

# **Indecon Ex Ante Evaluation of the Living City Initiative for Urban Regeneration**

Submitted to

**The Department of Finance**

Prepared by

**Indecon International Economic Consultants**

**Indecon**

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## Executive Summary

### Introduction

This independent report is submitted to the Department of Finance by Indecon International Economic Consultants. The report represents Indecon's ex ante evaluation of the Living City initiative for urban regeneration. Indecon was appointed to conduct the assessment following a competitive tender process.

### Background to Initiative

The historic central areas of some of Ireland's cities have suffered for a long time from the relocation of family homes and businesses to the suburbs, a phenomenon which was exacerbated by prolific ribbon development during the "Celtic Tiger" years. The historic hearts of our cities have also suffered greatly from the general economic downturn in recent years.

The Living City Initiative is a targeted pilot tax incentive which aims to address this issue in two ways by focusing on:

- ❑ Encouraging people back to the centre of Irish cities to live in historic buildings; and
- ❑ Encouraging the regeneration of the retail heartland of central business districts.

The Initiative proposes to provide tax incentives for works performed to refurbish residential and retail buildings either to bring them up to a habitable standard or to make improvements to buildings which are currently inhabited. The incentives were designed to be targeted at owner occupiers rather than property developers.

Indecon believes that given the scale of the unemployment crisis, targeted measures to support small scale construction refurbishments have merit in addition to the wider urban renewal and conservation objectives. However it is essential that such initiatives are evaluated against cost benefit criteria. Given the scarcity of public finance, only initiatives which provide a positive cost benefit return should be supported.

### Scope of Study

The core focus of the study is to undertake an analysis of how the proposed pilot tax incentive could benefit the designated inner cities of Limerick and Waterford, taking account of the existing tax and non-tax supports already available and to evaluate the costs and benefits to the Irish economy of such an initiative. We also consider whether any changes should be made to the Scheme and the merits or otherwise of extension to other areas.

### Socio-Economic Context

The proposed pilot for the Living City Initiative is targeted on the old historic city areas of Waterford and Limerick. Indecon's findings suggest these areas are of significant economic deprivation with high levels of unemployment and low levels of educational attainment. In Waterford City male unemployment is 29.6% and in Limerick City is 32.7%.

There are however similar high levels of unemployment in parts of other cities and other urban areas. Based on economic deprivation and other criteria, parts of other cities would qualify as potential areas under similar criteria.

### Economic and Business Impact of Living City Initiative

Indecon's research with retailers and with architects and auctioneers suggests that an initiative to refurbish historic buildings in the city centre areas could have significant economic and business impacts. For example, over 89% of retailers suggested it would have a significant or very significant impact on economic activity in the cities and a similar percentage felt it would have such impacts on the commercial viability of businesses.

Indecon survey of Retailers re Living City Initiative – Assessment of Impact of Economic and Business Activity					
	Very Significant Impact	Significant Impact	Neither Significant nor Insignificant Impact	Insignificant Impact	No Impact
Economic Activity in cities	40.5%	48.6%	5.4%	2.7%	2.7%
Commercial Viability of businesses in cities	51.4%	37.8%	5.4%	2.7%	2.7%
Source: Indecon Confidential Survey of Retailers in Limerick and Waterford re Living City Initiative					

The benefits for businesses and economic activity which could arise from such a scheme were highlighted in numerous comments made to Indecon during our consultation with businesses in Limerick and Waterford and with other stakeholders. Some illustrative comments on this are presented in the table below.

Illustrative Views of Retailers on Economic Impact of Living City Initiative
<p>“Attracting more people to city living could have positive outcomes such as increased vibrancy, improved civic spirit, greater personal pride by residents and improved trading potential for retail and services.”</p> <p>“It sounds like a wonderful idea..... As someone who has just moved in to live over my business premises I can testify to the benefits of living in the city centre, not only for me in terms of my access to amenities, but my own extra spend into the businesses in the city centre just from having them within walking distance.”</p> <p>“I believe encouraging people back into the city centre to live can only have positive impacts. People will bring life back into our city centre and in turn this will encourage economic activity. Limerick City Centre has lost its vibrancy a long time ago and if something isn’t done soon I believe it will become a Ghost City.”</p> <p>“Improve look, feel and vibrancy of the city! Increased footfall would lead to more businesses opening up in the city centre. If more people living in the city, there would be more services. Would help employment in the city – particularly during the building phase.”</p> <p>“It would make the city more vibrant and the shop fronts and the old derelict historic buildings would look more attractive and conducive to doing more business.”</p>
Source: Indecon Confidential Survey of Retailers

## Tourism Impacts

In a submission by the Department of Arts, Heritage and the Gaeltacht they suggested that “the Culture and Heritage of Ireland has been identified as one of the main reasons visitors come to Ireland..... works to conserve this heritage therefore reinforce and protect this key element of our tourism product.”

Sensitive urban redevelopment has potential consequences for tourism in the affected areas. Waterford and Limerick both benefit from significant tourism numbers and spend. The weighted average increase in tourism visitors estimated by our research with architects/quantity surveyors suggests a potential tourism uplift in the areas of the order of 11.4%. Indecon, however, believes that most of this impact would represent a displacement from other parts of Ireland.

Overseas Visitors to Counties in 2012 and Associated Revenue			
	Overseas Visitor Nos. 2012 – 000s	Visitor Revenue/Spend – 2012 € Million	Average Spend per Visitor – 2012 - €
Limerick	391	116	296.7
Waterford	225	55	244.4
Source: Fáilte Ireland, Overseas Visitors to Counties in 2012 and Associated Revenue			

### Impact on Urban Renewal and Conservation

One of the most important benefits of the initiative could be the impact on urban renewal and on conservation and cultural reputation of the inner cities of Ireland's cities. It could also result in a reversal of the trend of de-population of the city centres. In Limerick 32.4% of the old city buildings are unoccupied amounting to 1,113 buildings. In Waterford, 25.8% are unoccupied amounting to 2,242 buildings. It was however pointed out to us in our consultations that any proposals for urban regeneration of historical areas must be cognisant of the requirements of international charters and conventions, and this requires sensitive restoration. This is discussed in our recommendations.

Indecon Analysis of Occupancy		
	Unoccupied	
	No.	%
Waterford 'Old City'	2,242	25.8%
Limerick 'Old City'	1,113	32.4%
Source: Indecon Analysis of CSO Data		

A targeted initiative which would enhance the historic areas of Ireland's cities by refurbishment of run down and vacant buildings has the potential to enhance wider economic benefits which, in turn, would be reflected in the value of other buildings in the areas. Our research suggests that the likely impact on the value of premises from such an initiative would range between 12.2% - 17.6%. This is an indirect measure of the wider economic benefits of such an initiative.

Indecon's survey work with businesses and with architects/quantity surveyors suggested that significant impacts from such an initiative would arise in terms of:

- ☐ Visual attractiveness of the inner cities;
- ☐ Heritage and conservation status of buildings;
- ☐ Utilisation of buildings currently uninhabited.



Indecon survey of Architects and Quantity Surveyors re Living City Initiative – Assessment of Impact of Urban Renewal and Conservation					
	% of Respondents				
	Very Significant Impact	Significant Impact	Neither Significant nor Insignificant Impact	Insignificant Impact	No Impact
Visual attractiveness of the inner cities	47.4%	47.4%	3.2%	1.1%	1.1%
Heritage and conservation status of buildings in cities	46.9%	36.5%	12.5%	2.1%	2.1%
Utilisation of buildings currently inhabited	50.0%	39.6%	7.3%	2.1%	1.0%
Improvement of buildings currently inhabited	32.6%	56.8%	5.3%	4.2%	1.1%
Source: Indecon Confidential Survey of Architects and Quantity Surveyors – Nationwide re Living City Initiative					

Examples of the views expressed by individual retailers on how such a measure could enhance the vibrancy of our cities and impact on urban renewal, crime, improved environment as well as the business impacts are presented in the table below. Similar views were expressed by numerous architects and other stakeholders consulted.

Illustrative Views of Retailers on Urban Renewal Impact of Living City Initiative
<p>“Reduction in crime as communities are established neighbourhood watch etc. are set up. Brings life to city centre there is nothing going on after 6 p.m.”</p> <p>“Many buildings are derelict and even those with ground floor occupancy are derelict on the upper floors.”</p> <p>“Certainly the most significant positive impact would be an aesthetic one.”</p> <p>“The city centre needs a resident population.”</p> <p>“The positive impact of attracting people to live in the city would also lead to a safer environment at night.”</p> <p>“Reduced commuting requirements as inner city population will mostly be employed in the city with a possibility of subsequent reduced environmental damage.”</p> <p>“Improvement in building appearance and increased consumer confidence will bring life back to the city especially at night.”</p> <p>“The city is tired and neglected looking and not a great place to shop. This initiative would address this.”</p> <p>“Increased footfall activity especially after business hours. Increased business for some specialist stores (some of which are no longer in city centre).”</p>
Source: Indecon Confidential Survey of Retailers

It was also clear from our consultations that this initiative would not be a panacea and wider issues of planning, costs, traffic, parking charges, litter and crime would also need to be addressed. The need for an overall vision was also highlighted. A number of businesses also pointed out the need for quality restoration. For example, one retailer highlighted the “potential negative impacts if the quality of renovations and accommodation were to be of a low standard.” Similar views were expressed by conservation organisations, local authorities and by architects.

## Impact on Employment

Indecon believes that an important short-term impact of the Living City initiative would be to increase employment opportunities which are aligned with the skills of those unemployed and who were previously employed in construction related areas. Our research with businesses and with architects and auctioneers suggests a significant impact on such employment.

Over 80% of architects/quantity surveyors surveyed indicated their judgement that there would be significant direct employment impacts. A majority also felt there would be a low probability of employment on other projects or in other sectors over the next 3 – 5 years. Refurbishment of old buildings is very labour intensive and estimates suggest that approximately 56% of capital spend would be accounted for by labour costs in such initiatives.

Indecon survey of Architects and Quantity Surveyors re Living City Initiative – Views on Average Labour Costs as a Percentage of Total Project Costs				
	Refurbishment of Existing Residential Buildings – Labour Costs %	New Residential Buildings – Labour Costs %	New Commercial Premises/Buildings – Labour Costs %	Major Infrastructural Projects such as Roads, Bridges etc. – Labour Costs %
Mean	56.0%	46.9%	42.1%	33.5%
Source: Indecon Confidential Survey of Architects and Quantity Surveyors – Nationwide re Living City Initiative				

Indecon's preliminary estimates suggest direct employment creation in the pilot areas of around 718 man years of employment or 144 jobs for each of the next 5 years. If there was an extension of the initiative to other areas the employment impacts could be order of 3,600-5,400 man years or between 700-1,100 jobs in each of the next 5 years. In addition, sustained employment increases could arise as a result of the increased business activity.

Estimate of Construction Jobs Created						
	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Employment in Pilot Areas	144	144	144	144	144	718
Employment – Extended Initiative	720 - 1,080	720 - 1,080	720 - 1,080	720 - 1,080	720 - 1,080	3,600 – 5,400
Source: Indecon Analysis of Living City Pilot Scheme						

## Estimates of Scheme Take Up

The likely level of take-up of the Living City initiative is less in the two pilot areas than in other cities in Ireland. While this may provide justification for initially targeting these two areas, it also suggests that if significant uptake is to be achieved an extension to other areas merits consideration. In Waterford City and Limerick City Indecon estimates suggest a potential take up of around 180 premises and in Limerick slightly over 200 over a five-year period. There are, however, a number of barriers to take-up including the specific details of the incentives and the difficulties in obtaining funds to finance the cost of refurbishment of buildings. Indecon research suggests that the estimated level of take-up will not be achieved unless there are adjustments made to the scheme. Without changes Indecon believes the level of take-up would be minimal and the full potential of the initiative would not be achieved.

Indecon survey of Auctioneers re Living City Initiative – Views on the Likely Take-Up of Living City Initiative			
	% of Respondents		
	Likely High Level of Interest	Likely Medium Level of Interest	Likely Low Level of Interest
Dublin City	61.9%	31.0%	7.1%
Cork City	52.6%	39.5%	7.9%
Galway City	52.5%	45.0%	2.5%
Limerick City	39.0%	41.5%	19.5%
Waterford City	28.2%	48.7%	23.1%
Kilkenny City	44.7%	50.0%	5.3%
Source: Indecon Confidential Survey of Auctioneers – Nationwide re Living City Initiative			

Again and again during our consultations the dangers of not recognising the barriers to take-up were noted. For example, one business person suggested “they seem so interested on putting in restrictions that nothing will happen.” Another referred to the fact that “minor tweaking with tax incentives is unlikely to be attractive.” Some other illustrative views are outlined below.

Other Illustrative Views of Barriers to Take-Up
<p>“If you wish to limit this to the owner occupiers only, then you need to increase the tax relief considerably. Also who is going to lend money to the owner occupier? Banks are not lending to SMEs at present and will not in future unless the tax breaks are much greater.”</p> <p>“Level of tax incentives needs to be attractive/innovative to ensure positive interest/take-up.....A prompt take-up is required and incentives need to be attractive to match the aspiration.”</p>
Source: Indecon Confidential Survey of Retailers

Businesses in Waterford and Limerick were very aware that barriers to take-up existed and there would be a need for adjustments if a prompt or significant level of activity was to be incentivised. This is highlighted in the results in the table overleaf.

