

The Society of

# Chartered Surveyors

5 Wilton Place, Dublin 2

## Pre-Budget Submission

September 2008

## **Introduction:**

Dating back to 1895, the Society of Chartered Surveyors is the largest professional body in Ireland representing both the construction and property industries. The Society has strong links with the RICS which represents over 110,000 members across 120 countries worldwide and is one of the most respected and high profile global 'standards and membership' organisations for professionals involved in land, valuation, property, construction and environmental issues.

Representing over 2,200 qualified chartered surveyors and a further 1,000 probationers who are undergoing their assessment of professional competence in order to achieve the gold standard of chartered status, members of the Society are typically professionals employed in the land, property and construction markets through private practice, in central, regional and local government, in public agencies, in academic institutions, in business organisations and in non-governmental organisations.

Their broad areas of expertise include:

- Quantity Surveying
- Building Surveying
- Valuations surveying
- Planning & Development
- Geomatics & Land surveying

Members' services are diverse and can include offering strategic advice on the economics, valuation, law, technology, finance and management in all aspects of the construction and property industry.

Accountable to both members and the public, the Society of Chartered Surveyors has five primary roles:

- Promoting the diverse knowledge of the profession
- Maintaining the highest educational and professional standards
- Protecting consumers through strict codes of practice
- Providing expert advice on property and built environment issues
- To act as the State Registration Body for the title of Quantity and Building Surveyor under the Building Control Act, 2007

The Society of Chartered Surveyors has always taken a keen interest in the application of Government policy through taxation incentives and all matters relating to the property sector generally.

The Society recognises that this Government faces into a very difficult budget and needs to lead the country through an increasingly complex economic period, both from a national and international point of view. It is important that this Government focuses on implementing strategies that will guide the country through this downturn in economic activity.

The scope of this pre-budget submission is prompted by two main areas of concern:

- (a) The high level of Stamp Duty rates
- (b) Delivery of the National Development Plan (NDP)

## **Stamp Duty:**

The SCS believe that stamp duty on both commercial and residential property is far too high and at 9% is among the highest in Europe and approximately double the UK rates.

While there may have been some argument for increasing stamp duty rates to the current top level of 9% some years ago during the Celtic Tiger era, this argument is now completely unfounded.

### *Stamp Duty on Commercial Property:*

The exchequer tax receipts from stamp duty have declined sharply as the market slowed down. The approximate value of all commercial investment transactions was €3 billion in 2006, €2 billion in 2007, and possibly €1 billion or less expected in 2008, with a proportionate reduction of funds to the exchequer.

The high level of stamp duty has forced investors to invest abroad where transaction costs are lower. Funds have been exported to Continental Europe and beyond with little hope of repatriation. This outflow needs to be addressed and reducing stamp duty is crucial.

A reduction in the 9% rate to 6% at least is essential for sustainable liquidity in the investment and owner-occupier market and not just an immediate market catalyst.

A reduction in the top rate of stamp duty would act as a strong catalyst to reactivate the commercial market where such a change would have a proportionality large impact and initiate the flow of exchequer receipts. We now have an opportunity to radically adjust the level of stamp duty rates to reflect a dramatically changed market.

Furthermore, as the cost of stamp duty directly affects the value of property held in pension funds, a 3% reduction in these costs will immediately add the same percentage to the value of all property in pension investment funds which is seriously required.

*Stamp Duty on Residential Property:*

There have been and will continue to be profound changes in the residential market over the next 24 months. Already, we have seen second hand housing values broadly retrenching to 2004 levels. For properties above €1m there has broadly been a reduction of 35% in value from the peak of 2006, with now very little activity.

The action required in the residential market is immediate and will achieve immediate results both in market activity and exchequer receipts.

