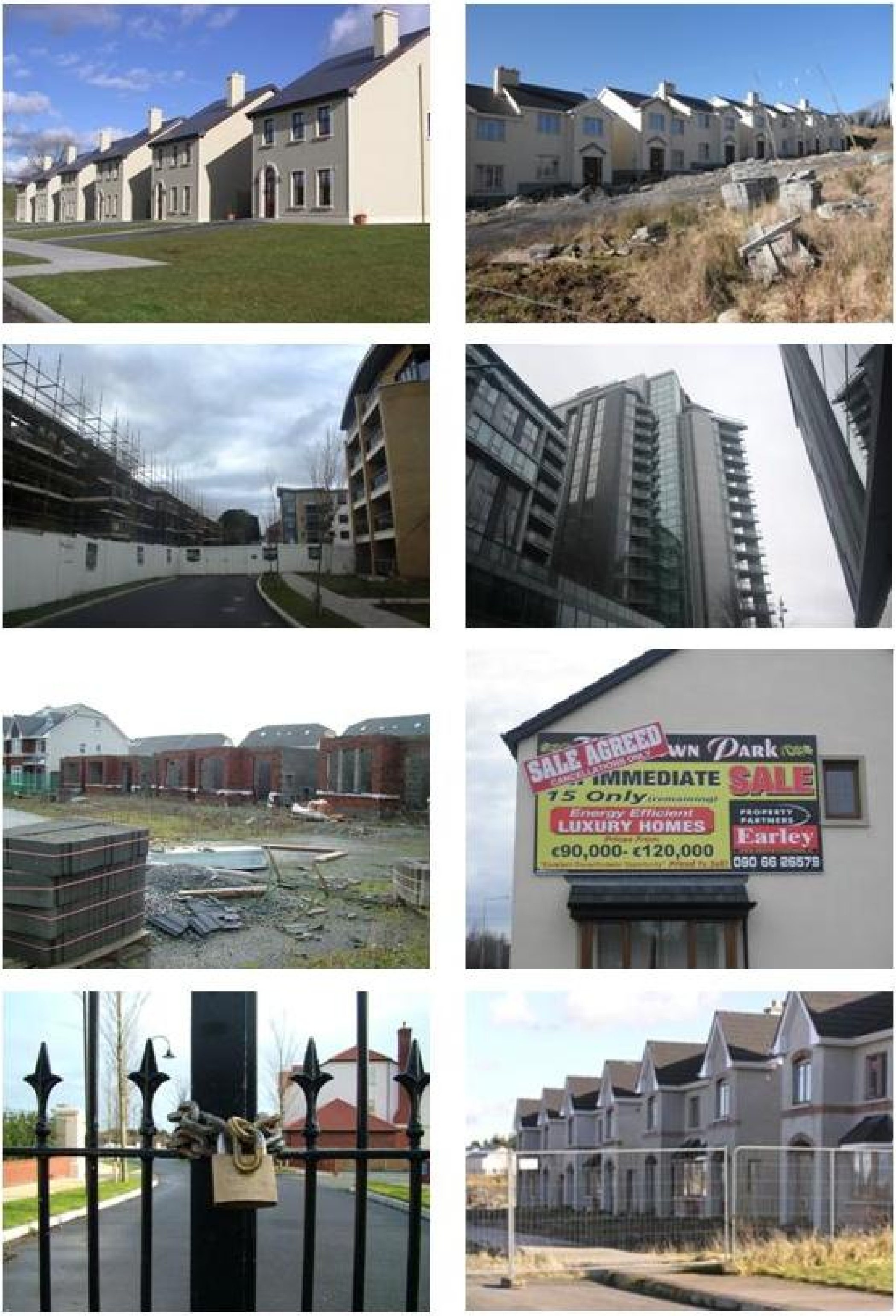
Our analysis suggests that there is little need for housing development in the state in the immediate future beyond selected social housing provision. This is not to say that this is no requirement for construction, however. Where construction could be fruitfully undertaken is with respect to public facilities such as schools and hospitals, public transport, roads, energy and broadband infrastructure. Such a targeted capital investment could, on the one hand, stimulate the economy in terms of employment and investment and provide multiplier effects across the private sector and, on the other, provide worldclass infrastructure to facilitate and encourage indigenous growth and inward investment. Any such investment should align with the National Spatial Strategy and National Development Plan and be delivered through a rigorous, responsible and sustainable planning system.

Collectively, the data we have presented in this section demonstrate that housing and land supply and household demand became uncoupled from early on in the Celtic Tiger era and progressively grew further apart. This is abundantly clear from comparing housing completions with household growth between 1996 and 2006. While 553,267 housing units were built between January 1996 and December 2005, the number of households grew by only 346,400 between April 1996 and April 2006. An additional 244,590 units were built between January 2006 and December 2009, and yet the number of households did not increase by anywhere near the same amount. The number of households in June 2008 was 1.58m (CSO 2009d), up 110,000 from 1.47m in April 2006, and growth is presently thought to be static or falling given rising emigration. All through the boom years the vacancy rate was rising - in 1996 the rate was 8.5%, in 2002 it was 9.8%, and in 2006 it was 15% (includes holiday homes). The 2006 rate is double the EU average rate of 7.3% (skewed upwards by Spain, Portugal and Ireland) and is way in excess of what one would expect as an acceptable base rate (3-4%). Even accounting for obsolescence and replacement, and holiday homes, it is obvious that there is presently a wide disparity between the total stock of housing and the number of households (in December 2009, Geodirectory reported that there were 1.98m residential units in the state).

5. Ghost Estates

One result of housing supply being out of sync with housing demand has been the creation of a new phenomenon, so-called 'ghost estates'. We have defined a ghost estate as a development of ten or more houses where 50% of the properties are either vacant or under-construction. Using that definition we have analyzed the Geodirectory database in order to identify all properties built post-2005 where 10 or more units share the same estate/street address and more than 50 percent are coded as either vacant or under-construction. We have then undertaken a ground-truthing exercise using two methods. First, we have cross-checked the results with house sale websites such as daft.ie and myhome.ie. Second, we have visited 60 of the estates in three locations (South Dublin/Kildare, South Leitrim/North Roscommon, Cork City and county) to verify their status. It is important to note that ghost estates vary markedly in their condition, from sites that are 100% under-construction through to completed estates that are finished and fully serviced (see Figure 15).

Figure 15: Example ghost estates



The total number of ghost estates developed post-2005 identified by this method is 620, and includes 19,262 units, 11,670 of which are vacant and 3,823 are under-construction (with average vacant/under-construction rate of 80%). There are 86 estates with more than 50 properties (of which more than 50% are vacant/under-construction), 252 with between 21-50 properties, and 282 between 10-20 properties. Having driven round the towns we visited it is clear to us that our method under-counts ghost estates, most probably because the Geodirectory database under-records vacancy and under-construction as they have to maintain this status for quite a while to be coded as such and they are still engaged in a rolling process of identifying vacant properties. There is some noise in the data because they are only collected twice a year in urban areas and once a year in rural areas, meaning that units in some estates will have been sold, although in the vast majority of cases this does not move them under the 50% threshold. The number of estates would certainly increase if we were to change the parameters down to a 30% vacancy/under-construction rate, depending on how we want to define a ghost estate.

As Figure 16 reveals, there are multiples of ghost estates in every county in the state. Simply detailing the number of estates per county, however, can give a false impression because it takes no account of the size of the overall population (datasheet 24). Whilst Cork County (not including the Cork City area) has 90 ghost estates, it had a population of 361,788 in 2006. Leitrim has 21 estates, but a population of 28,950. We have therefore standardised the number of estates by per 1,000 head of population (see Figure 17). Leitrim (21 estates), Longford (19) and Roscommon (35) have a particularly high ratio of estates per head of population, indicating that these estates constitute an oversupply in the market. This is perhaps unsurprising given that it was these counties who built the most properties in relation to their overall stock and vacancy levels between 2006 and 2009 (see Figure 11). These are followed by Sligo (24), Cavan (21), Monaghan (18), Carlow (15), Cork County (90), Tipperary North (16), Kilkenny (21), Westmeath (18), and Laois (15). Whilst some estates are vacant holiday home developments, they nevertheless are presently surplus to demand and are unlikely to be purchased in the short term whilst the market is still trying to find its bottom.

Figure 16: Post-2005 ghost estates in Ireland

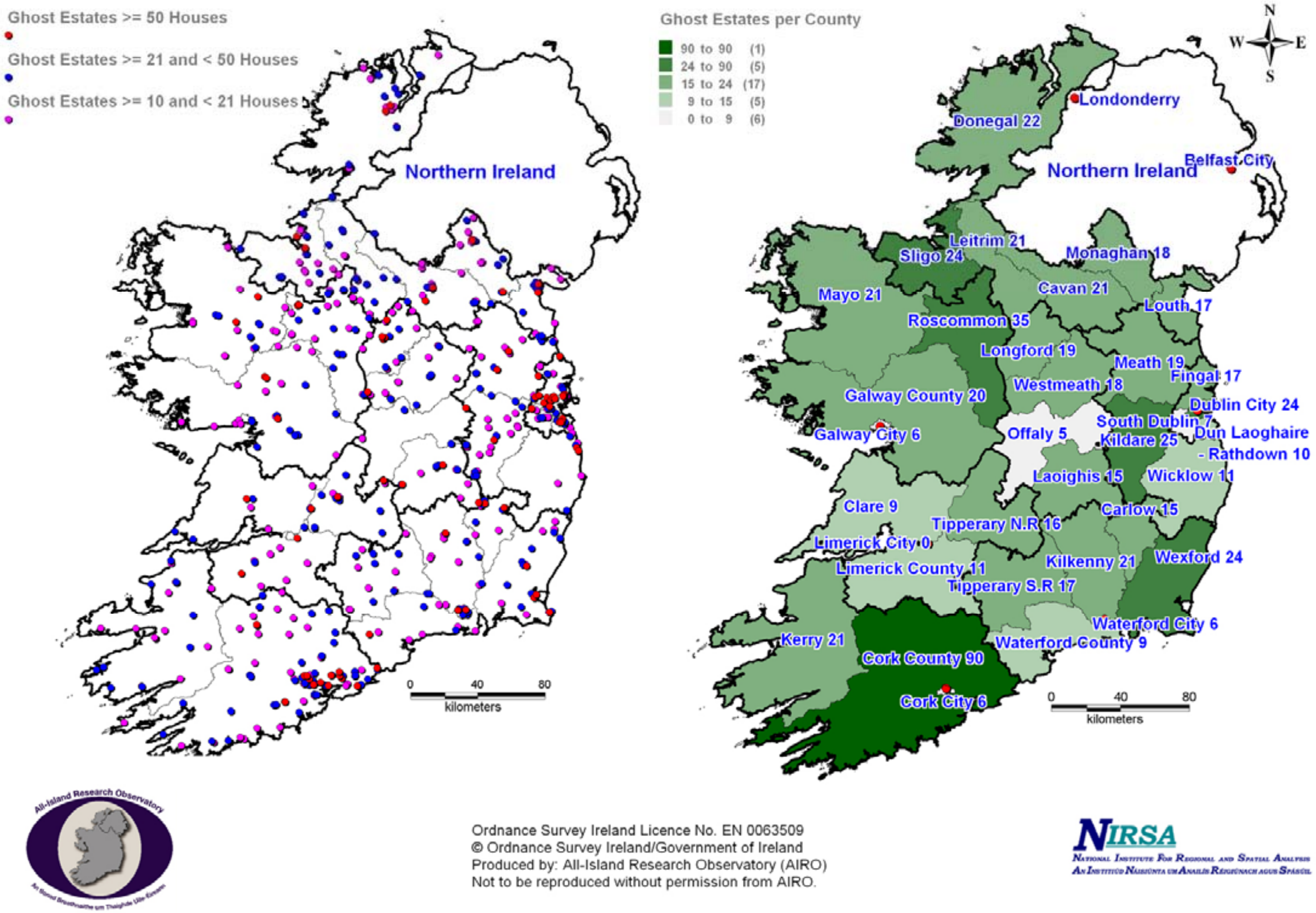
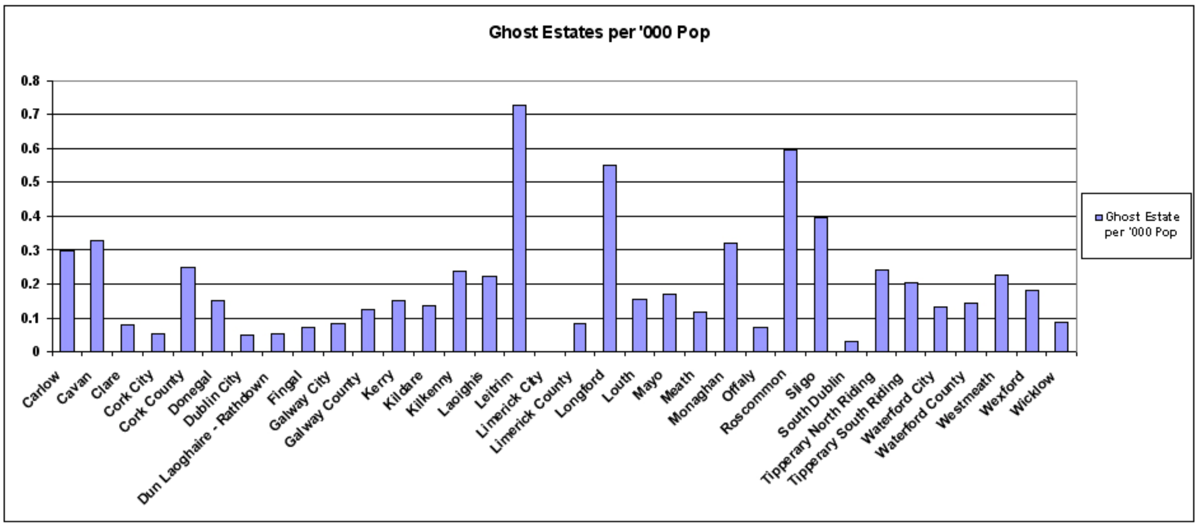


Figure 17: Ghost estates per county by head of population



The presence of these estates in the Irish landscape raises some difficult questions. Whilst demand for housing might return relatively quickly in urban areas when the economy picks up, and such estates might be used to deal with the social housing waiting list, it is likely that demand driven by demographic change will be weak in rural counties given that recessions generally lead to rural out-migration and slower recovery. It therefore seems likely that many properties in rural areas will remain empty for quite some time (as noted in our model, Table 2, this could be over 10 years in some locations). Demographic forecasts would suggest population growth will occur over the long term in Ireland, and one would anticipate population levels to rise in the future in both rural and urban areas. There are questions, however, as to whether the houses built in rural areas, in particular, will be fit for purpose by the time the market returns. In the meantime, for those residing on such estates there are clearly social and economic concerns about living with few neighbours and/or on estates that are abandoned construction sites, with no street-lighting, pavements, or finished green areas, often in locations that lack amenities, services and public transport, and owning houses that are massively in negative equity.

Statement to the Oireachtas Committee of Inquiry into the Banking Crisis in Ireland

Alan Ahearne
NUI Galway

February 2015

Mr. Chairman, Members of the Joint Committee.

I would like to thank you for inviting me here to testify today. In the invitation to appear before the Committee, I was asked to discuss issues relating to early warnings, divergent and contrarian views in the context of the Banking Crisis in Ireland. In my opening statement, I will focus on the views that I expressed during the bubble years about house prices, the potential effect on the economy and the financial system of a reversal in property prices, and the evidence on which those views were based.

My own perspective on the Irish housing market during the bubble years was informed in large part by research on the international experience with housing booms and busts that I had done when I worked for the U.S. Federal Reserve. In a study I wrote with several of my former colleagues, which was published on the Federal Reserve's website in September 2005, we identify no fewer than 44 episodes of house price booms and busts in 18 advanced countries since 1970. I have provided a copy of this paper to the Members of the Committee.

It struck me at the time that given developments in the housing market in this country the analysis contained in this paper could be relevant for Ireland. As I wrote in articles in the Sunday Business Post and the Sunday Independent in October 2005, shortly after I left the Fed to move back to live in Ireland: "Given the eye-popping gains in house prices in Ireland over the past decade, the foreign experience is particularly relevant."[1]

What the foreign experience analysed in the paper shows is that periods of prolonged rises followed by protracted falls are a surprisingly common feature of house prices in advanced countries. The study shows that certain financial conditions, such as low

[1] "We are on our own if the bubble bursts", Sunday Business Post, 8 October 2005; "What goes up often comes down- with a big bang", Sunday Independent, 8 October 2005.

interest rates and financial deregulation, are usually present in past house price surges, though other factors such as demographics and buoyant income growth also help explain these booms.

At the time, interest rates in Ireland were at very low levels, with the European Central Bank's main policy rate at 2 per cent, having been cut from a peak of 4¾ per cent in 2000. It was clear at the time that such low interest rates were not appropriate for Ireland's rapidly growing economy.

A common feature of housing booms and busts is that around six to eight quarters before the peak in house prices, interest rates begin to move up. The ECB began to hike interest rates in December 2005, and within 18 months the ECB's policy rate had doubled. Writing in 2007, I pointed out that "the blow to affordability from rising interest rates and the knock-on effect on house prices should be obvious."[2]

The 2005 Fed study of the international experience of booms and busts shows that, after reaching a peak, real house prices subsequently fell for about five years, on average, and their previous run-up was largely reversed. Put simply, the bigger the boom, the bigger the bust.

The study found that swings in house prices can have important implications for both economic activity and financial stability. We found that in the past, major declines in house prices were often associated with economic downturns, and at times contributed to financial distress, particularly when nominal collateral values also declined significantly.

Looking across countries, we noted that a historically high number of countries at that time were experiencing abnormally rapid rises in house prices. We warned that: "If these prices follow the same patterns as before, house prices in a large number of these countries are likely to decline in real terms at some point in the not-too-distant future."

One question that arises is whether there exist indicators that can act as reliable tell-tale signs that housing is overvalued. The evidence suggests that comparing houses prices and rents provides a useful benchmark for valuing housing, in the same way that the ratio of stock prices to dividends is commonly used to measure valuation in the stock market. Rents

[2] "ECB will slay our property monster", Sunday Independent, 15 July 2007.

are a key determinant of the value of housing and as such should not move too far out of line with prices. House prices that are unusually high relative to rents may indicate that housing is overvalued.

Writing in October 2005, I noted that "Ireland's price-rent ratio is currently higher than at any time for which we have reliable data, having soared since early 2002 as rents began to decline. In the first quarter of 2005, the average price paid for a house nationally was about €256,000 and the average annual rent was €8,800. The resulting price-rent ratio of 29 stood roughly 2½ times above its level in 1996!"[3]

I concluded that this unusually high level of house prices relative to rents was mainly supported by large expected increases in house prices. The property market was pulling itself up by its own bootstraps.[4] Property investors, for example, weren't too bothered that rents were low, since they anticipated hefty capital gains on property. Once investors came to realise, however, that those rosy expectations were going to disappoint, it became clear that house prices were badly misaligned with rents and the market went into reverse.[5]

Another question we address in the Fed paper is how house price reversals affect different sectors of the economy.

We found that homebuyers appear to be the most affected by fluctuations in house prices, especially if they lose their jobs in a downturn. We did note that low initial loan-to-value (LTV) ratios offered some protection to homeowners.

From that perspective, I expressed concern in 2007 about data from the Department of the Environment that showed that one in three new homebuyers in 2006 took out a 100 per cent mortgage.[6] Moreover, the number of first-time buyers taking out loans with little or no deposit doubled in 2006 from the year before. Worryingly, nearly two thirds of all new home mortgages taken out in 2006 were over 31-35 years or longer. Such heavy borrowing rendered many households very vulnerable to a downturn.

[3] "What goes up often comes down- with a big bang", Sunday Independent, 8 October 2005.
[4] I gave this opinion in the article: "Time to get out of rental property", Sunday Independent, 7 January 2007.
[5] I discussed this perspective on the relationship between house prices and rents in: "Rent rate reverses signal trouble ahead", Sunday Independent, 5 August 2007.
[6] ECB will slay our property monster", Sunday Independent, 15 July 2007.

Mortgage lenders are also affected by swings in house prices, though we found that their exposure to house prices does not, in and of itself, pose a significant risk to financial stability. We identified three factors that help limit the prospects of credit losses on mortgage loans. First, loans are not typically made for the full value of the property (that is, LTV ratios are usually low). Second, mortgage lenders can substantially reduce exposure by securitising a significant portion of the loans that they originate. A third factor is that nominal house prices are less volatile than commercial property prices.

In the case of Ireland's banks, these three potential mitigating factors were of limited help in containing credit losses. As mentioned earlier, LTV ratios were high, a significant portion of loans were not securitised but rather stayed on the banks' books, and the banks were heavily exposed to commercial property, including speculative property development.

In the Fed paper, we also examined the recent historical experience with banking system stress associated with declines in property prices. In particular, Japan, Sweden, and Norway experienced significant financial system stress in the early 1990s, including (at least de facto) major bank insolvencies. Although declines in the value of commercial property collateral were a factor in these episodes, residential mortgage lending was not. As I put in a piece I wrote in July 2007: "The most important point, however, is that the banking crises in Scandinavia were more directly linked to drops in the value of commercial property rather than to the decline in house prices. A struggling homeowner that hands back the keys of the house causes a mild sting to a bank; a property developer that folds owing the bank a packet inflicts a terrible pain."[7]

Finally, we pointed out that typically the residential construction sector is very vulnerable to corrections in house prices. The evidence suggests that booms and bust in residential investment can be pronounced.

To conclude, I would like to note that, notwithstanding the patterns that we observe in the data, we did note in the paper that housing bubbles are intrinsically hard to identify—especially while they are occurring. This is because it is very difficult to differentiate between price changes coming from underlying economic fundamentals (some of which are

[7] "Will the banks go bust in a property slump?" Sunday Independent, 22 July 2007.

unknown, unobservable, or unquantifiable) and those based on so-called "irrational exuberance."

Thank you. That concludes my prepared remarks.

10. An effective supply response strategy needs to be characterised by:

- ***Credibility***, in the sense that what is proposed by way of a supply response will be matched with the necessary commitment of resources to ensure that undertakings are translated on the ground into serviced sites on which the necessary planning consents can be obtained.
- ***Clarity***, as regards where development is to take place and that all the necessary infrastructure to facilitate the development of secure and stable community living will be put into place, including especially access to transport facilities.
- ***Certainty,*** as to when development can commence. At present, it is difficult to predict with any certainty when making a planning application, when in fact work will be capable of commencing. Matching demand with supply in such circumstances is extremely difficult.

11. Considering the analysis of prospective demand and supply the most appropriate course of action is to pursue a supply response to meet underlying demand growth and having the characteristics noted above. In addition, the approach should be supported with measures to curb any significant speculative or transitory component of demand, which may be present. Such a response holds the prospect of achieving a more rapid return of the market to stability with increased affordability. A response relying entirely on supply measures to meet all categories of demand, fundamental and speculative or transitory, would be less appropriate and in any event, will take longer to achieve stability. In the meantime, affordability for many new house buyers would move further away.

12. On the basis of this assessment proposals are made in Section 5.5 for additional actions.

Proposals for Further Action

Accelerating the Process of Securing Required Planning Consents on Significant Sites in Dublin City & County

13. The local area planning process as outlined in the Planning and Development Bill 1999 will clearly provide for better housing environments and more sustainable development and should be adopted in the case of all larger scale developments. The flexible time scale implied by the consultation and approval process and the available appeal procedures may make it difficult to predict ultimate yields and firm delivery dates for the supply of housing on sites which are the subject of Local Area Plans.

14. **Therefore, it is proposed that the potential for providing more certain delivery dates and for concentrating staff resources offered by the procedures as described in Part 9 of the Planning and Development Bill 1999 for the development of the Strategic Development Zones should be pursued. The aim should be to ensure that the land use, transportation, servicing, social infrastructure and civic design context in which major housing applications are to be made can be resolved in principle and to a certain extent in detail, at the outset in a planning scheme.** The opportunity can then be given to interested parties to make their views known. A right of appeal to An Bord Pleanála would be enjoyed by those aggrieved by the provisions of the planning scheme, but following the Board's determination, proposals which conform with the scheme should be capable of commencing without delay.

15. Therefore, in order to provide an appropriate context for the lodgement of significant residential proposals **it is recommended that the powers and procedures as described in Part 9 of the Planning and Development Bill 1999 be utilised to designate sites as Strategic Development Zones for housing which, in the opinion of Government, are of strategic importance for the national economy.**

16. Following the designation of appropriate Strategic Housing Development Zones by the Government, it is envisaged that the timetable for the schemes would be as follows:-

- Scheme preparation - 12 weeks.
- Publication, public consultation preparation and submission of Manager's report to elected members - 12 weeks after publication of notice.
- Consideration of planning scheme by elected members, within 10 weeks of submission of report by Manager (scheme comes into force four weeks later unless appealed to An Bord Pleanála).
- Time scale for appeal - 4 weeks after decision by Planning Authority.
- Decision by the Board - 20 weeks approximately.

The total elapsed time therefore, would be in the order of 58 weeks. By incorporating work already done in preparing draft Area Action Plans for designated sites the timetable outlined could be shortened further.

17. Applications within the zones, which conform to the approved scheme, may then be granted permission with or without conditions and no appeal lies to An Bord Pleanála. Allowing a minimum of 4 weeks for the Planning Authority assessment, the total elapsed time would be in the order of 62 weeks. This compares with an optimistic, average elapsed time of 94 weeks in the case of Local Area Plans, (see Section 3.4.1).

18. The adoption of the SDZ mechanism would not inhibit the making of applications to the Planning Authority for parts of an SDZ area under the ordinary planning process. If it can be demonstrated that such applications would not compromise the potential offered by the overall comprehensive development of the zone, such applications could be favourably considered.

19. In considering sites for inclusion as Strategic Development Zones for housing, it is recommended that the following criteria should be included in any relevant assessment:-

- **The number of housing units and the timing of their arrival which would be delivered by the inclusion of lands within an SDZ.**
- **The potential for comprehensive planning offered by the nature and scale of the land and its ownership structure.**
- **The existence of water and sewerage services or the prospect of early delivery of new services.**
- **The location of the lands proximate to existing or proposed public transport corridors.**
- **The need to deliver a high quality of design and layout and to ensure the provision of ancillary shopping, social and leisure facilities at appropriate development stages.**

20. An examination of the Dublin, Cork, Galway, Limerick and Waterford areas indicates that several significant greenfield sites may be cited as examples which appear to satisfy these criteria. The local area planning of some of these areas is at an advanced stage, while others have just commenced the process. All have significant potential housing yields.

DUBLIN

- Balbriggan (circa 5,200 units) - Draft Area Plan in preparation.
- Lusk (circa 2,400 units) - Draft Area Plan in preparation.
- Baldoyle/North Fringe (circa 8,300 units) - Draft Area Plans published by Dublin Corporation for Grange Balgriffin & Belcamp and under preparation by Fingal County Council for Baldoyle.
- Castaheany (circa 5,800 units) - Area Plan not commenced.
- Stepaside (circa 3,500 units) - Draft Area Plan in the process of adoption.
- Ballycullen/Stocking Lane (circa 3,000 units) - Draft Area Plan in preparation.
- Lucan South (circa 8,000 units) - Draft Area Plan in preparation.

i.e. a total of circa 36,200 housing units.

CORK CORPORATION

- Mahon (circa 450 units) - Area Plan not commenced.

GALWAY CORPORATION

- Merlin Park/Doughiska (circa 2,940 units) - Draft Area Plan prepared.

21. The appropriate procedures under Part 9 of the Planning and Development Bill 1999 (when enacted) should be initiated to ensure their rapid development in the context of a programme which will set out clearly, certain dates for the delivery of their housing yield.

Improving the Deployment of Existing Planning Resources

22. It has been represented that the processing of domestic planning applications i.e. those in excess of 23 sq m, are placing a disproportionate load on the Development Control process. Furthermore, they involve utilising the skills of trained planners who might otherwise be employed in the production of Local Area Plans or in pre-application discussions assisting large-scale housing developments.

23. The Forum for the Construction Industry, amongst others, has suggested a relaxation of the exempted development threshold as a means of freeing resources. This would be beneficial.

24. Therefore, it is recommended that the area of 23 sq. m. in Article 1 (a) of Column 2 of the Second Schedule, Part 1 "Exempted Development - General" of the Local Government (Planning and Development) Regulations 1994 should be altered to 40 sq. m.. Furthermore, it is recommended that conditions and limitations protecting the amenities of adjoining neighbours be added to Column 2.

Increasing the Resources Available to the Planning System

25. In order to ensure proper planning and sustainable development, it is essential that local authorities and An Bord Pleanála have sufficient professional planners available

in relation to the development of planning policy and the operation of the development control process. Professional planning skills are key skills if the necessary increase in output is to be provided in a way that creates high quality living environments with all necessary facilities and respects the quality of the environment. The number of planners qualifying annually from UCD should be increased and the potential of other courses such as those offered by DIT should be pursued. In the short term however, professional planners will have to be recruited from abroad. **It is recommended that special incentives should be made available to attract sufficient number to meet critical needs.**

26. **It is recommended that an assessment should be made of prospective manpower requirements for planning and what initiatives require to be undertaken, if any by way of expansion of courses so that these needs are met.**

Increasing Residential Densities

27. The Residential Density Guidelines for Planning Authorities issued by the Minister in September 1999 have resulted in the inclusion of policies and objectives in newly adopted Development Plans supporting increased densities, particularly on lands proximate to existing or proposed public transport corridors. An examination of the range of applications lodged in the Dublin area indicates that the market has responded by proposing schemes based on increased densities. Anecdotal evidence suggests that these have generally been well received but that in some cases and particularly outside the Dublin area, undue emphasis may be placed by some Planning Authorities on conformity with established densities, to the detriment of increasing housing yields. Equally, the move to higher density schemes, which require a greater level of design skills may prove to be beyond the capabilities or capacities of some designers, and result in unconsidered or substandard proposals. However, a review of several significant decisions of An Bord Pleanála indicates that well designed schemes, which adhered to the principles set out in the Guidelines, have been upheld. Refusals have issued only in cases of proposals, which had inherent defects or ignored the controls and safeguards outlined in the Guidelines.

28. In relation to implementation of the Residential Density Guidelines, it is through the Development Plan and the exercise of their development control functions that Planning Authorities can take effective action to achieve higher levels of residential density. In issuing the Guidelines, the Minister for the Environment and Local Government asked Planning Authorities to review and vary their Development Plans to give full effect to the recommendations and policies contained in the Guidelines, where they have not already done so. The Planning Authorities and An Bord Pleanála have been told that the Guidelines are policies to which Planning Authorities under Section 7 (1) of the Local Government Act, 1991 and An Bord Pleanála under Section 5 of the Local Government (Planning and Development Act 1976, are obliged to have regard. To date, 29 of the 38 County Councils and County Borough Corporations have confirmed to the Department of the Environment and Local Government that they are either in the process of or will be in the near future be reviewing or varying their Development Plans to ensure full compliance with the provisions of the Residential Density Guidelines.

29. It is noted that the Department of the Environment & Local Government will be conducting an assessment in September 2000 of compliance with the Densities Guidelines. **It is recommended that, if the findings of this assessment indicate**

significant non-compliance, additional measures should be applied, including that the Minister for the Environment and Local Government should utilise his powers under Section 7 of the Planning and Development Act 1992 or Section 9 of the Planning and Development Bill 1999, when adopted, to direct Planning Authorities to adopt a more pro-active approach towards increased density developments, which because of their location, would contribute to the principles of sustainability. Such a Directive might be based on the "Residential Density Guidelines for Planning Authorities" issued by the Minister in September 1999 and incorporate the recommendations and safeguards, which they contain.

Overcoming Infrastructure Bottlenecks: The Position in Relation to Proposed SDZs

30. It would be pointless to accelerate the planning process in relation to key development sites if any significant infrastructure constraints were not at the same time redressed. **Therefore, it is recommended that the following actions should be adopted.**

Public Transport

31. Many of the potentially high yielding new or expanded areas are located on existing mainline rail. The provision of a significant amount of housing without consequent improvements in quality public transport would lead to increased commuting by car and militate against the creation of independent sustainable communities. **The provision of quality public transport infrastructure is particularly important to release the full potential of the significant areas of zoned and serviced land and would permit an increase in densities in areas 20,23,24 and 25 in Appendices 2-5 particularly.**

Roads

32. In virtually all of the significant areas of potential housing, new roads will be necessary to distribute traffic and to link them to the national network. It is anticipated that these roads will be provided as part of the housing projects themselves and constructed by the developers either directly or by contributions. **In Lucan South (Area 37) however, the construction of a significant section of the Outer Ring Road link will be essential before the full housing yield can be realised.**

Water Supply

33. The water supply situation in the period to 2011 remains difficult. Supplies from the River Liffey are clearly limited and the examination of new resources is thus extremely important. The Department of the Environment and Local Government proposes to commission studies on the feasibility of extraction and treatment water from the River Barrow, as well as ground water extraction to Kildare and Fingal.

34. In the meantime, several infrastructure projects are considered to be essential for the release of housing land. These include:-

Sandyford High Level reservoir ***- To be completed July 2002***
Bog of the Ring Ground Water Source ***- To be completed June 2001***
Swords Trunk Watermain ***- To start August - September 2000***
Jordanstown Reservoir and network strengthening North of Swords ***- In early planning***
Lucan High Level Reservoir ***- To be completed June 2002***
Boherboy Water Supply Scheme ***- To be completed June 2002***
Leixlip to Ballycoolin Rising Main and Reservoir - A third rising main from

- **Leixlip plus reservoir** - ***To start 2001***
- **North Fringe Water Main** - ***To be completed end 2002.***

Waste Water

35. **The following schemes will release significant areas of housing land. In particular:-**

- **North Fringe Sewer** - ***To be Completed mid 2002***
- **Cherrywood Loughlinstown Main Drainage** - ***To be completed 2000***
- **Glenamuck Kiltiernan Main Drainage** - ***To be completed May 2001***
- **Kilgobbin Ballyogan Extension** -***To be completed September 2000***
- **Ballinteer Main Drainage** - ***To be completed December 2000***
- **Swords Main Drainage** - ***To be completed end-2001***
- **Balbriggan Skerries Sewerage** - ***Interim scheme to start and finish in 2000. Main scheme to start 2001.***
- **Portrane/Donabate Sewerage** - ***Start 2002***
- **Rush/Lusk Sewerage** - ***To be pursued as a Public Private Partnership (PPP)***
- **Malahide Sewerage** - ***To be completed October 2001***
- **Newcastle Saggart Rathcoole** - ***To be Completed December 2001***
- **Dodder Valley Catchment** - ***Study to be completed June 2000. Work to start January 2001***
- **Pelletstown Water and Sewerage Scheme** - ***Start June 2000. To be completed June 2002.***
- **South Lucan** - ***Start May 2000. Discussions on Public Private Partnership (PPP) ongoing.***

36. A key issue is to ensure that these projects are implemented and delivered at the earliest possible date and at least to the planned schedule. The experience gained in bringing forward the North Fringe Sewer is instructive in this regard. The project, which originally was scheduled to be completed in 2004, is now expected to be completed in mid-2002 with the advance section serving Meakstown Poppintree to be completed in mid-2001. The structures that helped achieve this acceleration in the programme for the project were:

- a dedicated project steering group comprising the Department of the Environment and Local Government and the local authorities was established to deal exclusively with this project;
- hand-in-hand with this, a dedicated project office was established comprising representatives of two engineering consultancy firms and local authority engineering staff to oversee them;
- the two consultancy firms were assigned separate parts of the design, which were carried out in parallel;
- a specialist engineer was hired to deal with the acquisition of wayleaves;
- all key issues (e.g. rail crossing, foreshore licence, etc) were dealt with up-front.