Indecon survey of Retailers re Living City Initiative – Views on Barriers to Take-Up of Living City Initiative				
	% of Respondents			
	Very Significant Barrier	Significant Barrier	Neither Significant nor Insignificant Barrier	Not a Barrier to Take-Up
The fact that the incentives are targeted at owner occupiers rather than investors	16.7%	27.8%	30.6%	25.0%
Difficulties in obtaining funds to finance costs of refurbishment	47.4%	47.4%	2.6%	2.6%
The level of tax incentives under consideration (namely 10% income tax relief per year for 10 years for residential properties, and 15% capital allowances for first 6 years and 10% in year 7 for retail premises)	22.2%	30.6%	27.8%	19.4%
Requirement that cost of refurbishment must be at least 10% of the pre-works value of the property	16.7%	38.9%	25.0%	19.4%
Requirement that residential relief is available only where property is owner-occupied/principal private residence	40.5%	27.0%	24.3%	8.1%
Source: Indecon Confidential Survey of Retailers in Limerick and Waterford re Living City Initiative				

### Costs and Benefits of Scheme

Given the scarcity of public finances Indecon believes that while the scheme has important potential benefits, any decisions to proceed with this initiative should be based on a rigorous economic cost benefit analysis. Based on prudent assumptions Indecon estimates suggest a net economic benefit but the benefits are sensitive to the level of take-up and to ensuring a refurbishment of a reasonable number of premises within an area. With very low levels of take-up the B/C ratio is less than 1 in certain scenarios. Indecon is assuming in our cost benefit analysis fairly high levels of deadweight and very high levels of displacement. If one assumes a shadow price of public funds of 130% and an opportunity cost of labour of 80% the B/C ratio is 1.14:1. Assuming an opportunity cost of construction labour of 51% and a shadow price of public funds of 100%, the NPV of net benefits amounts to over €17 million, resulting in a positive cost benefit ratio of 1.47:1. This assumes that changes are made in the Scheme to provide the tax incentive in the year of expenditure and other changes to eligibility criteria to encourage take-up.

Cost Benefit Appraisal				
Tax incentive provided in the year of expenditure	Shadow price of public funds		Shadow price of public funds	
	130%	100%	130%	100%
Benefits (NPV values)	Opp. Cost of labour = 80%		Opp. Cost of Labour = 51%	
Property price benefits	24,774,316	24,774,316	24,774,316	24,774,316
Construction benefits (initial)	3,670,876	2,507,667	7,803,324	6,143,785
Tourism benefits (annual benefit)	9,699,006	9,444,018	9,699,006	9,444,018
CO2 emission savings	3,098,876	3,098,876	3,098,876	3,098,876
Multiplier Impacts from construction	2,073,841	2,073,841	5,080,910	5,080,910
Multiplier Impacts from Tourism	5,175,322	5,175,322	5,175,322	5,175,322
Sum of Benefits	48,492,237	47,074,039	55,631,754	53,717,226
Sum of Economics Costs (NPV values)	42,505,950	36,654,147	42,505,950	36,654,147
Benefit-Cost Ratio	1.14	1.28	1.31	1.47
Note: We note that construction benefits are really a reduction in costs but show these in the table above for clarity.				
Source: Indecon Cost-Benefit Analysis of Living City Pilot Scheme				

To achieve the benefits identified there will however be some Exchequer net costs required but which Indecon believes are modest in the context of achieving the economic, urban renewal and employment benefits. If one assumes a shadow price of public funds of 130% and an 80% opportunity cost of labour the net annual exchequer costs amount to approximately €3.0m. If one estimates the opportunity cost of labour to be 51% and a 100% shadow price of public funds, the annual exchequer costs amount to approximately €1.8 million per annum. However, this is after taking account of our assumptions of deadweight whereby we assume 36% of the refurbishment activity may have occurred without the incentive. Without these adjustments we estimate there would be net exchequer benefits of around €0.5 million per annum.

Exchequer Cash Flow Analysis of Living City Pilot Scheme			
100% of subsidy given in the first year	Tax Rate=52%	Tax Rate=52%	Tax Rate=35%
	130% & 80%	100% & 51%	100% & 51%
<b>Net Exchequer Benefits (NPV values)</b>			
Income Tax revenue (inc. deadweight)	1,140,230	2,148,896	2,148,896
VAT (from investment - net of tax relief)	6,540,586	5,258,763	5,258,763
VAT from tourism	708,628	689,998	689,998
Decrease in Social Welfare spending	650,808	1,594,481	1,594,481
<b>Sum of Exchequer Benefits</b>	<b>9,040,253</b>	<b>9,692,137</b>	<b>9,692,137</b>
<b>Sum of Exchequer Costs (NPV values)</b>	<b>24,245,478</b>	<b>18,650,368</b>	<b>12,553,132</b>
<b>Net Exchequer Costs (NPV values)</b>	<b>-15,205,225</b>	<b>-8,958,230</b>	<b>-2,860,995</b>
<b>Annual Net Exchequer Costs over 5 years</b>	<b>-3,041,045</b>	<b>-1,791,646</b>	<b>-572,199</b>
Source: Indecon Exchequer Flow Analysis of Living City Pilot Scheme			
Note: % figures below tax rates refer to shadow price of public funds and opportunity cost of labour			

## Summary of Conclusions

In the table below we outline four key conclusions from our analysis.

Summary of Conclusions
<ol style="list-style-type: none"> <li>1. There are significant economic benefits from the proposed initiative which outweigh the economic costs involved.</li> <li>2. Unlike property incentives in the past both the focus and timing of this incentive is aligned with the requirements of the Irish economy.</li> <li>3. There are likely to be some modest exchequer costs required to achieve the identified benefits.</li> <li>4. The Scheme is likely to require EU approval under state aids but is similar to schemes approved in other countries.</li> </ol>

**There are significant economic benefits from the proposed initiative which outweigh the economic costs involved.**

Indecon's analysis suggests that there are significant benefits from the proposed initiative and assuming changes are made to facilitate satisfactory levels of uptake the estimated economic benefits outweigh the economic costs involved. Our estimates suggest that there would be a net gain to the Irish economy from the Scheme and this is reflected in a positive cost benefit ratio. Our analysis also suggests direct employment benefits of 718 full-time equivalent jobs over the period and up to 5,400 if extended to other

cities. Properly planned, the Scheme could have positive impacts on economic activity and business in the affected areas and help achieve urban renewal and conservation objectives.

**Unlike property incentives in the past both the focus and timing of this incentive is aligned with the requirements of the Irish economy.**

In the past, policymakers have introduced property related tax incentives which were not justified and which contributed to Ireland's economic difficulties. We believe, however, that now is the appropriate time to introduce targeted initiatives which would enhance run down urban areas and increase business activity and tourism. Appropriately designed such an initiative could have positive net economic benefits and also contribute to addressing high levels of unemployment.

In Indecon's review of property based tax incentives for the Department of Finance completed in 2005 Indecon pointed out that in the case of most of the property based incentives, they:

"...have served their purpose and there is absolutely no case for future government incentives. Continuing to approve new projects would contribute to oversupply and represent a clear waste of scarce public resources."<sup>1</sup>

Indecon also pointed out in that report the dangers of oversupply and we referred in specific cases to the fact that we saw:

"...no case of market failure which would justify any further extensions of capital allowances."<sup>2</sup>

In contrast, this Living City Initiative is one where the net economic benefits are likely to exceed the economic costs and would increase economic activity in a very labour intensive sector. Our conclusion is that unlike property incentives in the past, both the focus and timing of this incentive is aligned with the requirements of the Irish economy.

**There are likely to be some exchequer costs required to achieve the identified benefits.**

To achieve the benefits identified there will be some Exchequer net costs required but which Indecon believes are modest in the context of achieving the economic, urban renewal and employment benefits. If one assumes a shadow price of public funds of 130% and an 80% opportunity cost of labour the net annual exchequer costs amount to approximately €3.0m. Under alternative sensitivities the estimated net annual costs would be of the order of €1.8m.

**The Scheme is likely to require EU approval under state aids but is similar to schemes approved in other countries.**

In our opinion, the initiative will require EU approval under state aid requirements but we believe it is aligned with similar initiatives which have been approved in other countries. The Scheme should not affect trade or competition to an extent that is contrary to the Treaty and is necessary and proportionate to achieve cultural heritage and urban renewal objectives.

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<sup>1</sup> Indecon Review of Property-based Tax Incentive Schemes for the Department of Finance. Report completed October 2005 and published by the Department in February 2006. Page vii and page 313.

<sup>2</sup> Indecon Report op cited page 315

## Recommendations

Indecon's recommendations regarding the Living City Initiative are presented below.

Indecon Recommendations
<ol style="list-style-type: none"> <li>1. <b>Indecon recommends proceeding with the proposed pilot of Living City Initiative.</b></li> <li>2. <b>A targeted extension to run down parts of other cities in Ireland for a defined period should be considered.</b></li> <li>3. <b>Provision of tax relief should be provided in the year in which expenditure is incurred.</b></li> <li>4. <b>Incentives should be restricted to owner/occupiers but eligible building work should be permitted prior to occupiers owning the premises.</b></li> <li>5. <b>There should be adjustments made to the permitted use of buildings.</b></li> <li>6. <b>The definition of eligible buildings should be widened.</b></li> <li>7. <b>The incentive should only be provided for a limited period of 4 to 5 years.</b></li> <li>8. <b>There should be no general extension of the incentives to cover new buildings.</b></li> <li>9. <b>The operational aspects of the Scheme should be carefully planned to ensure high quality sympathetic restoration.</b></li> </ol>

### 1. **Indecon recommends proceeding with the proposed Living City Initiative.**

Indecon recommends proceeding with the proposed Living City Initiative as our estimates suggest the benefits, taking account of deadweight and economic displacement are greater than the resource costs involved. The Scheme is very different to previous incentives and is aligned with the needs of the Irish economy.

### 2. **A targeted extension to run down parts of other cities in Ireland for a defined period should be considered.**

Indecon recommends that consideration is given to a targeted extension of this initiative to run down parts of other cities in Ireland for a defined period. Parts of other cities are likely to score as highly as Limerick and Waterford on economic deprivation and other criteria. For illustrative purposes, areas such as Mountjoy Square and other defined parts of Dublin City's Georgian Core are badly in need of sensitive refurbishment.

### 3. **Provision of tax relief should be provided in the year in which expenditure is incurred.**

Provision of the tax relief in the year in which expenditure is incurred is needed to overcome funding barriers to enable refurbishment to take place. This is in line with other heritage tax reliefs. The exchequer cost impacts of this are small and do not change the overall cost-benefit ratio. However without this change funding will be a barrier and we do not believe there would be significant uptake. Without such uptake the wider benefits will simply not be achieved.

**4. Incentives should be restricted to owner/occupiers but eligible building work should be permitted prior to occupiers owning the premises.**

We recommend Incentives should continue to be restricted to owner/occupiers but that eligible building work can take place prior to occupiers owning the premises. This is in our view essential and would support local artisan enterprises. However, only owner/occupiers would be eligible to claim any tax benefits. We are also in favour of restricting incentives to owner/occupied principal private residences or perhaps providing a lower incentive where this is not the case. While this will impact on take-up we believe on balance that encouraging owner/occupied principal residences in the inner city areas is important to secure urban renewal benefits.

**5. There should be adjustments made to the permitted use of buildings.**

Consideration should be given to permitting more than one use in a building providing most of the building is for residential purposes and that such use of a limited element for non owner occupiers would not deem the property as ineligible. Certain amendments to the incentives should also be considered to encourage cultural use of buildings and this may require permitting non-occupiers to receive the tax incentives. We also recommend that local services use be included under the retail definition.

**6. The definition of eligible buildings should be widened.**

The definition of eligible building should be widened to include a wider definition of Georgian buildings as well as Victorian and Edwardian buildings. There are for example only tiny numbers of buildings in Waterford which would meet the current eligibility requirements and without amendment to this the take-up in Waterford would be insignificant. Even in relation to the Georgian buildings the definition is problematic, and we have been informed by the Georgian Society that a large proportion of the houses built in the Georgian style date were built in the 1840's and 1850's. We believe however that a much wider definition of historic buildings up to 1919 is needed to secure urban development benefits. Indecon recommends that 1919 or earlier should be the cut off date for eligibility. We also believe that the proposed floor size restriction of 38m<sup>2</sup> - 210m<sup>2</sup> would inappropriately exclude some of the more important larger Georgian properties and that the upper limit on size should be raised to 400m<sup>2</sup>.

**7. The incentive should only be provided for a limited period of four to five years.**

The incentive should only be provided for a limited period of up to four or five years and its impact should be subject to a rigorous ex-post cost-benefit analysis in order to provide lessons for future policy. After that period access to funding and the employment market may change which would impact on our cost/benefit estimates.

**8. No extension of the incentives should be permitted to cover new buildings.**

No general extension of the incentives should be made to cover new buildings and the tax allowance should be restricted to refurbishment of older housing stock. There is however a merit in a very limited exception to this for the erection of sympathetic new structures within the curtilage of protected structures to support the economic viability of important older historic buildings.

**9. The operational aspects of the Scheme should be carefully planned to ensure high quality sympathetic restoration.**

Poor quality or inappropriate redevelopment could damage the historic urban fabric of Ireland's cities. It is therefore essential that the operational aspects of the Scheme should be carefully planned to ensure high quality sympathetic restoration. This will require careful specificity of the property designation areas and should be aligned to, inter alia, include Protected Structures and Architectural Conservation Areas and the use of wider Conservation Areas.



# 1 Introduction, Background and Approach

## 1.1 Introduction

This independent report is submitted to the Department of Finance by Indecon International Economic Consultants. The report represents Indecon's ex ante evaluation of the Living City initiative for urban regeneration. Indecon was appointed to conduct the assessment following a competitive tender process.