On second hand property, the current middle band of 7% affects the greater majority of transactions and should be reduced to no more than 4% in line with the more recent changes in the UK. Overall, we suggest:

<b>First €125,000</b>	<b>Nil</b>
<b>Next €400,000</b>	<b>4%</b>
<b>Excess €525,000</b>	<b>6%</b>

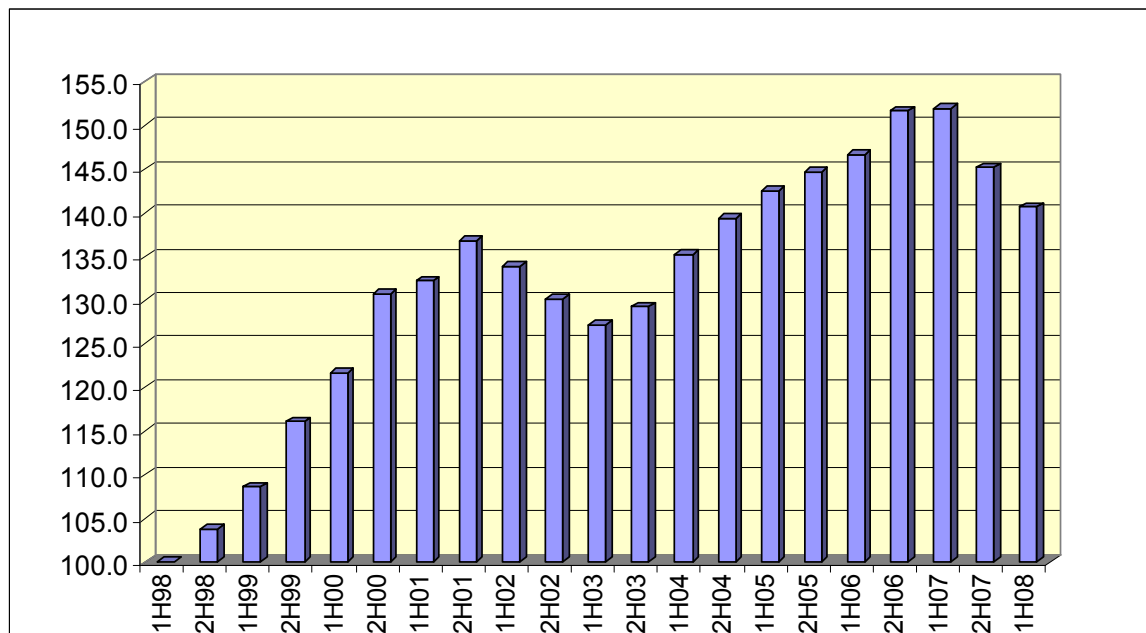
The Society urges the Government to give consideration to its call for a reduction in the stamp duty rates currently levied on all property transactions.

## Delivery of the National Development Plan (NDP):

The SCS strongly urges the Government to restate its full commitment to the delivery of the National Development Plan (NDP).

The recent Tender Price Index compiled by the Society, which is the only independent assessment of construction tender prices in Ireland, indicates that construction tender prices are continuing to fall. This index for the first half of 2008 shows that the fall, which began in 2007, has continued into this year. On average, there was a 3.1% decrease for the first 6 months of this year. The latest SCS index also shows that tender prices have fallen by an average of 7.4% in the past 12 months. This latest research on tender prices confirms all reports in the industry and reflect the fact that the well publicised slowdown in new residential construction has now spread to all sectors of the industry, including commercial projects and civil engineering infrastructure works.

The below graph shows how on average tender prices reduced further in the first half of 2008 and are now at similar levels to the end of 2004.



As such, given the strong likelihood that a further fall is likely to come during the second half of 2008, the SCS believes that the Government should confirm its commitment and give serious consideration to increasing expenditure, through borrowing if necessary, in capital investment projects as outlined in the NDP thereby ensuring value for money on behalf of the State. The fall in tender prices reflects the very competitive current market conditions where contractors are bidding at or below cost in order to secure a share of the ever-diminishing number of new projects and the State should take advantage of the medium to long term benefit to the exchequer of this situation. This theory of counter cycle market intervention should be implemented to ensure that the capacity of the construction industry is fully utilized and that employment levels and output are maintained. This would in turn, assist in boosting economic growth across the wider economy.

The added benefit of this strategy would also give stability to employment in the construction sector which would give rise to revenue through income tax and social insurance contributions.

The Society believes that the continued and accelerated delivery of the NDP, particularly in relation to the much needed public transport infrastructure and services, is essential for the reasons outlined above.

**Summary:**

In summary, the Society of Chartered Surveyors in its pre-budget submission calls on this Government to:

- **Give consideration to reducing the rate of stamp duty currently levied on property transactions and**
- **Restate its full commitment to the delivery of the National Development Plan (NDP).**