37. **It is therefore recommended that a series of Project Offices be established in the local authorities where SDZs are designated – these offices would be responsible for, *inter alia*,:**

- **Delivery of key water, sewerage and non-national roads projects required to bring the SDZ into development. This will involve bringing the projects**

through planning (land acquisition, wayleaves, Part X, EIA, etc) to construction, management of the projects during the course of construction, and management of any consultants appointed;
- **Assisting with the drafting of development contributions' schemes or other agreements for the SDZs;**
- **Liaison with public transport providers to ensure early delivery of key public transport projects;**
- **Facilitating pre-planning discussions with developers.**

Similar structures should be put in place to drive groups of key water and sewerage projects in the main urban areas for locations not designated as SDZs.

38. In addition, it is recommended that proposals for the augmentation of the Grand Canal Sewer (which serves lands to the North and West of the City and which is presently working at capacity) or other proposals which would provide necessary drainage capacity for these areas should be put in place as a matter of urgency. The aim should be to ensure that it can cater for all of the serviced land within its catchment by 2006.

Fiscal Penalty on Non-Realisation of Potential of Proposed SDZs

39. The recommendation to designate a number of key strategic sites as Special Development Zones, with the accompanying fast-track planning process amounts to a significant commitment to secure the earlier release of the lands involved for housing development. It is important to ensure that development does indeed take place at an early stage following the proposed process.

40. Therefore, it is recommended that an annual tax of £3,000 per housing site should be applied to the owners of land who:
- **(a) have not applied for planning permission in accordance with the approved planning scheme for the lands contained within the SDZs, within a period of 12 weeks after the scheme has been approved; and/or**
- **(b) do not commence implementing a planning permission in accordance with the terms contained therein, within 26 weeks of the permission having been granted.**

Proposed Revisions to Stamp Duty Regime

41. House price increases since the revision of Stamp Duty rates in June 1998 have resulted in an increase in the burden of stamp duty, making it again a potential barrier to first time buyers entering the existing house market. This is significant because first time buyer housing needs are being met, increasingly, from the existing house market. Both stamp duty receipts and Department survey data indicate that activity in the market is increasing. First time buyers continue to account for around 45 per cent of the total market but, as indicated by the fall in the number of new house grants paid, of 11 per cent between 1998 and 1999, fewer first time buyers are purchasing new houses.

42. Current analysis of the housing market suggests there is a significant element of speculative or transitory demand, which hampers efforts to meet fundamental demand with increased supply. Accordingly, it is considered appropriate that measures should be incorporated to dampen this element of demand. Stamp duties provide an

appropriate means of achieving this since they relate to all housing transactions, whether mortgage financed or not.

43. Therefore, it is recommended that stamp duties should be revised along the lines contained in the following table.

Proposed Revisions to Stamp Duty Bands & Rates

			First Time Buyers Buying for Owner Occupation	Existing Purchasers buying for Owner Occupation	Other Purchasers
Current Bands	Current Rate Per cent	Proposed bands	Proposed Rate Per Cent	Proposed Rate Per cent	Proposed Rate Per cent
Up to £60,000	Nil	Up to £100,000	Nil	Nil	3.75
£60,000-£100,000	3	£100,001-£150,000	Nil	3	3.75
£100,001-£170,000	4	£150,001-£200,000	3	4	5
£170,001-£250,000	5	£200,001-£250,000	3.37	5	6.25
£250,001-£500,000	7	£250,001-£300,00	4.5	6	7.5
		£300,001-£500,000	7.5	7.5	7.5
Over £500,000	9	Over £500,000	9	9	9

Anti-speculation Property Tax

44. The housing market is attracting speculative demand. In some cases, this takes the form of individuals taking a view about prospective house prices and buying residential property, as opposed to another form of investment. In other instances, speculative demand takes the form of a transitory increase, following from demand being brought forward, so as to avoid expected future price increases. These various kinds of speculative demand forestall the movement of the housing market to stability. As this happens, there is a tendency to stimulate further speculative demand and in this way a 'bubble' can develop. If allowed to develop unchecked, such a process has the potential capacity to threaten overall stability of the market. Of course, the pursuit of a strategy centred on a vigorous supply response, with the characteristics of credibility, clarity and certainty, will influence the formation of rational expectations about future market trends. However, it is considered that expectations of future returns from housing market speculation should be supported through the introduction of an annual tax on dwellings, which are not principal primary residences.

45. Therefore, it is recommended that an annual tax, say of 2-3 per cent of the declared value of such properties acquired in the future should be introduced.

Measures to Secure Improvements in the Quality & Availability of Rented Accommodation

46. The Commission on the Private Rented Residential Sector is due to report about end-June 2000. The Commission is expected to make recommendations in relation to the objective of increasing investment in and the supply of rented accommodation and removing any identified constraints to the development of the sector, as required by its terms of reference. It will be necessary that measures implemented on foot of both this report and the Commission's report are consistent and produce the desired impact. In recognising this fact, and the need for measures designed to encourage a greater level of long-term commitment by investors to the provision of professionally managed private rented accommodation, the following recommendation is made:

47. **A mechanism should be developed to exempt landlords from the tax measure proposed in paragraph 45 above, where certain specified conditions apply, including compliance with the standards and other requirements of the regulatory regime and there is evidence of a commitment to the availability of the accommodation for renting on a long-term basis.**

Strengthening of the Institutional Framework for Securing a More Effective Housing Response in the Greater Dublin Area

48. It is considered that it would be appropriate to strengthen the present institutional framework available for co-ordinating and executing plans, initiatives and projects which impact on the current and prospective future supply of housing in Dublin City & County and the Counties of Kildare, Wicklow & Meath.

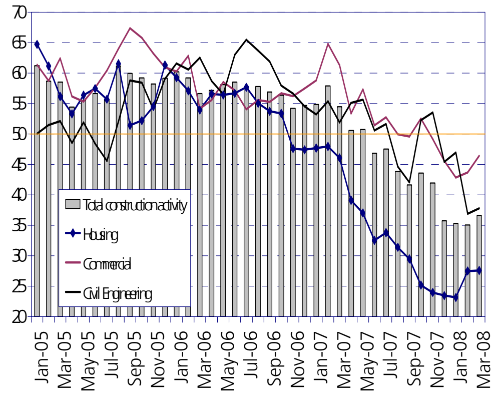
49. **Therefore, it is recommended that there should be an expansion of the role of the housing supply function in the Department. It should be charged with ensuring delivery of key infrastructure in association with the local authorities, and co-ordinating the delivery of facilities and services required for new housing development and provided by other relevant Government Departments and State Agencies.**

50. **A considerable strengthening of the housing supply function in the Dublin authorities is required to ensure that there is a "One-Stop shop" for housing supply issues in Dublin. This is required to ensure that new housing development is brought on stream, including in the designated SDZs at the earliest date and to oversee the project offices in the SDZs.**

51. **It should be required to submit a report to the Department each quarter. This should deal with implementation of the housing strategies covering house completions (private, local authority and voluntary), serviced land status, planning permissions granted, progress on key housing related water, sewerage, roads and public transport projects (compared to original critical paths), constraints on achievement of the housing strategy targets and any adjustments to factors underlying the strategy, etc.**

Construction indicators

Figure 19: Construction Purchasing Managers' Index (PMI) (monthly, sa)



Source: Ulster Bank

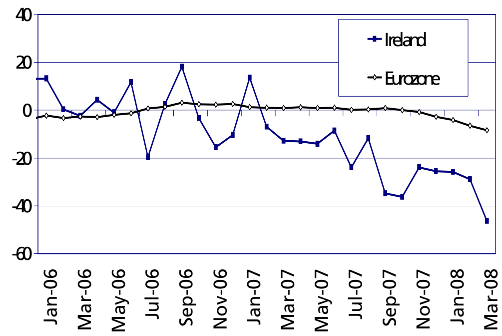
PMI shows a marginal pick up in March but all segments of the industry remain in negative territory

	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08
Total construction	**42.0**	**35.7**	**35.3**	**35.0**	**36.6**
Housing	24.0	23.5	23.1	27.5	27.6
Commercial	49.2	45.6	42.8	43.7	46.4
Civil engineering	53.5	45.4	47.0	36.9	37.8

Although construction activity was reported at it highest level in March for four months, according to the Ulster Bank PMI*, it still remains substantially below the average reading for 2007 (47.5). The reading has been below 50 since June 2007, indicating a decrease in overall activity over the past ten months. Not surprisingly, the sharpest decline has been recorded in the housing component. The trends in commercial and civil engineering activity move remarkably closely together; although activity levels in both segments have been in negative territory since the second half of 2007.

*The Ulster Bank PMI is a seasonally adjusted monthly index designed to measure the overall performance of the construction economy by tracking output, new orders, employment and prices. A reading above 50 indicates an increase in activity; a reading below fifty indicates a contraction in activity.

Figure 20: Construction confidence



Source: Eurostat

Construction confidence in Ireland tumbles..

	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08
Ireland (sa)	-36.3	-23.9	-25.5	-26	-28.9	-46.3
Eurozone (sa)	0	-1	-3	-4	-7	-8

Unsurprisingly, construction confidence* in Ireland, using the Eurostat measure, descended further into negative territory in the early months of this year, reaching new lows in March, according to the Eurostat survey. The Eurozone measure of construction confidence also continued its decline into negative territory, although at a much gentler pace than in Ireland.

Looking at the components of the construction confidence index, the most negative movement was on the measure of price expectations, reflecting negative expectations about house prices in 2008.

*This confidence indicator is a composite index based on firms' order books and employment expectations. Given the high degree of variability, caution is needed in interpreting the results.

Key statistics for the construction industry

	2002	2003	2004	2005	2006E
GNP (constant 2004 prices, €m.)	113,466	119,699	124,354	131,071	138,935
% volume change in GNP	+2.8	+5.5	+3.9	+5.4	+6.0
Gross domestic fixed capital formation (Constant 2004 prices, €m.)	31,925	33,747	36,243	40,869	44,139
Volume Change in GDFCF (%)	+3.5	+5.7	+7.4	+12.8	+8.0
Total construction output					
Value output (current prices €m.)	21,293	23,811	27,465	31,480	35,895
Change in value of construction output (%)	+7	+12	+15	+15	+14
Value output (constant 2004 prices €m.)	24,371	25,751	27,465	29,771	32,130
Change in volume of construction output (%)	+2	+6	+7	+8	+8
Construction output as % of GNP *	20.0	20.3	22.1	23.1	23.9
New construction output **					
Public sector new construction output ***					
- Value of output (constant 2004 prices, €m.)	6,730	6,554	6,311	6,210	6,883
- Change in volume of construction output (%)	+20	-3	-4	-2	+11
- As % of total construction output *	30	26	23	21	21
Private sector new construction output					
- Value of output (constant 2004 prices, €m.)	12,599	14,257	15,791	17,946	19,075
- Change in volume of construction output (%)	0	+13	+11	+14	+6
- As % of total construction output *	48	54	57	61	60

	2002	2003	2004	2005	2006E
Direct employment in construction (Q4)	191	201	227	253	270
Change in capital goods price index for building and construction (materials and wages)	+7	+2.5	+7	+5	+5.5
Change in building and construction price index for all materials (%)	+3	+1	+9	+5	+7.5
Change in tender prices (est) (%)					
- New housing	+10	+14	+12	+7	+7
- New general contracting	-1	-2	+4	+4	+4
- New civil engineering	+6	+3	+4	+4	+4
Change in total construction price inflation	+5	+6	+8	+6	+6

Notes:

* Percentages derived using output measured in current prices.

** The balance, not shown, in the table, is repair and maintenance output, which is estimated to accout for 19% of total output in 2005.

*** The estimate for new public sector construction includes small amounts of private sector investment under education, energy and telecommunications.

1.5: Overall construction output

Trends in the value and volume of construction output by sector (new and repair and maintenance activity combined) over the period 2002 to 2006e are set out in the following summary Tables 1.5 to 1.8.

Table 1.5: Value of construction output in current prices 2002 to 2006E (€m).

	2002	2003	2004	2005	2006E
Residential construction					
Private housing	10,814	13,506	16,877	20,104	22,635
Public housing	1,114	1,129	1,111	1,264	1,465
Sub-total	**11,928**	**14,636**	**17,987**	**21,367**	**24,099**
Non residential construction					
Industry	814	751	802	905	1,055
Commercial	1,508	1,318	1,321	1,700	2,215
Agricultural	218	203	250	262	305
Tourism	361	408	451	523	575
Worship	61	50	64	73	76
Sub-total	**2,962**	**2,731**	**2,888**	**3,464**	**4,226**
Productive infrastructure					
Roads	1,618	1,697	1,709	1,863	2,157
Water services	754	750	739	772	781
Airports and seaports	217	143	159	159	227
Energy	1,263	1,237	1,496	1,388	1,613
Transport	447	668	450	365	422
Communications	280	266	279	257	247
Sub-total	**4,581**	**4,762**	**4,831**	**4,804**	**5,448**
Social infrastructure					
Education	722	562	676	746	753
Health	454	459	460	464	525
Public buildings	365	451	373	366	445
Other social*	281	211	249	269	399
Sub-total	**1,822**	**1,684**	**1,758**	**1,844**	**2,122**
Total all construction	**21,293**	**23,811**	**27,465**	**31,480**	**35,895**

The value of construction output includes repair and maintenance expenditure.
*Includes building output associated with capital investment in local authority services, sports and the Gaeltacht

Table 1.6: Change in construction output value in current prices, 2002 to 2006E (%)

	2002	2003	2004	2005	2006E
Residential construction					
Private housing	7.6	24.9	25.0	19.1	12.6
Public housing	23.8	1.4	-1.7	13.8	15.9
Sub-total	**8.9**	**22.7**	**22.9**	**18.8**	**12.8**
Non residential construction					
Industry	-24.6	-7.7	6.8	12.8	16.6
Commercial	-20.5	-12.6	0.2	28.7	30.3
Agricultural	-2.1	-6.8	23.3	4.7	16.3
Tourism	-23.3	12.9	10.5	16.0	9.9
Worship	54.9	-17.8	26.5	14.9	4.0
Sub-total	**-20.2**	**-7.8**	**5.8**	**19.9**	**22.0**
Productive infrastructure					
Roads	16.7	4.9	0.7	9.0	15.8
Water services	4.8	-0.5	-1.5	4.5	1.2
Airports and seaports	33.2	-34.1	11.0	-0.3	43.5
Energy	50.3	-2.1	20.9	-7.2	16.2
Transport	15.0	49.4	-32.7	-18.7	15.4
Communications	14.3	-5.1	5.1	-8.2	-3.6
Sub-total	**22.3**	**3.9**	**1.5**	**-0.6**	**13.4**
Social infrastructure					
Education	18.5	-22.1	20.3	10.3	0.9
Health	27.5	1.1	0.1	0.8	13.1
Public buildings	-13.8	23.5	-17.2	-2.0	21.7
Other social*	118.9	-24.9	17.8	8.0	48.5
Sub-total	**20.1**	**-7.6**	**4.4**	**4.9**	**15.0**
Total all construction	**6.9**	**11.8**	**15.3**	**14.6**	**14.0**

The value of construction output includes repair and maintenance expenditure.
*Includes building output associated with capital investment in local authority services, sports and the Gaeltacht.

Table 1.8: Change in volume of construction output, 2002 to 2006E (%).

	2002	2003	2004	2005	2006E
Residential construction					
Private housing	0.3	12.1	12.2	11.7	5.6
Public housing	21.2	0.3	-6.3	7.3	10.4
Sub-total	**1.7**	**11.1**	**10.8**	**11.4**	**5.9**
Non residential construction					
Industry	-23.2	-5.3	2.7	8.5	12.1
Commercial	-19.1	-10.4	-3.7	23.8	25.3
Agricultural	-0.6	-4.3	18.6	0.6	11.9
Tourism	-22.0	15.8	6.3	11.6	5.7
Worship	55.3	-17.7	21.7	10.4	0.0
Sub-total	**-18.7**	**-5.5**	**1.7**	**15.3**	**17.3**
Productive infrastructure					
Roads	11.2	2.0	-3.2	4.4	10.5
Water services	-1.2	-2.8	-2.5	2.3	-1.1
Airports and seaports	24.5	-35.7	6.8	-4.1	37.9
Energy	40.5	-4.4	16.3	-10.7	11.7
Transport	7.5	45.9	-35.3	-21.9	11.0
Communications	6.9	-7.4	1.1	-11.7	-7.3
Sub-total	**15.4**	**1.4**	**-2.0**	**-4.3**	**8.9**
Social infrastructure					
Education	17.0	-22.0	13.8	6.1	-3.0
Health	25.7	1.1	-1.7	-3.0	9.5
Public buildings	-15.1	23.5	-20.3	-5.8	17.0
Other social*	115.4	-24.9	13.3	3.9	42.8
Sub-total	**18.4**	**-7.7**	**0.4**	**0.9**	**10.8**
Total all construction	**2.1**	**5.7**	**6.7**	**8.4**	**7.9**

The value of construction output includes repair and maintenance expenditure.
*Includes building output associated with capital investment in local authority services, sports and the Gaeltacht.

Key statistics for the construction industry

	2006	2007	2008	2009	2010E
GNP (constant 2008 prices, €m.)	153,398	160,299	154,672	138,161	136,089
% volume change in GNP	+6.5	+4.5	-3.5	-10.7	-1.5
Gross domestic fixed capital formation (GDFCF) (Constant 2008 prices, €m.)	45,193	46,456	39,806	27,482	21,106
Volume Change in GDFCF (%)	+4.6	+2.8	-14.3	-31.0	-23.2
Total construction output					
Value output (current prices €m.)	38,631	38,601	32,593	18,048	11,733
Change in value of construction output (%)	+14	+0	-16	-45	-35
Value output (constant 2008 prices €m.)	34,838	35,057	32,593	20,646	14,540
Change in volume of construction output (%)	+10	+1	-7	-37	-30
Construction output as % of GNP *	25.1	23.7	21.1	13.8	9.2
New construction output **					
Public sector new construction output ***					
Value of output (constant 2008 prices, €m.)	6,375	7,008	8,564	8,025	7,045
Change in volume of construction output (%)	+0	+10	+22	-6	-12
As % of total construction output *	17	19.6	26	40	50
Private sector new construction output **					
Value of output (constant 2008 prices, €m.)	21,324	20,356	16,040	6,379	2,270
Change in volume of construction output (%)	+13	-5	-21	-60	-64
As % of total construction output *	64	60	49	28	13

	2006	2007	2008	2009	2010E
Direct employment in construction (000s Q4)	268	264	216	137	110
Direct plus indirect employment (000s Q4, est.)	376	369	303	191	154
Change in capital goods price index for building and construction (materials and wages) (%)	+6	+5	+3	-2	+1
Change in building and construction price index for all materials (%)	+8	+5	+3	-3	+3
Change in tender prices (est) (%)					
- New housing	+4	-2	-12	-22	-12
- New general contracting	+4	-1	-11	-17	-10
- New civil engineering	+4	+4	-6	-7	-7
Change in total construction price inflation	+4	-1	-9	-13	-8

Notes:

* Percentages derived using output measured in current prices.

** The balance, not shown in the table, is repair and maintenance output (32% of total output in 2009 and 37% in 2010).

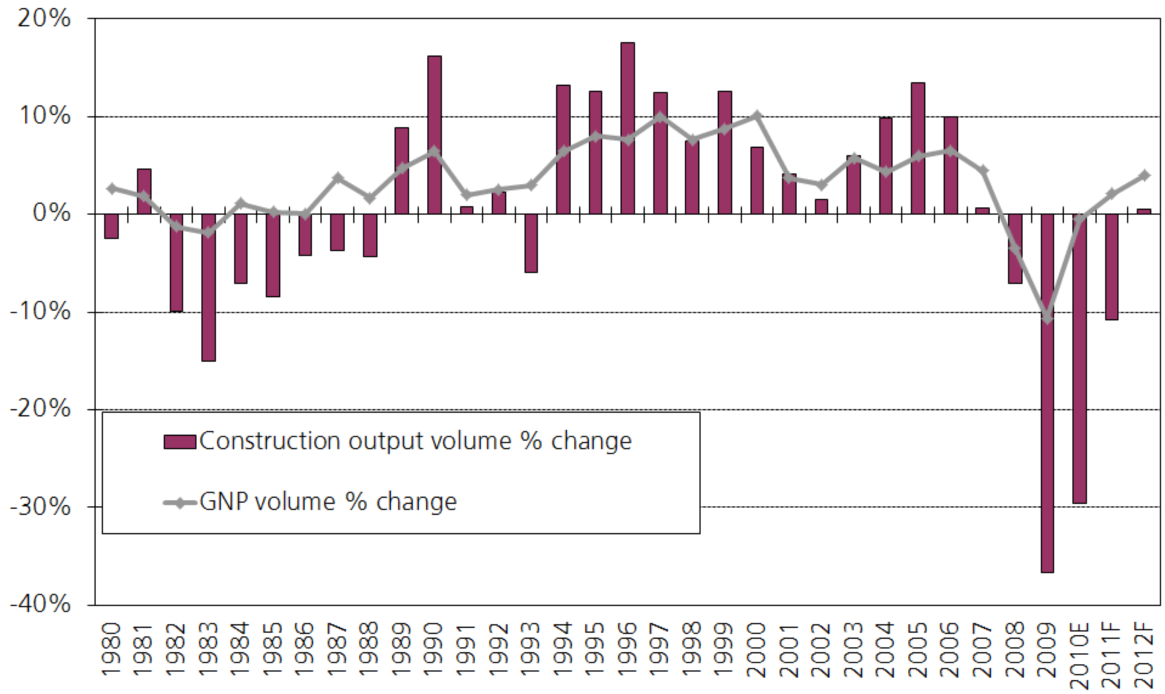
*** The estimate for new public sector construction includes an estimate for private sector investment under education, energy and telecommunications (estimated at €0.9bn in 2009 and €0.6bn in 2010).

economy from 2012 onwards, the prospects for the industry should begin to improve thereafter.

In the meantime there are **niche opportunities** in regard to the climate change/sustainability agenda such as improving the energy performance of the stock of buildings in the public and private sectors. There will need to be decisions taken in regard to the stock of partially built residential and non-residential buildings left over from the boom years. The latter will require some innovative solutions around change of use before the demolition option is considered.

While overall prospects for the repair, maintenance and improvement market remain weak, reflecting the difficult trading conditions for many companies, there are likely to be small scale opportunities in the home improvement and retro-fit market as property owners opt to repair and improve their homes rather than undertake larger, more costly projects.

Construction and GNP trends: 1980-2012F



Source: CSO, DEHLG, 2010-2012 DKM estimates.

Table 1.9: Value of construction output in current prices 2006 to 2010E (€m)

	2006	2007	2008	2009	2010E
Residential construction					
Private housing	23,862	22,024	15,910	6,378	3,306
Public housing	1,351	1,368	1,583	1,273	1,062
Sub total	**25,213**	**23,392**	**17,492**	**7,651**	**4,368**
Non-residential construction					
Private non-residential construction					
Industry	796	654	1,090	645	169
Commercial	4,356	4,714	2,860	1,185	305
Agricultural	312	668	1,298	301	150
Tourism	706	998	681	298	66
Worship	76	82	76	35	51
Sub total	**6,247**	**7,116**	**6,005**	**2,463**	**741**
Productive infrastructure					
Roads	2,083	2,417	2,862	2,365	1,779
Water Services	891	991	1,044	1,118	1,107
Airports/Seaports	182	308	438	490	124
Energy	1,484	1,097	1,152	1,170	1,140
Transport	334	586	705	568	453
Communications	307	367	415	276	264
Sub total	**5,282**	**5,765**	**6,617**	**5,987**	**4,868**
Social infrastructure					
Education	782	900	845	742	834
Health	328	367	439	456	388
Public buildings	401	557	603	363	297
Other social*	379	503	591	387	237
Sub total	**1,889**	**2,327**	**2,478**	**1,948**	**1,756**
Total all construction	**38,631**	**38,601**	**32,593**	**18,048**	**11,733**

The value of construction output includes repair and maintenance expenditure.

*Includes building output associated with capital investment in local authority services, public sports facilities and in the Gaeltacht.

Table 1.10: Change in construction output value in current prices, 2006 to 2010E (%)

	2006	2007	2008	2009	2010E
Residential construction					
Private housing	18.2	-7.7	-27.8	-59.9	-48.2
Public housing	6.9	1.3	15.7	-19.6	-16.6
Sub total	**17.5**	**-7.2**	**-25.2**	**-56.3**	**-42.9**
Non-residential construction					
Private non-residential construction					
Industry	-30.9	-17.9	66.7	-40.8	-73.8
Commercial	19.8	8.2	-39.3	-58.6	-74.2
Agriculture	3.0	114.1	94.3	-76.8	-50.1
Tourism	35.0	41.3	-31.8	-56.3	-77.8
Worship	4.0	8.0	-7.3	-54.5	47.4
Sub total	**9.8**	**13.9**	**-15.6**	**-59.0**	**-69.9**
Productive infrastructure					
Roads	11.8	16.0	18.4	-17.4	-24.8
Water services	16.0	11.2	5.4	7.0	-1.0
Airports/Seaports	14.9	69.0	42.1	12.0	-74.6
Energy	6.9	-26.1	5.1	1.5	-2.6
Transport	-8.5	75.4	20.2	-19.5	-20.2
Communications	19.8	19.3	13.3	-33.6	-4.3
Sub total	**10.0**	**9.1**	**14.8**	**-9.5**	**-18.7**
Social infrastructure					
Education	7.7	15.1	-6.1	-12.2	12.4
Health	-29.2	11.7	19.8	3.8	-14.9
Public buildings	8.1	39.2	8.2	-39.8	-18.2
Other social*	22.6	32.7	17.5	-34.5	-38.9
Sub total	**1.1**	**23.2**	**6.5**	**-21.4**	**-9.9**
Total all construction	**14.2**	**-0.1**	**-15.6**	**-44.6**	**-35.0**

The value of construction output includes repair and maintenance expenditure.
*Includes building output associated with capital investment in local authority services, public sports facilities and in the Gaeltacht.

Table 1.11: Construction output in constant (2008) prices, 2006 to 2010E (€m).

	2006	2007	2008	2009	2010E
Residential construction					
Private housing	21,044	19,799	15,910	7,585	4,332
Public housing	1,291	1,308	1,583	1,465	1,347
Sub total	**22,335**	**21,106**	**17,492**	**9,049**	**5,679**
Non-residential construction					
Private non-residential construction					
Industry	708	581	1,090	767	221
Commercial	3,879	4,197	2,860	1,416	405
Agriculture	312	668	1,298	333	184
Tourism	630	889	681	350	84
Worship	70	76	76	39	64
Sub Total	**5,599**	**6,412**	**6,005**	**2,905**	**959**
Productive infrastructure					
Roads	2,058	2,271	2,862	2,469	2,004
Water services	831	906	1,044	1,230	1,310
Airports/Seaports	184	299	438	527	144
Energy	1,497	1,064	1,152	1,260	1,321
Transport	337	569	705	612	525
Communications	310	356	415	297	306
Sub total	**5,218**	**5,464**	**6,617**	**6,396**	**5,611**
Social infrastructure					
Education	698	805	845	862	1,079
Health	294	327	439	543	513
Public buildings	359	497	603	425	384
Other social*	336	445	591	464	315
Sub total	**1,686**	**2,074**	**2,478**	**2,295**	**2,292**
Total all construction	**34,838**	**35,057**	**32,593**	**20,646**	**14,540**

The value of construction output includes repair and maintenance expenditure.

*Includes building output associated with capital investment in local authority services, public sports facilities and in the Gaeltacht.

Table 1.12: Change in volume of construction output, 2006 to 2010E (%)

	2006	2007	2008	2009	2010F
Residential construction					
Private housing	14.3	-5.9	-19.6	-52.3	-42.9
Public housing	-0.4	1.3	21.0	-7.5	-8.0
Sub total	**13.3**	**-5.5**	**-17.1**	**-48.3**	**-37.2**
Non-residential construction					
Industry	-33.9	-17.9	87.4	-29.6	-71.2
Commercial	15.1	8.2	-31.9	-50.5	-71.4
Agriculture	-0.9	114.1	94.3	-74.4	-44.5
Tourism	29.7	41.2	-23.4	-48.5	-75.9
Worship	0.0	8.0	0.2	-49.1	63.9
Sub total	**5.4**	**14.5**	**-6.3**	**-51.6**	**-67.0**
Productive infrastructure					
Roads	8.0	10.3	26.1	-13.7	-18.8
Water services	13.8	9.0	15.2	17.8	6.5
Airports/Seaports	10.5	62.5	46.5	20.4	-72.7
Energy	2.8	-28.9	8.3	9.4	4.8
Transport	-12.0	68.7	24.0	-13.2	-14.2
Communications	15.2	14.7	16.8	-28.4	2.9
Sub total	**6.2**	**4.7**	**21.1**	**-3.3**	**-12.3**
Social infrastructure					
Education	3.7	15.4	4.9	2.1	25.2
Health	-31.1	11.3	34.5	23.6	-5.5
Public buildings	3.8	38.6	21.3	-29.5	-9.8
Other social*	18.2	32.5	32.8	-21.4	-32.1
Sub total	**-2.5**	**23.0**	**19.5**	**-7.4**	**-0.1**
Total all construction	**10.0**	**0.6**	**-7.0**	**-36.7**	**-29.6**

The value of construction output includes repair and maintenance expenditure.

*Includes building output associated with capital investment in local authority services, public sports facilities and in the Gaeltacht.

Like any monster, Ireland's property ogre must feed constantly to survive. Last year, the housing boom gorged itself on the hapless first-time buyer. What made new homebuyers such a great source of nutrition is that so many of them were willing to borrow the full cost of their new homes and repay these loans over the rest of their working lives. Presumably, expectations that house prices were going to continue to soar panicked many buyers into getting onto the property ladder quickly at almost any cost.

The Annual Housing Statistics Bulletin for 2006 released during the week by the Department of the Environment makes for disturbing reading. It revealed that one in three new homebuyers last year took out a 100 per cent mortgage. What's more, the number of first-time buyers taking out loans with little or no deposit doubled in 2006 from the year before. Nearly two thirds of all new home mortgages were over 31-35 years or longer. The typical first-time buyer was aged 30, which means that the bulk of new buyers will still be paying off their mortgages as they approach retirement. So much for saving for old age!

All this new borrowing drove the outstanding level of residential mortgage debt to an eye-popping €123 billion in December, equivalent to 82 per cent of GNP. Two years earlier the figure stood at €77 billion. If the degree to which new homeowners had to stretch themselves to buy property last year doesn't convince you that the housing market has overheated badly, then nothing will.

One feature of last year's borrowing spree was the heavy reliance on 100 per cent mortgages. When house prices were rising rapidly, these mortgage products might have seemed like a good idea. But with house prices falling, borrowers who bought a home with no deposit are facing the grim spectre of negative equity. Indeed, some new borrowers almost certainly already have mortgage balances that exceed the value of their homes. To be sure, most households have ample equity in their homes and could probably withstand substantial declines in house prices without suffering negative equity. However, a significant number of new homeowners are highly leveraged and could lose all of their home equity if house prices continue to fall.

The other striking feature was the increased reliance on 35-year mortgages. These products allow homebuyers to borrow more, but those extra funds come at an enormous (and possible not fully understood) cost.

Consider a couple looking to borrow the full value of a property who decide that the highest monthly mortgage repayment they can afford is €2,000 (excluding mortgage interest relief). By signing a 25-year loan, the couple could borrow roughly €335,000 at current interest rates and buy a property for that price. But if they opted for a 35-year loan, they could borrow an additional €50,000 without exceeding their monthly limit. The larger loan would be spread out over a longer period of time.

The extra €50,000 could no doubt buy a nicer home, but the borrower pays through the nose for the upgrade. Total interest payments over the life of the 25-year loan amount to €267,000. For the 35-year loan, the interest damage is €457,000, significantly more than the cost of the property. For borrowers, there are few things more dangerous than to ignore the principle of compound interest.

Interest rates matter enormously for these calculations. Before the European Central Bank started to hike interest rates in December 2005, the couple with €2,000 to put toward a mortgage each month could have borrowed €410,000 on a 25-year loan. That figure has dropped to €335,000 at current interest rates, and will fall another €17,000 by the end of this year if interest rates go up twice more as financial markets expect. The blow to affordability from rising interest rates and the knock-on effect on house prices should be obvious. Obvious, that is, to everyone except the economic commentators who, this time last year, seemed to think that rapidly increasing house prices and rising interest rates were perfectly consistent. Five minutes with a simple calculator would have told them differently. Anecdotes point to an increase in late payments on mortgages recently, albeit from low levels.

For hard-pressed new homeowners, there is little relief in sight on the interest rate front. Another increase in rates is certain in either September or October, with the distinct possibility of an additional hike by year end. Contrary to what some people are saying, there appears little chance at this stage that interest rates will fall in 2008. Of course everyone is entitled to their opinion about what the ECB might do next year, but the most reliable measure of financial market expectations--those derived from overnight indexed swaps (don't ask!)--show that traders are not expecting any interest rate cuts next year. The fat days are over for Ireland's housing market. The ECB is starving the beast.

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Joint Committee of Inquiry into the Banking Crisis
Witness Statement of Dr Peter Bacon
Wednesday 4 March 2015

1. Chairman, I make this statement on foot of your invitation to attend this morning to assist your deliberations. You have requested that I address all or some of the following matters in my evidence:

    - Development of the proposal to establish NAMA, including the options assessed and the conclusions reached;
    - Tax Policy towards housing and property development;
    - Planning and Development during the boom;
    - Irelands housing market in the late 1990s
    - Debate about housing policy prior to the crisis; and
    - Ireland's housing market in the international context.
    - Recommendations made by me in respect of the residential property market in Ireland and their implementation.

2. I am happy to endeavour to assist you and the Committee, in relation to these issues, on the basis of certain consultancy assignments carried out by me and which have been published or placed in the public domain as follows:

    - An Economic Assessment of Recent House Price Developments, *A Report submitted to the Minster for Housing and Urban Renewal* (April 1998);
    - The Housing Market: An Economic Review and Assessment, *A Report submitted to the Minster for Housing and Urban Renewal* (March 1999)
    - The Housing Market in Ireland: An Economic Evaluation of Trends and Prospects, *A Report submitted to the Minster for Housing and Urban Renewal* (June 2000);
    - Evaluation of Options for Resolving Property Loan Impairments and Associated Capital Adequacy of Irish Credit Institutions: Proposal for a National Asset Management Agency (NAMA), *Abridged Summary of Report* (8 April 2009).

Ireland's Housing Market in the late 1990s

3. Developments in Ireland's housing market and in the Dublin region in particular were symptomatic of fundamental change in housing patterns. House price inflation especially in Dublin began accelerating from 1993, reaching 14 per cent per annum in the four years to 1997 and 25 per cent in 1997.

4. These trends were the result of favourable macro-economic developments in Ireland including lowering interest rates, reinforced by demographic factors and changing social patterns. For example, gross immigration was occurring at an annual rate of 44,000 and concentrated in household formation ages, almost half being aged 25-44 years. By contrast emigration was concentrated in the younger age of 15-25 years, about 62 percent being of that age. Changing social patterns were reflected in a rise of one and two person households from 41.9 per cent of the total in 1988 to 46.8 per cent in 1997. While housing output increased 80 per cent between 1993 and 1997, the share of completions in Dublin fell.