## 1.2 Background to Initiative

The historic central areas of some of Ireland's cities have suffered for a long time from the relocation of family homes and businesses to the suburbs, a phenomenon which was exacerbated by prolific ribbon development during the "Celtic Tiger" years. The historic hearts of our cities have also suffered greatly from the general economic downturn in recent years.

The Living City Initiative is a targeted pilot tax incentive which aims to address this issue in two ways by focusing on:

- ❑ Encouraging people back to the centre of Irish cities to live in historic buildings; and
- ❑ Encouraging the regeneration of the retail heartland of central business districts.

The Initiative proposes to provide tax incentives for works performed to refurbish residential and retail buildings either to bring them up to a habitable standard or to make improvements to buildings which are currently inhabited. The incentives were designed to be targeted at owner occupiers rather than property developers.

Indecon believes that given the scale of the unemployment crisis, targeted measures to support small scale construction refurbishments have merit in addition to the wider urban renewal and conservation objectives. However it is essential that such initiatives are evaluated against cost benefit criteria. Given the scarcity of public finance, only initiatives which provide a positive cost benefit return should be supported.

## 1.3 Scope of Study

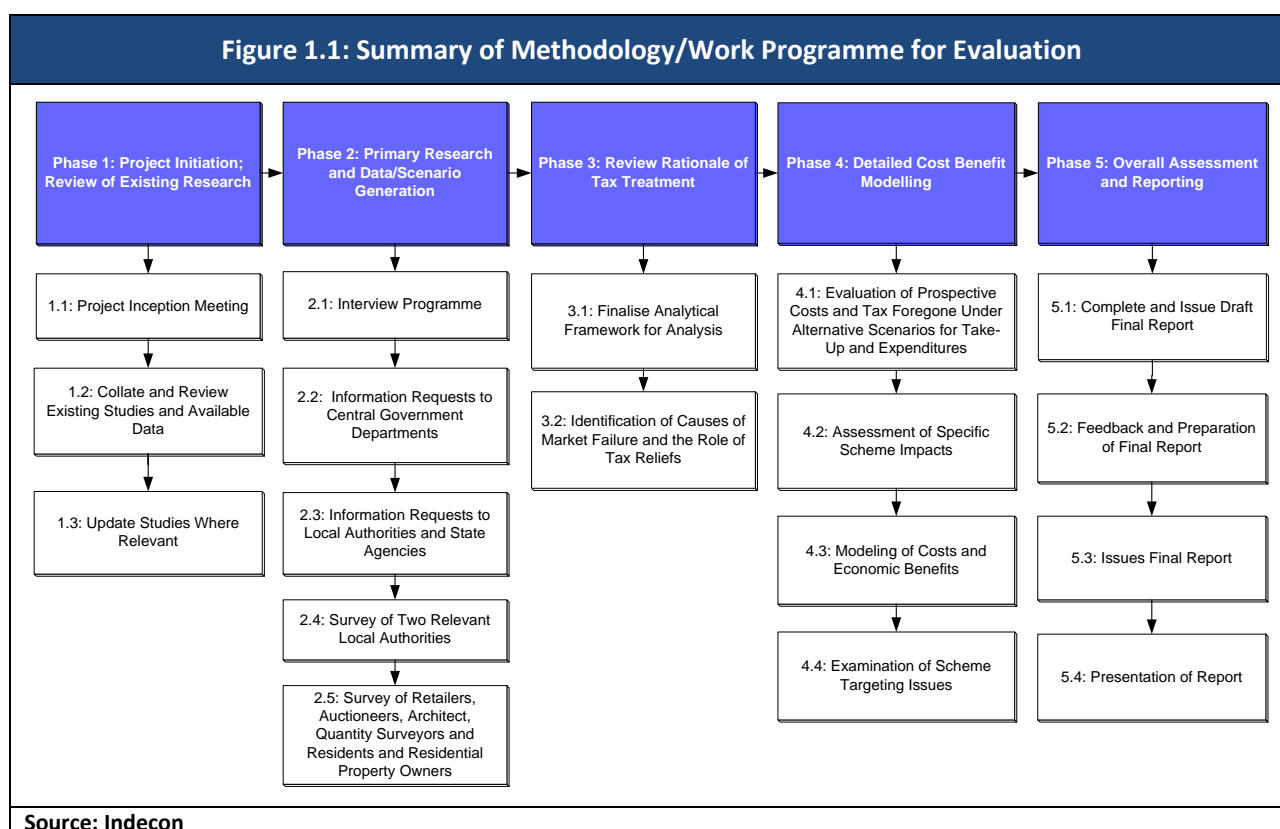
The core focus of the study is to undertake an analysis of how the proposed pilot tax incentive could benefit the designated inner cities of Limerick and Waterford, taking account of the existing tax and non-tax supports already available. A number of detailed components have been completed as follows:

- ❑ Examination and quantification of the socio-economic costs and benefits of the proposed Scheme, with particular reference to the pilot cities of Limerick and Waterford, and taking into account displacement and deadweight impacts;
- ❑ Recommendations, where and if necessary, for changes that could be made to enhance or maximise the value for money to the tax payer and sustainable job creation, taking EU State Aid considerations into account; and
- ❑ Consideration of issues that might arise if the pilot project were to be extended to other cities, with particular reference to areas that might be considered a priority.

Indecon's approach as discussed further below is designed to address each of these elements of the study.

## 1.4 Methodological Approach

Indecon's approach to this study has involved an examination of the proposed Scheme and an assessment of the likely contribution of the Scheme. We rigorously establish and estimate the costs and benefits of the proposed Scheme. In Figure 1.1 below we present a schematic summary of our methodological approach to the study. Indecon would point out that there were major gaps in information and data availability to complete our analysis. As a result we decided to undertake a series of consultations and surveys with various stakeholders as outlined below.



### 1.4.1 Consultations, Primary Research and Data

Our consultations involved a detailed programme to obtain views and insights as well as data/information from the Department of Finance and the Revenue Commissioners. Our consultation programme also incorporated submissions from The Heritage Council, the two relevant Local Authorities, the Irish Georgian Society, the Dublin Civic Trust and from the local Chambers of Commerce and other stakeholders. Indecon also invited local authorities to submit views on this initiative and we are grateful to county and city managers for their helpful submissions based on their experience.

A second aspect of our work included the primary research element to this study. This consisted of a set of limited surveys of various stakeholders. While some of this research was not envisaged at the start of the assignment Indecon believed it was necessary to complete our analysis in the light of information gaps.

Our survey analysis included limited sample surveys of the following groups:

- ❑ Retailers (Limerick City and Waterford City);
- ❑ Auctioneers and Estate Agents (Limerick City, Waterford City and Nationwide);
- ❑ Architects (Nationwide);
- ❑ Quantity Surveyors (Nationwide); and
- ❑ Resident and Residential Property Owners (Limerick City).

Indecon also made use of a range of data in order to complete this assessment. This data included inputs from Local Authorities in Limerick City and Waterford City. Data central to the completion of the analysis was also collected from a range of other sources. The data includes:

- ❑ CSO Census Statistics;
- ❑ CSO Small Area Population Statistics (SAPS);
- ❑ CSO Socio-economic Indicators such as Employment etc;
- ❑ CSO Occupancy and Vacancy Statistics; and
- ❑ Fáilte Ireland Tourism Statistics; and
- ❑ Property Price Register Data and Daft.ie Property Price Data.

## 1.5 Report Structure

This report is structured as follows. Section 2 provides a brief socio-economic overview outlining a number of contextual details concerning the pilot areas. Sections 3 to 6 outline the various impacts of the Living City Initiative. These include economic and business impacts, tourism impacts, the impact on the urban renewal and conservation and employment impacts. Section 7 presents Indecon's estimates of Scheme take-up as well as an assessment of the barriers to take-up. Section 8 outlines Indecon's detailed cost benefit analysis of the Living City Initiative. Finally, Section 9 presents Indecon's key conclusions and recommendations.

## 1.6 Acknowledgements

Indecon would like to acknowledge the valuable inputs provided to this study by a wide range of individuals and organisations. These include Gary Tobin, John Moore, Aisling Greene, Brendan O'Connor and David Hegarty of the Department of Finance and Eoin Dormer, Niamh Callaghan and other officials of the Department of Public Expenditure and Reform. Thanks are also due to Vivion O'Brien, Keith Walsh and other officials at the Revenue Commissioners. We also would like to thank Joan Maher, Deborah Lawlor and Willie Cumming from the Department of Arts, Heritage and the Gaeltacht. We acknowledge co-operation of the two local authorities including Conn Murray, Mary Hayes, Paul Roley, Kieran Reeves and Tom Enright at Limerick City Council, and Michael Walsh, Lisa Grant, Lar Power, Richie Walsh, Anthony McElroy and Cecily Johnson at Waterford City Council. Thanks are also due to Waterford Chamber including Michael Lynagh, Ian Fewer, Nora Widger, Nick Donnelly, and also to Órlaith Borthwick, Limerick Chamber. We also are very grateful to inputs from a range of specialist organisations including Donough Cahill and Patrick Guinness, Irish Georgian Society, Graham Hickey, Conservation Research Officer, Dublin Civic Trust, and Donough Cahill and Isabell Smyth, Heritage Council, and Garrett Fennell,

Chairperson of the Mountjoy Square Society. Thanks are also due to Eddie Mulligan, Chairman, Waterford City Centre Business Group. We are also appreciative of the thoughtful submissions received from Joe Crockett (Kilkenny County Manager), Eddie Sheehy (Wicklow County Council), Tim Lucey (Cork County Council), Denis Kelly (Donegal County Council), Pat Gallagher (Offaly County Manager) and Philip Maguire (Assistant City Manager, Dublin City Council).

Finally, we acknowledge with particular thanks the time and attention paid by numerous businesses, residents, architects, quantity surveyors and auctioneers who completed our survey work and also made other helpful inputs to our research.

The usual disclaimer applies and the analysis and results represent the independent views of Indecon.

## 2 Socio-Economic Context of Living City Initiative

### 2.1 Introduction

The Living City initiative was proposed by the Department of Finance as a tax incentive aimed at regenerating Georgian residential areas in Irish cities. The rationale behind this incentive is that a tax incentive for the refurbishment of these buildings could encourage residents and families in particular, to return to these areas.

The pilot phase of the Living City project was proposed be introduced in Limerick City and Waterford City. The Department indicated that these areas have been chosen based on analysis of Pobal deprivation data and unemployment figures, which suggested that Limerick City and Waterford City are in particular in need of regeneration.

This section examines the socioeconomic characteristics of these cities to evaluate the context within which the Living City initiative would operate. We subsequently consider the number and types of dwellings in each city as an input to our assessment of the number of premises that could be affected by the initiative.

### 2.2 Socio-Economic Characteristics of Limerick City and Waterford City

#### 2.2.1 Analysis of Economic and Social Indicators - Limerick City

It has long been recognised by policymakers that Limerick has particular challenges. As a result there is an ambitious housing regeneration scheme in place designed to return housing estates back to their communities. While it is vital to redevelop housing estates on the outskirts of the City, this will not in itself facilitate the city centre to be vibrant and self-sustaining. As the population of Limerick city centre area has suffered from long term depopulation, many dwellings lie vacant.

There are signs that the lack of maintenance is having a profound effect on some buildings. While some of these properties are very well-kept, others are run-down and show clear signs of neglect. With the assistance of the Limerick local authority, specific Georgian residential areas have been identified as potentially being suitable for inclusion in the Living City Initiative Pilot Scheme.

It is instructive to consider the trends in population within Limerick City between 2006 and 2011. We note that the CSO's definition of Limerick City is wider than that of Limerick City centre.

The table below demonstrates that the population of Limerick City has continued to decline even in the period between 2006 and 2011. The long term population decline in the old city area is likely to have been even more marked.

Table 2.1: Limerick City Population - 2006 and 2011			
	2006	2011	% Change
Limerick City	59,790	57,106	-4.5%
Limerick County	124,265	134,703	8.4%
Limerick Total	184,055	191,809	4.2%
Source: CSO Census 2006, 2011			

In examining the socio-economic position of Limerick and Waterford we examine detailed Pobal deprivation indices. The Pobal deprivation index measures affluence or disadvantage of areas in Ireland in comparison to the national average, which is maintained at 0. A score of -35 denotes the most disadvantaged areas and a score of +35 denotes the most affluent areas. A range of other indicators are included in the Pobal Index. These include population, age dependency ratio, lone parent ratio, educational attainment, unemployment rates, types of housing and number of persons per household.

Two of the most important indicators are the Pobal Absolute Index and the Pobal Relative Index. The Pobal Absolute Index measures disadvantage on a fixed scale with a mean of zero and a standard deviation of 10. This indicator allows us to see the change from 2006 to 2011. The relative index, however, considers the position of each area in 2011. This allows for comparisons across various electoral areas.

The Relative Index for Ireland in 2011 is 0.2 and Limerick City obtained a relative index score of -6.7 which suggests that Limerick City was significantly more disadvantaged than the national average. The lone parent ratio and the percentage of low education is much higher in Limerick City than in Ireland, while lower percentages are observed for the percentage of the population with third level education. Male and female unemployment rates are significantly higher for Limerick City than for Ireland. Limerick also demonstrates a higher percentage of rented local authority with lower percentages of home ownership.

The table overleaf also considers the socio-economic characteristics of Limerick on a small area basis, by electoral area. The specific Georgian areas include Custom House, Dock A, Dock B, Shannon A and Shannon B. These demonstrate a higher level of deprivation than the national average.

**Table 2.2: Indecon Analysis of Pobal Data - Pobal Deprivation Index 2011 - Limerick City**  
(Table 1 of 2)

Area	Absolute Index	Relative Index	Population	Age Dependency Ratio	Lone Parent Ratio	Low Education %	3rd Level Education %	Professional Classes %
Ireland	-6.8	0.2	4588252	33.0	21.6	16.0	30.6	34.6
Limerick City	-13.7	-6.7	57106	31.1	37.5	19.9	23.1	23.5
Limerick County	-6.1	0.9	134703	33.1	16.4	15.0	29.3	35.3
Abbey A	-5.9	1.1	4678	33.7	20.1	11.1	29.6	36.6
Abbey B	-7.0	0.2	2497	29.4	25.4	11.2	26.3	23.5
Abbey C	-21.4	-14.5	509	30.6	57.4	25.5	15.9	9.2
Abbey D	-24.1	-17.1	1456	35.7	51.1	31.9	9.5	10.7
Ballinacurra A	3.3	10.2	2137	25.3	14.6	5.7	53.3	43.1
Ballinacurra B	-18.1	-11.1	1375	37.3	40.4	23.1	17.2	21.5
Ballynanty	-28.2	-21.2	2918	32.0	63.9	35.6	5.8	8.5
Castle A	-10.8	-3.9	1157	37.0	32.7	14.5	29.9	29.0
Castle B	-6.3	0.4	508	35.4	21.4	10.3	37.5	39.4
Castle C	5.2	12.0	1171	27.8	18.1	4.4	58.1	53.5
Castle D	4.5	11.2	2155	36.9	11.8	2.6	51.0	60.6
Coolraine	-8.7	-1.9	1625	40.4	20.3	9.3	28.2	37.7
Custom House	-11.5	-4.4	570	19.6	35.0	15.1	25.9	11.8
Dock A	-11.2	-4.1	1799	16.6	27.4	11.4	25.8	12.4
Dock B	-8.0	-1.0	1080	24.6	29.9	12.7	32.7	18.0
Dock C	-8.1	-1.3	1028	31.7	44.6	17.6	35.8	35.4
Dock D	-2.3	4.7	872	28.7	9.0	8.3	47.8	33.1
Farranshone	-8.7	-1.6	948	46.9	21.9	20.0	32.3	35.7
Galvone A	-23.2	-16.1	1467	33.8	43.7	28.2	7.7	12.7
Galvone B	-33.6	-26.6	878	37.4	72.6	48.1	4.3	4.1
Glentworth A	-20.1	-13.0	498	29.9	56.1	26.9	13.3	10.4
Glentworth B	-21.9	-14.7	1169	34.0	44.0	28.1	7.5	10.9
Glentworth C	-27.9	-20.8	524	29.0	68.9	46.3	5.2	9.0
John's A	-35.5	-28.5	863	37.7	73.5	53.6	1.4	4.1
John's B	-23.9	-16.9	976	37.8	57.3	32.9	15.8	13.7
John's C	-12.3	-5.2	368	25.3	53.6	18.9	20.8	19.6
Killeely A	-28.7	-21.6	1445	34.5	58.2	43.0	4.6	7.8
Killeely B	-23.1	-16.0	810	31.9	50.7	29.2	9.1	10.5
Market	-11.9	-4.8	1755	23.4	38.5	14.4	22.8	14.1
Prospect A	-25.8	-18.9	1039	24.5	64.4	39.2	7.4	6.0
Prospect B	-25.1	-18.1	751	33.6	65.3	43.2	11.3	12.8
Rathbane	-27.6	-20.6	1567	35.5	61.2	37.3	6.8	9.1
St. Laurence	-18.1	-11.0	1116	20.9	36.9	27.2	12.0	12.5
Shannon A	5.9	13.0	704	8.2	34.2	1.1	52.8	31.1
Shannon B	-8.0	-1.2	662	15.0	41.7	14.9	33.2	22.7
Singland A	-25.0	-18.0	1677	34.6	45.9	31.2	7.1	12.2
Singland B	-12.8	-5.6	3869	32.2	25.5	15.4	15.1	22.8
Limerick North Rural	-10.1	-3.2	6485	29.9	33.6	12.4	27.3	28.7

Source: Pobal Index 2011

As seen by the data in Table 2.3, Custom House, Dock A, Dock B and Shannon B also demonstrate challenges with respect to unemployment rates and house ownership and renting; male and female unemployment in these electoral areas is high. The percentage of home ownership is much lower than the national average.

**Table 2.3: Indecon Analysis of Pobal Data - Pobal Deprivation Index 2011 - Limerick City**  
(Table 2 of 2)

Area	Semi/Unskilled Workers %	Male Unemployment %	Female Unemployment %	Local Authority Housing Rented %	Privately Rented %	Own Home %	Average no of Persons per Room	Permanent Private Households
Ireland	17.5	22.3	15.0	7.9	19.7	70.8	0.5	1649408.0
Limerick City	23.9	32.7	23.7	12.5	26.1	60.2	0.5	22300.0
Limerick County	17.7	20.4	13.8	4.8	15.9	77.5	0.5	47121.0
Abbey A	14.8	19.0	14.8	2.5	18.1	78.2	0.4	1686.0
Abbey B	20.1	22.0	19.9	5.7	33.9	59.4	0.5	906.0
Abbey C	38.8	50.0	37.6	12.7	65.9	18.6	0.6	228.0
Abbey D	34.4	45.1	28.8	10.0	16.8	71.7	0.5	608.0
Ballinacurra A	10.1	14.4	12.6	1.4	40.4	57.5	0.5	840.0
Ballinacurra B	22.8	35.1	25.3	8.2	6.2	84.3	0.4	542.0
Ballynanty	36.1	53.8	39.9	42.1	9.3	48.1	0.6	1081.0
Castle A	17.1	27.2	16.6	2.8	22.1	72.7	0.4	465.0
Castle B	14.0	27.8	10.8	1.8	33.9	62.8	0.4	224.0
Castle C	10.0	13.4	10.9	2.3	41.2	55.0	0.5	456.0
Castle D	5.3	10.4	9.5	0.9	12.3	85.8	0.4	792.0
Coolraine	11.2	19.9	17.0	1.4	12.2	85.5	0.4	695.0
Custom House	41.6	42.4	35.6	26.3	70.2	2.7	0.7	266.0
Dock A	31.7	38.1	35.5	10.7	80.8	7.6	0.7	853.0
Dock B	33.8	34.2	24.8	13.7	63.6	20.5	0.6	514.0
Dock C	15.4	27.5	19.4	17.6	32.3	48.6	0.4	479.0
Dock D	13.6	25.8	12.7	0.4	44.5	53.7	0.7	235.0
Farranshone	13.8	16.8	10.5	6.3	10.3	82.3	0.4	361.0
Galvone A	29.4	38.1	29.3	15.5	7.1	77.0	0.5	554.0
Galvone B	43.0	65.7	44.2	42.2	10.7	45.9	0.6	332.0
Glentworth A	36.7	37.4	35.8	8.8	37.9	52.0	0.5	230.0
Glentworth B	31.7	31.5	22.5	8.2	5.5	85.5	0.5	495.0
Glentworth C	41.4	53.6	36.2	22.9	8.0	67.2	0.5	206.0
John's A	51.0	61.7	50.6	36.5	6.0	56.5	0.6	308.0
John's B	34.9	49.1	35.8	27.0	21.2	49.4	0.5	414.0
John's C	24.2	24.0	28.7	13.0	49.1	37.3	0.6	164.0
Killeely A	45.0	52.4	30.5	31.9	11.0	55.9	0.6	571.0
Killeely B	39.6	41.9	28.0	29.3	13.5	56.6	0.5	342.0
Market	34.2	35.9	29.1	11.2	68.0	20.5	0.6	761.0
Prospect A	39.2	57.9	31.6	17.8	31.8	47.6	0.5	441.0
Prospect B	40.6	46.6	34.0	21.3	11.1	63.8	0.6	296.0
Rathbane	40.8	51.2	41.3	29.7	5.9	62.8	0.6	592.0
St. Laurence	23.0	45.7	31.4	4.9	12.2	82.6	0.7	288.0
Shannon A	23.0	21.4	14.7	6.7	92.0	1.2	0.8	331.0
Shannon B	26.3	48.2	29.2	10.4	76.6	11.0	0.7	313.0
Singland A	36.8	44.6	30.5	15.5	7.9	74.4	0.5	652.0
Singland B	24.7	24.4	16.0	3.5	9.6	85.6	0.5	1333.0
Limerick North Rural	16.6	26.5	19.0	9.7	20.0	69.4	0.5	2446.0

Source: Pobal Index 2011



The table below considers the employment status of individuals living in what are primarily old city areas and other areas in Limerick City, using a narrow definition of the relevant areas based on census data for 2011. As an initial observation, we see that the population within the old city electoral areas as narrowly defined is quite small reflecting the trend towards depopulation in the historic city area. The figures also show that the unemployment rate in the old city area is much higher than in the other area.

In 2011, there were 4,222 living in old city electoral areas which represent 9% of the total population of Limerick City.

**Table 2.4: Indecon Analysis of SAPS - Employment Status of Individuals Living in Old City and Other Electoral Areas - Limerick City**

Category	At Work	% of Total	Unemployed or Looking for First Job	% of Total	Other	% of Total	Total
Total	18,419	39.3%	7,394	15.8%	21,062	44.9%	46,875
<i>Of which:</i>							
Old City Areas	1,939	45.9%	964	22.8%	1,319	31.2%	4,222
Other Electoral Areas	16,480	38.6%	6,430	15.1%	19,743	46.3%	42,653
<b>Source: CSO Small Area Population Statistics based on Census 2011</b>							

The evidence demonstrates that Limerick City is disadvantaged when compared to the national average. The areas which will be targeted by the initiative are also disadvantaged when compared to the national average. This is not, however, to say that parts of other cities do not also show high level of disadvantage and we discuss this in our conclusions.

### 2.2.2 Analysis of Economic and Social Indicators - Waterford City

The recession has had a particularly hard impact on the South East with the loss of significant numbers of construction jobs and high profile business closures. At 19.4% the unemployment rate in the South East of the country is significantly higher than the national average. This also represents the highest regional unemployment rate. Long-term unemployment in the region is 12.2%, higher than the national average of 8.9%. The region also has a lower than average participation rate and faces a series of challenges in terms of re-skilling those who have lost their jobs.

Table 2.5 highlights the change in population of Waterford City and Waterford County between 2006 and 2011. The population of Waterford City increased by 2.2% which is significantly lower than the overall national increase of 8.1%. We understand that the population numbers in the old city area are likely to have shown long term decline.

**Table 2.5: Waterford City Population - 2006 and 2011**

	2006	2011	% Change
Waterford City	45,748	46,732	2.2%
Waterford County	62,213	67,063	7.8%
Waterford Total	107,961	113,795	5.4%

Source: CSO Census 2006, 2011

The table below examines the Pobal deprivation index along with other measures of deprivation for Waterford City in 2011. The relative index demonstrates that Waterford City is disadvantaged when compared to the national average. The lone parent ratio and percentage of low education are higher than the national averages for Waterford City, while the proportions of third level education are lower.

**Table 2.6: Indecon Analysis of Pobal Data - Pobal Deprivation Index 2011 - Waterford City**

Area	Absolute Index	Relative Index	Population	Age Dependency Ratio	Lone Parent Ratio	Low Education %	3rd Level Education %	Professional Classes %
Ireland	-6.8	0.2	4588252	33.0	21.6	16.0	30.6	34.6
Waterford City	-11.5	-4.5	46732	32.8	32.3	17.1	25.7	26.8
Waterford County	-8.1	-1.1	67063	35.8	18.8	15.7	27.2	35.5
Ballybeg North	-23.3	-16.4	2789	33.9	52.9	28.1	10.9	10.8
Ballybricken	-16.7	-10.0	130	40.8	75.0	20.5	26.5	26.2
Ballymaclode	4.1	11.0	1321	30.7	7.0	9.2	47.7	59.2
Ballynakill	-2.1	4.8	2150	39.6	16.3	13.6	40.7	47.9
Ballytruckle	-12.6	-5.6	5917	31.3	35.1	11.0	20.4	19.3
Bilberry	-5.1	2.1	718	22.3	32.2	11.0	30.8	20.8
Centre A	-10.4	-3.3	679	27.8	37.2	15.4	26.4	18.6
Centre B	-23.4	-16.4	233	35.6	45.0	24.8	11.7	11.2
Cleaboy	-10.5	-3.4	2576	29.0	29.4	12.6	20.8	24.3
Custom House A	-18.8	-11.8	287	31.0	33.3	21.6	17.1	15.7
Custom House B	-12.9	-5.7	213	15.5	0.0	12.5	24.2	8.9
Farransheneen	1.8	8.5	5465	31.5	18.9	4.3	48.0	51.8
Ferrybank	-18.2	-11.2	911	41.6	26.2	23.6	16.5	22.0
Gracedieu	-6.2	0.8	1234	33.2	35.6	8.1	32.0	25.0
Grange North	-21.7	-14.6	934	43.1	45.9	23.3	10.8	16.4
Grange South	-11.0	-4.1	2656	37.7	33.2	15.3	28.3	29.2
Grange Upper	-1.8	5.1	2327	31.3	16.0	8.2	44.0	41.4
Kilbarry	-3.9	3.3	982	27.8	25.5	7.5	34.9	23.8
Kingsmeadow	-22.4	-15.3	1106	37.4	38.6	31.3	12.2	12.1
Larchville	-29.1	-22.1	942	35.2	70.6	38.0	4.3	6.7
Lisduggan	-28.5	-21.5	1052	43.1	51.1	38.9	7.2	11.2
Military Road	-20.4	-13.3	821	35.6	36.5	28.2	11.5	17.2
Morrisson's Avenue East	-20.3	-13.2	560	33.0	50.0	27.8	11.2	13.0
Morrisson's Avenue West	-26.9	-19.7	295	38.6	16.7	35.3	7.5	7.5
Morrisson's Road	-24.2	-17.1	508	34.3	63.4	34.7	9.4	9.1
Mount Sion	-17.7	-10.6	747	27.0	52.3	24.3	17.6	12.0
Newport's Square	-23.8	-16.8	556	31.5	67.2	29.1	9.5	10.8
Newtown	-6.9	0.0	1106	41.9	16.2	14.6	37.4	41.0
Park	-4.5	2.4	1382	21.5	22.2	10.6	38.6	30.5
Poleberry	-13.6	-6.6	1055	27.4	31.1	22.9	23.5	20.6
Roanmore	-23.5	-16.6	814	36.4	58.6	31.5	13.3	11.4
Shortcourse	-25.5	-18.6	274	25.9	58.8	32.7	9.8	9.5
Slievekeale	-21.0	-14.0	592	34.1	36.1	26.2	12.2	16.4
The Glen	-12.5	-5.4	566	17.8	55.0	14.1	21.4	15.2
Ticor North	-14.6	-7.4	2164	30.5	21.6	21.0	13.9	22.6
Ticor South	-18.9	-11.8	373	36.5	40.0	23.6	14.4	16.6
Ballybeg South/ Ballynaneashagh	-9.8	-3.0	297	45.1	3.4	14.1	31.5	35.4

Source: Pobal Index 2011

Waterford City also demonstrates higher male and female unemployment rates and a lower proportion of home ownership.