Recommended Policy Response

5 To be effective it was considered that a policy response would need to achieve the following:

- Achieve better balance between demand and supply in the short term;
- Improve the potential supply of housing;
- Engage in infrastructure developments; and
- Improve medium and long term planning of development of the East Region

6. The April 1998 report proposed specific policy initiatives under each of these headings although, most debate and commentary focussed on the fiscal measures which comprised:

- Repeal of Section 23 relief from investment in residential property;
- Removal of deductibility of interest on borrowings undertaken for investment in residential property against personal income for taxation purposes; and
- Reforms to the Stamp duty code and
- Changes to Capital Gains Tax as it applied to serviced zoned land.

7. The two subsequent reports of March 1999 and June 2000 contained more detailed proposals directed mainly at improving the supply side response. These latter recommendations were framed in the context of achieving:

- ***Credibility***, in the sense that what is proposed by way of supply response would be matched with the necessary commitment of resources to ensure that undertakings would be translated on the ground into serviced sites on which necessary planning consents could be obtained;
- ***Clarity***, as regards where development should take place
- ***Certainty***, as to when development can commence.

8. In support of these criteria specific recommendations were made with regard to:

- Achieving higher residential densities;
- Carrying out key strategic infrastructure investments to overcome bottlenecks such as the Northern Fringe Interceptor Sewer;
- Accelerating the process of securing required planning consents on significant sites in Dublin City and County through the use of Strategic Development Zones (SDZs);
- Improving the deployment of existing planning resources;
- Increasing the resources available to the planning system;
- Imposing fiscal penalties for non-realisation of potential of SDZs;
- Proposed revisions to the Stamp Duty regime;
- Establishing an Anti-Speculation Property Tax;
- Measures to Secure Improvements in the Quality and Availability of Rented Accommodation;
- Strengthening of the Institutional Framework for Securing a More Effective Housing response in the Greater Dublin Area.

Outcome & Assessment of Response

9. Rates of increase in prices of new and existing houses in Dublin and nationally slowed sharply from the middle of 1998. The peak rate of inflation in the new house market was 24.6 per cent (1998 Q1) countrywide and 33.8 per cent (1998 Q1) Dublin. By the first quarter of 2000 these rates had halved to 12.9 and 16.2 respectively. In the existing house market the

peak rate was 36.9 per cent (1998 Q3) countrywide and 41.7 per cent (1998 Q3) in Dublin. These rates too more than halved to 17.4 per cent and 20 per cent respectively in the first quarter of 2000.

10. At the same time the annual rate of new house completions increased about 10 per cent to 46,512 units, the highest annual rate of completions ever recorded to that time.

11. However, in 2001 the measure to exclude interest deductibility was reversed. Thereafter prices re-accelerated, despite a supply response rising to 90,000 units annually, as speculative forces gathered increasing momentum.

Development of the Proposal to Establish NAMA

12. At the heart of the banking crisis was a concern of capital markets with the adequacy of banks capital to meet future loan impairments and institutions' capacity to obtain additional capital externally. Future impairments were of concern because, for the previous decade Ireland had experienced rapid inflation in property values and lending to the property sector had become an increasingly important component in credit institutions' lending. In addition, there was heightened international concern about the health of the financial sector.

13. Irish banks were facing an extremely unstable outlook in respect of international, wholesale deposits, upon which they had become significantly dependent in the previous decade to fund expansion of their assets (lending). They were experiencing major withdrawals of these deposits, a shortening of the average duration of deposits and substantial recourse to the Central Bank for short-term liquidity support. This was not a sustainable trend. In addition, the initiatives taken to date by Government were considered to be insufficient to achieve rates of capital adequacy that would encourage investors to hold and invest further equity in Irish credit institutions, when prospective impairments were considered. As long as this remained the case it could be expected that share values would remain depressed and deposit liabilities would be likely to experience continued attrition and foreshortening in duration. Such a prospect would hinder economic recovery, complicate further the required adjustment of the public finances and leave Ireland's international credit rating subject to downward pressures and speculative attacks. Therefore, it was concluded that additional and far reaching measures needed to be undertaken, as soon as possible to place the banking system on a sound footing.

14. Deterioration in the Government Debt/GDP ratio was underway, as the general government deficit widened. A significant part of this deterioration arose from the effects of cyclical downturn. Moreover, discretionary budgetary adjustments to curtail the widening deficit would be partially undone by the deflationary impact of the discretionary measures themselves. To some degree, in the absence of international recovery and/or gains in competitiveness and productivity in Ireland the domestic fiscal adjustment process had the characteristics of a vicious spiral comprising weakening economic activity leading to widening of the Government deficit and indebtedness leading to discretionary fiscal adjustments leading to further erosion of economic activity and so on.

15. The deterioration in Ireland's credit terms associated with a worsening fiscal position was compounded by the additional contingent liabilities assumed by Government by virtue of the guarantee of the deposits of credit institutions from the previous September. Capital markets were uncertain how to value the additional liability of the Government on foot of the guarantee and the resulting confusion was causing Irish bond spreads to widen unfavourably.

16. Against this backdrop it was considered imperative that initiatives should be undertaken that would lead to stability in banks deposit and term debt liabilities and eliminate the need for a renewal of the guarantee. **To achieve this required removing all doubts about capital adequacy of the credit institutions and their capacity to deal with prospective loan impairments.**

17. There are a number of broad approaches (which are not mutually exclusive) to bank capital support schemes. These revolve around: Recapitalisation Programmes involving stress testing against expected losses; Asset Guarantee Schemes and Asset management arrangements.

Recapitalisation Programmes

18. The key features are:

- Future Capital shortage is anticipated by testing adequacy of current capital in stress scenarios;
- The adequacy of capital (quality and quantity) to absorb losses is assessed;
- The regulatory authority may then require more capital, which may be raised from the market (e.g. by way of rights issue) or attraction of new shareholder, which may be either private or State;
- Approach needs to take account of implications of market conditions for cost of capital to bank; dilutive implications for existing shareholders; protection of State capital if the external shareholder is Government;
- There have been many recapitalisation programmes put in place in the US and EU in the current crisis including in Ireland.

Assets Guaranteed/Risks Insured By the State

19. The key characteristics of this approach are:

- Troubled assets remain on the balance sheet of the banking system;
- Troubled assets are not subject to upfront mark-to- market write downs;
- The bank usually is liable to a relatively small first loss tranche and the State covers elevated losses for a fee;
- Equity capital is not affected as assets do not have to be sold at the current marked-down levels;
- No initial outlay is required from the State and a fee, premium or compensation arrangement is paid for the guarantee;
- Compensation to the State in the form of convertible preferred shares or warrants is dilutive, of existing shareholders;
- Such schemes have been implemented at ING, Citigroup and Bank of America, and RBS.

Asset Management Arrangements

20. The key features of this approach are:

- Troubled assets are transferred from the balance sheet of the banks at an agreed price;
- Mandatory participation required;
- The banks take the impairment loss to profit and loss account now;
- The bank is cleansed of troubled assets making valuation of the remaining part of the bank less complicated;
- The removal of impaired loans reduces the risk weighted assets of the bank and releases capital (or reduces the shortfall in capital required)

- A discounted sale of assets may result in a significant reduction in the equity of the seller;
- Significant financing may be required from the State for the Asset Management Company, impacting negatively on the fiscal position;
- Examples include UBS and Securum/Nordbanken in the 1990s Swedish crisis

Nationalisation

21. Where a bank's net worth has already been wiped out or would be by future impending losses or where Government are or will become dominant shareholders, as a result of recapitalisation or other initiatives, nationalisation may be the most effective means of protecting the interests of all of the stakeholders – Government, equity and bondholders, depositors and the business franchise owned by the bank – and carrying out the required restructuring to enable the bank to stabilize its business in support of the wider economy in the future. For example, nationalisation could be used to facilitate mergers of operations and improve efficiency of scale in accessing wholesale credit markets; to bring about required strengthening of management and/or corporate governance. In effect where taxpayers are liable for guaranteeing the deposit liabilities of banks and also guaranteeing the bank against losses in the value of assets (in whole or substantial part), by any arrangement, such as those described above nationalisation may be considered necessary to overcome issues of moral hazard. These are mostly likely to arise with respect to shareholders, who may be seen to be bailed out or 'gifted' as a result of initiatives to support bank capital. Another such concern may be the additional cost to the taxpayer in terms of deteriorations of the markets' rating of sovereign debt instruments and the premium paid to bondholders in respect of this.

22. A number of nationalisations were made in the course of the current crisis in the UK, notably Northern Rock and Bradford & Bingley. And of course here in Ireland Anglo Irish Bank Corporation was nationalised in January 2009.

23. A summary comparison of the general attributes of the Asset Guarantee approach compared with the Asset Management Approach from the point of view of Government and banks respectively is contained in Table A below. A perusal of the main points indicates some seemingly comparatively attractive features to both Government and banks from the Asset Guarantee approach. Notably, from the Government and banks point of view: there is no initial outlay for the Government and therefore no impact on the fiscal deficit. For the banks, risk is transferred but equity capital does not require to be written down and the assets remain on their balance sheet and crucially, under their control. Conversely, in the case of asset sales the deficit of the government is adversely impacted from the outset, since it must directly or indirectly purchase the impaired assets. For the banks sales of assets at written down values will adversely impact equity investors and may require them to recapitalise, as losses are realized upfront. Intuitively, these aspects alone tend to favour the guarantee approach over sale of assets. However, in the Irish context, consideration of certain other aspects of these approaches tended to reverse this conclusion. These relate to the contingent liability problem inherent in the bank Guarantee approach; the implications of continuity of management of the impaired assets and future financing requirements of impaired assets.

Table A: Comparative Analysis of Asset Guarantee vs. Asset Sale Approach

Asset Guarantee	Asset Sale
Government Considerations	
• Earns premium with no initial outlay;	• Purchase assets with significant outlay or government issuance or guarantee; • Earns net income after financing cost;
• Has no immediate impact of General Government deficit or Exchequer debt;	• Each asset purchased has to be financed. The higher the price paid the larger the deficit to be financed;
• There is risk sharing with first loss retained by the bank providing an incentive;	• Risk sharing also, since the bank has to write off the difference between book value and the current value of the security;
• State may be able to impose restrictions on asset management.	• State gains control over asset management but may assume downside risk; however, this latter aspect can be avoided.
Bank Considerations	
• Risk is transferred , though assets remain on the balance sheet; • Fees/premiums are determined based on credit risk alone;	• Banks balance sheets are cleansed of troubles assets; • Asset prices assume a discount for credit losses as well as an illiquidity premium, so sales may result in considerable losses • Will pricing of assets at one bank be carried across at all banks?; • Loss guarantees provided to buyer can help improve pricing and lower loss on sales;
• Equity Capital is not affected as assets are not removed from the balance sheet; • Regulatory capital ratios improve because of reduced risk weight of assets and increases further if compensation to State is in the form of preference shares	• Sale of assets at market prices will significantly worsen equity capital and may require re-capitalisation of banks as well as the AMC; • In current market conditions it would be difficult to achieve recapitalisation without Government support
• Equity investors have to estimate losses on asset portfolios and the true extent of the risk transfer	• Position for equity investors is made clearer as they can concentrate on the valuing the franchise of the bank net of the bad assets
• There is flexibility in structuring attachment/detachment points for asset guarantee such that the bank can optimise risk transfer and the fees; • Fees can be in terms of cash premiums or preference shares	• Clean asset sale with no downside risk retained by the bank is best for equity investors. However, it is possible to keep investors on the 'hook' after transfer.

24. The very features which make the asset guarantee approach intuitively attractive - no money upfront from government; no write down in banks' balance sheet assets, - contain also inherent fundamental weaknesses. Namely, that a contingent liability is created in the balance sheet of the Exchequer. The situation would have significant parallels with the bank Guarantee of the six credit institutions. It too was adopted on the basis that it involved no up-front outlay on the part of the Exchequer and on the basis that it would not be 'called' and therefore the premium payments by banks would be a net receipt to the Exchequer. In the event, capital markets have not grappled well with the contingent liability created by the deposit guarantee. The tendency was to price Irish sovereign debt unfavourably, reflecting a view that more issuance of Government debt would be required. Indeed, an argument developed that if any part of the guarantee came to be called, in effect all would be called and that would lead to extreme problems for the Exchequer. The point of relevance here is that contingent liabilities are inherently uncertain in nature are often evaluated in an ill- informed way with resulting errors and the potential for further adverse speculation against Ireland. As a result of the decision to guarantee the debt liabilities of Irish credit institutions the credit rating of sovereign Ireland became inextricably bound up with the issue of Irish banks' capital adequacy. A further guarantee approach, this time in respect of banks' property related loan assets, would create a further layer of uncertainty through the creation of another contingent liability on the Exchequer. This would further entwine the sovereign rating with Irish banks capital adequacy problems without actually providing any clarity as to how capital adequacy would be achieved, other than through a calling of the contingent liability.

25. By contrast the asset sales approach, while involving the recognition of 'pain' at the outset contained the merit of certainty and clarity, provided of course the projection of the extent of impairment was accurate in the first place. In the particular circumstances prevailing it was considered that there was much to be said for recognising and crystallising prospective property related loan losses explicitly, rather than allowing them to remain on banks' balance sheets with a concomitant *additional* contingent liability on the Exchequer.

26. A feature of the Guarantee approach is that assets remain on the balance sheets where they have been created. Another side to this is that they continue to be managed by the officers and executives of banks which created the problem-assets in the first place. In the case where assets are complex financial instruments, such as many of the assets acquired by banks that were originated in the US and based on sub-prime borrowers then their valuation and resolution may best be undertaken in the banks which acquired them and which have the financial skills appropriate to this task. The nature of impaired property loan assets simply was not of this character. They are loans created and secured by property assets (i.e. development land, work in progress, completed but unsold residential stock and under-performing property investments), which are now worth significantly less than was envisaged by the loan. There is not a great deal banking skills can do to resolve this dilemma. Moreover, the property development companies involved in these transactions are almost entirely privately owned, championed by entrepreneurial characters and mostly without equity or recourse to equity markets, and in many cases do not have the depth of management skills to engage in the kind of portfolio sales and work-outs which ultimately are required to resolve the impairment issue.

27. AMCs offer prospects for avoiding many of the shortcomings associated with a continuation of the existing bank-property developer relationship. Potential advantages include: (i)

economies of scale in administering workouts (since workouts require specialized, and often scarce, skills) and in forming and selling portfolios of assets, (ii) benefits from the granting of special powers to the government agency to expedite loan resolution and (iii) the interposing of a disinterested third party between bankers and clients, which might break connections that otherwise could impede efficient transfers of assets from powerful enterprises.

28. Sweden's AMCs provide examples of some of these potential advantages, but other countries have found it difficult to realize them. First, government agents may lack the information and skills of (more highly compensated and incentivized) private market participants. Second, government agencies do not operate in a vacuum; they, too, are creatures of the societies that create them, and government agents must negotiate, rather than dictate, solutions, just as private market participants must do. In negotiations with government agencies and private participants alike, the strength of one's position depends on one's "threat point" (the ability to credibly threaten adverse consequences to one's bargaining opponent, if agreement is not reached).

29. Notwithstanding, it was considered that AMCs, by virtue of the potential advantages they contain (as noted above) have the potential to bring about better economic resolution of the impaired loans of Irish property developers than relying on existing bank management and banker-developer relations, which have brought about the problems in the first place.

30. A further important consideration relates to the future financing requirement of impaired assets. Many of the impaired assets will be capable of achieving higher values if they can be worked-out rather than disposed. A key issue to successful work out will be access to additional capital, (equity and debt) required for the work out. It is extremely difficult to see how existing property developers will be able to access capital markets effectively for such equity and banks' capacity to extend credit will be limited by the absence of collateral available from most of them. Potentially the amounts involved are large and a feature of Irish property developers is that they are not publicly quoted and have not had a history of recourse to equity markets for their funding, unlike for example the UK where there are many listed property development and residential house builders. Instead they have relied on retained earnings (for equity) and bank lending for the balance. This shortcoming cannot be put right now and it represents a significant impediment looking forward to resolution of the impairment issue, at least cost.

31. However, an AMC does have the potential to at least mitigate this issue in two respects. Firstly, it has the potential to achieve scale and overview of developments and projects. As it is banks will be concerned about the security they hold and how that can be maximized and realised. In many instances more than one bank will be involved in the security and their individual interests may not correspond. An AMC would be able to achieve project oversight. Secondly, if properly structured and resourced (with relevant property related skills) such an entity would have the potential to attract long term capital in a manner that individual development companies would not.

32. **In conclusion, it appears that the Asset Management approach has the potential to offer greater assistance to achieving resolution of the impairment issue upfront and maximising taxpayer returns, over the longer term.**

Rent rate reverses signal trouble ahead

ALAN AHEARNE

Published 05/08/2007 | 00:00

The loss of 900 jobs at Xerox in Blanchardstown over the next two years will put downward pressure on rents in west Dublin. There will be knock-on effects on house prices, though the relationship between rents and house prices has never been straightforward.

According to data from the property website Daft.ie, rents fell 18 per cent between January 2002 and March 2004.

In real (that is, inflation adjusted) terms, rents dropped an astonishing 26 per cent over that period. People may have been complaining about rip-off Ireland, but renting a place to live was relatively cheap.

While rents were plummeting, the prices of homes were soaring. The Department of the Environment reports that prices for new houses jumped nearly 30 per cent over the same period.

The behaviour of rents and house prices saw a sharp decline in the rent-price ratio, known as the rental yield.

In fact, yields on rental property have fallen dramatically over the past decade.

Between 1980 and 1997, yields fluctuated within a narrow range around nine per cent. Yields then began to drop like a stone, as rents failed to keep pace with house prices. Although rents staged a recovery in 2005 and 2006, they continued to be outpaced by prices.

By the first quarter of this year, I calculate that the yield on rental property had slumped to around three per cent.

In recent months, yields have nudged up slightly as rents have accelerated 12 per cent in May from a year earlier -- and house prices have gone south. That said, yields remain below four per cent.

How do we explain the behaviour of rental yields over the past decade? To think about the connection between house prices and rents, it's useful to borrow a framework for studying stock prices. Using this approach, rents in the housing market are analogous to share dividends.

So the price that a property investor is prepared to pay for a house should reflect both expected rents over the next few years and expected capital gains. Continuing the analogy, low-carrying costs -- consisting mainly of mortgage interest payments -- can also justify low rental yields.

At least some of the slump in rents relative to house prices can therefore be justified by the drop in interest rates since 1998, reflecting Ireland's entry into Economic and Monetary Union.

However, the decline in rental yields appears to be much greater than can be explained by interest rates.

This implies that the unusually high level of house prices relative to rents and carrying costs was mainly supported by large expected capital gains.

Put simply, landlords weren't too bothered that rents were low, since they anticipated hefty capital gains on property.

From this perspective, the reversal in rents relative to house prices over recent months is a sign that property investors have come to realise that those rosy expectations are going to disappoint.

Without the prospect of large capital gains, and with interest rates climbing, house prices are now badly misaligned with rents.

Let's consider some hard numbers. According to estimates by the Central Bank and Financial Services Authority of Ireland, rents and mortgage repayments for an average buy-to-let property were roughly equal over the period 1998-2004. Prior to 1998, rents generally exceeded repayments by a small amount.

However, over the past three years, repayments and rents have diverged notably. By mid-2006 repayments were nearly 50 per cent higher than rents and the margin has widened since.

A back-of-the-envelope calculation suggests that even with an interest-only mortgage, mortgage repayments currently exceed rents on a newly purchased investment property.

Daft.ie says average monthly rents in Dublin were €1,400 in May. According to Permanent TSB/ESRI data the average price of a house in Dublin that month was €425,000.

Monthly payments on an interest-only, 100 per cent mortgage on such a property currently amount to €1,800.

Payments are expected to increase nearly €100 per month after the ECB's next interest rate hike in September or October. The investor will also have to pay stamp duty and legal fees of about €38,000.

All told, it is difficult to make the case that houses are still a good investment.

The point is that far from being a reason to be optimistic about the housing market, the recent upturn in yields is in fact a sign of stress. Unless and until expectations for gains in house prices brighten, rental yields will continue to adjust up to more sustainable levels.

One thing is for sure: if house prices are to stabilise around current levels, rents will need to increase sharply. With the economy and employment slowing, it is not clear that there is much scope for that to happen.

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Promoted Articles

Opening statement – Simon Carswell.

Good afternoon.

Let me start by providing some background on my work as a journalist. I am Washington Correspondent with The Irish Times, a role I took up just over two years ago, in January 2013. Prior to that, I was Finance Correspondent with the newspaper reporting on the banking sector and before that I worked for The Sunday Business Post for seven years, first as a Business Reporter from 1999 to 2004 and then as News Editor from 2004 to 2007. I started as Finance Correspondent at The Irish Times in September 2007 as queues of depositors started forming at Northern Rock in the first run on a British bank in more than a century. This was the first story I worked on at The Irish Times so you could say that my arrival at the newspaper coincided with the start of the global financial crisis hitting the UK and Ireland.

In 2004, I began researching and writing a book on the history of scandals in the Irish financial sector. That book, Something Rotten: Irish Banking Scandals, was published by Gill & Macmillan in 2006 and covered scandals at the Irish banks dating back to the early 1970s up to the 2004 overcharging scandal at AIB, examining the culture within Irish banking over that period. While covering the deepening banking crisis - internationally from 2007 and domestically from 2008 - for The Irish Times, I began working on another book in mid-2010 that became Anglo Republic: Inside The Bank That Broke Ireland. That book, published by Penguin Ireland in September 2011, was my own inquiry into what happened in the run-up to the 2008 Irish banking crisis and the 2010 international bailout. Both books were written while I was on short periods of paid leave from The Sunday Business Post and The Irish Times.

I continued reporting on the banking sector until December 2012 when I was appointed to my current role, based in the United States.

In a letter dated February 13, 2015 I received from your committee requesting my attendance, you asked me to appear before you here to talk specifically about the area of relationships between State authorities, political parties, elected representatives, supervisory authorities, banking institutions and the property sector. Specifically, you have asked me to speak about how the property sector (investment and/or development) and the banking sector interacted with government, elected representatives and the State during the period prior to the banking crisis in Ireland, and the nature of the relationships between those groups. You have also asked me to talk about controls or structures, if any, exist to regulate these relations and whether being a small country is a factor, or not, in terms of any such relationships. I will try my best to address those topics in this discussion here today.

At the outset, I must point out that it has been over two years since I wrote regularly and in depth about Irish banking and since then I have immersed myself in a broad range of very different subjects. Also, I live in the United States and I have not been able to access many of my notes from my time reporting on banks while with The Irish Times, so I may not able to shed light on some of your queries but I am happy to help where I can and I will try my best to answer any questions that you want to ask me. I must also stress that I am bound by journalistic privilege that prevents me from disclosing sources of information in any work I have done where those sources have asked me to maintain their anonymity.

On the subjects of today's discussion, I would characterise the relationship between the major players in the property sector and construction industry and government, certain elected representatives and the banks – as well as the relationship between the government, the banks and the financial supervisory authorities - as extremely cosy in the period leading up to the 2008 banking crash.

To take a phrase from former Finnish civil servant Peter Nyberg's thorough report on the causes of the banking crisis, the various players, including politicians, builders, bankers and regulators, displayed "behaviour exhibiting bandwagon effects both between institutions ('herding') and within them ('groupthink')." Nothing I came across in my research would contradict that statement. On the wild frontier of the 'Celtic Tiger' era, Anglo Irish Bank was the one-trick pony in a frenetic land grab, leading a poorly regulated and highly competitive race for market share and profit.

These relationships appear to have been too cosy to allow any one of these collective groups – be it the banks, the government, the builders or the regulators - to shout stop and offer the kind of critical dissent that might change the behaviour of all and the direction the country was heading in. If one of those groups had the courage to put their head above the parapet, then I believe there may not have been the crisis we had or at least it may not have been as severe as it was. For these parties, it was too comfortable - and indeed self-serving for some - to stay in the crowd and stick with the consensus, particularly when so many people were making so much money. The result of this was that contrarians were ridiculed, silenced or ignored to ensure the credit-fuelled boom continued for years as their past warnings did not come true.

These cosy relationships would prove extremely costly. While the cost of the banking bailout to the Irish people stands at €64 billion, excluding any recoveries coming from the sale of shares in the banks or better-than-expected returns from the National Asset Management Agency, it is worth stressing that the overall losses and capital wiped out by the crash amounts to far in excess of this sum. The losses on loans, mostly to the property sector, across all of the banks in Ireland came to well in excess of €100 billion, including tens of billions of euro covered by the UK treasury. This is sometimes forgotten.

For the record, I do not accept the proposition put forward by many of the key players involved in policy-making, banking, building or regulating that there were so many people responsible for the crisis that it is difficult to pin individual blame on a few. Moral responsibility for the excesses of this period can be cast widely but legal responsibility for what happened - and what was permitted to happen - far less so. There were a limited number of people involved in key decisions, and in particular those decisions taken in response to the crisis, that had major consequences.

In the decade leading up to the crash, long-standing relations had developed between the political classes and the property/banking nexus. The investigations by the Mahon tribunal of inquiry illustrate the corrupt connections between politicians and landowners/builders - and, it is worth stressing, that this tribunal only covered elected representatives and property deals in Dublin.

In times more recent than the property deals that were examined by that tribunal, senior government figures and politicians, notably from Fianna Fail, were seen on quasi-social occasions, such as high-profile horseracing meetings, rubbing shoulders with prominent builders. Even if some politicians and public representatives mixing in these circles did not directly encourage the property boom - and there were certainly a number of very prominent cases where senior politicians did, both in terms of their public remarks and policy decisions - these associations at least created the perception that the most powerful people in the country supported and championed the property industry.

Politics and business regularly overlapped. There are examples of politicians and public representatives getting involved in land speculation deals, building projects and property investments – in one notable case, in partnership with a major figure from banking – while continuing to serve as public representatives, right up to and during the economic crisis.

Builders and property developers were also active in politics. Of the donations received by the political parties in Ireland in the four years between 2002 and 2005, building, property development companies and construction-related companies – along with builders and developers themselves personally – donated tens of thousands of euro to Fianna Fail, which was in government during those years. That party accounted for almost the entirety of the political donations made by the property sector to political parties in those years.

Individuals who worked in the political arena afterwards took up highly paid roles representing and lobbying on behalf of construction and financial industry groups, interacting with people they had previously worked closely with in politics.

Easy and ready access to politicians brought easy and ready access to policy and decision-making that drove the growth of the property and financial sectors.

There are a number of well-documented examples of these sectors bearing strong influence on the policy-making process in the years running up to the crisis that helped inflate the credit bubble and the frenzied property buying and that weakened potential policy or regulatory actions that might have dampened activity, both in the property market and the banking sector. There were certainly no effective controls in place to regulate these relationships.

Government tax policies and incentives for the commercial property market have been widely attributed as a factor in inflating the property bubble. These subsidies were left in place or were only starting to be phased out during the frothiest years of the property bubble as a result of the relations between the property sector and government/elected representatives and aggressive lobbying by commercial interests.

Despite an outside expert urging the Fianna Fáil-led government in high-profile reports in 2000 to remove tax incentives for property investors, the party was lobbied intensively by the construction industry and incentives were left in place in the 2001 budget. Mortgage interest relief was reintroduced for investors, helping them to offset the cost of their property speculation against their taxes. Such measures only added to increased activity in the property market. Had the incentives been removed it might have made some think twice about investing more in property and cooled the market somewhat.

That government and the next Fianna Fáil-led government said they would end the tax incentives for a multitude of property development types - from multi-storey car parks to student accommodation to nursing homes to over-the-shop apartments - but they were ultimately extended from 2004 until 2006 and some instances right up to the start of the financial crisis in 2008 - the years covering the most frenetic period of the property/banking bubble. These decisions were taken after heavy lobbying by the construction industry. The government of the day said in 2004 that it would review these tax-based property incentives. In the 2006 Finance Bill some tax reliefs were eliminated by government while the decision was taken to phase out other reliefs up to 2008.

The financial sector was equally robust in pushing its own interests with government and government officials through established relationships between their representative groups when it came to legislative changes it wanted or was unhappy about measures that might rein in the activities of their industry.

In 2006, the banks wanted a change in the rules on what collateral could be used to borrow in the international money markets. They heavily lobbied Department of Finance officials and Government right to the highest levels in a well-coordinated campaign that included representations made at a private dinner in one of the country's biggest banks for a senior member of Government. This is illustrative of relations between the banks and the pro-bank government of the time. At one point the Department of Finance was described by one of its own officials as being "under seige [sic]" in the lobbying campaign by the financial industry. The aim was to get legislation passed to allow the banks to issue bonds backed by commercial mortgages. The financial sector won out. The legislation was passed in early 2007, right at the peak of the property boom, making it easier for banks to borrow more money to provide more loans to more customers.

The Financial Regulator was shown to be equally malleable by outside interests when it came to moves that might have taken some of the heat out of bank lending.

In 2006 the Financial Regulator started to consider the introduction of compliance statements for the directors of banks. These would allow the regulator to force the management and the boards of the banks to stick by assurances they gave - for example, agreeing to reduce their lending into one particular area - and would have given the regulator an important tool to exert greater control over the activities of the banks. After intensive lobbying by the financial services industry, the Department of Finance asked the Financial Regulator to drop the process of consultation with the industry on the measure. It was shelved in favour of the measure being considered in a wider overhaul of financial services legislation at some later unspecified date. One of the reasons cited for dropping it was that it would damage the country's international competitive edge in financial services.

This was a regular refrain from the banks - and repeated by the Government and government officials - when it came to opposing stronger regulatory tools to curb the activities of the banks. As Governor Patrick Honohan stated in his report on the causes of the banking crisis, more aggressive action was not taken to stop the practice of lending 100 per cent mortgages to homebuyers because excessive weight was given to the damaging effect of competition from foreign banks on domestic lenders if curbs were introduced "probably in light of lobbying objections from institutions." This shows how the Financial Regulator was - as well as trying to regulate the banks - on the bandwagon with the industry and government in trying to promote Ireland as an attractive destination for international banks to conduct business in.

The lobbying by the banking industry extended to one notable case involving Irish Nationwide Building Society. For years the senior management at the building society had been lobbying for a change in legislation that would have allowed the building society to demutualise and be sold immediately in a private trade sale in one fell swoop, instead of waiting a period of five years after demutualization for a trade sale. That legislation came under the Fianna Fail-led government in the summer of 2006 and the lender was almost immediately put up for sale. At that time Irish Nationwide was dressing itself up for a trade sale by showing itself to be as profitable as possible. This coincided with a period when the building society pushed itself very heavily away from its traditional roots as a mortgage lender that helped people buy homes into a more lucrative guise as a boutique lender to builders - and even a partner with some of its developer customers on speculative projects. Some of the heaviest losses incurred by the building society were on loans provided in the period leading up to and after the passing of this demutualisation legislation.

Irish Nationwide's senior management was perceived as having strong political connections. That, I believe, coupled with the fact that the building society had operated unchecked by any kind of effective regulatory action on corporate governance issues for many years, gave the lender a sense of invincibility and misplaced confidence in terms of financial risks it took on, to carry on its business as it saw fit. Despite repeated problems of corporate governance at the building society, the regulator adopted a stand-off approach with the lender, preferring to wait until the institution was sold in a trade sale as a means to resolving these problems rather than tackling them head on. This wait-and-see game proved to be extremely costly given the kind of loans that were advanced during this period. Irish Nationwide has cost the Irish public €5.4 billion, an extraordinary loss rate on a lender that had €12 billion in loans.

As for the interactions between the regulator and Anglo, their cosy relationship meant that the bank's massive exposure to the property market was allowed to balloon out of control with devastating consequences for the country. Remarkably, regulators knew that the bank was aware that it was in breach of its own internal limits on property lending. It is even more remarkable that regulators were comforted by the fact that the bankers knew that they were in breach of their own limits. This is the kind of strange logic that existed in the country's poor regulatory regime that showed the weaknesses of light-touch regulation and how bankers could skirt around the rules.

In 2008, Anglo Irish Bank had a strong link between its boardroom and Government Buildings, though it is still unclear just how useful this connection was to the bank at the time of its greatest need, in the days leading up to September 29, 2008, the night of the guarantee. It raises a question, which I cannot answer: did these connections play a factor in the thinking of those in charge on that fateful night behind the decision not to take the bank - the only Irish financial institution that had gone over the cliff-edge at that stage - into public ownership by way of nationalisation legislation or to consider some other stop-gap measure rather than a costly blanket guarantee?

Given Anglo's frantic, last-gasp efforts to raise concerns and press influence in political and regulatory circles about its deteriorating funding position, it would appear that the bank's connections were not so well developed to be effective.

While Anglo Irish Bank was very close to the country's most active builders and property developers and so too was Fianna Fail, it might be too far a leap to conclude that Anglo and Fianna Fail were equally close. The bank and the party certainly had a number of deep contacts at the highest levels. My research found that these contacts bore little fruit for the bank, although it is unclear what influence Anglo's developer customers might have had with their friends in politics. For the most part, in the run-up to the crisis, the bank was too busy lending money to builders and making vast profits from the booming property market to be distracted by developing and working political contacts. In the post-guarantee period, prior to the bank's nationalisation, there were more pronounced efforts made by the bank to curry favour in political circles.

As for the future, the recent publication of the Registration of Lobbying Bill to regulate lobbying of government members and state officials by corporate and other concerned interests is a step in the right direction. This will force groups, companies and organisations involved in lobbying Government to file the details of their contacts with the Standards in Public Office Commission.

Further steps could be taken such as the compulsory logging of all contacts, even informal ones, that the Taoiseach and government ministers have with outside parties concerning representations on policy and/or legislation and for these contacts to be disclosed publicly and regularly. Often it is only through Freedom of Information requests by the media that these contacts emerge. Some contacts, however, may never appear in officials records because government departmental officials know not to commit to paper certain things that might be "FOI-able."

You have also asked me to discuss whether Ireland being a small country is a factor in terms of the relationships mentioned above. I cannot answer that because who knows what would have happened if Ireland was three times the size. However, I think that the fact that this is a small country should serve as another reason why it is so important to document all contacts that policy-makers and their advisers have with outside interests on policy representations, as onerous as that record keeping might be. Any concerns about unintended consequences of forcing those connections and contacts out into the open are, in my view, over-played.

Sunlight is good medicine. This country needs to let in far more light and be far more transparent - along with being more open to listening to and accepting of countervailing views - if it is to recover fully from the recent dark past.

Simon Carswell
Washington Correspondent
The Irish Times
February 26, 2015

R1c: Appropriateness of the macro-economic and prudential policy

Information Summary (Section 33AK)

Note: All references are aggregated.

Document category	Time period
Business Sentiment Survey	November 2006

Business Sentiment Survey

- In a Central Bank Business Sentiment Survey from late 2006, the CIF indicated that they expected housing output to be around 90,000, with only a small decline in the following year.
- They advised that the market was coming more into equilibrium with output stabilising and then declining gradually, with price inflation easing to moderate levels.
- They also pointed out that An Bord Pleanala had declined thousands of planning permissions for technical reasons, which would likely reappear in the data subsequently and that this may be giving too negative an impression on the outlook for housing output.

The Sunday Independant, 7 January 2007

ALAN AHEARNE

Time to get out of rental property

The word on the street is that a lot of investors who bought property in Ireland over recent years are getting nervous. At least that's the word on the streets of Galway, but the same is almost certainly true in other places across the country.

With interest rates on the rise, it's little wonder that folks are getting anxious. For the first time in a long time, many investors have begun to talk openly about cashing in their chips by selling their property investments.