**Table 2.7: Analysis of Other Social Economic Characteristics of Waterford City**

Area	Semi/Unskilled Workers %	Male Unemployment %	Female Unemployment %	Local Authority Housing Rented %	Privately Rented %	Own Home %	Average no of Persons per Room	Permanent Private Households
Ireland	17.5	22.3	15.0	7.9	19.7	70.8	0.50	1649408
Waterford City	23.2	29.6	19.8	16.3	22.9	59.9	0.5	18199
Waterford County	19.0	22.9	14.3	7.5	11.5	79.1	0.5	24040
Ballybeg North	38.2	53.1	30.5	52.7	9.8	36.9	0.6	966
Ballybricken	14.1	33.3	34.6	6.3	30.2	58.7	0.4	70
Ballymaclode	7.2	10.0	10.0	2.2	10.5	87.1	0.4	420
Ballynakill	9.5	15.3	12.9	1.9	21.5	76.0	0.5	646
Ballytruckle	27.2	31.2	21.5	17.6	18.6	63.2	0.6	2039
Bilberry	24.2	25.7	17.4	16.2	49.4	34.1	0.5	345
Centre A	26.8	32.3	27.5	9.9	61.7	28.1	0.7	277
Centre B	23.1	42.4	32.7	25.8	40.3	33.1	0.5	125
Cleaboy	21.3	22.2	17.8	7.7	13.6	78.4	0.5	951
Custom House A	28.9	44.3	22.4	19.0	64.9	14.9	0.5	171
Custom House B	20.0	34.5	38.9	4.7	83.0	9.4	0.6	108
Farranshoneen	10.0	16.2	10.9	2.9	18.9	77.4	0.4	1977
Ferrybank	27.2	31.3	18.3	11.8	9.2	76.9	0.4	391
Gracedieu	21.8	25.3	21.2	28.1	12.7	58.3	0.5	436
Grange North	29.0	33.9	18.7	20.5	8.2	69.4	0.5	385
Grange South	21.5	30.0	18.3	25.6	16.4	57.7	0.5	958
Grange Upper	16.5	19.7	12.6	11.0	27.1	61.3	0.5	853
Kilbarry	23.0	21.1	14.5	3.5	29.1	67.1	0.5	358
Kingsmeadow	31.2	38.6	29.0	14.1	34.9	49.2	0.5	531
Larchville	45.1	50.2	36.6	47.4	8.2	44.2	0.5	389
Lisduggan	40.5	53.0	30.7	30.0	8.9	61.0	0.5	430
Military Road	32.1	34.5	22.5	14.6	15.4	67.4	0.4	404
Morrisson's Avenue East	38.1	39.4	27.8	14.3	32.0	51.5	0.5	270
Morrisson's Avenue West	43.2	48.1	25.9	15.7	8.7	75.6	0.5	131
Morrisson's Road	40.4	40.3	27.8	33.3	15.9	49.3	0.4	278
Mount Sion	34.9	39.2	33.1	27.5	42.7	28.1	0.5	354
Newport's Square	35.4	46.7	34.2	33.7	18.0	46.4	0.5	263
Newtown	11.8	19.6	8.0	4.4	12.1	82.0	0.4	395
Park	21.1	29.3	15.4	8.5	66.4	24.3	0.5	651
Poleberry	26.3	35.9	26.3	18.6	37.1	42.0	0.5	523
Roanmore	32.8	48.6	33.3	36.1	7.9	54.5	0.5	347
Shortcourse	41.6	59.1	40.3	31.5	31.5	35.1	0.4	168
Slievekeale	31.8	41.0	21.0	5.5	12.7	80.7	0.4	281
The Glen	36.5	35.0	35.9	10.9	75.6	13.2	0.6	311
Ticor North	24.4	26.5	16.6	0.8	10.5	88.1	0.4	772
Ticor South	20.8	29.6	17.0	1.3	13.4	85.4	0.4	162
Ballybeg South/ Ballynaneashagh	10.9	26.1	11.4	1.7	5.2	93.1	0.7	63

Source: Pobal Index 2011

The existence of Georgian buildings in Waterford City is much less concentrated and more extended than in Limerick City, and covers a higher number of electoral areas. However, under a strict Georgian definition, and confining this to Georgian buildings in the city centre both the number of buildings and the population is very limited.

In order to take account of the fact that there is not a defined Georgian quarter in the city centre in Waterford, we have identified areas which we believe could be relevant and refer to these as 'old city' areas.

We consider the employment status of individuals living in old city electoral areas as a whole for Waterford City in the following table. The percentage of employed individuals is lower for the these areas than for the other areas, while the unemployment rate is higher. Individuals living in old city electoral areas make up 33% of the total population of Waterford City.

Table 2.8: Indecon Analysis of SAPS - Employment Status of Individuals Living in Old City and Other Electoral Areas - Waterford City							
Category	At Work	% of Total	Unemployed or Looking for First Job	% of Total	Other	% of Total	Total
Total	16,780	44.8%	5,616	15.0%	15,080	40.2%	37,476
<i>Of which:</i>							
Old City Areas	5,486	44.2%	1,876	15.1%	5,046	40.7%	12,408
Other Electoral Areas	11,294	45.1%	3,740	14.9%	10,034	40.0%	25,068
Source: CSO Small Area Population Statistics based on Census 2011							

The findings for Waterford City are similar to those for Limerick City. There are high levels of deprivation in Waterford City as well as high unemployment rates. The Pobal relative deprivation index also demonstrates that both Limerick City and Waterford City are lagging behind the national average across a range of indicators.

The evidence suggests that the old city areas in Waterford and Limerick are appropriate target areas for Limerick City initiative. Indecon would, however, point out that parts of other cities and urban areas also demonstrate high levels of economic deprivation which are not reflected in aggregate county or city area data. For example, in our consultations it was pointed out that absolute deprivation index for small area statistics in Dublin North Inner City are comparable to Limerick and Waterford and the same issue applies to certain other cities and urban areas.

## 2.3 Nature of Dwellings in Limerick City and Waterford City

When examining the context for the Living City initiative, it is useful to consider the number of dwellings which may be affected by the initiative. Specifically, we consider the number of buildings constructed before 1919. We also examine occupancy rates and types of accommodation. Finally, the tenure of households is considered which is of particular interest as the initiative is targeted at owner/ occupiers.

### 2.3.1 Number and Type of Pre-1919 Private Dwellings in Limerick City and Waterford by Electoral Area

The number of private dwellings in housing units constructed before 1919 in Limerick City is provided in the table below. 462 private dwellings in housing units constructed pre-1919 are located in old city electoral areas; this represents a significant 31% of all dwellings in houses constructed before 1919. The figures show that there are approximately 1,500 houses built prior to 1919 in Limerick and 462 of which are in old city areas.

Table 2.9: Indecon Analysis of SAPS - Private Dwellings in Permanent Housing Units (Number) Constructed Pre-1919 in Old City and Other Electoral Areas - Limerick City		
Category	Number of Private Dwellings in Permanent Housing Units Constructed Pre-1919	% of Total
Total	1,496	100%
<i>of which:</i>		
Old City Areas	462	30.9%
Other Electoral Areas	1,034	69.1%
Source: CSO Small Area Population Statistics based on Census 2011		

Table 2.10 considers the total number of private dwellings in housing units constructed before 1919 in Waterford City. Significantly, 983 dwellings, or 74% of dwellings in houses built before 1919, are located in old city areas. Overall, there are about 1,300 buildings in Waterford City built prior to 1919 but we understand most of these are not of Georgian origin.

Table 2.10: Indecon Analysis of SAPS - Private Dwellings in Permanent Housing Units (Number) Constructed Pre-1919 in Old City and Other Electoral Areas - Waterford City		
Category	Number of Private Dwellings in Permanent Housing Units Constructed Pre-1919	% of Total
Total	1,333	100%
<i>of which:</i>		
Old City Electoral Areas	983	73.7%
Other Electoral Areas	350	26.3%
Source: CSO Small Area Population Statistics based on Census 2011		

### 2.3.2 Number of Households by Type of Accommodation

The types of accommodation in old city and other areas of Limerick City is considered in the table below. Of premises in old city areas, 476 are houses. The number of apartments in old city areas is estimated to be 1,646.

Table 2.11: Indecon Analysis of SAPS - Type of Accommodation in Old City and Other Electoral Areas - Limerick City					
Category	House	Apartment	Bed-sit	Other	Total
Total	17,788	3,881	75	623	22,367
<i>Of which:</i>					
Old City Electoral Areas	476	1,646	38	117	2,277
Other Electoral Areas	17,312	2,235	37	506	20,090
Source: CSO Small Area Population Statistics based on Census 2011					

Houses account for 4,754 units in old city electoral areas of Waterford City. The number of apartments is estimated to be 1,446.

Table 2.12: Indecon Analysis of SAPS - Type of Accommodation in Old City and Other Electoral Areas - Waterford City					
Category	House	Apartment	Bed-sit	Other	Total
Total	15,837	1,890	54	440	18,221
<i>Of which:</i>					
Old City Electoral Areas	4,754	1,446	15	151	6,366
Other Electoral Areas	11,083	444	39	289	11,855
Source: CSO Small Area Population Statistics based on Census 2011					

### 2.3.3 Number of Household by Tenure

The number of households by tenure for Limerick City and Waterford City is presented in the tables below. As discussed previously, this is of relevance to this study as it is envisaged that the Living City initiative will be targeted specifically at owner/occupiers.

58.4% of all private households in housing units constructed before 1919 in Limerick City are owner occupied. Rented accommodation accounts for 40.8% of total private households.

**Table 2.13: Private Households in Permanent Housing Units (Number) Constructed Pre-1919 by Nature of Occupancy - Limerick City**

Nature of Occupancy	Number of Dwellings
Owner occupied without loan or mortgage	598
Owner occupied with loan or mortgage	276
Rented	610
Not stated	12
<b>All types of occupancy</b>	<b>1,496</b>

Source: Indecon Analysis of Census 2011

As the initiative is aimed specifically at old city areas, it is also instructive to consider the overall number of households which are owner occupied in these electoral areas of Limerick City. Only 208 of households in old city electoral areas are owner occupied.

**Table 2.14: Indecon Analysis of SAPS - Tenure of Households in Old City and Other Electoral Areas - Limerick City**

Category	Owner Occupied	Not Owner Occupied	Total
Total	13,178	9,122	22,300
<i>Of which:</i>			
Old City Electoral Areas	208	2,069	2,277
Other Electoral Areas	12,970	7,053	20,023

Source: CSO Small Area Population Statistics based on Census 2011

Table 2.15 examines the tenure of private households in housing units constructed before 1919 in Waterford City. There are 1,333 private households constructed pre-1919 of which 492 are rented accommodation.

**Table 2.15: Private Households in Permanent Housing Units (Number) Constructed Pre-1919 by Nature of Occupancy - Waterford City**

Nature of Occupancy	Number of Dwellings
Owner occupied without loan or mortgage	595
Owner occupied with loan or mortgage	236
Rented	492
Not stated	10
<b>All types of occupancy</b>	<b>1,333</b>

Source: Indecon Analysis of Census 2011

Table 2.16 demonstrates that most of households in the old city areas of Waterford City are owner occupied.

Table 2.16: Indecon Analysis of SAPS - Tenure of Households in Old City and Other Electoral Areas - Waterford City			
Category	Owner Occupied	Not Owner Occupied	Total
Total	10,696	7,503	18,199
<i>Of which:</i>			
Old City Electoral Areas	3,122	3,238	6,360
Other Electoral Areas	7,574	4,265	11,839
Source: CSO Small Area Population Statistics based on Census 2011			

## 2.4 Summary of Main Findings

An examination of the socioeconomic characteristics of the two cities identified for the Pilot Scheme of the Living City Initiative indicate that Limerick City and Waterford City are significantly more disadvantaged than the national average. The old city areas of these cities demonstrate high unemployment rates. The evidence also shows relatively small number of buildings even using a wide definition, which has implications for the possible take-up of the Scheme. Also of significance is that fact that parts of other cities and urban areas in Ireland also demonstrate high levels of economic deprivation and similar characteristics of run down unoccupied buildings and depopulation of the inner city areas. The detailed findings are as follows:

- ❑ The population of Limerick City declined by 4.5% between 2006 and 2011;
- ❑ Limerick City obtained a Pobal Deprivation relative index score of -6.7 which shows that Limerick City was significantly more disadvantaged than the national average;
- ❑ Male and female unemployment rates are significantly higher for Limerick City than for Ireland;
- ❑ The unemployment rate in the old city area is much higher than in other areas;
- ❑ The population of Waterford City increased by 2.2% which is significantly lower than the overall increase of 8.1% in the total population of Ireland;
- ❑ The relative index demonstrates that Waterford City is both disadvantaged when compared to the national average;
- ❑ Waterford City demonstrates higher male and female unemployment rates and a lower proportion of home ownership than the national average;
- ❑ The percentage of unemployed individuals in Waterford City remains high;
- ❑ 31% of all dwellings in houses constructed before 1919 in Limerick City are located in old city electoral areas;
- ❑ 74% of dwellings in Waterford City in houses built before 1919 are located in old city electoral areas but most of these are not Georgian buildings.



## 3 Economic and Business Impact of Living City Initiative

### 3.1 Introduction

### 3.2 Assessment of Impact of Economic and Business Impacts

In order to input our assessment of the potential economic and business impacts of the Living City Initiative, Indecon surveyed a number of targeted groups including retailers in Waterford and Limerick city, auctioneers nationwide, architects and quantity surveyors nationwide, and residents and residential property owners in Limerick. Respondents were asked to indicate their views on the likely impact of a targeted tax incentive for cities which would encourage people back to live in historic buildings in the centre of cities. In total we surveyed 525 architects, 233 quantity surveyors, 340 retailers, 440 auctioneers and a sample of 230 residents in Limerick. A large number of architects/quantity surveyors, (98), responded to our survey research and 42 retailers in Limerick and Waterford also participated in the research. 48 auctioneering firms participated and we also surveyed a limited sample of residents/property owners in Limerick and secured 23 responses. In all cases over 10% response rates were achieved.

While the views of those surveyed inevitably represent a judgement and there is uncertainty regarding the likely impacts they provide a useful insight into a qualitative assessment. The limited number of responses is also relevant. It should, however, be noted that in our cost benefit analysis Indecon has included very significant downward adjustments for any uplift in economic and business impacts to take account of deadweight and displacement and we assume very high levels of displacement.

#### 3.2.1 Views on Impact on Economic Activity

The views of retailers in Limerick and Waterford in relation to the potential outcome of the proposed tax incentive on the economic activity in the cities are summarised in Table 3.1.

The evidence reveals that over 86.9% of retailers believe that the potential impact of the Living Cities Initiative on the economic activity in Irish cities is likely to be either very significant or significant. Indecon research with auctioneers suggested that 91.5% of the respondents indicated that in their view, the potential impact of the Living Cities Initiative on the economic activity in cities was either very significant or significant.

The assessment by architects and quantity also suggested that the initiative would potentially have a significant impact on economic and business activity. 89.7% of these respondents said that the potential impact of this initiative on the economic activity in the cities is likely to be very significant or significant. Similarly, 83.3% of residents indicated that in their view the impact of a targeted tax incentive for Limerick City on economic activity is potentially very significant or significant.

**Table 3.1: Views on Impact on Economic Activity in Cities**

	% of Respondents				
	Very Significant Impact	Significant Impact	Neither Significant Nor Insignificant Impact	Insignificant Impact	No Impact
Assessment of Retailers	39.5%	47.4%	5.3%	5.3%	2.6%
Assessment of Auctioneers	42.6%	48.9%	4.3%	2.1%	2.1%
Assessment of Architects/ Quantity Surveyors	35.1%	54.6%	8.2%	1.0%	1.0%
Assessment by Residents	45.8%	37.5%	8.3%	0.0%	8.3%
<b>Source: Indecon Confidential Survey on Living City Initiative</b>					

### 3.2.2 Views on Commercial Viability of Businesses in Cities

When asked about their views on the potential impact of the initiative on the commercial viability of the business in the cities, the majority of retailers surveyed indicated that they believe it would have a very significant or significant impact. Overall, retailers believe the targeted living city initiative would have a very significant impact on the commercial viability of businesses in Irish cities. The majority (89.4%) of auctioneers said they thought the potential impact of the scheme on the commercial viability of the businesses in the cities was likely to be very significant or significant.

The majority (82.3%) of architects and quantity surveyors believed that the impact on the commercial viability of businesses in the city was also likely to be either very significant or significant. Similar views were expressed by residents.

**Table 3.2: Views on Commercial Viability of Business in Cities**

	% of Respondents				
	Very Significant Impact	Significant Impact	Neither Significant Nor Insignificant Impact	Insignificant Impact	No Impact
Assessment of Retailers	50.0%	36.8%	5.3%	5.3%	2.6%
Assessment of Auctioneers	36.2%	53.2%	6.4%	2.1%	2.1%
Assessment of Architects/ Quantity Surveyors	33.3%	49.0%	13.5%	2.1%	2.1%
Assessment of Residents	54.2%	29.2%	8.3%	4.2%	4.2%
<b>Source: Indecon Confidential Survey on Living City Initiative</b>					

Overall, the majority of retailers, auctioneers, architects and quantity surveyors and residents contacted, indicated their assessment that the potential impact of the initiative on the economic activity and the commercial viability of the businesses would be very significant or significant.

### 3.3 Assessment of Extent of Quantified Impact on Economic Activity

In order to assess the potential scale of the quantified impact of the Living Cities Initiative on the levels economic activity, survey respondents were also asked to indicate their views on the scale of potential impacts on economic activity arising from this initiative.

#### 3.3.1 View of Impacts on Economic Activity

When asked to judge the extent of the potential impact, 23.1% of retailers indicated that the initiative would increase economic activity within a range of 26%-30% in Irish cities. A further 25.6% of retailers indicated economic activity is likely to increase by 16%-25% as a result of the initiative. 23% of respondents suggested 11%-15% increase. While there are always uncertainties in any such judgements and a range of estimates were provided, the weighted average change suggested by retailers indicated a 16.3% uplift in economic activity.

Auctioneers assessment on the likely impact of the Living Cities Initiative on the levels of economic activity in the cities, indicated that 17.4% were of the view that such an initiative would potentially increase economic activity in the region of 26%-30%. 32.6% believed the Scheme would have an impact of an increase on economic activity of 16%-25%. The weighted average increase in economic activity among the opinions of the auctioneers was 15.5%, similar to the retailers.

**Table 3.3 Assessment of Extent of Quantified Impact on Levels of Economic Activity**

	<b>Retailers Estimates</b>	<b>Auctioneers Estimates</b>	<b>Architects and Quantity Surveyors Estimates</b>
0% - 5% Increase	12.8%	10.9%	11.4%
6% - 10% Increase	15.4%	28.3%	20.5%
11% - 15% Increase	23.1%	10.9%	31.8%
16% - 25% Increase	25.6%	32.6%	17.0%
26% - 30% Increase	23.1%	17.4%	19.3%
Other	0.0%	0.0%	0.0%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Weighted Average Increase</b>	<b>16.3%</b>	<b>15.5%</b>	<b>15.0%</b>
<b>Source: Indecon Confidential Surveys re Living City Initiative</b>			

Architects and quantity surveyors indicated that their views on the extent of the quantified potential impact on the levels of economic activity in Waterford and Limerick city arising from the Living Cities Initiative. Over 19% of these respondents believe that the scheme could potentially increase economic activity by 26%-30%. A further 17% said that economic activity in these cities would increase by 16%-25% as a result of the initiative. Of those surveyed, 31.8% of architects and quantity surveyors judged that economic activity could be boosted by 11%-15% by the initiative. The weighted average increase among all architects and quantity surveyors suggests an uplift on economic activity of 15% in Irish cities.

The benefits for businesses and economic activity which could arise from such a scheme were highlighted in numerous comments made to Indecon during our consultation with businesses in Limerick and Waterford. Some illustrative comments on this are presented in the table below.

**Table 3.4 Illustrative Views of Retailers on the Economic Impact of Living City Initiative**

"Attracting more people to city living could have positive outcomes such as increased vibrancy, improved civic spirit, greater personal pride by residents and improved trading potential for retail and services".

"It sounds like a wonderful idea..... As someone who has just moved in to live over my business premises I can testify to the benefits of living in the city centre, not only for me in terms of my access to amenities, but my own extra spend into the businesses in the city centre just from having them within walking distance".

"I believe encouraging people back into the city centre to live can only have positive impacts. People will bring life back into our city centre and in turn this will encourage economic activity. Limerick City Centre has lost its vibrancy a long time ago and if something isn't done soon I believe it will become a Ghost City".

"Improve look, feel and vibrancy of the city! Increased footfall would lead to more businesses opening up in the city centre. If more people living in the city, there would be more services. Would help employment in the city – particularly during the building phase".

"It would make the city more vibrant and the shop fronts and the old derelict historic buildings would look more attractive and conducive to doing more business".

**Source: Indecon Confidential Survey of Retailers**

### 3.4 Summary of Main Findings

Judgements on the potential impact of the Living City Initiative were fairly consistent across the different groups of respondents to our surveys. Each of the groups reported that they expect the Living City Initiative to have a significantly positive impact on economic activity in the cities. The weighted average increase in economic activity ranged from 15% to 16.3%. While this might be somewhat less than expected, Indecon believes it is a reasonable basis for a judgement on the potential uplift. However, as noted earlier in our cost benefit analysis, we adjust this potential uplift for deadweight and also assume very high levels of displacement.

Indecon also believes that if there is only minimal take-up of any incentive this uplift in business activity in the areas would not be achieved and we have also taken account of this in our cost benefit analysis.

## 4 Tourism Impact of the Living City Initiative

### 4.1 Introduction

An examination of the potential positive spill-over effects of the proposed Living Cities Initiative forms a part of our assessment of the costs and benefits of the intervention. One such positive spill-over or secondary effect of the initiative takes the form of indirect tourism effects. However, it is important to take into account the potentially high displacement impacts of any increased tourism spend and therefore Indecon have not included any uplift for domestic tourism expenditures in our cost benefit appraisals modelling in this report. However, we have included potential uplift for overseas tourism but we assume that most of this (namely, 92.5%) simply represents displacement in tourism spend from other areas. While this inevitably is a judgement Indecon believes it is important to use prudent assumptions and not to overestimate any potential net benefits, and we also accept that if designated areas became so run down, there may be less tourism activity than currently.

This section begins with an overview of some key tourism statistics for both Waterford and Limerick city. This is followed by an analysis of evidence relating to the impact of tourism from the Indecon surveys of retailers, auctioneers, architects and quantity surveyors and residents and residential property owners.

### 4.2 Introductory Tourism Statistics

According to Fáilte Ireland, there were a total of 391,000 and 225,000 overseas visitors to Limerick and Waterford respectively in 2012. The 391,000 overseas visitors to Limerick in 2012 generated a total of €116 million in revenue for the city. This equated to an average spend per visitor of approximately €297. Overseas visitors to Waterford in 2012 generated a total of €55 million in revenue for the city or an average expenditure of €244 per visitor. The evidence highlights the importance of the tourism sector for generating revenue for these cities. See Table 4.1.

Table 4.1: Overseas Visitors to Counties in 2012 and Associated Revenue			
	Overseas Visitor Nos. - 2012 - 000s	Visitor Revenue/Spend - 2012 - € Million	Average Spend per Visitor - 2012 - €
Limerick	391	116	296.7
Waterford	225	55	244.4

Source: Fáilte Ireland, Overseas Visitors to Counties in 2012 and Associated Revenue.

Table 4.2 reveals the number of domestic visitors to Limerick and Waterford in 2012 and the associated revenue generated from these visitors. There were almost 238,000 domestic visitors to Limerick in 2012 whose activity generated a total of €63.3 million in revenue. Waterford recorded a total of almost 167,000 domestic visitors in 2012 with total associated revenue of approximately €38.1 million. Average tourism spend per domestic visitors was in the region of €193 per visitors for Limerick and €190.5 for visitors to Waterford.

**Table 4.2: Domestic Tourism to Counties in 2012 and Associated Revenue**

	Domestic Trips. - 2012 - 000s	Revenue/Spend - 2012 - € Million	Average Spend per Domestic Trip - 2012 - €
Limerick	327.8	63.3	193.0
Waterford	166.9	31.8	190.5

Source: Indecon estimates based on data from CSO, Household Travel Survey and Census of Population.

### 4.3 Assessment of Impact of Tourism Activity

In a submission by the Department of Arts, Heritage and the Gaeltacht they suggested that “the Culture and Heritage of Ireland has been identified as one of the main reasons visitors come to Ireland ... works to conserve this heritage therefore reinforce and protect this key element of our tourism product.”

#### 4.3.1 Views of Impact on Tourism

Respondents to the Indecon surveys of retailers, auctioneers, architects and quantity surveyors and residents and residential property owners were asked to indicate their views in relation to the likely impact of the proposed incentive on the number of tourists visiting the cities.