The question I most often hear is no longer "Is this a good time to buy an apartment to rent out?" but rather "Is this a good time to sell the apartment I bought a few years back?" Experience from other countries suggests that most investors here will get the timing wrong and will hold on to their investment properties for too long.

It is, alas, human nature to think that we can successfully predict the exact turning point of a housing cycle. By definition, very few investors get out at the peak, and most investors are left holding the baby as house prices drop.

The optimists, mostly from banks and real estate agents, will tell you that Ireland's housing market this year will pull off the long wished-for soft landing, with house prices stabilising but not falling. Unfortunately, the optimists don't have history on their side.

I can name no fewer than 30 episodes of house price booms that ended in busts in industrial countries since 1970 (I produced a study of these episode when I worked at the Fed—America's central bank).

Can anyone point to a single soft landing? In truth, a soft landing in the housing market is like the proverbial free lunch? There ain't no such thing. Housing markets just don't work that way.

The optimists will argue that house prices will be supported this year by continued strong growth in our economy and incomes. But this is a classic example of circular thinking. Forecasts of strong growth this year are based on the assumption that the housing market remains robust.

The reality is that growth in incomes is mainly coming from the property boom, and not the other way round. In turn, the buoyant economy is attracting floods of immigrants to our shores, mostly from Eastern Europe. Many of these people will leave when the housing market goes sour. Who will investors rent their properties to when that happens?

The optimists will protest that the increases in interest rates will not be large enough to damage our property market. Nice try, but no!

By the middle of this year, interest rates will probably have doubled from their level in late 2005. How high will interest rates go? The answer depends largely on how sustainable the nascent recovery in Germany's economy proves to be.

Most experts are very upbeat on Germany's economic prospects, and last week saw yet another slew of positive economic data from that part of the world. Good news for ze Germans, but bad news for Ireland's property market, because a resurgent German economy will make the European Central Bank more worried about inflation and therefore more inclined to hike interest rates. To be sure, interest rates in Europe will not go up by as much as they have done in the United States, where the housing market crashed last summer.

But try telling an investor here whose monthly mortgage payment is now greater than the rent he receives that higher interest rates don't hurt. That investor is now bleeding cash each month from owning investment property.

The scary thing is that he's not alone. Over recent years, one in every three new houses and apartments was bought by investors, often using interest-only loans. When interest rates were very low, rental income typically exceeded mortgage payments by a bit. However, as interest rates rose over the past year or so, that small margin disappeared and then turned negative.

Unless investors expect significant increases in house prices in the future, owning property-for-rent now looks like a losing bet. In the same way that a haemophiliac can bleed uncontrollably as a result of the slightest cut, even moderate interest rate increases can cause Ireland's investor-heavy housing market to bleed to death.

And there's the rub. Ireland's property market has only sentiment keeping it at the current dizzying heights. Nothing else.

It is pulling itself up by its own bootstraps. Investors are now in a game of second-guessing when other investors will decide to sell and bank the money they have made on property. Given the rising number of sweaty palms around, an early exit looks like the smart move.

Alan Ahearne is a former senior economist at the Federal Reserve Board in Washington DC. He now lectures in economics at NUI Galway and is a research fellow at Bruegel, the Brussels-based think tank.

Bruegel
Improving economic policy

Section: Comments Reviews Charts Opinions Analyses Facts

We are on our own if the bubble bursts

by Alan Ahearne on 8th October 2005

Will Irish house prices crash? And if they do, what should Irish policy makers do about it? A good place to start looking for answers to these questions is
the foreign experience. House price booms and busts are surprisingly common in industrial countries.

In a new study of house prices that I wrote with several of my former colleagues at the U.S. Federal Reserve, we identify no fewer that 44 episodes of house price booms and busts in industrial countries since 1970. Given the eye-popping gains in house prices in Ireland over the past decade, the foreign experience is particularly relevant. On balance, the lessons from the study are quite sobering, and underscore the difficulty of the task that will face policy makers in Ireland in the event of a significant downturn in Irish house prices.

The difficulty arises in part because it is not clear what policy makers in Ireland should do, if anything, to respond to so-called asymmetric shocks--that is, shocks that affect Ireland but do not affect other members of the euro-area, or shocks that produce different effects on the Irish economy than on other euro-area economies. A crash in Irish house prices is an example of such a shock. What's more, the chances of a house price bust may be greater than many people think.

Consider the ratio of house prices to rents, which has been shown to provide a useful benchmark for valuing housing in other countries. The price-rent ratio in Ireland has soared over recent years and at 29 now stands roughly 2½ times above its level in 1996. Irish house prices have surged 300 percent over the past decade, while increases in rents have been relatively muted. Price-rent ratios at these levels raise legitimate concerns about the sustainability of Irish house prices.

The Fed study shows that certain financial conditions, such as low interest rates and financial deregulation, are usually factors in past house price surges, though other features such as demographics and buoyant income growth also help explain these booms.

Typically, house prices peak not long after central banks begin raising interest rates in response to emerging inflation pressures. Subsequently, house prices fall for about five years, on average, and their previous gains are largely reversed. In other words, the larger the boom, the greater the bust! Not surprisingly, the downward correction in house prices is usually accompanied by an economic downturn, rising unemployment, and deteriorating fiscal balances.

Interestingly, the latest rise in house prices in industrial countries has been the most dramatic on record. House prices in recent years have risen at a rapid pace not just in Ireland, but in Australia, Spain, the United Kingdom, and the United States. If the current episodes follow the typical patterns seen in the past, house prices will eventually slow in these countries, and some of these countries could endure a period of flat or even falling prices in the future.

Central bankers don't agree on how best to respond to booms in house prices. The Fed's Alan Greenspan prefers a hands-off approach, arguing that central banks do not have weapons in their arsenals that can burst bubbles without doing undue harm to the wider economy. Other central bankers, such as the Bank of England's Mervyn King, appear more willing to tighten monetary policy to try to stem current and future surges in house prices.

When house price booms turn into busts, however, there seems to be no disagreement on how to respond. The evidence shows that in the aftermath of house price peaks, when house prices are falling, central banks cut interest rates quickly and sharply.

Importantly, the aim of the interest rate cuts is not to reverse the declines in house prices per se--as mentioned earlier, following a pronounced run-up, prices tend to fall a long way. Rather, the goal is to cushion both economic activity and the financial system from the effect of the house price crash. Lower interest rates deliver a shot in the arm for debt-laden households and businesses and help offset the drag on the economy from declines in house building, employment in the construction industry, and household sentiment. Moreover, lower interest rates and downward revisions to expectations for future economic growth cause the country's currency to depreciate on foreign exchange markets, which helps boost exports. This channel is especially important for small open economies. For example, following the bursting of real estate bubbles in the

Scandinavian countries in the late 1980s, improvements in competitiveness as a result of currency depreciation appears to have been an important element in eventually bringing about recoveries in these economies.

The evidence also shows that the recession that follows a crash in house prices usually lasts about a year. The economy then starts to recover as the supporting effects of looser monetary policy kicks in, though it can take up to five years for economic growth to return to it pre-peak pace. In sum, in the face of an adverse shock to the property market, the trick seems to be to let prices--interest rates, exchange rates, and house prices-- do the downward adjusting, so that quantities--output and employment--don't have to.

What can we infer from all this about the Irish economy's capacity to withstand a bust in house price? The answer seems to be that Ireland is rather vulnerable. One implication of Ireland's having adopted the euro as our currency is that interest rates here no longer respond to domestic economic conditions. Euro-area interest rates are set by the European Central Bank, and the ECB cares only about the euro area as a whole, not about individual member countries. As Ireland accounts for only a negligible part of euro-area activity and inflation, the ECB pays little attention to us. Similarly, the foreign exchange value of the euro is not affected by developments in Ireland. So if Irish house prices crash, we can't respond in the traditional manner by cutting interest rates and letting our currency depreciate. Monetary policy didn't tighten during the boom, and won't loosen during the bust, so other prices will have to do the heavy lifting if we are to avoid an especially nasty outcome. Moreover, increases in construction of houses have been a key contributor to overall growth in the Irish economy of late.

In fact, one can imagine a scenario in which global interest rates spike up from historically low levels at present, bursting housing bubbles in countries that have experienced sharp run-ups over recent years. The Bank of England and the Fed respond in the usual way by slashing interest rates, and sterling and the dollar would both plunge. But falling house prices in Ireland (and perhaps in Spain) would not elicit a response from the ECB. Ireland would then face a perfect storm of falling house prices, rising interest rates and debtservicing costs, and the euro appreciating against the currencies of our two largest trading partners, the United Kingdom and the United States.

The best strategy would obviously be to make sure that a bubble doesn't inflate here and that households don't take on more debt then they can handle, though some observers might claim that the authorities are behind the curve in both these respects. In the event that Irish house prices do turn down, economic flexibility will be crucial in containing any fallout.

In this regard, some lessons can be drawn from Hong Kong's experience in the late 1990s. Hong Kong's currency board arrangement means that the authorities there have essentially no control over domestic interest rates or the exchange rate. When property prices collapsed in 1997/1998, it was sustained declines in nominal wages that eventually restored the economy's competitiveness. But declines in nominal wages are rarely seen in industrial countries and are usually vigorously opposed by trade unions. Whether the wage-formation process in Ireland is up to the task of rebalancing the Irish economy in the aftermath of a property crash is very much an open question. Tax cuts and increases in government spending would also help to revive the economy following a house price bust, though the effectiveness of such measures is blunted by the openness of the Irish economy.

One thing is for sure: If house prices crash here, the much-vaunted flexibility of the Irish economy and the innovativeness of Irish policy makers will be
sorely tested.

Bruegel
Improving economic policy

Section: Comments Reviews Charts Opinions Analyses Facts

What goes up often comes down- with a big bang

by Alan Ahearne on 8th October 2005

If Isaac Newton were alive today, he probably wouldn't need to have an apple fall from a tree and crash on his head to discover the concept of gravity. A cursory look at the behavior of house prices in industrial countries over recent decades would surely have inspired him to conclude that what goes up, must come down.

Periods of prolonged rises followed by protracted falls are a surprisingly common feature of house prices in industrial countries. In a new study of house prices that I wrote with several of my former colleagues at the U.S. Federal Reserve Board, we identify no fewer that 44 episodes of house price booms and busts in industrial countries since 1970. Given the eye-popping gains in house prices in Ireland over the past decade, the foreign experience is particularly relevant.

Our study shows that certain financial conditions, such as low interest rates and financial deregulation, are usually present in past house price surges, though other factors such as demographics and buoyant income growth also help explain these booms.

We also looked at the relationship between house prices and rents across countries. Previous Fed research has shown that comparing houses price and rents provides a useful benchmark for valuing housing, in the same way that the ratio of stock prices to dividends is commonly used to measure valuation in the stock market. Put simply, rents are a key determinant of the value of housing and as such should not move too far out of line with prices. House prices that are unusually high relative to rents may indicate that housing is overvalued.

Interestingly, price-rent ratios are currently at historical highs in several foreign countries, including Australia, the United Kingdom, and the United States. In each of these countries, prices have risen sharply relative to rents since the mid-1990s; in the United Kingdom, for example, the price-rent ratio has roughly doubled over the past decade.

What would this approach say about the valuation of housing in Ireland? Ireland's price-rent ratio is currently higher than at any time for which we have reliable data, having soared since early 2002 as rents began to decline. In the first quarter of 2005, the average price paid for a house nationally was about €256,000 and the average annual rent, according to estimates by Davy Stockbrokers, was €8,800. The resulting price-rent ratio of 29 stood roughly 2½ times above its level in 1996! The price-rent ratio in Dublin is currently further above its trend level than in either in London or New York.

The jump in Ireland's price-rent ratio doesn't necessarily mean that housing is overvalued. High price-rent ratios can be justified by low interest rates, and therefore at least some of the increase in prices relative to rents can be explained by the drop in interest rates over recent years. It is an open question, however, whether all of the run-up in prices can be attributable to lower interest rates.

Demographic factors are often cited as a factor driving Irish house prices. The bulge in population of young Irish adults and large inflows of migrants are undoubtedly factors that are boosting the demand for housing. However, it is not clear that these factors should have a greater effect on house prices than
on rents.

Importantly, the foreign experience shows that when elevated price-rent ratios eventually decline to their historical average, the adjustment is brought about by falls in prices, not by increases in rents. Looking ahead, it is certainly true that the price-rent ratio is not a good predictor of house prices over the next year or two. Most indicators suggest that red-hot demand for houses continues to support gravity-defying house prices. But the price-rent ratio has proven its worth as a predictor of future house prices over longer forecast horizons. So as we sit in our back gardens staring up proudly at our sky-high priced homes, we would be well-advised to watch out for falling apples.

This article was also published by The Sunday Independent.

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Will the banks go bust in a property slump?

DR ALAN AHEARNE

Published 22/07/2007 | 00:00

IN the 1930s, the bank robber "Slick" Willie Sutton was once asked why he robbed banks. Sutton simply replied, "because that's where the money is".

What I love about his response is that he so completely missed the point of the question.

Still, what he said remains true today. Banks and other lenders in Ireland have raked it over the past decade. But with the housing market now stumbling, spare a thought for the bankers and those who own bank stocks.

As mortgage lending has stalled over recent months, bank stocks have slumped-down nearly 20 per cent from their highs in February. This makes them the worst performing bank stocks in Europe this year. Did someone say "Takeover"?

Beyond the folks in pin-stripped suits though, the effects of the housing downturn on banks raise wider concerns. Bank lending is a key channel though which a property crash could turn into a broader economic crash. When losses from property lending begin to mount, banks may become weary of lending funds to the other sectors of the economy. If companies are unable to borrow, investment spending dries up and the economy heads south. In the worst cases, banks themselves can go bankrupt.

Of course, Ireland's housing market at the moment is not crashing -- it is correcting gradually downward. That is good news.

The second piece of good news is that in the experiences of other rich countries, housing busts rarely lead to serious problems for banks. Even in the famous UK housing crash in the early 1990s, the major banks and building societies withstood the test fairly well.

In the face of rising interest rates, hard-pressed homeowners made every effort to stay current on mortgage repayments by cutting back on other spending. Even at their peak, the rate at which lenders foreclosed on delinquent borrowers remained below one per cent per year.

What's more, the banks were able to make substantial recoveries from re-selling repossessed properties.

The exception is the Scandinavian countries in the early 1990s. In Finland and Sweden, house prices roughly doubled during the second half of the 1980s. Booms turned into busts in the early 1990s as interest rates rose, oil prices soared, and the USSR -- Finland's largest export market -- collapsed.

The property bust, continuing high interest rates and deterioration of the economy progressively weakened the banks in both countries. By early 1993, all the banks in Finland and two of the largest four banks in Sweden had gone belly-up and had to be taken over by the government.

Why did things go so terribly wrong? The short answer is that the banks didn't do what good banks are supposed to do. They didn't comprehensively evaluate the customers that were asking for loans, or the projects they were being asked to bankroll. Instead, the banks relied too heavily on collateral rather than on the viability of the projects themselves.

They made other fatal mistakes too. In the early 1980s, there were only a few banks in each country. But new banks sprung up and entered the market when in 1980 banking rules were relaxed.

As competition intensified in the 1980s, banks fought for market share by entering into new business areas and by taking on new risks.

The problem for someone entering into a new business area is that is easy to get scammed by people who already know those areas well. And that's exactly what happened to the Nordic banks.

For example, Swedish banks lent heavily to anyone with blonde hair wanting to buy property in Belgium. This of course raises the question as to why anyone would wish to own property in Belgium, but let's not wrestle with that one.

Today in Brussels when the natives recall the 1980s, they talk about there having been three prices for property: the price for locals, the price for foreigners, and the price for Swedes. One wonders if the eastern Europeans are saying something similar currently about the Irish.

Another big mistake is that the Scandinavian banks put too many of their eggs in one basket. Almost without them realising it, the risks that the banks took became highly concentrated. Finnish and Swedish banks became overly exposed to individual companies and sectors, especially property.

The most important point, however, is that the banking crises in Scandinavia were more directly linked to drops in the value of commercial property rather than to the decline in house prices. A struggling homeowner that hands back the keys of the house causes a mild sting to a bank; a property developer that folds owing the bank a packet inflicts a terrible pain.

Investors in shares of Irish banks are assuming that Irish banks have leaned the bitter lessons from their Scandinavian counterparts. Let's hope they are right.

Dr Alan Ahearne is a former senior economist at the Federal Reserve Board in Washington DC. He currently lectures in economics at Cairnes School of Business and Public Policy at NUI Galway

Promoted Articles

THEME: R5

Clarity and effectiveness of the Government and Oireachtas oversight and role

LINE OF INQUIRY: R5d

Appropriateness of the relationships between Government, the Oireachtas, the banking sector and the property sector

CONSTRUCTION INDUSTRY FEDERATION

w.cif.ie

Pink

4 August, 2004

Ack
Dinn
Copy to Dmc County
for Reply

06 AUG 2004

Mr Bertie Ahern, T.D.
An Taoiseach
Government Buildings
Upper Merrion Street
Dublin 2

Special Initiatives – Sustaining Progress: Affordable Housing

Dear Taoiseach,

We commend the Government for the efforts made to meet the commitment in Sustaining Progress to deliver 10,000 affordable housing units under the Special Initiative. We welcome the announcement you made at the Sustaining Progress Plenary meeting of additional sites in Kildare and Galway.

In terms of overall supply, the Irish housebuilding industry will deliver in excess of 80,000 housing units this year, a truly astonishing figure. These are rates seven or eight times as high as housing output in Germany and the UK, and moving towards four times the European average figures.

The affordability issue is primarily an issue for first-time buyers in the Greater Dublin area. An analysis of housing costs for first-time buyers throughout the country reveals that the cost of housing, in most other areas, is less than €200,000. Repayments, as a percentage of disposable incomes remain within the same range as in the past. The delivery of adequate affordable housing in the Greater Dublin area is a challenge on which we are focused.

We have had discussions with senior officials in your Department on existing and possible additional strategies for the supply of affordable housing, and I greatly appreciated your recognition of the efforts being made in your address to the Sustaining Progress Plenary meeting.

The existing strategies are:

1. The efforts already announced by Government (e.g. at Gormanston) for the delivery of affordable housing, with a number of sites identified now close to 9,000 units.

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2. Affordable housing to be delivered under Part V Planning & Development Act 2000, agreements.
We believe that the scale of the delivery which is underway here may not be generally appreciated, and its impact has not yet been fully seen in the market place.

3. You announced the intention to puruse land swaps. This too we believe has real potential, and has been the subject of discussion between my colleague Hubert Fitzpatrick and your officials.

We believe there are two further options for the supply of additional affordable housing units, the first of which could be activated in the short term. The second has large potential, short, medium and longer term timescales, and requires the expression of national interest over local interest. These options are:

4. Agreements could be sought by the local authority from existing housebuilders for the delivery of affordable housing on the housebuilders' own lands, in advance of normal implementation requirements under Part V, with an appropriate credit being issued to each company in respect of units so delivered. This credit would then be used by housebuilders to meet their future requirements under Part V of the Planning & Development Act 2000.
We believe this measure could be brought into effect by ministerial directive or guideline, and would not require legislative change, or development plan alteration.

5. This week, Dublin City Council announced plans for the further development, at good density levels, of lands in the Cherry Orchard area of the City, and for the provision of 5,000 further housing units in that area.
There are potentially a dozen Cherry Orchards, some of them within the M50, others within the remainder of the four Dublin councils, and the remainder in close proximity to existing and potential stations on major public transport rail routes. In many cases, these lands are serviceable relatively quickly, but not zoned for residential use at present. They would include lands currently zoned green belt or agricultural, but not in productive amenity use. We believe the four Dublin Councils should be asked to look at the option of using for amenity purposes more and smaller sites, developed to a high amenity level, thus potentially freeing up other lands for the development of affordable housing.

   Additionally, the investments made and planned in suburban rail will not yield their optimum economic and social benefits, unless the potential for development in the proximity of stations and potential stations along these lines is progressed with urgency. We are thinking here of stations, existing and new, up to 20 kilometres from Dublin City Centre.

To progress development on these lands, (in the Dublin councils and on suburban rail), it will be necessary either to seek a zoning amendment to the lands in question, or seek a material contravention to the relevant council's development plan, to accommodate affordable housing uses.

Over the last decade, housing output in the Dublin City area has been static. There have been large increases in the county area, in Meath/Kildare/Wicklow, and especially in the remaining Leinster counties. This has caused a relocation of population, and problems of long-distance commuting. The scale of this has recently been spelt out in an article by Colm McCarthy in the Summer 2004 issue of the Irish Banking Review. The acute price pressures which have resulted in the traditional Dublin suburbs are effectively forcing first-time buyers out into the outer counties in the province of Leinster e.g. counties Carlow, Westmeath, Wexford, where residential zoning is easier to obtain, thus resulting in longer term commuting patterns.

The recent Regional Planning Guidelines for the Greater Dublin area (including the mid-east counties) envisage reduced levels of housing output in Meath, Kildare and Wicklow, compared with 2003 output figures (a reduction of 34%). However, the increase postulated for the four Dublin counties is more modest and it appears that the Regional Planning Guidelines foresee an annual average output of just over 14,000 units across the four Dublin local authorities. This figure is significantly lower than the level of demand identified e.g. by the 2002 Williams & Shields study, and doesn't acknowledge the impact of a number of key factors, including renewed economic confidence.

If the Regional Planning Guidelines are carried through in Kildare, Wicklow and Meath the inevitable consequences are either:

i) Further upward price pressure in Dublin
ii) Reformed Regional Planning Guidelines in the four Dublin counties (and on rail lines) and aggressive zoning and services provision, to allow for greater supply, or
iii) Greater spill-over of demand into the rest of Leinster, with resultant longer range commuting.

Ultimately, the availability of an adequate supply of housing and particularly of affordable housing is dependant on the level of supply and the balance achieved between supply and demand. Achieving that in a sustainable way, with a growing population and a growing economy, requires a strong commitment to maximising land use potential within the confines of the City and its suburbs, and along the major public transport routes out of it. Within the urban area, integration of public transport, park and ride facilities, quality bus corridors and feeder buses are all essential elements of effective land use solutions.

Taoiseach, I appreciate your personal interest in this topic, and desire and commitment to its achievement. Existing measures, and the further ones currently being implemented are and will achieve a great deal. The further suggestions we have made (e.g. for the bringing forward of the delivery of affordable housing under Part V agreements) can deliver further affordable housing units quickly. That, and a radical look at lands within the M50, the four Dublin counties, and along suburban rail routes/QBC and potential QBC routes would have short-time benefits of additional affordable housing and major long-term ones.

This letter has been written at a general level, but our members can be specific in outlining precise areas where quality sustainable and affordable housing can be provided, in quantity.

// We would appreciate the opportunity of discussing the preceding with you and your officials, at your convenience.

Yours sincerely,

Liam Kelleher

LIAM KELLEHER
DIRECTOR GENERAL

(6)

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CONSTRUCTION INDUSTRY FEDERATION

WESTERN AND MIDLAND REGION
Construction House, 8 Montpellier Terrace, The Crescent, Galway. Tel: 091-502680. Fax: 091-584575.
E-mail: cifgalway@cif.ie Website: www.cif.ie

RECEIVED
- 1 OCT 2008

An Taoiseach. Brian Cowen
Taoiseach's Private Office
Department of the Taoiseach
Government Buildings
Dublin 2

30th September 2008

Re: Budget 2009

Dear An Taoiseach Cowen,

I am writing to you as Director of the Midland Branch of the Construction Industry Federation in advance of this year's Budget.

As you know, the industry here in the constituency is experiencing serious difficulties and already this year thousands of people in our local industry have lost their jobs. As employers we face a daily struggle to maintain our businesses and to keep local people employed.

You are aware no doubt of the macro issues impacting our economy and industry. These impacts are being felt locally in terms of employment, investment, local authority revenues, and confidence.

I know you, as our local representative in Dáil Eireann, will treat this matter with the urgency it deserves.

Please find attached a brief document on some of the broader issues relevant to the industry in your constituency.

Please contact me personally on my mobile: 086 2524409 or Office No. 091 502680.

Yours sincerely,

Ray Gilboy

Ray Gilboy
Director

Encl.

Head Office: Construction House, Canal Road, Dublin 6.
Director General: Liam Kelleher. Director: Ray Gilboy.

Briefing Document Budget 2009

Employment has decreased significantly and revenue returns have been severely curtailed by the rapid slowdown in the Construction Industry. The following is a very brief outline CIF's proposals to aid recovery in the industry and the economy in general. These are:

1. The Government should follow through on spending and investment in the National Development Plan (NDP) and borrow to do so if necessary. This action will have a very positive impact on the country's competitiveness and will sustain employment across the economy during a time when the live register is growing at an alarming rate on a monthly basis

2. Measures to address unnecessarily onerous pre-qualification criteria that are particularly impacting small and medium contracting firms

3. The Government should support the First Time Buyer with a stabilization package which will free up liquidity for prospective purchasers who wish to buy their first home but cannot access mortgages due to the current banking situation.

4. The penal rate of Stamp duty on Commercial Property should be reduced to 4% in line with our European Counterparts. The current rate of 9% has resulted in vast amounts of Irish money being invested abroad over the last number of years and it also deters foreign investment in Ireland. The reduction in this rate will generate increased transactions and will thus increase the revenue stream to government.

Ireland's indigenous construction industry, which is based around small and medium employers operating the length and breadth of the country, has made a massive contribution to Ireland's economic growth over the past decade, contributing over €10 billion a year to Government revenues, employing over a quarter of a million people and driving growth and employment across other sectors of the economy. The contribution of our industry is felt in every constituency in the country and a failure to implement the measures above will affect every city, town and village in the country in a way no other industry could.

CONSTRUCTION INDUSTRY FEDERATION

(1)

/ October 2008

INDEXED

02 OCT 2008

S255/09/09/0002A

Mr. Ray Gilboy
Director
Construction Industry Federation
Construction House
8 Montpellier Terrace
The Crescent
Galway

Dear Mr. Gilboy,

I wish to acknowledge receipt of your letter of 30 September 2008 which will be brought to the Taoiseach's attention as soon as possible.

Yours sincerely,

Paul Mooney

Paul Mooney
Taoiseach's Private Office

Gerry Steadman
For Attention

(7) 12

CONSTRUCTION INDUSTRY FEDERATION

Construction House, Canal Road, Dublin 6. Tel: 01-4066000. Fax: 01-4966953. E-mail: cif@cif.ie Website: www.cif.ie

23 January, 2009

26 JAN 2009

Mr Brian Cowen, T.D.
An Taoiseach
Government Buildings
Upper Merrion Street
Dublin 2

CIF Submission to the Department of the Taoiseach on Ireland's Economic Recovery

Dear Taoiseach,

Further to my letter of the 21st January I now enclose CIF's submission that sets out the measures required to maximise the contribution of the construction sector to Ireland's economic recovery.

Addressing the problems in construction represents a most immediate and effective way of stemming job losses, boosting government revenues and improving confidence across the economy. In this regard, a number of specific government measures are required in relation to the residential and commercial property markets, public capital investment and improving our existing stock of buildings.

There is over €1.1Bn worth of VAT tied up in the estimated 35,000 unsold new homes currently on the market. This is at a time when housing affordability has improved significantly, with houses more affordable today than at any time during the past 13 years. Because of recent uncertainties and a lack of finance an estimated 30,000 house buyers have postponed their purchases but with the right package of measures many of these would come back into the market.

To facilitate this, CIF is recommending that the Government introduce a time-bound incentive package for first time house buyers. The objective must be to create a short window of opportunity that would encourage buyers and sellers to act. In addition to the immediate pay-back to the Exchequer through increased VAT revenues, this would help to find a floor for house prices and provide the basis for a recovery in the housing market.

CIF also recommends that Government take advantage of the excellent value available in the market place to help meet its social housing requirements. Specifically, CIF believes that, with market prices in many cases at or below construction cost, the Government should acquire an additional 10,000 units for social housing purposes.

In respect of the commercial property market, the Government should bring Ireland's transaction costs into line with those of its competitor economies. Reducing the rate of commercial property stamp duty from 6% to 4% would make an immediate contribution. Given the paucity of investor activity and the huge competition in terms of investment opportunities, it is clearly counter-productive to price Ireland out of the market through higher transaction costs.

Addressing Ireland's infrastructure deficits must be a priority both in terms of providing for the longer term competitiveness of the economy and to immediately provide for economic activity, jobs and increased government revenues.

In the first instance Government must reinstate all projects cancelled or deferred as a result of the Budget cut backs in capital spending. Ireland is uniquely positioned in terms of having a list of projects that are ready to go or at a very advanced stage of planning, yet we have chosen to delay or cancel these projects at a time when their construction would make a huge contribution to employment and to overall economic activity.

Projects are ready to go across all public infrastructure headings, including:

- Roads (e.g. Newlands Cross Upgrade; N18 Gort to Oranmore, N5 Longford Bypass, Tuam and Claregalway Bypasses, M17 Rathmorrissey to Tuam, N25 Carrigtwohill to Middleton)
- Public Transportation (e.g. Luas, Metro)
- Education (e.g. schools building programme, Grangegorman)
- Health (e.g. primary healthcare facilities, HSE hospital building programme)
- Environment (e.g. social housing, rollout of waster and waste water improvement schemes)
- Justice (courts, garda stations, prisons)
- Sports and Leisure (e.g. Sports Campus Ireland)

In relation to many of the above projects, contractors and the State have already invested significantly on site acquisition, design and other bid costs.

Other economies are attempting to put in place economic recovery plans based on infrastructure development but are nowhere near Ireland in terms of having a list of projects that can be commenced immediately.

In addition, CIF recommends additional Government investment in the country's network of national primary and secondary roads that are included in Tranport 21 but have yet to be started, and new additional investment in labour intensive school, social housing and primary health care building projects. The Construction Industry Council (CIC) has presented Government with a range of policy options including off balance sheet financing models which could be used to leverage additional private sector investment in these areas.

The attached document outlines the significant return to the State from its investment in infrastructure.

The CIF also recommends the introduction of enhanced Government incentives for homeowners to improve the energy efficiency of their homes. Over 900,000 houses, half of our existing housing stock, were built prior to 1990, when the first building regulations were introduced. Retrofitting these houses to improve their energy efficiency would create a substantial new industry and achieve significant reductions in energy costs for home owners and savings for the State under Kyoto.

CIF's position on pay is clearly set out in the attached document. CIF believes that it is imperative that pay rates are cut by at least 10% to help safeguard jobs in the industry and protect small and medium companies that are located throughout the country.

The attached document also sets out the need for a co-ordinated approach from State agencies such as FAS along with the Department of Enterprise, Trade and Employment in terms of providing for the industry's ongoing training and up skilling requirements.

The range of measures outlined above and in greater detail in our attached document, coupled with decisive direction from Government in relation to current expenditure, would make an immediate contribution to economic recovery and help Ireland meet the competitiveness challenges that threaten the economy in the medium and long term.

Yours sincerely,

Tom Parlon

TOM PARLON
DIRECTOR GENERAL

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File Number: S255/10/10/0001I √CHECKED CL ✓ MS

File Name Representations to the Taoiseach, 26th January 2009 - 27th January 2009

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26 JAN 2009

26 January 2009

Mr. Tom Parlon
Director General
Construction Industry Federation
Construction House
Canal Road
Dublin 6

Dear Mr. Parlon,

I wish to acknowledge receipt of your letter and enclosure of 23 January, 2009 which will be brought to the Taoiseach's attention as soon as possible.

Yours sincerely,
Paul Mooney

Paul Mooney
Taoiseach's Private Office

Mr. Joe Lennon
Mr. Peter Clinch

For information

Telephone: 01-6194020
E-mail: privateoffice@taoiseach.gov.ie

(9)

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CONSTRUCTION INDUSTRY FEDERATION

Construction House, Canal Road, Dublin 6. Tel: 01-4066000. Fax: 01-4966953. E-mail: cif@cif.ie Website: www.cif.ie

Mr Brian Cowen, T.D.
An Taoiseach
Government Buildings
Upper Merrion Street
Dublin 2

20 March, 2009

Dear Taoiseach,

Since the Government announced its €7bn recapitalisation plan of Allied Irish Bank (AIB) and Bank of Ireland (BOI) both banks have made a major public play of being "open for business", particularly in relation to mortgage lending and loans to small and medium businesses. There isn't a shred of evidence to back up these claims but there is plenty to suggest that the banks are engaged in a cynical PR exercise aimed at pulling the wool over the Government's eyes.

We have seen a flood of full page advertisements by AIB and BOI stating that they have a combined €2bn worth of mortgages waiting for prospective house buyers. Bank of Ireland is even offering €1,000.00 cash for anybody who draws down a mortgage. The reality is that it is virtually impossible for prospective house buyers to qualify for a sufficient mortgage to go ahead with their purchase – the banks have deliberately erected an elaborate and discouraging criteria for mortgages that very few people will be able to satisfy.

Both banks have also repeatedly professed their commitment to supporting businesses. Feedback from CIF members would suggest that the complete opposite is the case.

Both banks are raising their margins (with one introducing a 'funding premium') on existing and new credit facilities even though the funding cost to the banks have reduced significantly. And, working capital isn't available in any circumstance. One member was refused €80,000, which was needed to free up €600,000 worth of sales that would have gone straight back to the banks.

Both AIB and BOI are beholden to the Irish government and the taxpayer for their very existence, yet both are putting on a public masquerade as regards their lending credentials, and liquidity within the Irish economy is grinding to a shuddering halt.

Yours sincerely,

TOM PARLON
DIRECTOR GENERAL

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Webmaster/LIB/DOT
24/03/2009 14:18

To privateoffice@dot
cc
bcc
Subject Fw: April 7th Mini Budget

----- Forwarded by Webmaster/LIB/DOT on 24/03/2009 14:18 -----

"Cathal Lee" <clee@cif.ie>
24/03/2009 12:11

To <taoiseach@taoiseach.gov.ie>
cc
Subject Re: April 7th Mini Budget

An Taoiseach Brian Cowen T.D

Department of An Taoiseach

Upper Merrion Street,

Dublin2.

Dear Taoiseach

Re: April 7th Mini Budget

Following an emergency meeting of the major construction employers on Monday 9th March, a delegation of CIF members met with a number of your party colleagues to appraise them of the industry's potential to generate jobs and increased government revenues in the event of specific budgetary measures in relation to capital spending and the housing market. I have been asked to bring these proposals to your direct attention.

At the outset, I would like to state clearly the CIF's recognition of the huge and complex challenges facing the government in the Budget on 7th April. Clearly the primary focus will be on steadying the public finances given the widening gap between revenues and spending. However, in light of the fact that 1,000 people are losing their job every day and recent CSO figures showing a complete collapse in spending across the economy, any package of tax increases and spending cuts must be balanced with measures that generate increased economic activity. The construction industry, the most labour intensive sector of the economy, is the best positioned sector of the economy to generate an immediate return on investment to the Exchequer.

In terms of budgetary savings, the priority must be on reining in day-to-day spending, which no longer bears any relationship with what is happening in the wider Irish economy. Ireland's own recent economic history clearly demonstrates that focusing on tax-raising instead of on current expenditure is self defeating.

Clearly also, the Budget must attempt to stabilise the banking system. Despite efforts to date, a lack of finance remains the primary reason for the delay/postponement of projects in the private sector, which is forecast to decline further, and the inability of consumers, including prospective house buyers, to proceed with intended purchases. There will be no pick up on the private side of the economy until the government can ensure lending to prudent borrowers (business and consumer).