The evidence from the retailers’ assessment suggests that a targeted initiative like the Living City Initiative would have a significant impact on tourism numbers. 25.6% of retailers in Waterford and Limerick city who were surveyed by Indecon were of the opinion that the initiative would have a very significant impact on tourism numbers. A further 56.4% indicated that the incentive would have a significant impact on the number tourists visiting the cities.

**Table 4.3: Assessment of Impact of Tourism Activity**

	% of Respondents				
Impact on Tourism Numbers	Very Significant Impact	Significant Impact	Neither Significant Nor Insignificant Impact	Insignificant Impact	No Impact
Views of Retailers	25.6%	56.4%	10.3%	2.6%	5.1%
Views of Auctioneers	19.1%	36.2%	27.7%	17.0%	0.0%
Views of Architects/ Quantity Surveyors	9.4%	55.2%	28.1%	3.1%	4.2%
Views of Residents	25.0%	37.5%	20.8%	8.3%	8.3%

Source: Indecon Survey on Impact of Living City Initiative

55.3% of auctioneers (surveyed nationwide) reported that, in their opinion, the incentive would have a very significant or significant impact on tourism activity in the cities. Overall, auctioneers

were somewhat less optimistic on tourism impacts but the majority felt it would have a very significant or significant impact.

The majority of architects and quantity surveyors held the view that the impact of the incentive on the number of tourists visiting the cities would be significant. A total of 62.5% of residents and residential property owners in Limerick who were surveyed by Indecon, reported that they expect the initiative to have either a very significant or a significant impact on tourism numbers in Limerick city.

Overall, the majority of respondents of various stakeholders surveyed indicated that they expect the Living Cities Initiative to have a very significant or significant impact on the number of tourists visiting Irish cities.

## 4.4 Assessment of Extent of Quantified Impact on Tourism Activity

In order to assess the extent of the quantified potential impact of the initiative on tourism activity in cities, respondents were asked to indicate their views in relation to the potential percentage change in the number of visitors as a result of the Scheme.

### 4.4.1 Views of Tourism Impacts

18.4% of retailers in Waterford and Limerick indicated that they expect the tourism activity to increase by 26%-30% as an indirect impact of the tax incentive enhancing historic cities. The weighted average assessment by retailers suggests an up-lift in tourism activity of 13.5%.

The views of auctioneers nationwide in relation to the impact of the tax incentive enhancing historic cities on the level of tourism activity in the cities suggests that 11.4% of auctioneers expect an increase in tourism activity in the region of 26%-30%. 22.7% of respondents expect the indirect impact of the incentive on tourism to be in the region of 16%-25% increase. The auctioneers' weighted average expected increase in tourism activity is 13.6%.

Table 4.4: Assessment of Extent of Quantified Impact on Levels of Tourism Activity			
	Retailers Estimates	Auctioneers Estimates	Architects and Quantity Surveyors Estimates
0% - 5% Increase	17.9%	15.9%	25.6%
6% - 10% Increase	33.3%	22.7%	24.4%
11% - 15% Increase	12.8%	27.3%	26.7%
16% - 25% Increase	17.9%	22.7%	15.1%
26% - 30% Increase	17.9%	11.4%	8.1%
Other	0.0%	0.0%	0.0%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Weighted Average Increase</b>	<b>13.5%</b>	<b>13.6%</b>	<b>11.4%</b>
Source: Indecon Confidential Surveys re Living City Initiative			

Architects and quantity surveyors, who were surveyed nationwide, indicated their views on the likely impact of enhanced historic cities as a result of the Living City Initiative on the tourism sector

in the cities. Over 8% of respondents held the view that the increase in tourism activity would be within the range of 26%-30%. The weighted average increase for this group was somewhat lower at 11.4%.

The assessment of survey respondents' views on the potential impact of enhancing the historic cities on the tourism activity in those cities reveals some mixed findings. Architects and quantity surveyors revealed slightly lower expectations in relation to the potential of the initiative to increase in tourist activity compared with that of the retailers and auctioneers. The weighted average expected increase in tourism activity ranged from 11.4% to 13.6% across the respondents.

## **4.5 Summary of Main Findings**

The views of the retailers, auctioneers and architects and quantity surveyors support the potential for an initiative such as the Living City Initiative to boost tourism activity and the number of visitors to Irish cities. However, Indecon would caution that there are potentially high deadweight/displacement impacts of increased tourism spend and therefore we make adjustments for this in our economic modelling of the impacts of the initiative.



## 5 Impact of Living City Initiative on Urban Renewal and Conservation

### 5.1 Introduction

Many cities in Ireland contain areas which house buildings of cultural and historic importance. In Irish cities there is a particular prevalence of old city houses prior to 1919 many of which date back to the middle of the eighteenth century. Unfortunately there are numerous examples where these buildings are not well preserved and have fallen into a state of disrepair and in some cases, dereliction. However, with urban renewal and conservation of these structures, Irish cities could benefit significantly in social and economic terms. Before we highlight our assessment of the impact of the Living City Initiative on urban renewal and regeneration, we first outline some of the issues that have been identified by the academic research concerning such initiatives. It was however pointed out to us in our consultations that any proposals for urban regeneration of historical areas must be cognisant of the requirements of international charters and conventions and this requires sensitive restoration.

### 5.2 Review of Academic Research

There is significant academic economic research on issues of urban renewal, conservation and regeneration of cities and small areas in general. This research relates to economic and social stagnation in particular areas. In many countries economic plans have been introduced to take account of the needs of particular areas that suffer from higher levels of unemployment, poor housing and a general lack of facilities.

The rationale for such intervention is reflected not only in socio-economic data focusing on specific communities but also from evidence from other projects and research that suggests targeted interventions can have positive impacts.

#### 5.2.1 Research from Ireland, the UK and Europe

Examining the experience of Dublin from the mid-1980s to the mid-2000s, Williams (2006)<sup>3</sup> notes that with a fast changing social and economic environment ‘policies have evolved from blanket subsidisation of development in designated areas towards a more selective approach’ (p. 3). The author also notes that the case to improve the economic situation of such designated areas, including those in inner city Dublin, continues to be made and that there may be a need for fiscal based incentives in order to encourage such development work. Indecon would also note that inappropriate untargeted development can damage urban renewal and indeed there is some evidence of this from past incentives.

Turok and Robson (2007)<sup>4</sup> explore the potential to include small areas within economic and spatial plans. Their research suggest that areas of stagnation and underperformance, socially and economically, have ‘persisted alongside areas of rising prosperity and conspicuous wealth, risking

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<sup>3</sup> Williams, B. (2006) ‘Fiscal Incentives and Urban Regeneration in Dublin’, Planning and Environmental Policy Research Series.

<sup>4</sup> Turok, A. and Robson, B. (2007) ‘Linking neighborhood regeneration to city-region growth: Why and how?’, *Journal of Urban Regeneration and Renewal*, 1 (1), 2007.

the creation of ‘twin-track’ cities’ (p. 1). This is something also seen in Limerick City and Waterford City in terms of deprivation levels and, indeed, in other parts of Ireland

Furthermore, Couch, and Dennemann, A (2000)<sup>5</sup> suggest that ‘urban regeneration contributes to sustainable development through the recycling of derelict land and buildings, reducing demand for peripheral development and facilitating the development of more compact cities’. Moreover, Pickard (2009)<sup>6</sup> points to the use of tax mechanisms and credit policies to favour conservation and use – rehabilitation – in housing policy or in the establishment of business and tertiary activities, rather than new construction. This, in turn, supports the idea of a “living” heritage rather than a “museum” heritage. Where historic buildings are capable of allowing an economic or otherwise beneficial use they can contribute to economic renewal in the relevant areas.

### 5.2.2 Research Internationally

Shimomura and Matsumoto (2010)<sup>7</sup> refer to the ‘OECD report *Competitive Cities: A New Entrepreneurial Paradigm in Spatial Development* (OECD, 2007) which analysed various elements contributing to urban attractiveness (e.g. flagship redevelopment, cultural facilities, international events, etc.). This research emphasises that it is important for a city to enhance its distinctiveness by identifying and building up urban assets that are unique to the city. In particular, many cities have recognised that attractive physical environment of cities can enhance their uniqueness and distinctiveness’. Allied to the positive impacts that physical attractiveness can foster are the social and economic impacts related to urban regeneration and conservation.

Chan and Lee (2008)<sup>8</sup> highlight evidence that urban renewal plays an important role in the Hong Kong economy through facilitating business activity and bringing profitable businesses into the city. However, they also point out that urban renewal can have impacts that go beyond those economic benefits. These can include environmental and social benefits and the promotion of sustainable development.

The available academic evidence suggests that there are a range of benefits that can be achieved through urban renewal, regeneration and conservation. These range from economic and social benefits to environmental benefits. However, care is needed to ensure that any initiatives are carefully planned and targeted and Indecon believes an attempt must be made to quantify such benefits and compare these to the costs involved.

## 5.3 Assessment of Impact of Urban Renewal and Conservation

In order to inform our assessment of the impact of the proposed initiative on urban renewal and conservation, Indecon invited the retailers, auctioneers, architects and quantity surveyors and residents and residential property owners to indicate their views on the impact of the proposed targeted tax incentive for cities on range of criteria, including:

- ☐ Visual attractiveness of the inner cities;
- ☐ Heritage and conservation status of buildings in cities;

<sup>5</sup> Couch, C. and Dennemann, A. (2000) ‘Urban regeneration and sustainable development in Britain: The example of the Liverpool Ropewalks Partnership’.

<sup>6</sup> Pickard, R. (2009) ‘Funding the architectural heritage: a guide to policies and examples’, Council of Europe Publishing, 2009.

<sup>7</sup> Shimomura and Matsumoto (2010) ‘Policies to Enhance the Physical Urban Environment for Competitiveness: A New Partnership between Public and Private Sectors’, OECD, France.

<sup>8</sup> Chan, E.H.W. and Lee, G.K.L. (2008) ‘Contribution of Urban Design to Economic Sustainability of Urban Renewal Projects in Hong Kong’, Sustainable Development, (16): 353 – 364.

- ☐ Utilisation of buildings currently inhabited; and
- ☐ Improvement of buildings currently inhabited.

### 5.3.1 Views of Retailers

94.7% of retailers who responded to the survey said that they expected the impact of the initiative on the attractiveness of the inner cities to be very significant or significant. A further 89.7% of respondents indicated that the impact of the Scheme on the heritage and conservation status of the buildings in the cities and the utilisation of the buildings currently inhabited was likely to be very significant or significant in both cases. 92.3% of retailers are of the view that the impact of the initiative on improving buildings currently inhabited could be very significant or significant. Overall the evidence from this group suggests very significant urban renewal and conservation benefits.

**Table 5.1: Indecon Survey of Retailers re Living City Initiative - Assessment of Impact of Urban Renewal and Conservation**

	% of Respondents				
	Very Significant Impact	Significant Impact	Neither Significant Nor Insignificant Impact	Insignificant Impact	No Impact
Visual attractiveness of the inner cities	52.6%	42.1%	2.6%	0.0%	2.6%
Heritage and conservation status of buildings in cities	41.0%	46.2%	7.7%	5.1%	0.0%
Utilisation of buildings currently inhabited	41.0%	48.7%	7.7%	0.0%	2.6%
Improvement of buildings currently inhabited	43.6%	48.7%	5.1%	2.6%	0.0%
Source: Indecon Confidential Survey of Retailers in Limerick and Waterford re Living City Initiative					

### 5.3.2 Views of Auctioneers

The views of the auctioneers surveyed nationwide in relation to the potential impact of the proposed tax incentive on the various criteria relating to urban renewal and conservation are shown below in Table 5.2. The majority of respondents recognised that the impact could be very significant or significant across all criteria relating to urban renewal and conservation.

**Table 5.2: Indecon Survey of Auctioneers re Living City Initiative - Assessment of Impact of Urban Renewal and Conservation**

	% of Respondents				
	Very Significant Impact	Significant Impact	Neither Significant Nor Insignificant Impact	Insignificant Impact	No Impact
Visual attractiveness of the inner cities	61.7%	38.3%	0.0%	0.0%	0.0%
Heritage and conservation status of buildings in cities	51.1%	42.6%	6.4%	0.0%	0.0%
Utilisation of buildings currently inhabited	61.7%	29.8%	8.5%	0.0%	0.0%
Improvement of buildings currently inhabited	36.2%	44.7%	14.9%	4.3%	0.0%
<b>Source: Indecon Confidential Survey of Auctioneers Nationwide re Living City Initiative</b>					

### 5.3.3 Views of Architects and Quantity Surveyors

The views of the architects and the quantity surveyors nationwide are shown in Table 5.3 below. Most respondents indicated that in their view the potential impact of the proposed initiative on the various potential outcomes relating to urban renewal and conservation is likely to be either very significant or significant. Architects and quantity surveyors also offer very detailed views on specific aspects of the Scheme which we would like to acknowledge and which were taken account of in our analysis and recommendations.

**Table 5.3: Indecon Survey of Architects and Quantity Surveyors re Living City Initiative – Assessment of Impact of Urban Renewal and Conservation**

	% of Respondents				
	Very Significant Impact	Significant Impact	Neither Significant Nor Insignificant Impact	Insignificant Impact	No Impact
Visual attractiveness of the inner cities	47.4%	47.4%	3.2%	1.1%	1.1%
Heritage and conservation status of buildings in cities	46.9%	36.5%	12.5%	2.1%	2.1%
Utilisation of buildings currently inhabited	50.0%	39.6%	7.3%	2.1%	1.0%
Improvement of buildings currently inhabited	32.6%	56.8%	5.3%	4.2%	1.1%
<b>Source: Indecon Confidential Survey of Architects and Quantity Surveyors - Nationwide re Living City Initiative</b>					

### 5.3.4 Views of a Limited Sample of Residents and Residential Property Owners

The views of a very limited sample of residents and residential property owners from Limerick suggests that most respondents expect the impact of the Scheme on the various criteria such as visual attractiveness, heritage conservation status, and utilisation of buildings and improvement of buildings currently inhabited as either very significant or significant.