In terms of generating activity, there is a real opportunity to save jobs and boost the Exchequer at the same time as developing new and badly needed infrastructure at excellent value for money for the economy. This requires, however, a reversal of the recent policy of cutting capital spending.

In last October's Budget and again in February, the government significantly cut the capital investment programme with very serious consequences for construction employment and wider economic activity.

The current capital budget for 2009 is more than €1bn less than originally planned.

Projects that, on paper, are to proceed are instead being delayed/deferred/cancelled.

In areas, such as the water improvement programme, where the government announced increased spending the level of actual activity has fallen.

The effect of this approach is the decimation of employment in the industry, currently at a rate of 7,000 per month, and the loss of the skills and experience that have built up over the last decade and which will take considerable time to build up again.

It is also worrying that, increasingly, government comment on infrastructure spending has been permeated by reference to re-prioritisation, a term that many members interpret as shorthand for further cutting projects and which would have serious implications for the economy in the long-term as well as the here and now. The National Competitiveness Council amongst others has stated that our infrastructure deficit places Irelandat a significant competitive disadvantage relative to other EU countries. Cutting the capital programme will damage our competitiveness even further.

Instead, the government should take advantage of the incredible value for money and abundance of skilled productive resources to address problem areas such as schools, third level educational institutions, hospitals, primary/community healthcare, roads and public transport, and water quality.

The return to the state on investment over the medium- and long-term is universally accepted. The ESRI, for instance, shows that investment in infrastructure leads to a permanent increase in GNP of the order of €0.4bn per annum for every €1bn invested (a pay back of less than 3 years to the Exchequer).

Investment also makes an even more immediate contribution to the economy. Every €100m spent on construction projects creates 1,000 jobs for a year and immediately returns nearly €50m to the exchequer through direct taxes and social welfare savings. It also generates jobs and taxes elsewhere in the economy.

The CIF also fully supports the proposals from the Construction Industry Council (CIC) that have been submitted to Government and which are aimed at supporting an additional €5bn in infrastructure investment using off balance sheet funding mechanisms.

The CIF also proposes a number of measures that would unlock the revenue potential tied up in unsold new housing stock (see Briefing Document below). The document identifies an estimated 35,000 houses that are already completed but not sold. The sale of these houses would release an estimated €1.1bn in VAT receipts to the Exchequer, and stimulate consumption, taxes and employment in other areas of the economy. In order to be effective, the measures proposed in the attached should be available for a limited time period only.

The measures outlined above have the potential to make a substantial and immediate contribution to economic recovery. I would ask that you consider the proposals and I can forward any additional information or clarification that you may require.

Yours sincerely,

This letter has been circulated to all members of the Cabinet

Irish Auctioneers Valuers Institution (IAVI) / Construction Industry Federation (CIF) /

Irish Home Builders Association (IHBA)

Stimulus Package for Generation of Housing Transactions 2009

Summary

Residential construction activity has reached a virtual standstill. Exchequer revenues will not be restored until housing transactions start again. Government now has the opportunity to introduce measures to restore confidence and transaction activity amongst prospective ready and willing home buyers.

This CIF/IHBA proposal details two short term schemes to encourage home buyers, as well as generate much needed cash flow for government and businesses participating in the housing market, namely;

Introduce direct assistance/incentive for first time buyers of new homes, and

Introduce relief from residential Stamp Duty until end 2009.

Either scheme should apply for a very limited period of time. Such a scheme to potential purchasers should reduce in value at 31 December 2009 and expire altogether at 31 December 2010. Both schemes have the potential to generate a positive cash contribution to the Exchequer ranging from €492 to €717m for the combined years of 2009 and 2010.

The principal aim is to reduce the estimated 35,000 new houses that are already completed but not sold. If these 35,000 houses were to sell, it could release an estimated €1.1 billion in VAT receipts to the Exchequer immediately.

There clearly has to be a strong incentive for Government to restore activity in the market, as it would alleviate much of the current pressure on Exchequer revenues and spending, and economic activity in general.

-

The following option is suggested for consideration:-

<u>A) Introduce direct assistance/ incentive for first time buyers of new homes by:</u>

-

1. **Introduction of First Time Buyers Incentive Scheme; or**
2. **Allow a Tax Credit Scheme to assist purchasers**

Any initiative taken must be simple, easily understood and attractive to purchasers.

Availability of either of these initiatives must be short term. Any such scheme must have a limited life so as to make participation in the scheme attractive to the purchaser immediately.

The introduction of a scheme of the nature suggested will not drive up house prices. It will present a situation whereby the existing stock of unsold new homes may start to move again, generating transactions for the wider economy.

1. **First Time Buyers Incentive Scheme**

In the case of a First Time Buyer's Incentive Scheme, it is suggested that the level of incentive should be set at €20,000 for period up to 31 December 2009, and €10,000 euro for the period 1 January 2010 to 31 December 2010. Payment of the incentive would be dependent on contract signing for purchase of new home prior to relevant dates, i.e. 31 December 2009 or 31 December 2010.

1. Tax Credit Scheme

In the case of a Tax Credit Scheme, the proposal could be to grant a tax credit of €5,000 per annum for a period of 4 years to a first time buyer who purchases a new home up to 125m^2 in size, provided the transaction is committed to prior to 31st December 2009. For those who purchase between 1 January 2010 and 31 December 2010, the tax credit could amount to €5,000 per annum for a period of two years. It is possible the tax-credit could be paid directly to the lender over the 4 or 2 year period using the same basis upon which mortgage interest relief is paid directly to banks. The Revenue Commissioners would provide the lender with a letter confirming the tax credit over the relevant period. The builder/developer could also play his part by accepting responsibility for any interest charges that may be imposed by the lender in advancing the gross value of the tax credit to the purchaser.

Implementation of this suggested scheme will result in a slow payout of benefits by the Exchequer with an immediate cash return to the Exchequer in respect of VAT due on transactions completed.

See attached appendices outlining net cash flow benefit to government arising from implementation of either of the measures outlined above. The net benefit to the Exchequer from implementation of a First Time Buyers Incentive Scheme for 2009 could be €171m, while for 2010, net benefit could be €321m.

Under the Tax Credit Scheme, net cash flow benefit to the Exchequer will be €396m for 2009 and €321m for 2010, while net cost will be €150m for 2011 and €75m for 2012.

Introduction of schemes of this nature will bring about a greater level of certainty which will stimulate the overall economy and generate activity in a wide range of services. This will facilitate retention of employment and retention of government tax revenues.

It is important that lenders stress test borrowers with no allowance for whichever of these provisions is to be made available, so as to prevent increased borrowing resulting.

B) Relief from residential Stamp Duty until end 2009

In the case of residential stamp duty, the proposal is to offer relief from stamp duty until the end of 2009 which would help ignite sales in the second-hand housing market. At present, for example, residential stamp duty acts as a huge impediment to those wishing to downsize. Temporary relief from stamp duty has the potential to increase transactions across the market in both new and second-hand houses. Furthermore, stamp duty on residential property should be reviewed having regard to the BER applicable to the property and in light of the forthcoming report to be published by the Commission on Taxation. By attaching a lower rate of stamp duty to a higher building energy rating, homeowners would potentially be stimulated to retrofit the house in order to attract more buyers. This proposal reflects current policy in line with the polluter pays principle.

Impact of Increased Sales of 30,000 Houses

-

If, following the implementation of above initiatives, 30,000 sales of new homes out of the existing stock of unsold new housing were to materialise:-

- It is estimated that for a new home, the average outlay to make it habitable in terms of furniture and fittings is around €6,000. The extra sales would generate increased retail spending of €180 million, resulting in VAT receipts of €38.7 million;
- Based on the average house price, the sales of 30,000 unsold new houses that are already built, would release €942.1 million in VAT receipts on sales of new houses;
- Conveyancing and estate agent costs typically were charged at 2% of purchase price, but this has come down in the tighter housing market environment that has evolved over the past year. If we assume an average conveyancing cost of €1,500 + VAT@21.5%, the sale of 30,000 extra homes would generate conveyancing fees alone of €45 million and increased VAT receipts of €9.67 million;
- On the basis of development levies of €10,000 per home being payable, this will yield an additional €300 million for local authorities to fund their infrastructural programmes.

The increased tax take as a result of an increase in 30,000 new home sales could yield up to €1.29bn to the Exchequer.

It is clear that generating transactional activity will increase sales and generate considerable revenues for Government in terms of VAT receipts on new unsold housing, the VAT content of increased retail sales to fit out the new house and increased employment in retail, legal and real estate services, and increased corporation tax payments, and possibly CGT payments.

Generating sales of existing stock will also create an environment whereby some building activity could start again in key growth areas. The increase in employment would also reduce the burden of social welfare payments were the increased employment to reduce the numbers signing on the live register.

Appendix 1: First Time Buyers Incentive Scheme: Net benefit to Exchequer (on VAT receipts alone)

	2009	**2010**
	Average National House Price	**Average National House Price**
Average House Price	264,026	264,026

Average VAT (at 13.5%) due to the Exchequer on closing of sale	31,404	31,404
Assumption: 15,000 First Time Buyers home sales both in 2009 and 2010 **- with incentive from government**		
	2009	**2010**
Estimated number of sales	15,000	15,000
Cash Flow Benefit to Exchequer arising from First Time Buyers Incentive Scheme		
	2009	**2010**
Total VAT element of sales payable to the Exchequer	[€31,404 X 15,000]	[[€31,404X 15,000]
	€471 million	**€471 million**

	[€20,000 x 15,000]	[€10,000 x 15,000]
Cost of scheme to the Exchequer	€300 million	€150 million
Net Benefit to Exchequer	€171 million	€321 million
Net Benefit 2009-2010	€492 million	

Appendix 2: Tax Credit System: Net Benefit to Exchequer

Action:

- **tax credit of €5,000 per annum for a period of 4 years to a First Time Buyer who buys a new home up to 125m² where the transaction is completed on of before 31st December 2009.**
- **for any FTB who purchases in 2010, the tax credit of €5,000 per annum would be payable over a reduced period of two years only.**
- **tax credit to be payable directly to lender during respective period**

	2009	2010	2011	2012
1st Assumption: **15,000 First Time Buyers avail of 4 year tax credit option and purchase new home up to 125m² during 2009**	€75m	€75m	€75m	€75m

Total VAT payable to the Exchequer following purchase of 15,000 new housing units at current national average house price of €264,026	€471m			
Less total cost of tax credit during year 1	€75m			
Net Benefit of tax credit scheme in 2009	€396m			

	2009	2010	2011	2012
2nd Assumption: 15,000 First Time Buyers avail of 2 year tax credit option and purchase new home up to 125m² during 2010		€75m	€75m	
Total VAT payable to the Exchequer following purchase of 15,000 new housing units at current national average house price of €264,026		€471m		
Less total cost of tax credit during year 2		€75m		

Net Benefit of tax credit scheme in 2010		**€321m**		
Combined Total Net Benefit to the Exchequer in 2009 and 2010	**€717m**			

Entry	Name of Record	Date document was created (dd/mm/yyyy)	Intended recipient	Original author
1	Special Initiatives_Sustaining Progress_Affordable Housing	04/08/2004	Bertie Ahern T.D.	Liam Kelleher
2	Submission to the Minister of Finance_Budget 2009	01/09/2008	Unknown	Unknown
3	Irish Home Builders Association_Dublin Branch	16/11/2007	Bertie Ahern	Brian McKeon
	Economic WSPMS-Archive			
4	Stimulus Package for Generation of Housing Transactions 2009	Mar-09		Sharon Doyle
	Economic WSPMS			
5	Letter to Taoiseach from Construction Industry Federation	19/07/2005	John Callinan	Dermot McCarthy
6	Comments from the Irish Home Builders Association (IHBA) on the NESC Housing Report on Policy - DKM Consultants Report	07/07/2004	Martin Fraser	Hubert Fitzpatrick
	G Drive			
7	Note of CIF Meeting			
8	CIF - Minute of Meeting with Taoiseach July 2005			
9	CIF Housing Stimulus Package to govt (130209)			
10	Goodbody IHBA Final March 2009 - 'Economic Analysis of the Funding and Delivery of Social and Affordable Housing in Ireland'			
11	Item 1 CIF Housing Stimulus Package to govt (130209)			
12	Jobs and Infrastructure - A Plan for National Recovery (Submission by CIF)			
13	Note of Meeting with Delegation of Builders 8 July 2008			
	Private Office			
1	Letter from Frank McCaffrey, President, CIF to the Taoiseach, Bertie Ahern TD	17/10/2002	Bertie Ahern T.D.	CIF
2	Letter from Cathal Lee, Public Affairs Executive, CIF	11/12/2006	Bertie Ahern T.D.	CIF
3	Letter from Liam Kelleher, Director General, CIF	09/10/2007	Bertie Ahern T.D.	CIF
4	Letter from Robert J. Ganly. President, IAVI	29/11/2007	Bertie Ahern T.D.	IAVI
5	Letter from Alan Cooke, Chief Executive Officer, IAVI	29/08/2008	Brian Cowen T.D./Ministers	IAVI
6	Letter from Ray Gilboy, Director, CIF	30/09/2009	Brian Cowen T.D.	CIF
7	Letter from Tom Parlon,Director General, CIF	23/01/2009	Brian Cowen T.D.	CIF
8	Email from Sinead Cashin on behalf of Martin Whelan, Director of Communications, CIF	09/02/2009	Members of the Oireachtas	CIF
9	Email from Tom Parlon, Director General,CIF	20/03/2009	Taoiseach	CIF
10	Email from Tom Parlon, Director General,CIF	24/03/2009	Members of the Cabinet	CIF

11	Memo from Tom Costello, CIF	06/04/2009	Brian Cowen T.D.	CIF
12	Email from Aidan Hannigan on behalf of Noel O'Flaherty, Director, CIF	11/11/2009	Brian Cowen T.D.	CIF
13	Letter from Gerry Farrell, Chief Executive, Irish Concrete Federation	17/11/2009	Brian Cowen T.D.	Irish Concrete Federation
14	Letter from Martin Whelan, Director, CIF	29/10/2010	Brian Cowen T.D.	CIF
	Infrastructure Files			
1	Letter from Ciaran Ryan IHBA	13/10/2000	Dermot McCarthy	Ciaran Ryan
2	Letter from Sean McEniff , Tyrconnell Group enclosing copy of letter to Min Finance	01/07/2000	Bertie Ahern	Sean McEniff
3	Letter from Taoiseach to Sean McEniff	25/07/2000	Sean McEniff	Bertie Ahern
4	Memo to the Taoiseach enclosing paper from Hooke and MacDonald	13/06/2000	Taoiseach	Eoin O'Leary
5	Fax message from D/Taoiseach to D/Envt enclosing letter from Ken MacDonald	30/08/2000	Mary O'Donoghue D/Envt	Ken MacDonald
6	Memo to Dermot McCarthy confirming meeting between Taoiseach and ken MacDonald	26/07/2000	Dermot McCarthy	Lorraine Dunne
7	Briefing material supplied by DENVT to the Dept of the Taoiseach	19/09/2000	Derek O'Neill	Mary Finnegan
8	Memo to the Taoiseach re meeting with Ken MacDonald	20/09/2000	Taoiseach	Eoin O'Leary
9	Paper on Private Rental Market given to Taoiseach at meeting with Ken MacDonald	13/06/2000	Taoiseach	Hooke MacDonald
10	Memo from Eoin O'Leary to Taoiseach re Housing Market	28/09/2000	Taoiseach	Eoin O'Leary
11	Minute of meeting between Taoiseach and Ken MacDonald	22/09/2000		Eoin O'Leary
12	Memo from Eoin O'Leary to the Taoiseach enclosing correspondence from EBS	01/09/2000	Taoiseach	Eoin O'Leary
13	Letter from CIF to D/Taoiseach with enclosure	18/01/2002	Mary Doyle	Liam Kelleher
14	Letter from CiF to D/Taoiseach	14/03/2002	Mary Doyle	Liam Kelleher
15	Letter from CIF to D/Taoiseach with enclosure	14/03/2002	Mary Doyle	Liam Kelleher
16	Letter from CIF to Taoiseach with pre-election 2002 submission to FF	25/03/2002	Taoiseach	Liam Kelleher
17	Letter from CIF to Dermot McCarthy	01/07/2002	Dermot McCarthy	Liam Kelleher
18	Memo in relation to meeting between the Taoiseach and CIF	08/10/2002	Taoiseach	Dermot McCarthy
19	Letter from Liam Kellleher to Mary Doyle	07/04/2004	Mary Doyle	Liam Kelleher
20	Letter from Taoiseach to O'Flynn Construction	27/04/2004	Taoiseach	Michael O'Flynn
21	Notification of meeting between Taoiseach and a delegation of Builders	10/05/2004		
22	Letter from CiF to Mary Doyle	14/02/2004	Mary Doyle	Liam Kelleher
23	email to D/Taoiseach from Michael O'Flynn re meeting with the Taoiseach	01/07/2004	Andrew Munro	Michael O'Flynn
24	Briefing note for meeting with Delegation of Builders	08/07/2004		
25	Letter from Noel O'Callaghan Sherborough Securities to D/Taoiseach	13/09/2004	Noel O'Callaghan	Mary Doyle
26	Letter and enclosure from O'Flynn Construction	16/07/2004	Gerard Howlin	Michael O'Flynn
27	Briefing for meeting with CIF/Irish Home Builders Association	08/11/2004		
28	Letter and enclosure to D/Taoiseach from IHBA	15/11/2004	Mary Doyle	Hubert Fitzpatrick
29	Letter and enclosure from Howard Housing Solutions to the Taoiseach	25/04/2005	Taoiseach	Ronan King
30	Briefing for meeting between CIF and Taoiseach	05/07/2005	Taoiseach	George Burke
31	Letter from CIF to D/Taoiseach	28/11/2006	Mary Doyle	Liam Kelleher
32	Letter from CIF to D/Taoiseach	04/12/2006	Mary Doyle	Liam Kelleher
33	Briefing note on Housing Market	10/09/2008	Secretary General	Mary Doyle

for disclosure of donations to political individuals remained at €634. However, donations must not exceed €2,539 in any given year by the same donor. The threshold for disclosure of donations to political parties remained at €5,078. However, donations must not exceed €6,349 in any given year by the same donor. Also of significance was the prohibition of foreign donations in circumstances where the donor was not an Irish citizen. *The Electoral Act, 1997* and the *Electoral (Amendment) Act, 2001* required that political individuals (including candidates) and political parties must submit an annual statement of donations and elections expenditure to the Standards in Public Office Commission. I complied this data from the Standards Commission to construct the three graphs in the appendix.[5]

2.1 Disclosed Donations to Political Individuals:

Figure 1 represents all disclosed donations to political individuals between 1997 and 2009. The period includes the 1997, 2002 and 2007 general elections. In doing so, it must be clearly acknowledged that this figure represents <u>disclosed donations</u> as opposed to <u>undisclosed donations</u>, i.e. donations under the €634.87 threshold. There are a number of observations that can be extrapolated from this data:

- Disclosed donations to political individuals significantly increased in election years.
- Fianna Fáil representatives attracted almost twice as many disclosed donations as all other parties combined during the 2002 and 2007 general elections.
- That Fianna Fáil candidates were the beneficiary of more disclosed donations than candidates from other parties is not surprising because proportionate to other parties, Fianna Fáil traditionally runs more candidates. Of the 466 candidates that ran in the 2002 election, 22 per cent were from Fianna Fáil. Nonetheless, during that election year, Fianna Fáil received two-thirds of all the funding disclosed which means that candidates from that party were in receipt of seven times more disclosed donations than a non-Fianna Fáil candidate.
- It is not possible to breakdown the sources of the disclosed donations (as is the case for party donations) as donations tend to be from individuals without reference to business addresses.
- Political individuals attract significantly more disclosed political donations than political parties, notwithstanding the 2001 amended rules which introduced a higher donation limit to political parties (€6,349) compared to political individuals (€2,539).
- Disclosed donations to political individuals in 2007 amounted to €855,995. Excluding subscriptions from the salaries of elected representatives to their parties, disclosed donations to political parties in 2007 amounted to just €43,693. It appears that it was more attractive to donate to political representatives than political parties.

2.3 Disclosed Donations to Political Parties:

Figure 2 represents all disclosed donations to political parties between 1997 and 2009. There are a number of observations that can be extrapolated from this data:

- Since the introduction of the *Electoral (Amendment) Act, 2001* – which introduced a limit on the value of donations to be disclosed – a pattern emerged whereby all political parties disclosed under the limit.
- The disclosed donations by all political parties amounted to €753,523 in 2001, the year before the 2002 election. In contrast, disclosed donations by all political parties amounted to €17,000 in 2006, the year before the 2007 election. These figures exclude politicians donating to their political parties.
- There appears to be a deliberate policy by political parties of soliciting donations below the disclosure thresholds. This is perhaps due to the relatively small difference in the maximum donation that can be accepted by a political party (€6,349) and the amount that must be disclosed (€5,078).
- Fine Gael returned a nil disclosure to the Standards Commission from 2001-09. Fianna Fáil, Fine Gael and Labour disclosed a zero return in disclosed donations for 2009, the year all three parties ran substantial local, European, by-election campaigns and a Lisbon Treaty referendum.

It is impossible to present a complete picture of how political parties were financed. Of the €10.1 million spent by parties and candidates in the 2007 general elections, €1.3 million was disclosed with no information available as to the origin of the remaining €8.8 million. The €10.1 figure does not encompass all that was spent at the 2007 election.

The legislation requires that election expenditure is only accountable for the period between the dissolution of the Dáil to polling day, usually three to five weeks. Electioneering prior to this period is not accounted for. Election campaigning for the 2007 election was well underway before May 2007. For instance, the pre-election statement of intent between Fine Gael and Labour, known as the "Mullingar Accord," was inaugurated in 2004 and accompanied by a billboard campaign.

2.3 Disclosed Donations to Fianna Fáil by Sector:

Figure 3 represents all disclosed donations to Fianna Fáil (excluding donations to political individuals) between 1997 and 2007. This amounted to €1,819,210. Eighty per cent of this figure was donated between 1997 and 2001. Subsequent to the 2001 Act, the maximum donation a party could receive was limited to €6,349. As already outlined, this is an incomplete picture of how Fianna Fáil was funded because there was no statutory obligation to disclose donations below the legal threshold of €5,078. Nonetheless, the figures do infer trends regarding the sources of political donations.

- **35 per cent (€635,970)** of Fianna Fáil's disclosed donations were from property and construction interests. Fianna Fáil received substantial donations in 1998 for the specific and stated purpose of campaigning on the 1998 Good Friday Agreement referendum. When these are excluded, disclosed donations from property and construction interests amount to 39 per cent (€545,818).[6] A list of property companies and developers who donated to Fianna Fáil can be accessed on the Standards Commission website.
- **20 per cent (€367,109)** were from business interests.
- **13 per cent (€245,801)** were from individuals.
- **9 per cent (€160, 239)** were from hotels and catering.
- **7 per cent (€122, 688)** were from the motor sector.
- **7 per cent (€126, 240)** were from the food and drink industry.
- **5 per cent (€90,190)** were from banks and financial services. This figure does not include donations by individuals who were donating in a personal capacity and who were associated with the banking sector.
- **4 per cent (€70,972)** were from professional services such as solicitors firms and auctioneers.

- **34 per cent (€89,162) of the Progressive Democrats** €262,241 disclosed donations came from the property sector.

It appears that the Property Barons of the 1990s and 2000s replaced the Beef Barons of the 1980s. The Opposition did not disclose any donations from property interests. Fine Gael disclosed €197,914 in donations between 1997 and 2000 from a variety of businesses and individuals but <u>did not disclose donations above the legal threshold from 2001-09.</u> Almost two thirds of the Labour party's €392,255 disclosed donations came from the trade union movement. Sinn Féin were in receipt of €1,299,608 in disclosed donations in this period – much of it from the salaries of elected representatives (North and South) and organisations such as "Friends of Sinn Féin Australia" and "Friends of Sinn Féin America."

3. Policy:

Irish legislation was criticised by the Council of Europe Group of States Against Corruption (GRECO) in 2009 for failing to account for 'behaviour of those persons who are close to power and who try to obtain advantages from their situation by influencing the decision-maker.'[7] Reliance on political donations from a particular sector may facilitate a perception of undue influence by donors over policy making. This undue, but not illegal, influence by vested interests over regulation and policy-making arises where elites have access to insider information, which they utilise, for their private benefit. This informal misuse of power occurs where personal relationships, patronage, lobbying, political favours and political donations unduly influence the decision-making process even if no laws are broken.

Did donors from the property sector have a vested interest in the formulation of policy? Was the decision-making capacity of political parties eroded by a conflict of interest? Were key political decisions insulated from critical debate because they were executed within a closed and cartelised system that facilitated regulatory capture?[8]

What did Honohan, Regling and Watson, Nyberg and Wright have to say?

The Honohan, Regling and Watson, Nyberg and Wright reports offered limited analysis into policymaking process outside of the financial sector. The Honohan report dedicated six paragraphs to tax incentives aimed at the construction sector. Regling and Watson briefly described the problems of policy analysis, design and implementation as "unusually severe," pointing in particular to weaknesses in tax policy. Nyberg had five paragraphs on "Advice on Economic Policy."

Honohan found that the 'significant factors contributing to the unsustainable structure of spending in the Irish economy, 'were due to the 'Government's procyclical fiscal policy stance, budgetary measures aimed at boosting the construction sector, and a relaxed approach to the growing reliance on construction-related and other insecure sources of tax revenue.'[9] Tax reliefs, incentives schemes and income tax exemptions for developers and investors included:

> multi-storey car parks, student accommodation, buildings used for third-level educational purposes, hotels and holiday camps, holiday cottages, rural and urban renewal, park-and-ride facilities, living over the shop, nursing homes, private hospitals and convalescent facilities, sports injury clinics and childcare facilities.[10]

Regling and Watson noted that such tax reliefs, 'directed to the property sector, often in particular regions of the country… contributed to a more general misallocation of resources as some of the tax concessions seem to have been granted on an ad-hoc basis in a not fully transparent way.'[11]

These incentives were not necessarily bad; they brought much needed investment to specific areas of the country. The problem was that they went on too long. As Wright has acknowledged in his testimony to the Banking Inquiry, these policies should have been "grandfathered" or ended earlier. Why were reliefs extended twice over the period of their implementation?

For instance, the *Finance Act, 1994* and Chapter 1, Part 9 of the *Taxes Consolidation Act, (TCA) 1997* provided for accelerated capital allowances for hotels. Although this special provision for hotels was terminated in Budget 2003, the *Finance Act, 2003* included transitional arrangements that allowed for the continued availability of 100 per cent write off over 7 years provided certain conditions were met. This arrangement was further extended in the Finance Acts 2004 and 2005. The *Finance Act, 2006* effectively extended the transitional period by introducing a phase-out period. A report by Peter Bacon for the Irish Hotels Federation has asserted 'the tax allowance scheme allowed hotels to access both equity and debt finance easier than would be the case otherwise…. the total value of tax allowance related to hotels that have not been open 7 years at end 2009 would be just over €1.5 billion.'[12]

Other incentives of note include the 2000-07 Special Incentive Tax Rate for developers. This sought to free up land for development by taxing proceeds from the sale of land at 20 per cent instead of the higher rate of up to 42 per cent. Moreover, in 2002, Part V of the *Planning and Development Act, 2000* was amended to allow developers to negotiate their way out of providing 20 per cent social and affordable housing in any development through a land swap, payment to the council or building equivalent social and affordable housing elsewhere.

It would be helpful if the Banking Inquiry considered the following:

- A list of the tax reliefs and incentives granted by the Government to developers and investors between 1997 and 2007.
- What was the cost of these reliefs and incentives?
- Why were these tax incentives extended beyond their natural life span?
- Did the structure of local government funding facilitate a financial dependency on development levies? Did this reliance on such levies (worth nearly €600 million in 2005 and €700 million in 2006) influence erroneous planning decisions?
- How many politicians, or their close associates, received interest-free loans or mortgages on favourable terms or loans received outside of normal lending practices?

4. Eight Reforms to Regulate such Relationships:

1. Independent audit of the capacity and operational ability of oversight agencies - CAB, ODCE, GBFI, Central Bank, Revenue, Competition Authority and other agencies charged with the prevention, detection, investigation and prosecution of white-collar crime. This approach was taken by the UK Attorney General. The 2008 De Grazia Review appraised the Serious Fraud Office (SFO) in relation to two US agencies: the US Attorney's Office for the Southern District of New York and the Manhattan District of Attorney's Office, two well-established bodies prosecuting serious and complex economic crime. The 34 recommendations focused on operations, capability, governance and external relationships;

2. Introduce monetary awards for whistleblowers. In the US, the *Dodd Frank Act, 2010* established the Office of the Whistleblower. The Act expanded powers first introduced under the *Sarbanes-Oxley Act, 2002*. The Securities and Exchange Commission is authorised by the US Congress to provide monetary awards ranging between 10 and 30 per cent of the money collected in cases where high-quality original whistleblower information leads to a Commission enforcement action of over $1 million in sanctions;

3. Introduce a register of liabilities. Australia, Finland, New Zealand, Poland, Spain and Canada require politicians to publicly disclose any debts they may have. Ireland only has a register of assets;

4. The Standards Commission Annual Report 2013 contains twenty recommendations on reforming the Ethics and Electoral Acts. I submitted an additional six recommendations on the Draft Guidelines on Party Finance in my submission to the Standards Commission in 2013;

5. Political parties to publish accounts under the Guidelines on Party Finance in advance of the 2016 general election. The delay by government in introducing these guidelines means that parties are not obliged to publish accounts under these new guidelines until after the 2016 election;

6. The establishment of an independent commission to decide how political activity in Ireland is funded. The principle that politicians should not regulate themselves is well established - political actors do not decide constituency boundaries. Ireland's rules on political funding disproportionately favours incumbents and political parties;

7. Introduction of a web-based centralised information platform to coordinate consultations with individuals, stakeholders and lobby groups. This would serve to report on input received on policy and detail how decisions were made. It would improve the openness and transparency of engagement in policy making by all actors. Stakeholder and lobbying interaction is recorded by Health Canada within the Consultation and Stakeholder Information Management System (CMIMS): http://www.hc-sc.gc.ca/home-accueil/rto-tor/index-eng.php

8. Stop blaming our small population or geographical size for bad governance.

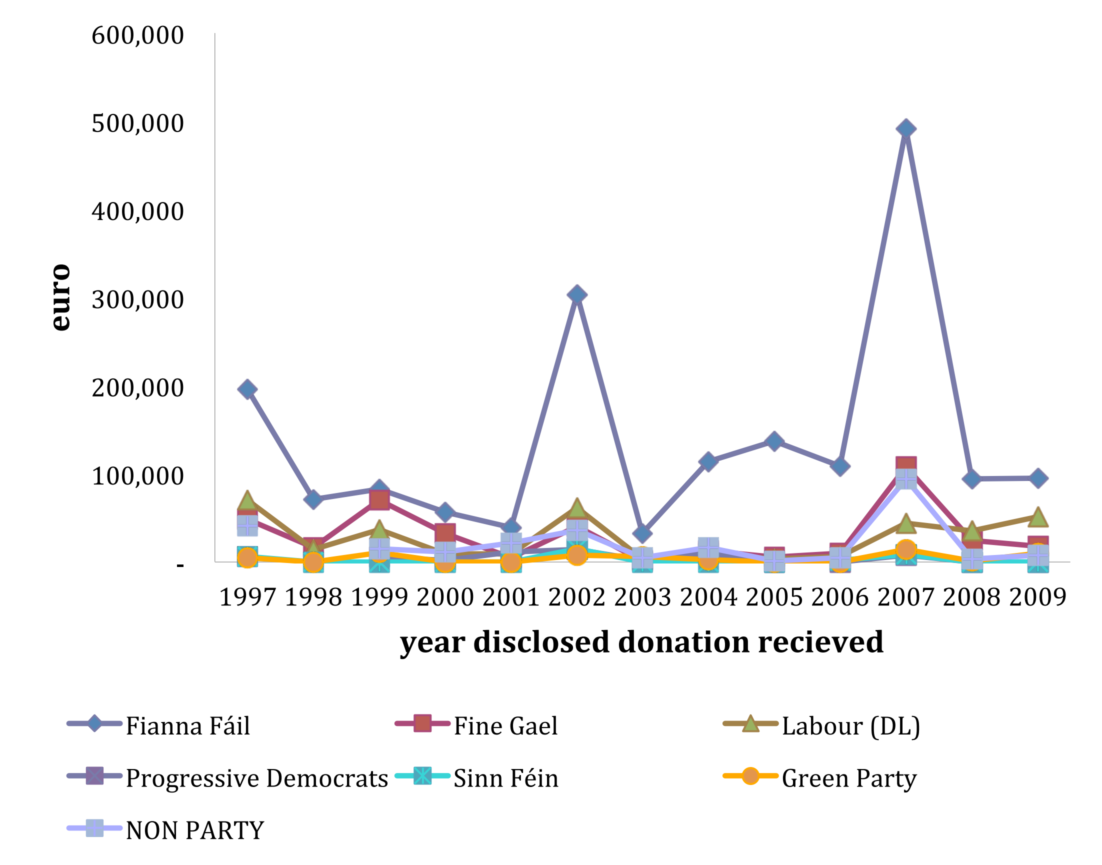
5. Whether being a small country is a factor, or not, in terms of any such relationships:

The population size of a country is not a determining factor in measuring governance effectiveness. Academic research shows that poor governance is correlated with the quality of institutions, lower levels of investment and growth, inequality, education, democratization, colonial heritage, religion and an absence of legislative controls. In Ireland's case, substantial levels of regulation combined with a high degree of state ownership enabled considerable political discretion.[13] These conditions were at the heart of the majority of governance scandals since the foundation of the state.

Table 1 ranks the governance score of seventeen selected countries in 2008. The Transparency International Corruption Perception Index (CPI) is a compilation of corruption scores which ranks countries from least corrupt (1) to most corrupt (166). The World Bank measures good governance using six different indicators. Four are presented here. The best possible rank for good governance is 100. Although Transparency International and the World Bank use different aggregation methods, they are highly correlated. The population size of the 17 countries is also provided. This is a crude exercise but it demonstrates that countries with a smaller or larger population size rank both higher and lower than Ireland in the good governance stakes. Indeed, the table suggests that countries with a smaller population tend to have better governance than countries with larger populations. "Being a small country" is a bogeyman argument – a lazy explanation - as to whether a country will have poor governance. Lots of small countries escaped the economic collapse unscathed. Lots of big countries did not.

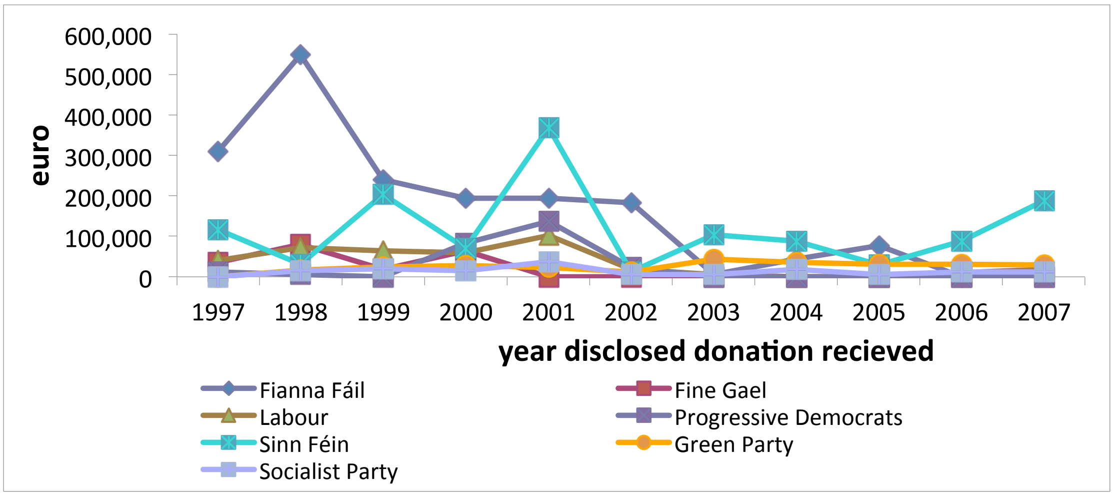
6. Appendix

Figure 1: Disclosed Donations by Political Individuals 1997-2009



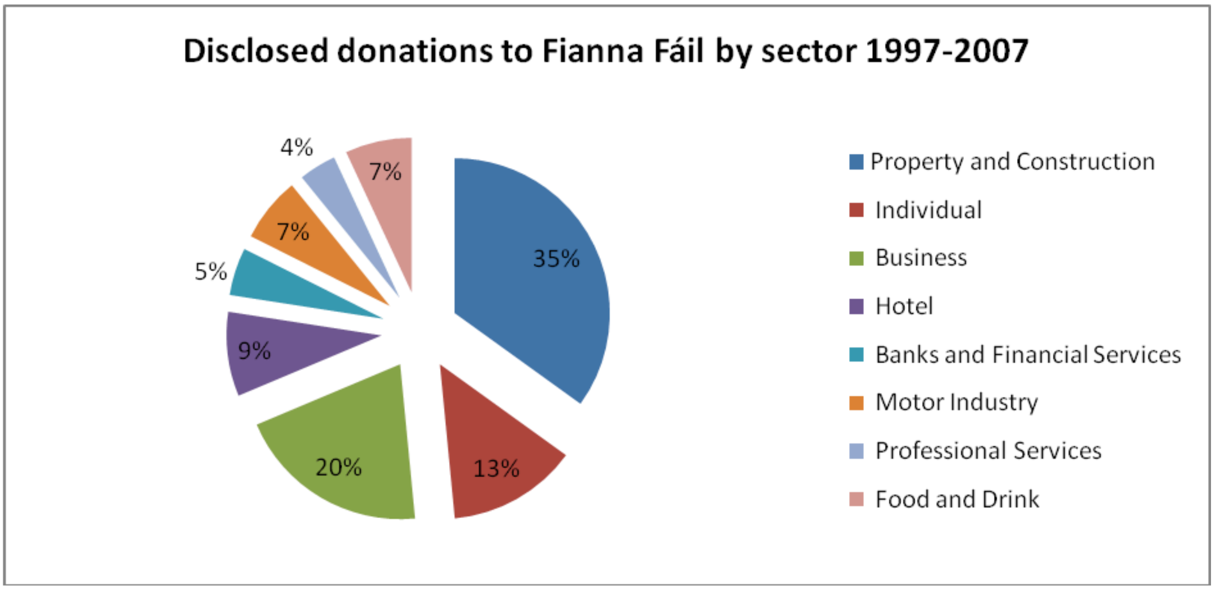
Source: Author's analyses from Public Offices Commission Annual Reports 1998-2001 and Standards in Public Office Commission Annual Reports 2002-10.
Notes: Total Figures rounded to the nearest euro. 1998-2000 figures converted from punt to euro. DL merged with Labour in 1999.

Figure 2: Disclosed Donations by Political Party 1997-2007



Source: Author's analyses from Public Offices Commission Annual Reports 1998-2001 and Standards in Public Offices Commission Annual Reports 2002-08.
Notes: Total Figures rounded to the nearest euro. 1998-2000 figures converted from punt to euro. Australian and US dollars also converted to euro. Converted on the first of January of the year of disclosure using currency converter: www.wolsink.com/currencyconv.php. Total figures exclude monies a) returned to donors and b) returned because monies exceeded disclosure limit. Labour figures include small number of Democratic Left (DL) donations. DL merged with Labour in 1999. Donations received during 1998 were given on foot of the Good Friday Peace Agreement outlined in endnotes.

Figure 3: Disclosed Donations to Fianna Fáil by Sector 1997-2007



Source: Author's analyses from Public Offices Commission Annual Reports 1998-2001 and Standards in Public Office Commission Annual Reports 2002-08.

Direction DOFO2, Request No. 1 - Ref I.D. r5d

A list of solicited and unsolicited representations (in the form of minutes of meetings or formal written correspondence) made by representative bodies of valuers, auctioneers and the construction industry to the Minister for Finance, Minister of State for Finance or the Secretary General at the Department of Finance for the period 2001 to 2010 regarding the importance of the property sector to the Irish economy.

Second list of records

Entry	Recipient	From	Address	Date received	Subject Matter	Form of Rep
1	Minister	Irish Auctioneers and Valuers	38 Merrion Square, Dublin 2	02/10/2001	Budget 2002	Pre Budget Submission 2002
2	Minister	Construction Industry Federation	Southern Region, Construction Hse, Montenotte, Co. Cork	04/10/2001	request for pre-Budget meeting	Pre Budget Submission 2002
3	Minister	Irish Home Builders Association	Southern Region, Construction Hse, Montenotte, Co. Cork	04/10/2001	Pre budget submission	Pre Budget Submission 2002
4	Minister	Irish Property Owners Association	Ormond Court, 11 Lower Ormond Quay, Dublin 1	22/10/2001	Budget 2002	Pre Budget Submission 2002
5	Minister	Irish Home Builders Association	Southern Region, Construction Hse, Montenotte, Co. Cork	02/11/2001	Budget 2002	Pre Budget Submission 2002
6	Minister	Limerick Building Trades Group, via Mr. Eddie Wade TD	Limerick	21/11/2001	Employment construction	Letter
7	Minister	Irish Home Builders Association	Irish Home Builders Association, Construction House, Canal Road, Dublin 6	09/12/2002	Impact of increase in 12.5% VAT rate to 13.5% on house purchases	Letter
8	Minister	Jim Connolly Acting Secretary, Irish Rural Dwellers Association	Kilbaha Kilrush County Clare	06/01/2004	Comparisons between An Taisce policy and that of the Government on rural housing.	Letter
9	Minister	Jim Connolly Acting Secretary, Irish Rural Dwellers Association	Kilbaha Kilrush County Clare	10/05/2004	Copy of submission to Department of Environment on Draft Guidelines, Sustainable Rural Housing.	Letter
10	Minister	Mr. David Begg General Secretary, ICTU	Irish Congress of Trade Unions 31-32 Parnell Sq D1	01/06/2004	National Partnership Forum on the Banking Industry	Letter
11	Minister	Irish Rural Dwellers Association	Kilbaha Kilrush County Clare	05/07/2004	Housing	Letter
12	Minister for Finance Brian Cowen	Irish Property Owners Association	Ormond Court, 11 Lower Ormond Quay, Dublin 1	18/10/2004	Budget 2005 meeting request	Pre Budget Submission 2005
13	Minister	Jim Connolly Acting Secretary, Irish Rural Dwellers Association	Kilbaha Kilrush County Clare	21/10/2004	Environmental issues	Letter
14	Minister for Finance Brian Cowen	Irish Property Owners Association	Ormond Court, 11 Lower Ormond Quay, Dublin 1	19/11/2004	Addressing the discrimination against active property owners	Pre Budget Submission 2005
15	Minister for Finance	Nationwide Property Group, Real Estate Alliance	Main Street Newbridge Co. Kildare	22/11/2004	Stamp Duty	Pre Budget Submission 2005
16	Minister	Joseph O' Brien Director Construction Industry Federation, Southern Region, via Batt O'Keeffe TD	Construction House 4 Eastgate Ave, Little Island, Co Cork	29/04/2005	Meeting with Cork Branch CIF	Letter
17	Minister	Liam Kelleher, Construction Industry Federation	Director General, Construction Industry Federation, Construction House, Canal Road, Dublin 6	19/09/2005	proposing meetings	Budget 2006 - Pre Budget Meeting
18	Minister	Liam Kelleher, Construction Industry Federation	Director General, Construction Industry Federation, Construction House, Canal Road, Dublin 6	06/10/2005	confirming meeting	Budget 2006 - Pre Budget Meeting
19	Minister	Jim Connolly Acting Secretary, Irish Rural Dwellers Association	Kilbaha Kilrush County Clare	02/11/2005	Housing	Letter

20	Minister	Construction Industry Federation	Construction House, Canal Road Dublin 6	27/10/2006	Budget 2007 Meeting request	Meeting request
21	Minister	Irish Home Builders Association	Contruction House, Canal Road, Dublin 6	01/02/2007	Capital Allowances for Childcare Facilities	Letter
22	Minister	Construction Industry Federation	Construction House, Canal Road Dublin 6	19/03/2008	Costs in the construction sector and across the economy as a whole and measures needed to safeguard Irish competititveness in the current global economic climate	Meeting request
23	Minister	Construction Industry Federation	Construction House, Canal Road Dublin 6	04/11/2008	CIF concerns re attempts by financial institutions to raise interest rates and other charges on existing loans despite lower ECB and bank-to-bank borrowing costs	Letter
24	Minister	Construction Industry Federation	Construction House, Canal Road Dublin 6	08/12/2008	construction industry	letter
25	Minister	Construction Industry Federation	Construction House, Canal Road Dublin 6	20/03/2009	Banking finance and property & economy	Letter
26	Minister	Construction Industry Federation	Construction House, Canal Road Dublin 6	12/06/2009	Request for meeting re NAMA	Meeting request
27	Minister	Mr. Paul Keogh	The Royal Institute of the Architects of Ireland, 8 Merrion Square Dublin 2	21/01/2010	RIAI action plan to identify objectives and actions designed to contribute to debate about paths to national recovery, and how quality and design in architecture, urbanism and the built environment can contribute to 'Smart Economy Framework'	Letter
28	Minister	Matthew Gallagher, Vice-President, CIF	CIF, Construction House, Canal Road, Dublin 6.	01/02/2010	Nursing Home - Construction and Opening Deadlines - Transitional Arrangements	Letter
29	Minister for Finance	Construction Industry Federation	Mr. Matthew Gallagher, Vice President, Construction House Canal Road Dublin 6	01/02/2010	Ending of Capital Allowances for the construction of Nursing Homes	Letter
30	Minister	Institute of Professional Auctioneers and Valuers	Institute of Professionsl Auctioneers and Valuers 129 Lower Baggot Street	18/05/2010	Real estate valuations services for NAMA	Letter
31	Minister for Finance	Limerick Chamber of Commerce	Mr. Kieran MacSweeney, President, Limerick Chamber of Commerce, 96 O'Connell Street, Co. Limerick	14/09/2010	Policy document prepared by Limerick Chamber outlining a range of economic incentives which will act as catalyst to reverse the current trend of vacancy and decline in Limerick City Centre	Letter
32	Minister for Finance	Ciara Murphy/Peter Stafford, Society of Chartered Surveyors	5 Wilton Place Dublin 2	29/09/2010	Budget 2011 submission outlining areas of taxation and expenditure which have an impact on the working of the Irish construction and property markets. Recommendations for the creation and implementation of a functioning property taxation regime	Pre Budget Submission 2011
33	Minister for Finance	Construction Industry Federation	scashin@cif.ie	04/10/2010	Attached CIF Pre-Budget Submission and abridged version of the CIF's Pre-Budget Submission	Pre Budget Submission 2011
34	Minister for Finance	Ciara Murphy/Peter Stafford, The Society of Chartered Surveyors	5 Wilton Place, Dublin 2	22/10/2010	Society of Chartered Surveyors Submission in advance of Budget 2011	Pre Budget Submission 2011
35	Minister for Finance	Mr. Martin Whelan, Director, Construction Industry Federation (CIF)	CIF, Construction House, Canal Road, Dublin 6	03/11/2010	CIF Pre-Budget Submission	Pre Budget Submission 2011
36	Minister for Finance	Mr. Martin Whelan, Director, Construction Industry Federation (CIF)	CIF, Construction House, Canal Road, Dublin 6	05/11/2010	Abridged version of the CIF's Pre-Budget Submission	Pre Budget Submission 2011

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First list of records

Entry	Recipient	From	Address	Date received	Subject Matter	Form of Rep
1	Charlie McCreevy, Minister for Finance	Construction Industry Federation	Construction House, Canal Road, Dublin 6	10/10/2001	Construction Industry with mention of Housing Sector	Pre Budget Submission and Strategy Statement
2	Charlie McCreevy, Minister for Finance	Small Firms Association	Confederation House, Lower Baggot St., Dublin 2	22/10/2001	General Pre Budget submission with some reference to Housing Sector	Pre Budget Submission
3	Charlie McCreevy, Minister for Finance	Dublin Chamber of Commerce	7 Clare Street, Dublin 2	14/11/2001	National Development Plan	Letter to Minister & Executive Summary of Pre Budget Submission
4	Charlie McCreevy, Minister for Finance	North Dublin Chamber of Commerce	DCU, Glasnevin, Dublin 9	16/11/2001	Issues facing business in North Dublin with mention of Housing Sector	Pre Budget Submission
5	Charlie McCreevy, Minister for Finance	Construction Industry Federation	Construction House, Canal Road, Dublin 6	19/11/2001	Capital Spending Estimates	Letter to Minister
6	Minister for Finance Charlie McCreevy	Construction Industry Federation	Construction House, Canal Road, Dublin 6	10/09/2002	CIF Mid Term Review ad Outlook: Construction Activity, Culture of Safety in Construction, Waste Management, Housing Review and Outlook 2002, The National Development Plan and Future Funding Requirements	Pre Budget Submission 2003
7	Minister for Finance Charlie McCreevy	Construction Industry Federation	DKM Economic Consultants Ltd., Davy House, 49 Dawson Street, Dublin 2	01/10/2002	Current Expenditure Control, Taxation - Capital Gains Tax, SSIA Sheme, VAT, Insurance Levy, Public Investment, Urban Renewal, Housing, Insurance	Pre Budget Submission 2003
8	Minister for Finance Charlie McCreevy	Irish Home Builders Association	Construction House, Canal Road, Dublin 6	31/10/2002	Housing Sector, Social and Affordable Housing, Two Year Withering Planning Permissions, The Part V Housing Provisions of the Plannign and Development Act 2000, Housing Market Risks and Other Issues	Pre Budget Submission 2003
9	Charlie McCreevy, Minister for Finance	A&L Goodbody Consulting	International Financial Services Centre, North Wall Quay, Dublin 1	18/11/2002	Ireland's infrastructure & deficit	Letter & report to Minister for information
10	Minister for Finance Charlie McCreevy	Institute of Professional Auctioneers and Valuers	129 Lower Baggot Street, Dublin 2	22/11/2002	Tax credits or First Time Buyers grant for new and second hand houses.	Budget 2003 -Pre Budget Submission
11	Minister	Irish Home Builders Association	Construction House Canal Road Dublin 6	01/03/2003	stamp duty	Letter to Minister
12	Minister for Finance, Mr Charlie McCreevy	Irish Hardware and Building Association	Mr James Goulding, Secretary General, Irish Hardware and Building Association, Elmville, Upper Kilmacud Road, Dundrum, Dublin 14	28/05/2003	Retail Planning Guidelines	Written Correspondence
13	Minister for Finance, Mr Charlie McCreevy	Irish Auctioneers and Valuers Institute	Mr. Aidan O'Hogan, President, Irish Auctioneers and Valuers Institute, 38 Merrion Square, Dublin 2	04/06/2003	All-Party Oireachtas Committee on the Constitution 2002 – Private Property.	Written Correspondence
14	Carbon Energy Taxation Consultation, DoF	Construction Industry Federation	Construction House, Canal Road, Dublin 6	01/09/2003	Carbon Energy Taxation Consultation	Submission

15	Carbon Energy Taxation Consultation, DoF	Irish Concrete Federation	8 Newlands Business Park, Naas Raod, Clondalkin, Dublin 22	01/09/2003	Carbon Energy Taxation Consultation	Submission
16	Carbon Energy Taxation Consultation, DoF	Century Homes	Clones Rad, Co. monaghan	01/09/2003	Carbon Energy Taxation Consultation	Submission
17	Carbon Energy Taxation Consultation, DoF	Clogrennane Lime	Clongrennane, Co. Carlow	01/09/2003	Carbon Energy Taxation Consultation	Submission
18	Carbon Energy Taxation Consultation, DoF	Ecocerm materials Limited	East Point Office Park, Dublin 3	01/09/2003	Carbon Energy Taxation Consultation	Submission
19	Carbon Energy Taxation Consultation, DoF	Irish Cement	Platin, Drogheda, Co. Louth	01/09/2003	Carbon Energy Taxation Consultation	Submission
20	Carbon Energy Taxation Consultation, DoF	John A.Wood	Kilmorna, Listowel, Co. Kerry	01/09/2003	Carbon Energy Taxation Consultation	Submission
21	Carbon Energy Taxation Consultation, DoF	Ormonde Brick	Castlecomer, Co. Kilkenny	01/09/2003	Carbon Energy Taxation Consultation	Submission
22	Carbon Energy Taxation Consultation, DoF	Roadstone Dublin Ltd.	Fortunestown, Tallaght, Dublin 24	01/09/2003	Carbon Energy Taxation Consultation	Submission
23	Carbon Energy Taxation Consultation, DoF	Roadstone Provinces Ltd.	Saggart, Co. Dublin	01/09/2003	Carbon Energy Taxation Consultation	Submission
24	Minister for Finance, Mr Charlie McCreevy	The Institution of Engineers of Ireland	Mr Paddy Purcell, Chartered Engineer, Director General, The Institution of Engineers of Ireland, 22 Clyde Road, Ballsbridge, Dublin 4.	19/09/2003	Submission to the Government on the Proposed Critical Infrastructure Bill	Written Correspondence
25	Minister for Finance	Dublin Chamber of Commerce	7 Clare Street, Dublin 2	01/10/2003	Competitiveness of Dublin with some reference to Housing Sector	Pre Budget Submission
26	Minister for Finance	IMPACT	Nerney's Court, Dublin 1	01/10/2003	General Pre Budget submission with some reference to Housing Sector	Pre Budget Submission
27	Minister for Finance Charlie McCreevy	Construction Industry Federation	DKM Economic Consultants Ltd., Davy House, 49 Dawson Street, Dublin 2	01/10/2003	Public Infrastructure Investment Strategy, Capacity Utillisation and Expansion in the Sector, Tax Stragey for 2004, Competitiveness and the Contribution from the Construction Sector, Key Proposals.	Pre Budget Submission 2004
28	Minister for Finance Charlie McCreevy	Irish Home Builders Association	Construction House, Canal Road, Dublin 6	08/10/2003	Housing- a mjor source of revenue, Stamp Duties, Budgetary Policy and Housing taxation, Local Authority and Public Private Partnerships	Budget 2004 Pre Budget Submission
29	Charlie McCreevy, Minister for Finance	Irish Home Builders Association	Construction House, Canal Road, Dublin 6	09/10/2003	Housing Market	Pre Budget Submission
30	Minister for Finance, Mr Charlie McCreevy	Irish Property Owners Association,	Irish Property Owners Association, Ormond Court, 11 Ormond Quay, Dublin 1 Email: iopa@eircom.net	14/10/2003	Residential Tenancies Bill 2003	Written Correspondence
31	Donal McNally Second Secretary to Minister for Finance Brian Cowen	Irish Auctioneers and Valers Institute	38 Merrion Square, Dublin 2	03/11/2003	Residential, Commerical, CGT- Roll Over Relief, Building Land, Stamp Duty, Investors, Second Hand market,	Budget 2004 Pre Budget Submission
32	Minister for Finance Charlie McCreevy	Irish Auctioneers and Valers Institute	38 Merrion Square, Dublin 2	03/11/2003	Residential, Commerical, CGT- Roll Over Relief, Building Land, Stamp Duty, Investors, Second Hand market,	Budget 2004 Pre Budget Submission
33	Minister for Finance, Mr Charlie McCreevy	Batt O Keeffe, T.D.,on behalf of Mr. Joseph O'Brien, Director, Construction Industry Federation, Southern Region.	Mr. Batt O Keeffe, T.D., Dáil Eireann, Dublin 2	29/04/2004	Stage payments in the Housing Bill and transport issues	Written Correspondence
34	Minister for Finance	IBEC	84/86 Lower Baggot St., Dublin 2	01/09/2004	General Pre Budget submission with some reference to Property Sector	Pre Budget Submission

35	Minister for Finance Brian Cowen	Construction Industry Federation	Construction House, Canal Road, Dublin 6	04/10/2004	Value for Money in Public Procurement, Public Infrastructure Investment Strategy: Exchequer Investment Strategy, Balanced Regional Development, Infrastructure Planning and Project Management, Delivering cost effective PPP projects,Construction Capacity enhancement. Competitiveness and the cost of Regulation: Business Costs, Regulatory Compliance Costs, Development Charges, Increasing Costs, Competitiveness in construction. Tax Stratgey: Housing, VAT, Carbon Tax, Capital Gains Tax, Stamp Duty, Renewal Tax Incentive Schemes, Insurance, Redundancy Payments, SSIA's.	Pre Budget Submission 2005
36	Minister for Finance Brian Cowen	Irish Home Builders Association	Construction House, Canal Road, Dublin 6	13/10/2004	Sustainability of current level of output, Assistance to first time / affrodable buyers, Housing -a mjor source of revenue, Stamp Duties, Local Authority and Public Private Partnerships, Budgetary Policy and Housing Taxation, Infrastructure funding - user charges	Pre Budget Submission 2005
37	Minister	IAVI	38 Merrion Square Dublin 2	26/10/2004	stamp duty	Letter to Minister
38	Minister for Finance Brian Cowen	Institute of Professional Auctioneers and Valuers	129 Lower Baggot Street, Dublin 2	17/11/2004	Adjustments to Stamp Duty	Pre Budget Submission 2005
39	Minister for Finance, Mr. Brian Cowen, T.D	Irish Home Building Materials Association	Mr. James Goulding, Secretary General, Irish Home Building Materials Association, Elmville, Upper Kilmacud Road, Dundrum, Dublin 14.	24/11/2004	Changes to the Retail Planning Guidelines	Written Correspondence
40	Minister for Finance, Mr. Brian Cowen, T.D	Irish Hardware and Building Materials Association	James Goulding Irish Hardware and Building Materials Association	17/01/2005	Changes to the Retail Planning Guidelines	Written Correspondence
41	Minister for Finance Brian Cowen	Desmond Doyle, MBA(Constuction & Real Estate)University of Reading	98 Lwr Churchtown Rd, D.14	31/03/2005	proposing the introduction of a REIT tax framework into Irish legislation	Written Correspondence
42	Minister for Finance, Mr. Brian Cowen, T.D	Irish Concrete Federation	Mr John. Maguire, Chief Executive, Irish Concrete Federation, Naas Road, Clondalkin, Dublin 22	26/05/2005	Irish Concrete Federation’s Submission to the Joint Committee on Environment & Local Government on Building Standards and Energy Performance in Construction.	Written Correspondence
43	Minister for Finance, Mr. Brian Cowen, T.D	Royal Institute of Architects in Ireland	Mr. Anthony Reddy, President, The Royal Institute of the Architects of Ireland, 8 Merrion Square, Dublin 2.	01/07/2005	The introduction of legislation to protect the public from unqualified people providing services as architects.	Written Correspondence
44	Minister for Finance Brian Cowen	Construction Industry Federation, via Tony Dempsey T.D. on behalf of Sean Doyle, mamber of the CIF	Construction House, Canal Road, Dublin 6	12/08/2005	taxation and property sector	Representation
45	Minister for Finance Brian Cowen	Construction Industry Federation, via John Browne T.D. on behalf of Sean Doyle	Construction House, Canal Road, Dublin 6	12/08/2005	taxation and property sector	Representation
46	Minister for Finance	Construction Industry Federation	Construction House, Canal Road, Dublin 6	01/09/2005	Construction Industry with mention of Housing Sector	Pre Budget Submission

47	Minister for Finance Brian Cowen	Construction Industry Federation	Construction House, Canal Road, Dublin 6	26/09/2005	Economic Growth, Investment and Public Procurement. Tax Stragey, Designated Area and Capital Allowance Schemes. Housing. Competitiveness and Cost of Regulation	Pre Budget Submission 2006
48	Minister for Finance	ICTU	32 Parnell Square, Dublin 2	01/10/2005	General Pre Budget submission with some reference to Property Sector	Pre Budget Submission
49	Minister for Finance Brian Cowen	Irish Property Owners Association	Ashtown Business Centre, Navan Road, Dublin 15	18/10/2005	Addressing the Discrimination against Property Owners - Rental Income, Amend 'Revelant Earnings' in Section 783(3) TCA 1997, Amend 'business' in Section 90 Captal Acquisition Tax Consolidation Act 2003	Pre Budget Submission 2006
50	Minister for Finance Brian Cowen	The Society of Chartered Surveyors	5 Wilton Place, Dublin 2	17/11/2005	Value for Money on Construction Projects, Stamp Duties,	Pre Budget Submission 2006
51	Minister for Finance, Mr. Brian Cowen, T.D	Irish Branch & President Association of Building Engineers	Mr. Michael H Cassidy, Chairman Irish Branch & President Association of Building Engineers, Mespil Business Centre, Sussex Road, Dublin 4.	22/12/2005	Building Control Bill 2005	Written Correspondence
52	Minister for Finance	IBEC	84/86 Lower Baggot St., Dublin 2	01/10/2006	General Pre Budget submission with some reference to Property Sector	Pre Budget Submission
53	Minister for Finance	Construction Industry Federation	Construction House, Canal Road, Dublin 6	01/10/2006	Construction Industry with mention of Housing Sector	Pre Budget Submission
54	Minister for Finance Brian Cowen	Construction Industry Federation	Construction House, Canal Road, Dublin 6	27/10/2006	The National Development Plan 2007-2013. First Time Buyers. Affordable Housing. Research and Development (R&D) expenditure. Sustaining Economic Growth, Taxation, Housing, Regulation, Small Business and Competitiveness	Budget 2007 - Pre Budget Meetings and Submissions
55	Minister for Finance Brian Cowen	Institute of Professional Auctioneers and Valuers	129 Lower Baggot Street, Dublin 2	06/11/2006	Stamp Duty, Residential Housing Market, Mortgage Interest Relief, Rent a Room Scheme, First Time Buyer	Budget 2007 - Pre Budget Submission
56	Minister for Finance Brian Cowen	Construction Industry Federation	Construction House, Canal Road, Dublin 6	20/09/2007	Macro-Economic Outlook and Competitiveness, Public Expenditure, National and Regional Development, Taxation and Fiscal Policy, Housing, Enviromental Issues, Enterprise support and Better Regulations	Pre Budget Submission 2008
57	Minister for Finance Brian Cowen	Building Materials Federation	Confederation House, 84-86 Lower Baggot Street, Dublin 2	25/10/2007	Accelerating NDP Investment, National Spatial Stragegy, Social and Affordable Housing, Stamp Duty, Mortgage Interest Relief	Pre Budget Submission 2008
58	Brian Cowen, Minister for Finance	Building Materials Federation	Confederation House, Lower Baggot St., Dublin 2	30/10/2007	Construction Industry with mention of Housing Sector	Pre Budget Submission
59	Minister for Finance Brian Cowen	Construction Industry Federation	Construction House, Canal Road, Dublin 6	30/10/2007	Reform of Stamp Duty	Pre Budget Submission 2008

60	Minister for Finance Brian Cowen	Institute of Professional Auctioneers and Valuers	129 Lower Baggot Street, Dublin 2	30/10/2007	Sustaining economic growth and stability, Maximising quality employment creation, Improving the damage cost and non-cost competitiveness of the economy, Investment in essential public services, Ensuring a stable housing market, Improving the quality of life of the most disadvantaged in Irish society. Stamp Duties, Rent a Room Scheme	Pre Budget Submission 2008
61	Minister for Finance Brian Cowen	Home Buyers Association	Construction House, Canal Road, Dublin 6	13/11/2007	Housing Market: Exemption from Stamp Duty, Reduction of the penal 9% rate, Induction of Marginal Relief, Mortgage Interest Relief to track the ECB interest rate	Pre Budget Submission 2008
62	An Taoiseach and the Minister for Finance Brian Cowen	Irish Auctioneers and Valuers Institute	38 Merrion Square, Dublin 2	29/11/2007	Second Hand Housing Market, Stamp Duty	Pre Budget Submission 2008
63	Minister for Finance, Mr. Brian Lenihan , T.D	Irish Auctioneers & Valuers Institute	Mr Alan Cooke, Chief Executive, Irish Auctioneers & Valuers Institute, 38 Merrion Square, Dublin 2	01/09/2008	Proposals for measures to stimulate the housing market, specifically the expansion of the role of the Housing Finance Agency to promote liquidity in the market and a revitalised shared ownership scheme, and the economy.	Written Correspondence
64	Minister for Finance Brian Lenihan	Construction Industry Federation	Construction House, Canal Road, Dublin 6	15/09/2008	Economic, Fiscal and Taxation Policy: Gateway Funding, Loval Government. Public Investment and Procurement and Delivery. The Housing Market: Part L of the Building Regulations, Part V of the Planning and Development Act, Affordable Homes Partnership, Stamp Duty on letting of New Developments, VAT on housing, Promoting Investment in Commerical Property, Retrofitting of Buildings. Enterprise Support:	Pre Budget Submission 2008
65	Minister for Finance Brian Lenihan	The Society of Chartered Surveyors	Registered Office, 5 Wilton Place, Dublin 2	17/09/2008	Stamp Duty levels, Delivery of the Nation Development Plan	Pre Budget Submission 2009
66	Brian Lenihan, Minister for Finance	Society of Chartered Surveyors	5 Wilton Place, Dublin 2	18/09/2008	Construction & Property Industries	Pre Budget Submission
67	Minister for Finance Brian Lenihan	Irish Auctioneers and Valers Institute	38 Merrion Square, Dublin 2	24/09/2008	Stamp Duty, Tax treatment of part-time and guest lecturers	Pre Budget Submission 2009
68	Minister for Finance Brian Lenihan	Institute of Professional Auctioneers and Valuers	129 Lower Baggot Street, Dublin 2	25/09/2008	Stamp Duty Reform	Pre Budget Submission 2009
69	Minister for Finance Brian Lenihan	Michael Kennedy TD on behalf of Institute of Professional Auctioneers and Valuers	Michael.Kennedy@Oireachtas.ie	26/09/2008	Doubling of Stamp Duty Allowance and Reduction in rate	Pre Budget Submission 2010
70	Minister for Finance Brian Lenihan	Construction Industry Federation	Construction House, Canal Road, Dublin 6	30/09/2008	Investment in Public Infrastructure, Lower Stamp Duty, Incentivising the house market.	Pre Budget Submission 2008
71	Minister for Finance Brian Lenihan	John O'Mahony TD on behalf of Construction Industry Federation	Constituency Office, D'Alton Street, Claremorris, Co Mayo	01/10/2008	Spending and Investment in the National Development Plan. Address pre-qualification criteria. Support First Time Buyers package.Stamp Duty.	Pre Budget Submission 2008
72	Minister for Finance Brian Lenihan	Minister for Agriculture Fisheries and Food Brendan Smith on behalf of Construction Industry Federation	3 Carrickfern, Cavan	01/10/2008		Pre Budget Submission 2008

73	Minister for Finance Brian Lenihan	Bernard J Durkan TD on behalf of Construction Industry Federation	Dáil ÉIREANN, Leinster House, Kildare Street, Dublin 2	01/10/2008	Spending and Investment in the National Development Plan. Address pre-qualification criteria. Support First Time Buyers package.Stamp Duty.	Pre Budget Submission 2008
74	Minister for Finance Brian Lenihan	Noel Tracey TD on behalf of Construction Industry Federation	Dáil Éireann, Leinster House, Kildare Street, Dublin 2	01/10/2008	Spending and Investment in the National Development Plan. Address pre-qualification criteria. Support First Time Buyers package.Stamp Duty.	Pre Budget Submission 2008
75	Minister for Finance Brian Lenihan	Construction Industry Federation	Construction House, Canal Road, Dublin 6	03/10/2008	Request the opportunity to meet.	Pre Budget Submission 2008
76	Minister for Finance Brian Lenihan	Frank Fahy TD on behalf of Construction Industry Federation	Constituency Office, Ballybane Industrial Estate, Galway	10/10/2008	Spending and Investment in the National Development Plan. Address pre-qualification criteria. Support First Time Buyers package.Stamp Duty.	Pre Budget Submission 2008
77	Minister for Finance, Mr. Brian Lenihan , T.D	Liston and Company	Mr W. Terance Liston, Liston and Company, Argyle House, 103 - 105 Morehampton Rd, Donnybrokk, Dublin 4	13/01/2009	Proposal for a new house grant to clear the stock in the housing market and so to assist buyers, developers, lending institutions and the State's finances.	Written Correspondence
78	Minister for Environment, Heritage and Local Government, Mr John Gormley T.D. and copied to Minister for Finance, Mr. Brian Lenihan , T.D	Chambers Ireland	Mr Sean Murphy, Director of Policy, Chambers Ireland, 17 Merrion Square, Dublin 2	20/02/2009	Transparency on housing prices, encouraging house sales in Ireland and the Home Choice Loan Scheme	Written Correspondence
79	Minister for Finance Brian Lenihan	Construction Industry Federation	Construction House, Canal Road, Dublin 6	13/03/2009	Request a meeting	Pre Budget Submission 2009 - Supplementaries
80	Brian Lenihan, Minister for Finance	Small Firms Association	Confederation House, Lower Baggot St., Dublin 2	18/03/2009	General Pre Budget submission with some reference to Property Sector	Pre (Supplementary) Budget Submission
81	Minister for Finance Brian Lenihan	Conor Lenihan Minister for Intergration on behalf of Construction Industry Federation	43-49 Mespil Road, Dublin 4	23/03/2009	Breifing Document for Members of the Oireachtas - Infrastructure spending	Pre Budget Submission 2009 - Supplementaries
82	Minister for Finance Brian Lenihan	Construction Industry Federation and Irish Home Builders Association	Construction House, Canal Road, Dublin 6	24/03/2009	Capital Spending and the Housing Market, Incentive for First Time Buyers, Stamp Duty Relief	Pre Budget Submission 2009 - Supplementaries
83	Minister for Finance Brian Lenihan	Construction Industry Federation	Construction House, Canal Road, Dublin 6	24/03/2009	Black Economy , Tax Clearance Cert, Mortgage Interest Relief , 10 Point Revenue neutral measures to kick start the economy, Release of VAT	Pre Budget Submission 2009 - Supplementaries
84	Minister for Finance Brian Lenihan	Construction Industry Federation/ Irish Auctioneers Valuers Institution/ Irish Home Builders Association	clee@cif.ie	24/03/2009	Stabilise the Banking system, Investment in Infrastructure, First Time Buyer Incentive/Scheme, Allow Tax Credit Scheme, Relief from Stamp Duty,	Pre Budget Submission 2009 - Supplementaries
85	Minister for Finance Brian Lenihan	Minister of State John McGuinness Department of Enterprise, Trade and Employment on behalf of Construction Industry Federation	Kildare Street, Dublin 2	26/03/2009	Capital Spending and the Housing Market, Incentive for First Time Buyers, Stamp Duty Relief	Pre Budget Submission 2009 - Supplementaries
86	Minister for Finance Brian Lenihan	Minister of State Tony Killen Department of Agrculture, Fisheries and Food on behalf of Construction Industry Federation	5 St. Anthony's Terrace, Maid of Erin, Ennis, CO. Clare	26/03/2009	Capital Spending and the Housing Market, Incentive for First Time Buyers, Stamp Duty Relief	Pre Budget Submission 2009 - Supplementaries

87	Minister for Finance Brian Lenihan	The Society of Chartered Surveyors	5 Wilton Place, Dublin 2	26/03/2009	Banking System, Public Infrastructure, Public Capital Programme, Tender Prices, Infrastructure Projects, Improvements in Existing Stock re VAT, Commerical Property - Stamp Duty, VAT on Residential Property, Stamp Duty on Second Hand Property, Home Choice Loan, Housing List	Pre Budget Submission 2009 - Supplementaries
88	Minister for Finance Brian Lenihan	Minister of State for Labour Affairs Billy Kelleher on behalf of Construction Industry Federation	Construction House, Canal Road, Dublin 6	27/03/2009	Capital Spending and the Housing Market, Incentive for First Time Buyers, Stamp Duty Relief	Pre Budget Submission 2009 - Supplementaries
89	Brian Lenihan, Minister for Finance	IBEC	84/86 Lower Baggot St., Dublin 2	31/03/2009	General Pre Budget submission with some reference to Property Sector	Pre (Supplementary) Budget Submission
90	Minister for Finance Brian Lenihan	Construction Industry Federation	Construction House, Canal Road, Dublin 6	31/03/2009	Investment in Infrastructure, Residential Property Market, Affordable Housing, Tax credit for First Time Buyers, unclaimed VAT, Stamp Duty, State Payments.	Pre Budget Submission 2009 - Supplementaries
91	Minister for Finance Brian Lenihan	Conor Lenihan Minister for Intergration on behalf of Construction Industry Federation	43-49 Mespil Road, Dublin 4	31/03/2009	Capital Spending and the Housing Market, Incentive for First Time Buyers, Stamp Duty Relief	Pre Budget Submission 2009 - Supplementaries
92	Minister for Finance Brian Lenihan	Minister for Education and Science Batt O'Keeffe on behalf of Construction Industry Federation	Marlborough Street, Dublin 1	01/04/2009	Capital Spending and the Housing Market, Incentive for First Time Buyers, Stamp Duty Relief	Pre Budget Submission 2009 - Supplementaries
93	Minister for Finance Brian Lenihan	Irish Auctioneers and Valuers Institute	38 Merrion Square, Dublin 2	01/04/2009	Removal of Stamp Duty for First Time Buyers grant or Tax Credit Incentive, Tax relief or Rebate of VAT, Roll over relief on Capital Gains Tax.	Pre Budget Submission 2009 - Supplementaries
94	Minister for Finance	Tom Parlon, Director General, Construction Industry Federation		14/04/2009	The proposed establishment of the NAMA as outlined in the Supplementary Budget is an initiative'	Letter
95	Mr Liam Smith (Dept of Finance)	Lyons Property	Abbeyfeale,Co Limerick	05/06/2009	proposing the introduction of a REIT tax framework into Irish legislation	Emails/Meeting
96	Mr Liam Smith (Dept of Finance)	Pat Lyons (Lyons Property)	Abbeyfeale,Co limerick	28/06/2009	proposing the introduction of a REIT tax framework into Irish legislation	Written Correspondence
97	Minister for Finance	Construction Industry Federation	Construction House, Canal Road, Dublin 6	02/07/2009	Request for meeting with Minister so CIF can actively participate with Government in addressing current problems so that NAMA will work for the benefit of all	Letter
98	Brian Lenihan, Minister for Finance	Coleman Brothers Developments Ltd. *(forwarded by Billy Kelleher, Minister for Trade & Commerce)*	Bawnafinney, Tower, Blarney, Co. Cork	06/07/2009	Proposals to help stimulate economic growth.	Letter to Minister
99	Minister for Finance	John Power, CEO, Irish Hotels Federation		30/07/2009	Hotel Sector - NAMA Sean to advise	Letter
100	Minister for Finance	Tony Killeen TD on behalf of Tom Parlon, CIF	Construction House, Canal Road, Dublin 6	09/09/2009	Attaching submission to the Gov., Summary of Key Industry Concerns, Executive Summary of Independent Economic Research by Lombard Street Research for CIF re NAMA - Mr Parlon wishes to set up a meting with the Min and some representatives from the industry	Letter
101	Minister for Finance	Tom Parlon, Director General CIF		11/09/2009	Attaching documents in relation to NAMA and seeking a meeting with the Minister	Email

102	Minister for Finance	Hubert Fitzpatrick		14/09/2009	Requirement for immediate interim solution for working capital requirements for construction/development sector	Letter
103	Minister for Finance	Noel Treacy TD on behalf of Tom Parlon CIF		16/09/2009	NAMA - key construction industry issues	Letter
104	Minister for Finance	Mary Coughlan TD on behalf of Tom Parlon CIF for direct reply		16/09/2009	NAMA	Letter
105	Private Secretary	Private Sec, Office of the Minister for Children and Youth Affairs at Department of Health on behalf of Tom Parlon, CIF for direct reply		28/09/2009	NAMA	Letter
106	Minister for Finance	Tom Parlon - Construction Industry Federation (CIF)		29/09/2009	Asks for an opportunity to meet re NAMA to outline their concerns that they have and to identify areas where their perspective can help ensure the successful workout of the current situation. (A Meeting has since taken place)	Letter
107	Minister for Finance Brian Lenihan	Senator Mark Daly on behalf of Irish Auctioneers and Valuers Institute	38 Merrion Square, Dublin 2	02/10/2009	windfall tax provisions	Written correspondence
108	Minister	Institute of Professional Auctioneers and Valuers	129 Lower Baggot Street Dublin 2	04/10/2009	stamp duty	Letter to Minister
109	Minister for Finance	Batt O'Keeffe on behalf of Tom Parlon & Hubert Fitzpatrick, CIF		07/10/2009	CIF submissions to Government re NAMA and their concerns.	Letter
110	Minister for Finance	Hubert Fitzpatrick, Construction Industry Federation		12/10/2009	Attaching copy of letter sent to B McDonagh, Kevin Cardiff and requesting an further meeting to discuss.	Letter
111	Minister for Finance Brian Lenihan	Construction Industry Council	5 Wilton Place, Dublin 2	15/10/2009	Investment in Infrastructure. Unemployment in Construction Sector, National Competitiveness	Pre Budget Submission 2010
112	Minister for Finance Brian Lenihan	The Society of Chartered Surveyors	5 Wilton Place, Dublin 2	16/10/2009	Jobs and Infrastucture - A Plan for National Recovery, Captial Spending- Tender prices, Reduction of VAT rates for construction industry,Home Energy Savings Scheme, Property Tax,Stamp Duty, Captial Gains Tax, Local Authority structure,	Pre Budget Submission 2010
113	Minister for Finance Brian Lenihan	Construction Industry Federation	Construction House, Canal Road, Dublin 6	16/10/2009	Request a meeting -Public Capital Programme, Infrastucture, Residential Property Market, Stamp Duty, Tax Scheme for First Time Buyers unlocking VAT, Part V legislation, Affordable Housing, National Energy Refurbishment Programme, Development Contribution Scheme, Planning and Appeals Process, Export Credit Guarantee, Public Procurement, National Paternership Forum, Employer PRSI payments	Pre Budget Submission 2010
114	Minister for Finance	Tom Parlon, CIF		02/11/2009	CIF proposed draft amendments to NAMA	Email
115	Minister for Finance Brian Lenihan	Institute of Professional Auctioneers and Valuers	129 Lower Baggot Street, Dublin 2	18/11/2009	Reduce Stamp Duty, €200 charge on non- principal residences made tax deductible from rental income.	Pre Budget Submission 2010

116	Minister for Finance, Mr. Brian Lenihan , T.D	Brian O'Shea T.D. on behalf of the Irish Concrete Federation	Brian O'Shea T.D. 61 Sweetbriar Lane, Co. Waterford	20/11/2009	Pre-Budget Submission	Written Correspondence
117	Minister for Finance, Mr. Brian Lenihan , T.D	Architects Alliance	Mr. Leonard Barrett Architects Alliance barrettandasociates@eircom.net	28/04/2010	Building Control Amendment Bill 2010	Written Correspondence
118	Minister	The Irish Property Council - Mr Patrick White	25 Fitzwilliam Square Dublin 2	18/06/2010	stamp duty	Letter to Minister
119	Minister for Finance	Construction Industry Federation	Construction House, Canal Road, Dublin 6	01/09/2010	Construction Industry with mention of Property Market	Pre Budget Submission
120	Minister for Finance, Mr. Brian Lenihan , T.D	Construction Industry Federation	Construction House, Canal Rd, Dublin 6	29/09/2010	Pre-Budget Sumbission and Meeting Request	Written Correspondence
121	Environment Vote on behalf of Minister for Finance, Mr Brian Lenihan , T.D	Construction Industry Federation	Construction House, Canal Rd, Dublin 6	01/10/2010	Meeting on Pre-budget Submission	Meeting minutes
122	Minister for Finance, Mr. Brian Lenihan , T.D	Architects Alliance	Mr. Brian Montaut Architects Allance. Xarchitects @iol.ie	14/11/2010	Building Control Amendment Bill 2007	Written Correspondence
123	Minister for Finance	Martin Whelan, CIF on behalf of Hubert Fitzpatrick		21/12/2010	Lombard Street Research Study, commissioned by the CIF - operations of NAMA	Email
124	Minister for Finance	Martin Whelan, CIF on behalf of Hubert Fitzpatrick		21/12/2010	Lombard Street Research Study, commissioned by the CIF - operations of NAMA	Email
125	Internal record	Record of meeting between Minister Noonan and Construction Industry Federation	Construction House, Canal Road, Dublin 6	16/05/2013	Construction sector	Minutes of meeting
126	Minister Noonan	Property Industry Ireland	84-86 Lr. Baggot St. Dublin 2	01/06/2013	Proposed property strategy	Discussion document
127	Internal record	Record of meeting between Minister Noonan and MoS Hayes and Property Industry Ireland (PII)	84-86 Lr. Baggot St. Dublin 2	25/09/2013	PII's pre-budget submission	Minutes of meeting
128	Minister for Finance	Taoiseach's office on behalf of Tom Parlon - for direct reply		10/09/09 & 30/10/09	NAMA	Letter
129	Mr Liam Smith (Dept of Finance)	Pat Lyons (Lyons Property)	Abbeyfeale, Co Limerick	unknown	proposing the introduction of a REIT tax framework into Irish legislation	Minutes of meeting/written correspondence

CONSTRUCTION INDUSTRY FEDERATION

Our Ref: gh gs

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Mr C Casey
Referred
C Power
10/11/2001

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Mr Charlie McCreevy TD
Minister for Finance
Department of Finance
Upper Merrion Street
Dublin 2

10th October 2001

Dear Minister,

I would like to thank you for agreeing to meet a delegation from the CIF to discuss our pre Budget Submission on Monday, 22nd October 2001 at 3.15pm.

I have pleasure in enclosing a copy of our Submission. The Submission provides a comprehensive update of the outlook for the construction sector for the remainder of 2001 and 2002 reflecting the rapidly changing economic environment. It also provides our assessment of the implications this has for construction capacity including manpower requirements and construction inflation in the short/medium term.

The Submission makes a number of recommendations covering the key areas of Construction Capacity, delivering Infrastructure, the implementation of the National Spatial Strategy, Waste Management and Taxation Policy.

The central theme of this years Submission is the need for taxation and expenditure policies which are focused on the stimulation of an early return to sustainable growth in construction and in the economy generally.

Yours sincerely,

George Hennessy

GEORGE HENNESSY
DIRECTOR, ECONOMIC/PUBLIC AFFAIRS

CONSTRUCTION INDUSTRY FEDERATION

CONSTRUCTION INDUSTRY

BUDGET SUBMISSION

AND

STRATEGY STATEMENT 2002

Construction Industry
Budget Submission
and
Strategy Statement 2002

prepared for the

Construction Industry Federation

8th October 2001

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CONTENTS

Executive Summary

There is no doubt but that overall economic activity has decelerated rapidly in recent months with some forecasters suggesting that economic activity will be broadly flat in the fourth quarter of 2001 compared with the third quarter. Others believe that it would not be a hugely exaggerated claim to interpret recent data as evidence that economic activity could contract over the same period. Either way, the performance of the Irish economy is such that overall GNP growth looks more like being in the 3-4% range in 2001, with a further sharp slowdown in GNP growth expected in 2002 to in the region of 0-2%.

Against this background there is firm evidence now emerging to suggest that growth in the construction sector will be sharply lower in 2001 reflecting a number of adverse developments during the year. Some sectors are cooling off much quicker than might have been expected. The preoccupation just nine months ago with capacity constraints and tender price inflation is quickly being replaced by evidence of spare capacity, rapidly reducing tender price inflation and a situation in which private sector construction activity has weakened in recent months. It is clear now that the industry is in for a very weak period over the next fifteen months as private sector confidence is shaken in response to adverse developments in the wider economy.

The prospects for the main segments of the industry are now that:

(a) private *housebuilding* activity is likely to continue to weaken in 2002 by around 10% following a similar reduction in 2001, notwithstanding the modest pick up expected in investment in the public housing sector;

(b) the volume of *general contracting* work, 75% of which consists of private sector industrial, commercial and tourism building work, is expected to be down sharply, reflecting reports about commercial projects not going ahead, vacancy rates on the increase and the cautious stance being adopted by lending institutions;

(c) *civil engineering* work, which depends on the infrastructure investment in the National Development Plan and other capital works in the Public Capital Programme, will be the only sector making a positive contribution to the volume of construction activity in the short term. Such a statement is completely predicated on the assumption that the NDP is implemented on schedule and that projects are brought to the construction stage as quickly and as efficiently as possible.

Overall growth in the volume of construction output will therefore weaken considerably to around 1% in 2001 compared with an annual average growth rate of 11% over the last seven years. Moreover, the damage to confidence which has ensued means that the construction sector will remain highly volatile and vulnerable to any further weakness in economic and construction indicators over the short term. Accordingly, we are forecasting a decline in the volume of construction output of 4% in 2002. Thereafter, the industry may settle into a long-term average growth rate in low/middle single digit figures.

There are many downside risks which could inhibit the sector's performance over the next six to twelve months. The volume of private sector housing output could weaken further if housebuyer confidence is further shaken in the short term. The volume of new private sector building projects will depend on the economic environment, employment growth and the level of business confidence, all of which appear to be either slowing or shifting downwards at the moment. In civil engineering, there are potential delays in terms of the time it takes to meet the statutory procedures, including dealing with CPOs, farming hold-ups and potential judicial reviews, all of which could seriously jeopardise the early construction of much needed infrastructure.

The CIF is concerned that there is currently a drought of civil engineering jobs in certain size segments and areas of the country. The maximum delivery of NDP projects will only be achieved by having an adequate mix of projects over time, across different value ranges and locations, which uses tendering methods appropriate to the scale and complexity of the projects.

Construction is a major sector of the economy and accounts for around 20% of GNP. The industry should be in a position to, at least, sustain investment at this level. If construction investment is not sustained, the result will be a lower rate of fixed capital formation, resulting in an even greater infrastructure backlog, which would hinder further economic growth, and lead to increased unemployment. The challenge facing the industry now will be maintaining construction employment at current levels and ensuring that industry's resources are fully utilised. Investment across all segments needs to be encouraged if confidence is to be restored to the sector.

The CIF is committed to working with Government and all other interested parties in delivering not just the infrastructure associated with the NDP, but also the public buildings, industrial and commercial premises and the housing units. The Government too has a role to play in helping to foster growth in the industry, thus ensuring that the extra capacity brought into the industry in recent years can be retained and utilised to maximum effect.

Key Recommendations

If the industry is to achieve what it has achieved in the past, not just in terms of output and employment growth, but also in terms of its progress towards eliminating Ireland's infrastructural deficit in recent years, it is essential that specific actions are taken as soon as possible:

1) Both taxation and expenditure policies need to be focussed on the stimulation of an early return to sustainable growth, in construction and in the economy generally.

2) It is imperative that any deterioration in the public finances does not lead to a dilution of the Governments' infrastructure investment programme. It would be short-sighted to cut back spending on the elimination of Ireland's acknowledged deficits in essential infrastructure.

3) There is an urgent need for Government to rectify the burden placed on companies following the adverse impact of last year's Budget measure which abolished the ceiling for employers' PRSI. The rate of employer's PRSI should be cut by 2 to 3 percentage points.

4) There is an urgent need for a positive policy response to restore both housebuilders' and housebuyers' confidence in the housing market before the current gloomy prognosis gathers momentum. The recent trend towards increased investment by developers/investors in overseas markets (estimated by Hooke MacDonald to be in the region of £900m. of

residential property investment over the last two years) now needs to be reversed in favour of the home market. In particular:

- ➢ There should be an immediate reversal of the policy decision which removed the deductibility of interest for tax purposes for landlords in the residential investment market.

- ➢ Stamp Duties on residential transactions should be reduced sharply in the Budget.

5) The CIF is supportive of the Government's objective to achieve more balanced regional development in order to reduce the disparities between and within the Border, Midlands and Western (BMW) Region and the Southern and Eastern (S&E) Region. In this regard it makes two recommendations:

   - ➢ Physical infrastructure is central to promoting balanced regional development. Advance provision of the key infrastructure required to drive development into the regions is essential and should be accelerated.

   - ➢ There is a need to ensure that potential inward investment projects are not lost to Ireland by focussing the drive to redirect development to the regions in a manner which inhibits the capacity of the larger Irish cities to compete with urban competitors abroad.

6) The NDP will be implemented faster and more competitively by utilising fully the resources of the indigenous construction industry. This will be achieved by ensuring that there is an adequate mix of public sector projects over time, across different value ranges and locations, and which uses tendering methods appropriate to the scale and complexity of the projects.

7) The key recommendations of the Forum for the Construction Industry (FCI) regarding the establishment of a National Construction and Demolition Waste Council (NCDWC), for the co-ordination, implementation and monitoring of the industry's response should be immediately implemented. A Building Waste Control Allowance similar to Section 659 of the Taxes Consolidation Act, 1997 as set out in Section 5.1, should be introduced to incentivise investment in necessary waste management infrastructure.

CONSTRUCTION INDUSTRY FEDERATION

Construction House, Canal Road, Dublin 6. Tel: 01-4066000. Fax: 01-4966953. E-mail: cif@cif.ie Website: www.cif.ie

Ref: LK/ET

16 November, 2001

Mr Charlie McCreevy
Minister for Finance
Department of Finance
Upper Merrion Street
Dublin 2

Dear Minister,

Capital Spending Estimates

You kindly met us to discuss our Budget Submission on Monday October 22nd last.

Then, we outlined our view that the central thrust of the Budget should be for taxation and expenditure policies which were focused on the stimulation of an early return to sustainable growth in the economy and construction. We said it would be short-sighted to hold back in any way on the implementation of the National Development Plan; we said the opportunity was there to accelerate its implementation in a climate of minimal inflation. This would reduce our infrastructural deficit, and strengthen the capacity of the economy to grow in the future.

Prior to and since October 22nd, both business groups and economic assessors of the economy had urged Government to press ahead with NDP implementation. We didn't comment publicly on your media interview last Sunday. We felt that the consistency with which you had carried through on policies in a multi-annual way in previous years, coupled with the strong economic logic this year, would override any fleeting thoughts that capital expenditure should be sacrificed on the altar of current expenditure pressures. That must still be the case.

When we met, we outlined in our submission (pages 3 and 4 in particular) the current trends in the construction industry, and our estimates for construction for the year ahead. The charts we had available then for trends in order books, and expectations for prices and employment levels, covered the period to July 2001. (This is the European-wide survey of the outlook for the construction industry, which is undertaken in Ireland by the ESRI). The information is now available for the period to September 2001. The trends for order books and future prices have resumed their downward direction, while the prospects for future employment have plummeted.

In October, I indicated that, at minus 4%, our forecast for construction output next year was the highest of any which I was aware of from within the industry, and that some were as low as minus 9%. Even that latter figure now contains risks on the downside.

The 2 years 2002/2003 will provide an exceptional opportunity for Ireland to make inroads into its infrastructural deficit, in transport, health and education. Accelerated planning work in the past 2 years means that more projects are nearly ready to go to the construction stage. There has been criticism in some quarters of the slow pace of NDP implementation, but we have recognised both privately and publicly, that the pre-construction phases had to be undertaken before construction activity itself could be undertaken. We have been supportive of the implementing departments and agencies, in the face of periodic criticism from other organisations. Construction companies have geared up for action both with skilled personnel and with equipment, in order to provide the capacity to meet the requirements of a growing economy, and to implement the demands of the NDP.

It would be inexplicable to turn all this momentum on its head, incur extensive redundancies, damage the future capacity of the industry and the confidence of its members, for the sake of short-term decisions caused essentially by Government failure to control current expenditure, and hence crowding out capital expenditure.

There is certainly no basis for feeling that, as a country, we have been over-investing. Our investment rates have built up, through the 1990's and are well higher than the European average. But so have been our economic growth rates and our cumulative infrastructure deficit remains.

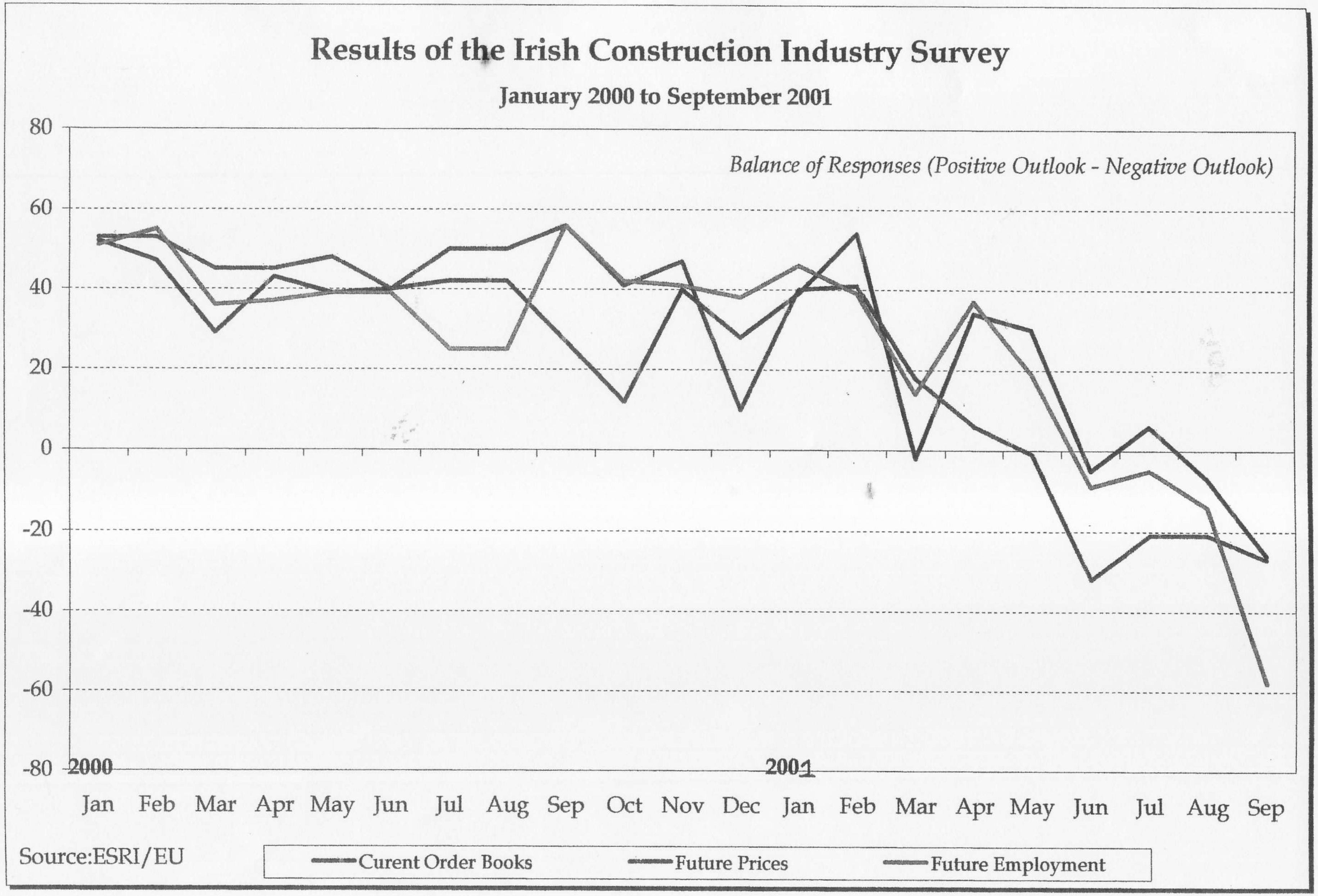
We don't want to talk down the economy or the prospects for next year. It's important that Government and all the Social Partners strive to maintain and build confidence, at a time when it is severely fractured. Government has a crucial role in building confidence. Its two weapons in doing that are by implementing budgetary measures to restore confidence to the housing sector, and by underpinning NDP investment plans on the capital investment side. While damage has been done by yesterday's announcements, there is still time to minimise that by the full restoration of the momentum of NDP capital expenditures, on Budget Day, and by strong measures to restore confidence to the housing market.

Yours sincerely,

Liam Kelleher

LIAM KELLEHER
DIRECTOR GENERAL

CONSTRUCTION INDUSTRY FEDERATION



Results of the Irish Construction Industry Survey
January 2000 to September 2001
Balance of Responses (Positive Outlook - Negative Outlook)
80
60
40
20
0
-20
-40
-60
-80
2000
2001
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Source:ESRI/EU
Curent Order Books
Future Prices
Future Employment

CONSTRUCTION INDUSTRY FEDERATION

Construction House, Canal Road, Dublin 6. Tel: 01-4066000. Fax: 01-4966953. E-mail: cif@cif.ie Website: www.cif.ie

AIRE AIRGEADAIS
- 5 OCT 2004
OIFIG AN RUNAI AIRE

Mr Brian Cowen, T.D
Minister for Finance,
Department of Finance
Upper Merrion Street
Dublin 2

4th October 2004

Re: Budget 2005

Dear Minister,

I have great pleasure in attaching a copy of our Pre-Budget Submission for your consideration.

The Federation is urging continuing strong investment in infrastructure, control of current expenditure and the maintaining of a low tax rate policy environment. The Budget strategy should also we believe seek to underpin business competitiveness and protect the net take home value of increases awarded under the National Pay Agreements. Ensuring value for money in Public Procurement is something that CIF share with Government and want to be fully consulted as a Social Partner in the implementation of recent Government decisions in this area.

The CIF would very much welcome an opportunity to discuss our proposals with you and your Officials at a meeting with a small delegation from the Federation.

Yours sincerely,

Liam Kelleher

LIAM KELLEHER
DIRECTOR GENERAL

C4/0671/MF
Mr H Ryan
Referred.
C Power
6/10/2004

CONSTRUCTION INDUSTRY FEDERATION

CONSTRUCTION INDUSTRY FEDERATION
PRE BUDGET SUBMISSION 2005

1st October 2004

Construction Industry: Budget Submission 2005

Prepared by the

Construction Industry Federation

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CONTENTS

Executive Summary

The Irish economy is moving strongly back to its medium term sustainable growth rate of 5%. The rate of inflation, which remains high by European standards, has reduced significantly in 2004. While the Exchequer will show a deficit this year, it will be some 75% lower than the Budget forecast.

Notwithstanding the improved economic and fiscal situation, a major infrastructure deficit remains and reinforcing the competitiveness of the Irish economy is a key challenge. The reports of the Enterprise Strategy Group and the Competitiveness Council to the Government over recent months reiterate the importance of a proper infrastructure to achieving our growth potential and contributing to national competitiveness.

Budgetary policy in 2005 must prioritise business competitiveness and investment in infrastructure by:

- Maintaining a disciplined approach to current expenditure.
- Ensuring that fiscal measures have a minimum impact on inflation in the economy.
- Investing strongly in infrastructure.
- Continuing to pursue a low tax rate strategy.
- Maintaining the value of take home pay for workers.

The Exchequer should be investing at least 5% of GNP in infrastructure. This should be exclusive of private PPP financing, which should be providing an additional impetus. The CIF is concerned that the level of investment in infrastructure is too low for the economy's medium term needs and that a review of the investment needs of the economy to 2010 should be undertaken in 2005.

The construction industry is a major contributor to the Exchequer. The ESRI estimate that 20% of economic growth in 2004 will be accounted for by the continuing expansion of housing activity. The construction industry performs best in a stable fiscal environment which is necessary to maintain private sector investment confidence. Instability undermines private investment sentiment which will directly impact on economic growth, Exchequer revenues and construction activity and employment.

The cost of doing business in the construction industry has increased significantly over recent years. Increased business input costs such as insurance and utility costs, increased regulatory compliance costs and development charges impact on the cost of construction and need to be addressed more systematically and effectively as part of the competitiveness agenda.

Having regard to the unprecedented scale of investment in public infrastructure, the Government's need for budgetary certainty is very understandable, however, this cannot be achieved by the transfer of risk to contractors alone. A range of other measures including, realistic estimates at project scoping stage, strong project management and adherence to specifications by the client are also necessary.

Government procurement policy should be focused on ensuring value for money through optimising outturn cost rather than price certainty at tender stage which will include price premia for risks that contractors are not best placed to control.

For the greater good of the country overall and to expand the capacity of the economy for the future in a cost effective way, infrastructure projects of national importance should not be subjected to severe delays as happens under existing procedures. The proposed new 'strategic infrastructure' legislation to deal with the pre-construction stages of major strategic infrastructure projects should be brought forward as a matter of urgency and given priority in the Government's current legislative programme.

Key Recommendations

Value for Money in Public Procurement

1. Government procurement policy should be focused on ensuring value for money through optimising outturn cost rather than price certainty at tender stage which will include price premia for including risks that contractors are not best placed to control.
2. The CIF as a Social Partner expects to be centrally involved in the development of any new arrangements being proposed by Government in the area of public procurement.
3. The Forum for the Construction Industry (FCI) must be centrally involved in the evolution of procurement practice in Ireland. The FCI includes all major stakeholders in the construction process and its structure is consistent with Government policy on Better Regulation.

Public Infrastructure Investment Strategy

1. Government should undertake a review of the economy's investment needs for the period to 2010 as a matter of urgency. This review should assess the rate at which we are addressing our economy's infrastructure deficit, how we are supporting Balanced Regional Development by providing the necessary infrastructure to support the National Spatial Strategy and outline a strategy as to how we will ensure that Ireland has an infrastructure that enhances the competitiveness of the economy for both indigenous industry and our attractiveness for foreign direct investment.
2. Private finance raised through PPP projects should be treated as adding to the Exchequer's target of 5% of GNP rather than as a mechanism of reducing the level of Exchequer expenditure commitment.
3. The Government should carry out a comprehensive analysis of the cost drivers (such as legal and banking fees) in delivering PPP projects.
4. A priority for the remainder of the National Development Plan must be to ensure the full implementation of the NDP commitments to support the National Spatial Strategy and Balanced Regional Development.
5. The proposed new 'Strategic Infrastructure Legislation' to deal with the pre-construction (planning and regulations) stages of major strategic infrastructure projects should be brought forward as a matter of urgency and given priority in the Government's legislative programme.
6. The extent of the downturn in general contracting must be recognised. Expertise in the delivery of major industrial and commercial projects must not be dissipated. Future output in employment growth requires accelerated efforts to rebuild the momentum of inward investment projects.

7. More comprehensive data on activity levels in the construction industry needs to be generated to track demand levels across the industry. Better data means better plans, better project management and better capacity utilisation. This in turn means more project delivery in a low inflation environment.

Competitiveness and the cost of Regulation

1. As part of the Government's regulating better initiative, Regulatory Impact Analysis, should be published and cover the expected consequences of all proposed new or changed regulation prior to its introduction. This will make an important contribution to assessing and fully understanding the competitiveness impact of Government regulations/legislation.
2. The cost of waste disposal (and commercial waste charges) in Ireland should be linked to the economic cost of providing the service. They should not be a source of general local taxation. The Department of Environment, Heritage and Local Government should undertake a review of waste disposal charges in Ireland and implement a consistent policy which ensures that we are competitive in a European context.
3. The process by which local authorities determine development levies must be re-examined so as to ensure that transparency and accountability in the implementation of these levy schemes is arrived at. The imposition of excessive levies on the new build sector in respect of benefit accruing to existing development should be re-evaluated, and a transparent and equitable mechanism should be determined for the imposition of reasonable levies in respect of new development.
4. Funding should be made available for the establishment of an *Applied Construction Innovation Centre* (ACIC). The ACIC would bring significant benefits to the industry in terms of cost savings and reduced contract times while at the same time, fostering a climate in which innovation would be encouraged.
5. The National Training Fund should focus increasingly of the training of existing employees in the industry. There should be a stronger focus on areas such as environmental and C&D waste management, safety management, increasing productivity and applied innovation.

Tax Strategy 2005

1. Government should maintain a disciplined approach to current expenditure growth reflecting lower rates of inflation and the medium term growth potential of the economy. It should continue to pursue a low tax rate strategy to underpin competitiveness and economic activity.
2. Public investment should continue to be prioritised with the Exchequer spending at least 5% of GNP on public infrastructure. The use of private sector PPP financing should be encouraged strongly and should be in addition to the 5% of GNP Exchequer financing commitment.
3. No fiscal measures should be introduced in the forthcoming budget that could restrict housing supply. Any government intervention in the housing market should concentrate solely on increasing supply of zoned serviced land.

4. Protecting the real value of the increases awarded to employees under Sustaining Progress should be a priority for the 2005 Budget. Indexation of the standard rate tax band is a particular priority for employees in the construction industry.
5. Any increases in VAT would push up inflation and further erode the competitiveness of the economy and the construction sector, as confirmed by the impact of the VAT increase in the 2003 Budget on the Consumer Price Index 2004. There must be no further increase in VAT.
6. The commitment in Sustaining Progress that Government will be pressing for the maintenance of the current VAT regime for labour intensive services and construction should be central to Ireland's negotiating position in discussions at EU level on reform of the VAT system.
7. The effective rate of Capital Gains Tax can be far higher than the 20% nominal rate given the abolition of indexation. The indexation of the cost of assets should be reintroduced or the effective rate of CGT capped.
8. Every effort needs to be made to ensure that projects qualifying under the Renewal Tax Incentive Schemes are facilitated with the provision of public services and fast-tracked through the planning process so that projects can be completed by the deadline of 31st July 2006. In the absence of a major push by Local Authorities to facilitate such developments additional time to compensate for such delays which are outside the control of project promoters is required.
9. The Department of Finance should undertake or commission a full scale review of transaction taxes such as stamp duties and their economic impact on Ireland, with a view to comprehensive tax reform in this area.
10. The cost of redundancy should be met wholly from the employers' current contribution to the Social Insurance Fund rather than at a rate of 60% from the fund as currently.

1. Mr Downes ✓ RB 21/9/05
2. Runai Aire

Reply submitted for signature of the Minister please. ✓

Reply submitted for your signature.

P.P Margaret Fitzgerald 16/9/05.
Eddie Madden
Budget Section

MINISTERIAL REPRESENTATIONS **DEPARTMENTAL REF** 05/0045/MF

To **1.** Mr. L Murphy

2. ______________________

3. ______________________

In accordance with the Department's **Customer Service Action Plan 2004-2007** please prepare a reply to the attached **Letter/E-mail** as indicated below:

(a) **Minister's Reply** ✓

(b) **Private Secretary's Reply** ______

Your attention is drawn to Appendix C of the **Action Plan,** in particular para. 3, giving a commitment to reply to correspondence within 15 working days.

Thanking you for your co-operation in this matter.

R Kearney
pp **Breda Rafter**
Minister's Office
16/8/05

- Where a reply is **not** deemed necessary, please inform the Ministers office a.s.a.p.
- If a representation received is more appropriate for **reply by another section**, it should be forwarded immediately to the appropriate officer and the Minister's office informed accordingly.
- If a final reply cannot be prepared within 15 working days an acknowledgement/holding reply should be prepared.

Please advise the Minister's office of any changes outlined above by phoning extensions 5626, 5631, 5643 and 5629 **or** e-mail group mailbox **Minister's Office**.

When forwarding a reply for signature to the Minister's Office, **please ensure that the following are attached:**

- Draft reply for Minister/Private Secretary's signature on **'Office of the Minister'** headed paper.
- **Three copies** of draft reply (on plain paper) in case of Minister's reply (**two copies** in case of Private Secretary).
- Addressed **envelope** of appropriate size.
- **Note to the Private Secretary** submitting reply for signature which indicates clearly that the reply has been approved and signed off by an AP or higher.
- If the correspondence has been received by **e-mail** the reply must **also** be e-mailed to Mail Box **"Min's Rep Replies"**.
- When forwarding correspondence to another Department for reply please include a **copy** of the original representation plus three copies of draft reply (on plain paper) with typed comment. If the reply is a Minister's reply an additional copy of reply on plain paper with **no** typed comment is required. **Please refer to Office Notice 22/01.** An envelope addressed to the Private Secretary of the forwarding Department should also be included.

6 Dempsey Terrace,Wexford.
Tel: 053-74608
Fax: 053-74131
Mobile: 087-203 7586

Leinster House
Tel: 01-618 3629
Fax: 01-618 4783
email: tony.dempsey@oireachtas.ie

Tony Dempsey T.D.

AIRE AIRGEADAIS
16 AUG 2005
OIFIG AN RUNAI AIRE

12 August 2005.

Minister Brian Cowen,
Minister for Finance,
Government Buildings,
Upper Merrion Street,
Dublin 2.

Re: Taxation Incentives for Property Development.

Dear Brian,

I have been contacted by a constituent, Mr. Seán Doyle (please see a copy of his letter attached). As you will see from same Mr. Doyle is extremely concerned in relation to the 31st July 2006 deadline imposed on various taxation incentive schemes relating to the construction of a broad range of property developments.

In relation to this issue I have a number of questions I would like to pose. Firstly is the deadline of 31st July 2006 an absolute deadline and if so does your department intend to put alternative arrangements in place to facilitate developers who wish to proceed with projects currently included under the present schemes?

Given the complex nature of the planning process Mr. Doyle asserts that many projects will not be deliverable within the timeframe as set out is it the intention of your department to take into consideration delays that may occur as a result of the planning process? I am certain that any information you have in relation to this issue would be greatly appreciated by Mr. Doyle and others who find themselves in a similar situation.

Wexford County as a whole is experiencing unprecedented levels of growth in terms of residential and tourism, in order to ensure this continues into the future we must facilitate those willing to invest in development of various projects. It is with this concern in mind that I am writing to you.

Thanking you in anticipation of your help in this matter and to date,

Tony

Tony Dempsey T.D.

FIANNA FÁIL
THE REPUBLICAN PARTY

Dáil Éireann
Leinster House
Kildare Street
Dublin 2

Dáil Éireann
Teach Laighean
Sráid Chill Dara
Baile Átha Cliath 2

Seán Doyle Group (Wexford) Limited

Kilmuckridge, Gorey, Co. Wexford.

Telephone: 053 30666 – Fax : 053 30980 – E-mail : sdcs@iol.ie

August 9, 2005.

Mr. Tony Dempsey, T.D.,
Ardbracan House,
Barntown,
Co. Wexford.

Re: Tax Incentives for Property Development

Dear Tony,

As you know I am a member of the C.I.F. and they have suggested we contact you in connection with tax incentives for property development, as follows:

Tax incentives have benefited Ireland greatly over the last 15 years and can continue to do so in the future. The economy has moved on but it has not benefited everybody equally (economically, socially or geographically). Area based and community focused tax incentives can help address emerging regional, economic and social imbalances.

However, taxation incentives for property development (including those available under the Urban, Town and Rural Renewal Schemes) are set to end on 31st July 2006. This wil have major implications for investment in your area.

50% of designated sites nationwide have yet to be development because servicing, planning and other statutory problems have held up projects. This means that areas in our own county/constituency that are urgently in need of investment could be losing out.

Over 40% of all projects under the Urban, Town and Rural Renewal Schemes, which were instigated to address issues of dereliction, under-utilisation and economic decline in designated areas, are tied up in the planning system and have no chance of satisfying the July 2006 deadline for the completion of projects. These projects will not in all likelihood be built out.

/Continued…… ………..

Continued............

This scenario raises questions as to the essential infrastructure from housing to playgrounds and parks that will be lost by your local authority. It also raises questions as to the essential funds that will be lost by local authorities in the form of development levies and other charges as a result of the decision to abolish tax incentive schemes.

The local implications of the 31st. July deadline are such that the Government should:

Extend tax incentives to ensure that all existing designated areas are developed.

Abolish the July 2006 deadline for the completion of projects currently in planning. These projects should be built out in within the timeframe laid down in their planning permissions.

Extend tax incentives to other parts of the country that have not benefited equally from the transformation of the Irish economy over the past decade, particularly as a mechanism for achieving more balanced regional development in line with the National Spatial Strategy.

Target tax incentives at those areas of the economy experiencing bottlenecks such as health, education and childcare facilities; leisure and sports facilities, arts and cultural facilities.

I am attaching a Summary of the CIF Submission to the Department of Finance which outlines the real benefits of these schemes to local communities and the real benefits that can flow from them in the future.

I appreciate your consideration of the above and any feedback you can provide.

Yours sincerely,

Seán Doyle.

CONSTRUCTION INDUSTRY FEDERATION

Submission to Department of Finance/ Revenue Commissioners on Tax Exemptions and Tax Reliefs

June 2005

SUMMARY AND RECOMMENDATIONS

1. When properly focused, taxation incentives have an important economic role to play as an instrument in the state's ability to encourage investment in areas and sectors of the economy where such investment is needed. This is particularly important in terms of the current review of tax exemptions and reliefs. Having established a strong economic performance as a nation, public policy processes are now increasingly focused on how that performance is maintained and geographically distributed within the country in a balanced and sustainable manner.

2. The ESRI, OECD, National Competitiveness Council and IMF in recent reports highlight Ireland's low capital stock, the need for accelerated public and private infrastructure provision and for social as well economic infrastructure. These reports reflect the findings and recommendations of, *inter alia*, the National Spatial Strategy (NSS). A key element in attaining sustainable and more evenly distributed economic development is, therefore, the eradication of Ireland's accumulated capital deficit and the achievement of more balanced regional development.

3. The evolution of taxation incentives in Ireland, from their introduction in the mid-1980s, indicates that in order to be effective, tax exemptions and tax reliefs must be implemented in a very targeted fashion, with the focus on those sectors of the economy and geographical areas in need of investment that can neither be met within a sufficient timescale or through public sector or market-driven investment alone.

4. Whilst encouraging the continuation of taxation incentives for property development, the CIF argues, therefore, that the implementation of future tax exemptions and tax reliefs should be guided by a national audit of new and emerging 'sectoral' pressure points in the economy and the NSS.

5. Taxation incentives may already exist in respect of certain 'sectoral' pressure points, such as capital allowances for Multi-Storey Car Parking and Park and Ride Facilities, Childcare Facilities, Third Level Educational Buildings and Sports Injury Clinics. Where this is the case, these allowances should be retained and, where required, enhanced.

Where 'sectoral' pressure points have been identified that are not covered by existing taxation incentives - in areas for example such as health provision, recreation and leisure, cultural and art facilities - appropriate taxation and other fiscal incentives should be introduced as a matter of priority.

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6 Dempsey Terrace, Wexford.

7. Tax incentive schemes also have an important role to play in terms of achieving social inclusion, particularly in terms of housing. The existence of urban renewal reliefs has contributed to increasing the stock of both rental and owner-occupied housing. There continues to be strong merit in increasing the stock of rental housing. Indeed, with the assistance of capital allowances, there is scope for delivering alternative forms of social/rental assistance schemes going forward.

8 The use of the NSS as a framework for area-based taxation incentives should be augmented by (1) a system of master planning for the existing and new Gateways and Hubs and (2) an enhanced Integrated Area Plan system for other parts of the country that allows indicative needs to be identified.

9. A number of avoidable pressure points have emerged in respect of the operation of current tax incentive schemes. By June 2004 over 40% of the investment in urban renewal schemes from their introduction in 1999 was in the planning system, while a large number of applications were lodged during the second half of 2004 in advance of the December 2004 deadline for the receipt of valid applications.

A key issue, therefore, is the July 2006 deadline for the completion of qualifying projects. The July 2006 deadline provides an insufficient timescale for projects to be built out, particularly in light of the ongoing planning and other statutory delays experienced by many project promoters. Furthermore, the July 2006 deadline will encourage an irrational glut of projects onto the market at the same time. The deadline should be removed, therefore, so as provide for the orderly delivery of projects. A more rational approach would be to allow project proposals to be completed in compliance with their planning permission, which sets out a five-year timeframe after the receipt of planning permission for the completion of projects.

10. A large number of projects have not yet reached planning because of a combination of factors, including delays in the servicing of lands, other planning and statutory delays and the fact that certain areas have thus far remained unattractive from an investment standpoint even with taxation incentives. These areas should be prioritised for inclusion under the new modified Integrated Area Plan system recommended above.

Our Ref. 05/0045/MF

18 August 2005

Mr. Tony Dempsey TD
6 Dempsey Terrace
Wexford

Dear Tony

I wish to acknowledge receipt of your recent letter on behalf of Mr. Sean Doyle, Sean Doyle Group (Wexford) Ltd., Kilmuckridge, Gorey, Co. Wexford regarding tax incentives for property development.

I will be in contact with you again about this matter as soon as possible.

With best wishes

Yours sincerely

BRIAN COWEN TD

Brian Cowen TD
Minister for Finance

An Roinn Airgeadais
Department of Finance

Oifig an Aire
Office of the Minister

Sráid Mhuirfean Uacht,
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VPN: 8109
http://www.irlgov.ie/finance

05/0045/MF

30 September, 2005

Mr. Tony Dempsey T.D.,
6 Dempsey Terrace,
Wexford,
Co. Wexford

Dear Tony,

I refer to your recent letter on behalf of Mr Sean Doyle, Sean Doyle Group (Wexford) Limited, Kilmuckridge, Gorey, Co. Wexford in relation to the Rural, Town and Urban Renewal Schemes.

The deadline for the above schemes was extended in Budget 2004 to cater for pipeline projects and to ensure an orderly winding-down of the schemes. In Budget 2005, I directed my Department, together with the Revenue Commissioners, to undertake a thorough evaluation of the effect of all relevant tax incentive reliefs including the area based renewal schemes. In this context, I also confirmed to the House that the termination dates for the various schemes, laid down previously in Finance Act 2004, remain unchanged. While it is not my present intention to introduce new reliefs in this area or to expand the existing schemes, the issues raised by Mr. Doyle can be taken into account in the context of the ongoing reviews.

With best wishes,

Yours sincerely,

BRIAN COWEN TD

Brian Cowen T.D.,
Minister for Finance.

1. Mr Downes ✓ 15/9/05
2. Runai Aire

✓Reply submitted for signature of the Minister please.

Reply submitted for your signature.

Eddie Madden

Eddie Madden
Budget Section 13/9/2005

MINISTERIAL REPRESENTATIONS DEPARTMENTAL REF 05/0045/MF

To 1. Mr. Liam Murphy

2. ____________________

3. ____________________

In accordance with the Department's **Customer Service Action Plan 2004-2007** please prepare a reply to the attached **Letter/E-mail** as indicated below:

(a) Minister's Reply ✓

(b) Private Secretary's Reply ______

Your attention is drawn to Appendix C of the **Action Plan,** in particular para. 3, giving a commitment to reply to correspondence within 15 working days.

Thanking you for your co-operation in this matter.

R. Kearney
pp **Breda Rafter**
Minister's Office
15/8/05

- Where a reply is **not** deemed necessary, please inform the Ministers office a.s.a.p.
- If a representation received is more appropriate for **reply by another section**, it should be forwarded immediately to the appropriate officer and the Minister's office informed accordingly.
- If a final reply cannot be prepared within 15 working days an acknowledgement/holding reply should be prepared.

Please advise the Minister's office of any changes outlined above by phoning extensions 5626, 5631, 5643 and 5629 **or** e-mail group mailbox **Minister's Office**.

When forwarding a reply for signature to the Minister's Office, **please ensure that the following are attached:**

- Draft reply for Minister/Private Secretary's signature on **'Office of the Minister'** headed paper.
- **Three copies** of draft reply (on plain paper) in case of Minister's reply (**two copies** in case of Private Secretary).
- Addressed **envelope** of appropriate size.
- **Note to the Private Secretary** submitting reply for signature which indicates clearly that the reply has been approved and signed off by an AP or higher.
- If the correspondence has been received by **e-mail** the reply must **also** be e-mailed to Mail Box **"Min's Rep Replies"**.
- When forwarding correspondence to another Department for reply please include a **copy** of the original representation plus three copies of draft reply (on plain paper) with typed comment. If the reply is a Minister's reply an additional copy of reply on plain paper with **no** typed comment is required. **Please refer to Office Notice 22/01**. An envelope addressed to the Private Secretary of the forwarding Department should also be included.

OFFICE OF JOHN BROWNE T.D. MINISTER OF STATE
THE DEPARTMENT OF
AGRICULTURE & FOOD
AN ROINN TALMHAÍOCHTA AGUS BIA
AGRICULTURE HOUSE, KILDARE STREET, DUBLIN 2, IRELAND

OIFIG AN RUNAÍ AIRE
15 AUG 2005
AIRE AIRGEADAIS

Friday, 12 August 2005

Minister Brian Cowen T.D.
Leinster House
Kildare Street
Dublin 2

Dear Minister

Sean Doyle Group (Wexford) Ltd, Kilmuckridge Gorey Co. Wexford have been in contact with me. I enclose herewith a letter received from Sean regarding Tax Incentives. I would appreciate if you could note the contents of their letter and let me have your comments.

Yours sincerely,
John
JOHN BROWNE T.D.
Minister of State at the
Department of Agriculture & Food

JOHN BROWNE T.D. CONSTITUENCY OFFICE, 6 COURT STREET
ENNISCORTHY CO. WEXFORD
TEL: (054) 35046
OFFICE OPEN DAILY MONDAY TO FRIDAY 10.00AM TO 12.00 NOON
AND 2.00PM - 4.00PM.

Tel: +353 1 607 2291 Fax: +353 1 662 2170 Lo-call: 1890 200 510 Email: john.browne@agriculture.gov.ie

Seán Doyle Group (Wexford) Limited

Kilmuckridge, Gorey, Co. Wexford.
Telephone: 053 30666 – Fax : 053 30980 – E-mail : sdcs@iol.ie

August 9, 2005.

Mr. John Brown, T.D.,
Kilcannon,
Enniscorthy,
Co. Wexford.

Re: Tax Incentives for Property Development

Dear John,

As you know I am a member of the C.I.F. and they have suggested we contact you in connection with tax incentives for property development, as follows:

Tax incentives have benefited Ireland greatly over the last 15 years and can continue to do so in the future. The economy has moved on but it has not benefited everybody equally (economically, socially or geographically). Area based and community focused tax incentives can help address emerging regional, economic and social imbalances.

However, taxation incentives for property development (including those available under the Urban, Town and Rural Renewal Schemes) are set to end on 31st July 2006. This wil have major implications for investment in your area.

50% of designated sites nationwide have yet to be development because servicing, planning and other statutory problems have held up projects. This means that areas in our own county/constituency that are urgently in need of investment could be losing out.

Over 40% of all projects under the Urban, Town and Rural Renewal Schemes, which were instigated to address issues of dereliction, under-utilisation and economic decline in designated areas, are tied up in the planning system and have no chance of satisfying the July 2006 deadline for the completion of projects. These projects will not in all likelihood be built out.

/Continued……

Continued............

This scenario raises questions as to the essential infrastructure from housing to playgrounds and parks that will be lost by your local authority. It also raises questions as to the essential funds that will be lost by local authorities in the form of development levies and other charges as a result of the decision to abolish tax incentive schemes.

The local implications of the 31st July deadline are such that the Government should:

Extend tax incentives to ensure that all existing designated areas are developed.

Abolish the July 2006 deadline for the completion of projects currently in planning. These proejcts should be built out in within the timeframe laid down in their planning permissions.

Extend tax incentives to other parts of the country that have not benefited equally from the transformation of the Irish economy over the past decade, particularly as a mechanism for achieving more balanced regional development in line with the National Spatial Strategy.

Target tax incentives at those areas of the economy experiencing bottlenecks such as health, education and childcare facilities; leisure and sports facilities, arts and cultural facilities.

I am attaching a Summary of the CIF Submission to the Department of Finance which outlines the real benefits of these schemes to local communities and the real benefits that can flow from them in the future.

I appreciate your consideration of the above and any feedback you can provide.

Yours sincerely,

Seán Doyle.

CONSTRUCTION INDUSTRY FEDERATION

Submission to Department of Finance/ Revenue Commissioners on Tax Exemptions and Tax Reliefs

June 2005

SUMMARY AND RECOMMENDATIONS

1. When properly focused, taxation incentives have an important economic role to play as an instrument in the state's ability to encourage investment in areas and sectors of the economy where such investment is needed. This is particularly important in terms of the current review of tax exemptions and reliefs. Having established a strong economic performance as a nation, public policy processes are now increasingly focused on how that performance is maintained and geographically distributed within the country in a balanced and sustainable manner.

2. The ESRI, OECD, National Competitiveness Council and IMF in recent reports highlight Ireland's low capital stock, the need for accelerated public and private infrastructure provision and for social as well economic infrastructure. These reports reflect the findings and recommendations of, *inter alia*, the National Spatial Strategy (NSS). A key element in attaining sustainable and more evenly distributed economic development is, therefore, the eradication of Ireland's accumulated capital deficit and the achievement of more balanced regional development.

3. The evolution of taxation incentives in Ireland, from their introduction in the mid-1980s, indicates that in order to be effective, tax exemptions and tax reliefs must be implemented in a very targeted fashion, with the focus on those sectors of the economy and geographical areas in need of investment that can neither be met within a sufficient timescale or through public sector or market-driven investment alone.

4. Whilst encouraging the continuation of taxation incentives for property development, the CIF argues, therefore, that the implementation of future tax exemptions and tax reliefs should be guided by a national audit of new and emerging 'sectoral' pressure points in the economy and the NSS.

5. Taxation incentives may already exist in respect of certain 'sectoral' pressure points, such as capital allowances for Multi-Storey Car Parking and Park and Ride Facilities, Childcare Facilities, Third Level Educational Buildings and Sports Injury Clinics. Where this is the case, these allowances should be retained and, where required, enhanced.

6. Where sectoral pressure points have been identified that are not covered by existing taxation incentives - in areas for example such as private health provision, recreation and leisure, cultural and art facilities - appropriate taxation and other fiscal incentives should be introduced as a matter of priority.

7. Tax incentive schemes also have an important role to play in terms of achieving social inclusion, particularly in terms of housing. The existence of urban renewal reliefs has contributed to increasing the stock of both rental and owner-occupied housing. There continues to be strong merit in increasing the stock of rental housing. Indeed, with the assistance of capital allowances, there is scope for delivering alternative forms of social/rental assistance schemes going forward.

8 The use of the NSS as a framework for area-based taxation incentives should be augmented by (1) a system of master planning for the existing and new Gateways and Hubs and (2) an enhanced Integrated Area Plan system for other parts of the country that allows indicative needs to be identified.

9. A number of avoidable pressure points have emerged in respect of the operation of current tax incentive schemes. By June 2004 over 40% of the investment in urban renewal schemes from their introduction in 1999 was in the planning system, while a large number of applications were lodged during the second half of 2004 in advance of the December 2004 deadline for the receipt of valid applications.

A key issue, therefore, is the July 2006 deadline for the completion of qualifying projects. The July 2006 deadline provides an insufficient timescale for projects to be built out, particularly in light of the ongoing planning and other statutory delays experienced by many project promoters. Furthermore, the July 2006 deadline will encourage an irrational glut of projects onto the market at the same time. The deadline should be removed, therefore, so as provide for the orderly delivery of projects. A more rational approach would be to allow project proposals to be completed in compliance with their planning permission, which sets out a five-year timeframe after the receipt of planning permission for the completion of projects.

10. A large number of projects have not yet reached planning because of a combination of factors, including delays in the servicing of lands, other planning and statutory delays and the fact that certain areas have thus far remained unattractive from an investment standpoint even with taxation incentives. These areas should be prioritised for inclusion under the new modified Integrated Area Plan system recommended above.

Our Ref. 05/0045/MF

17 August 2005

Mr. John Browne TD
Minister of State at the
Department of Agriculture & Food
Kildare Street
Dublin 2

Dear John

I wish to acknowledge receipt of your recent letter on behalf of Mr. Sean Doyle, Sean Doyle Group (Wexford) Ltd., Kilmuckridge, Gorey, Co. Wexford regarding tax incentives for property development.

I will be in contact with you again about this matter as soon as possible.

With best wishes

Yours sincerely

BRIAN COWEN TD

Brian Cowen TD
Minister for Finance

An Roinn Airgeadais
Department of Finance

Oifig an Aire
Office of the Minister

Sráid Mhuirfean Uacht,
Baile Átha Cliath 2,
Éire.

Upper Merrion Street,
Dublin 2,
Ireland

Telephone: 353-1 676 7571
Facsimile: 353-1 676 1951
LoCall: 1890 66 10 10
VPN: 8109
http://www.irlgov.ie/finance

05/0045/MF

22 September 2005

Mr. John Brown T.D.,
Minister of State at the
Department of Agriculture and Food,
Kildare Street,
Dublin 2.

Dear John,

I refer to your recent letter on behalf of Mr Sean Doyle, Sean Doyle Group (Wexford) Limited, Kilmuckridge, Gorey, Co. Wexford in relation to the Rural, Town and Urban Renewal Schemes.

The deadline for the above schemes was extended in Budget 2004 to cater for pipeline projects and to ensure an orderly winding-down of the schemes. In Budget 2005, I directed my Department, together with the Revenue Commissioners, to undertake a thorough evaluation of the effect of all relevant tax incentive reliefs including the area based renewal schemes. In this context, I also confirmed to the House that the termination dates for the various schemes, laid down previously in Finance Act 2004, remain unchanged. While it is not my present intention to introduce new reliefs in this area or to expand the existing schemes, the issues raised by Mr. Doyle can be taken into account in the context of the ongoing reviews.

With best wishes,

Yours sincerely,

BRIAN COWEN TD

Brian Cowen T.D.,
Minister for Finance.

CONSTRUCTION INDUSTRY FEDERATION

Construction House, Canal Road, Dublin 6. Tel: 01-4066000. Fax: 01-4966953. E-mail: cif@cif.ie Website: www.cif.ie

Mr Brian Cowen TD
Minister for Finance
Department of Finance
Upper Merrion Street
Dublin 2

06/0609/MF
Mr K. Cardiff
Referred pl.
R Kearney
27/10/06

27th October 2006

Dear Minister,

I would like to thank you and your Officials for meeting with the CIF delegation on Monday, 16th October last to discuss our pre-Budget Submission.

As an investment industry, the construction sector performs best in a stable, fiscal and regulatory environment which supports private sector investment confidence. Exchequer revenues and employment have benefited from the strong performance of the sector. The current supply response to housing demand and the anticipated (already evident) moderation in new house price growth (now and into 2007) are welcome.

Media speculation about possible Budget 2007 changes to stamp duty has had a significant negative impact on the volume of property transactions (including transactions not affected by stamp duty). The likely impact of public statements indicating policy change or review of property transactions taxes need to carefully consider the likely impact on the market and the implications for Exchequer revenues and market confidence.

Ireland's economic and social infrastructure remains low relative to our main trading partners and many economic commentators have pointed to the need for accelerated public and private infrastructure provision to address this deficit. The National Development Plan 2007-2013 provides a medium term investment platform to give effect to the National Spatial Strategy and make Balanced Regional Development a reality. Continuing major investment programmes are required in education, health, transport, water services, housing and energy. Against the background of a 14% return on capital investment to the end of 2003, the Exchequer should increase its level of infrastructural investment to at least 5% of GNP. This has been achieved only once in the last ten years despite the commitment in the current programme for Government.

The construction industry has demonstrated its capacity to expand its resources annually in line with an economy growing at around 5% per annum without inflationary pressures above the national norm. With the phased withdrawal of tax designation incentives and the medium term outlook for housing demand, sufficient construction resources will be available to implement the new National Development Plan over the period 2007-2013 in a low construction price inflation environment.

Despite the recent welcome weakening of oil prices from historically high levels, the continuing uncertainty with regard to energy prices threatens stable economic growth in Ireland. The 2007 Budget strategy must address the impact of energy price inflation in the economy and promote renewable, domestically produced sources of energy. Budget 2007 must pursue a counter inflationary fiscal policy as a response to energy price inflationary pressure in the economy. Furthermore, incentives should be provided for investment in energy efficiency by both householders and businesses.

Interest rate increases have exacerbated the affordability concerns of first time buyers, particularly in larger urban areas. With the prospect of further interest rate increases over the next six months, Budget 2007 should provide a measure of relief for this group of taxpayers. The CIF is reflecting on the discussion at our meeting on this issue and is consulting with the Irish Home Builders Association. We welcome your invitation to further discussion on possible measures that would stabilize the position of first time purchasers. I would welcome an indication of when a meeting will be arranged with your department to progress this issue. A small delegation on the housing side is available to meet with you and your Department Officials at short notice.

Thank you for outlining the current status of the review of VAT on property transactions (and the position on VAT on land transactions.) We welcome the fact that a consultation paper is envisaged early in the New Year and that there will be further consultation when the review groups report at that stage.

Affordable housing initiatives under the Social Housing Partnership are welcome and need to be advanced. Accelerating and streamlining the delivery process must be a priority

The number of new home completions for 2007 is difficult to forecast. Our current view is that 89,000-90,000 units will be completed in 2006. A similar or slightly lower level is our best estimate for 2007.

The proposed new public sector contracts provide for disproportionate risk to be transferred to contractors. Some of these risks are by definition unforeseeable and cannot be priced. Such risks should be shared between the employer and the contractor and should be subject to an overall financial limit. The content of the small works contract with the risk transfer options exercised by the client will be unmanageable for small and medium sized contractors.

CONSTRUCTION INDUSTRY FEDERATION

The construction industry accounts for 25% of all small businesses in Ireland. CIF supports the recommendations of the Report of the Small Business Forum that infrastructure to support small businesses must be improved. This includes broadband, energy, waste and transport. Furthermore, CIF supports the recommendation for improved support for R&D expenditure by small construction firms and systematic Regulatory Impact Assessment on small businesses, including those regulations which are construction-specific.

We undertook to establish what data is available on the distribution of home purchases between first time buyers, investors and second homes. We will revert separately on this matter once we have determined the data that is available.

Again, my thanks to you for giving time from your busy schedule to discuss our pre-Budget Submission.

Yours sincerely,

N O'Reilly.

NORBERT O'REILLY
PRESIDENT

Construction Industry Federation

Pre-Budget Submission 2007

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Executive Summary : Overview of Key Budgetary Issues

While the general outlook of the Irish economy is favourable, a number of risks to economic growth have been identified in 2006. Ireland's competitive advantage is slipping, the cost of doing business in Ireland is increasing and cumulative burden of regulation continues to increase costs to businesses. Those risks cannot be ignored, and action is needed to tackle them now. The new social partnership document, *Towards 2016*, has an objective of "mitigating these [economic] risks and strengthening the competitiveness and productive capacity of the economy." Fiscal policy to enact that objective must be at the heart of Budget 2007.

The continuing increase in oil prices threatens stable economic growth. While the exposure of the economy to energy price inflation is more muted than previous oil price shocks, the impact is adding to inflationary pressures in the economy. The 2007 Budget strategy must address the impact of oil price inflation in the Irish economy, and the promotion of renewable, domestically produced sources of energy.

Budgetary policy in 2007 must prioritise the management of inflation emphasising business competitiveness and investment in infrastructure by:

- Pursuing a counter inflationary fiscal policy as a response to energy price inflationary pressure in the economy.
- Continuing to prioritise public investment, maximising value for money, and efficient and timely delivery.
- Planning funding provisions for the new National Development Plan, to remedy infrastructural deficits and undertake planned capital investment in the future.
- Maintaining a disciplined approach to current expenditure given the more muted economic outlook.
- Continuing to pursue a low tax rate strategy to underpin competitiveness and economic growth.
- Maintaining the value of take home pay for workers.

In July 2006, Government figures showed that revenue from stamp duty was up 43% from the previous twelve months, while capital gains revenue was 15% higher than 2005. These figures reflect the strong relationship between the continued success of house building, general construction activity, property and the buoyant Exchequer receipts. Receipts from stamp duty and capital taxes have increased from less than €2bn in 2002 to an estimated €7.5bn this year. Receipts from VAT, a significant proportion of which comes from housing, have increased by 47% over the same period.

This economic situation should set the stage for significant and efficient capital expenditure programmes. In line with government regional and sectoral development policy, the healthy financial position should facilitate the creation of balanced regional and sectoral growth. Goodbody Consulting (*Ireland's Strategic Infrastructure Investment 2020*), and others, has repeatedly highlighted the economic case for infrastructural investment ahead of demand to maximise return on investments. The ESRI Mid-Term Review of the National Development Plan 2000 – 2006 noted the 14% return on capital investment to end 2003. Attention must be made to the public sector ability to achieve value for money; timely, effective delivery; and efficient spending of allocated resources.

The construction industry is an investment industry performing best in a stable fiscal and regulatory environment which supports private sector investment confidence. Instability undermines private investment which will directly impact on economic growth, Exchequer revenues and construction activity and employment. Given the reality of the current supply response to housing demand and the projected levelling of growth of new house prices for 2007, it is vital that the 2007 Budget does nothing to interrupt the continued strong supply of new housing output for the years ahead.

Unnecessary delays being experienced by the industry with regulatory agencies including utility companies must be minimised. These unnecessary delays put upward pressure on, for example, house prices to the end consumer, the new homeowner. Safeguarding the economic prosperity of Ireland must be matched by social and environmental development and resources adequate to meet the changing demands of global competition. The National Development Plan 2007 – 2013 gives an opportunity to improve public sector ability to manage large infrastructural projects. It provides a longer-term investment platform to give effect to the National Spatial Strategy and make balanced regional development a reality. Institutional reform coupled with consistent management of expenditure must be at the fore of Government action to develop Ireland's infrastructure and secure economic advantage.

The ESRI, OECD, IMF and others have consistently commented on Ireland's low capital stock relative to our trading partners (both economic and social infrastructure) and have pointed to the need for accelerated public and private infrastructure provision to address this deficit. The 2006 PWC Pulse CEO survey highlighted the general dissatisfaction of the state of Ireland's physical infrastructure amongst the CEOs of multi-national companies and the economic consequences of such a deficit.

The cost of doing business in Ireland has continued to increase. The impact of higher input costs is damaging our competitiveness and reducing our attractiveness to foreign direct investment. It is evident that the general efficiency of State mechanisms to deliver resources is suffering, and this increased slowness limits economic growth. The cumulative impact of cost increases in the construction sector has been significant. Further use of regulatory impact assessment prior to the adoption of new regulation is needed, so that the impact on business and costs can be assessed.

Key Recommendations

Sustaining Economic Growth

- The development of a bold new National Development Plan to improve national competititveness through balanced regional investment, improvements to the state's planning system and efficient use of multi-annual capital envelopes to secure efficient delivery.
- Address bottlenecks in the public sector's capacity to deliver Government infrastructure investment targets.
- Compliance with new contract procedures puts additional managerial and administrative costs on business and erodes competitiveness. Government must ensure that implementation of new contracts does not increase regulatory or cost burden on Small and Medium Enterprises.
- New public sector contracts, when introduced following a full, published Regulatory and Economic Impact Assessment, to be used unamended in all public finance procurement with a formal vigourous review process, involving the industry, within two years.

Taxation

- Government should continue to pursue a low-taxation strategy to underpin economic competitiveness and economic activity with no inflationary impact.
- The current Revenue review of procedures for the application of VAT on land and property transactions is welcome, but must not lead to the broadening of the base of this tax. VAT on property transactions should be simplified so that general tax advisors can advise clients comprehensively. The definition of building land for VAT purposes must not be altered as this could affect supply of developed land being brought to the market.
- Department of Finance should undertake a full-scale review of capital transactions taxes and their economic impact in Ireland, with a view to a comprehensive tax reform in this neglected area and the removal of the 9% stamp duty level. Government should reintroduce indexation of Capital Gains Tax.
- To achieve balanced regional development, Government must use all levers at its disposal, including the use of targeted taxation incentive schemes on a regional and sectoral basis.
- The 35% withholding tax rate under the C45 scheme should be modified to include a 6% pension contribution for self-employed construction industry sub-contractors.
- Government must widen the standard rate of income tax bands to reduce the number of workers paying at the higher level, and to maintain the value of take-home pay at a time when it is under pressure from emerging price inflation.
- The cost of statutory redundancy should be met wholly from employers' contribution to the Social Insurance Fund.

Housing

- Given the reality of the current supply response to housing demand and stability in the growth of new house prices, it is vital that the 2007 Budget does nothing to jeopardise the contribution of the house building sector.
- Aggressive zoning and servicing of suitable land during the lifetime of relevant Development Plans should be pursued by all responsible bodies in areas of high housing demand for residential development so as to maintain housing output at a high level. Government must commit funding to the reintroduction of a major serviced land initiative. Deficits in infrastructural servicing should be reduced through partnership arrangements between local authorities and developers. Detailed arrangements for elimination of these deficits would be best served through partnership discussion with the construction industry.
- VAT should be rebated directly to first time buyers as an incentive to facilitate home ownership for those in need. The definition of building land for VAT purposes must not be altered as this could affect supply of developed land being brought to the market.
- Joint Ventures for delivery of public housing programmes should be encouraged using design build approaches between local authorities and housing developers.

- Further government investment is needed in the area of energy efficient housing for 2007 so that the upper limit is abolished on scheme sizes under the Homes of Tomorrow scheme.
- Government action to remove delays being experienced by the housebuilding industry with regulatory agencies must be taken so that services from such agencies are provided in a businesslike manner with minimised bureaucracy.

Regulation, Small Business and Competitiveness

- Special consideration must be made to how any new regulation would impact on employment, and on the smallest businesses in the Irish economy. Regulatory Impact Assessment must be undertaken and published prior to the adoption of any new regulatory instrument, with the removal of obsolete or outdated regulatory instruments.
- Government must undertake a reform of the planning process in Ireland to improve efficiency and reduce lead-in times for construction projects.
- Government should undertake reform of local infrastructural development so that the cost of financing non-national infrastructure is more equally shared.
- Government must undertake a national audit of local solid waste disposal facilities, fund a national solid waste infrastructure and undertake a review of local authority waste financing policy to create greater efficiency and reduce costs.
- Government must incentivise energy efficiency and provide increased support to those businesses who undertake innovative and substantial energy efficiency programmes in their business.
- Government must commit to supporting innovative practice and research and development within businesses and the wider construction sector, in line with Government and EU policy by increasing funding towards construction research.