<b>Table 5.4: Indecon Survey of Residents and Residential Property Owners re Living City Initiative - Assessment of Impact of Urban Renewal and Conservation</b>					
	<b>% of Respondents</b>				
	<b>Very Significant Impact</b>	<b>Significant Impact</b>	<b>Neither Significant Nor Insignificant Impact</b>	<b>Insignificant Impact</b>	<b>No Impact</b>
Visual attractiveness of the inner cities	58.3%	29.2%	4.2%	0.0%	8.3%
Heritage and conservation status of buildings in cities	58.3%	25.0%	16.7%	0.0%	0.0%
Utilisation of buildings currently inhabited	50.0%	37.5%	4.2%	0.0%	8.3%
Improvement of buildings currently inhabited	37.5%	41.7%	12.5%	4.2%	4.2%
<b>Source: Indecon Confidential Survey of Residents and Residential Property Owners - Limerick re Living City Initiative</b>					

Across the various groups that were surveyed on urban renewal and conservation, the majority of respondents consistently indicated that in their opinion the impact of the proposed tax incentive would be significant. Examples of the views expressed by individual businesses on how such a measure could enhance the vibrancy and urban renewal and impact on crime, the environment as well as business inputs are presented in the table below. Similar views were expressed by architects and other stakeholders consulted.

<b>Table 5.5: Illustrative Views of Retailers on Urban Renewal Benefits of Living City Initiative</b>
<p>"Reduction in crime as communities are established neighbourhood watch etc. are set up. Brings life to city centre there is nothing going on after 6 p.m."</p> <p>"Many buildings are derelict and even those with ground floor occupancy are derelict on the upper floors."</p> <p>"Certainly the most significant positive impact would be an aesthetic one."</p> <p>"The city centre needs a resident population."</p> <p>"The positive impact of attracting people to live in the city would also lead to a safer environment at night."</p> <p>"Reduced commuting requirements as inner city population will mostly be employed in the city with a possibility of subsequent reduced environmental damage."</p> <p>"Improvement in building appearance and increased consumer confidence will bring life back to the city especially at night."</p> <p>"The city is tired and neglected looking and not a great place to shop. This initiative would address this."</p> <p>"Increased footfall activity especially after business hours. Increased business for some specialist stores (some of which are no longer in city centre)."</p>
<b>Source: Indecon Confidential Survey of Retailers</b>

## 5.4 Vacancy Rates

An estimation of the extent of current vacancy rates in the Irish cities/urban areas is also relevant to examining the potential impacts of the proposed Living City Initiative. We first look at some national statistics on vacancy rates for Irish cities. We then present some findings from the survey evidence.

### 5.4.1 Dwelling Occupation Status and Vacancy Rates - Main Irish Cities

Table 5.6 below shows the occupancy status of permanent housing units in the main Irish cities and across the State as a whole. There were almost 2 million permanent housing units in Ireland and approximately 335 thousand of them were unoccupied for various reasons in 2011. An even greater proportion of houses in Waterford are unoccupied compared with all of Ireland and a similar proportion of houses in Limerick city are unoccupied.

Table 5.6: Permanent Housing Units by Occupancy Status - Main Irish Cities						
Nature of Occupancy	State	Dublin City	Cork City	Galway City	Limerick City	Waterford City
Occupied by usual resident(s) of the household (Number)	1,649,408	207,847	47,110	27,697	22,300	18,199
Occupied by visitors only (Number)	10,703	2,073	478	551	289	145
Unoccupied - residents temporarily absent (Number)	45,283	7,120	1,877	1,652	819	697
Unoccupied - vacant house (Thousand)	168,427	7,995	3,342	1,887	1,499	1,787
Unoccupied - vacant flat (Number)	61,629	16,321	2,766	1,685	1,764	1,454
Unoccupied - vacant holiday home (Number)	59,395	322	60	183	10	59
Total housing stock (Number)	1,994,845	241,678	55,633	33,655	26,681	22,341
Source: CSO Census 2011						

Table 5.7 shows the vacancy rates for the main cities in Ireland. Waterford City ranks the highest at a vacancy rate of almost 15% and Limerick City recorded the next highest rate of 12.3%.

It is clear, however, that significant vacancies levels exist in most of Ireland's cities and in run down city centre areas vacancies levels are likely to be much higher.

**Table 5.7: Permanent Housing Units by Vacancy Rate - Main Irish Cities**

Nature of Occupancy	Vacancy rate
Waterford City	14.8%
Limerick City	12.3%
Kilkenny*	11.9%
Galway City	11.2%
Cork City	11.1%
Dublin City	10.2%
State	14.5%

Source: CSO Census 2011

\* Data for Kilkenny refers to county as a whole, as city not defined in Census

#### 5.4.2 Number of Dwellings by Occupancy Rates in Limerick City and Waterford City

Table 5.8 examine occupancy rates in Limerick City. In old city areas, over 32% of premises were unoccupied.

**Table 5.8: Indecon Analysis of SAPS - Occupancy of Dwellings in Old City and Other Electoral Areas - Limerick City**

Category	Occupied	Occupied as a % of Total	Unoccupied	Unoccupied as a % of Total	Total
Total	22,589	84.7%	4,092	15.3%	26,681
<i>Of which:</i>					
Old City Electoral Areas	2,322	67.6%	1,113	32.4%	3,435
Other Electoral Areas	20,267	87.2%	2,979	12.8%	23,246

Source: CSO Small Area Population Statistics based on Census 2011

In Waterford City there are also high levels of vacancies in old city areas at 25.8%.

**Table 5.9: Indecon Analysis of SAPS - Occupancy of Dwellings in Old City and Other Electoral Areas - Waterford City**

Category	Occupied	Occupied as a % of Total	Unoccupied	Unoccupied as a % of Total	Total
Total	18,344	82.1%	3,997	17.9%	22,341
<i>Of which:</i>					
Old City Electoral Areas	6,438	74.2%	2,242	25.8%	8,680
Other Electoral Areas	11,906	87.2%	1,755	12.8%	13,661

Source: CSO Small Area Population Statistics based on Census 2011

The evidence shows that the old city areas of Limerick City and Waterford City have high levels of unoccupied buildings. These numbers are likely to underestimate the full extent of vacant older buildings as there are a large number of more modern buildings in these areas and the level of vacancies in old buildings may be higher.

### 5.4.3 Commercial Vacancies in Limerick City and Waterford City

The table below outlines the vacancy rates for commercial and retail properties in Limerick City and within the Georgian areas of Limerick City. The vacancy rate for all commercial properties in Limerick City is 20.6% while the vacancy rate for properties in Georgian old city areas is at similar high rates 20.5%. When we look specifically at retail commercial properties we see that in Georgian old city areas of Limerick City, there is a vacancy rate of 16.2%.

Table 5.10: Commercial Property Vacancies and Vacancy Rate - Limerick City			
	Total Properties in Limerick City Liable for Payment of Rates	Vacant Properties in Limerick City Liable for Payment of Rates	Vacancy Rate - %
Total Commercial Rated Properties - All Limerick City	3,402	700	20.6%
<i>Of Which Retail Commercial Properties - All Limerick City</i>	<i>1,596</i>	<i>285</i>	<i>17.9%</i>
Total Commercial Rated Properties - Georgian Old City Areas of Limerick City	1,878	385	20.5%
<i>Of Which Retail Commercial Properties - Georgian Areas of Limerick City</i>	<i>906</i>	<i>147</i>	<i>16.2%</i>
<b>Source: Indecon analysis based on data provided by Limerick City Council</b>			
Notes: Georgian Areas include Dock A, Dock B, Shannon A, Shannon B and Custom House			

There are various estimates of vacancy rates for commercial properties for Waterford City. The vacancy rate for commercial properties in Waterford City was estimated to be of the order of 15.2% in the GeoView Quarterly Commercial Premises Vacancy Rates Report. The vacancy rate for properties in some parts of the old city areas may however be higher.

## 5.5 Assessment of Impact on Value of Premises

### 5.5.1 Views of Retailers

Retailers, surveyed from Waterford and Limerick were invited to indicate their views on the significance of the potential outcome of the initiative to enhance the value of other buildings in the relevant areas. The evidence in Table 5.11 below shows that 30.8% of respondents reported that they expected the impact on the value of other buildings to be very significant and a further 53.8% expect the impact to be significant. 12.8% expect it to be neither significant nor insignificant and the remaining 2.6% expect an insignificant outcome. This expected increase in the value of premises in the relevant areas is an indirect reflection of the wider impact of urban and cultural renewal.



**Table 5.11: Indecon Survey of Retailers re Living City Initiative - Assessment of Impact on Value of Buildings**

	% of Respondents				
Enhance value of other buildings in The relevant area	Very Significant Impact	Significant Impact	Neither Significant Nor Insignificant Impact	Insignificant Impact	No Impact
Views of Retailers	30.8%	53.8%	12.8%	2.6%	0.0%
Views of Auctioneers	44.7%	46.8%	8.5%	0.0%	0.0%
Views of Architects/Quantity Surveyors	27.7%	59.6%	9.6%	0.0%	3.2%
Views of Residents	37.5%	41.7%	8.3%	4.2%	8.3%

**Source: Indecon Confidential Survey on Impact on Value of Buildings re Living City Initiative**

The large majority (91.5%) of auctioneers reported that they expect the incentive could have a very significant or significant impact on the value of other buildings in the relevant areas.

Similarly, the majority (87.3%) of architects and quantity surveyors nationwide indicated that they expect a very significant or significant impact of the initiative on the value of other buildings in the relevant areas where buildings would be refurbished.

The views of Residents and residential property owners in Limerick on the potential impact of the Scheme on the value of other buildings in the relevant areas, indicate that over 37% of respondents were of the opinion that the impact could potentially be very significant and a further 41.7% reported that they expected the initiative to have a significant impact on the value of other property in the areas.

It was, however, noted in various inputs to our consultation that these benefits would only arise if a significant number of buildings were refurbished. If there were only a handful of buildings restored, the overall impact on the wider area may be insignificant.

## 5.6 Assessment of Extent of Quantified Impact on Value of Premises

### 5.6.1 Views on Value of Premises

The views of retailers from Waterford and Limerick reveal that 13.5% of respondents estimate that the value of other buildings in Irish cities in the affected areas could increase in value within a range of 26%-30% as a result of the proposed initiative. Of the retailers responding to our survey, 10.8% expect a 16%-25% increase and 27.0% expect an 11%-15% increase. The weighted average increase expected among all the retailers is 12.1%.

Of the auctioneers surveyed, 29.5% reported they expected an increase of 26%-30% and 27.3% expect an increase of 16% to 25%, while 34.1% of respondents expect the value of premises in the areas of renewal to increase within the region of 6%-15%. The auctioneers' assessment was weighted average of 17.6%.

The views of architects and quantity surveyors nationwide show that 16.5% of respondents indicated that they expect an increase of 26%-30% in the value of premises and 22.4% expect the impact to be a 16%-25% increase. The weighted average among all architects and quantity surveyors for the expected increase in the value of premises arising out of the initiative is 14.4%.

**Table 5.12: Assessment of Extent of Quantified Impact on Value of Buildings**

	Retailers Estimates	Auctioneers Estimates	Architects and Quantity Surveyors Estimates
0% - 5% Increase	24.3%	9.1%	14.1%
6% - 10% Increase	24.3%	18.2%	24.7%
11% - 15% Increase	27.0%	15.9%	22.4%
16% - 25% Increase	10.8%	27.3%	22.4%
26% - 30% Increase	13.5%	29.5%	16.5%
Other	0.0%	0.0%	0.0%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Weighted Average Increase</b>	<b>12.1%</b>	<b>17.6%</b>	<b>14.4%</b>
Source: Indecon Confidential Survey of Retailers in Limerick and Waterford re Living City Initiative			

## 5.7 Summary of Main Findings

Evidence from the survey suggests that a wide range of stakeholders believe that a targeted incentive, designed to encourage regeneration of the Georgian residential and retail heartland of cities, could result in very significant urban renewal and conservation benefits for the target areas.

- ❑ In Limerick City in old city areas, 32% of all dwellings are unoccupied;
- ❑ In old city areas of Waterford City there are also high levels of unoccupied buildings.

The view that the Living City Initiative would have the potential to enhance the value of other buildings in the target areas was shared by all groups of respondents to the survey. The assessments suggest a weighted average increase in values of premises ranging from 12.1% to 17.6%. This is a reflection of the likely wider economic impact of urban renewal.

## 6 Impact of Living City Initiative on Employment

### 6.1 Introduction

One of the important short-term benefits of a Living City Initiative is the impact on employment.

### 6.2 Overview of Employment Statistics

Table 6.1 below presents details of the labour force and the number of persons at work in Limerick City and Waterford City compared with that of the entire state. The proportion of the labour force at work in both Limerick City and Waterford City is below the average for the State as a whole.

Table 6.1: Persons at Work by City 2011		
	Persons Aged 15 Years and Over in the Labour Force	Persons at Work
State	2,232,203	1,807,360
Limerick City	25,813	18,419
Waterford City	22,396	16,780
Source: CSO Census of Population 2011		

Table 6.2 presents the labour force participation rates and the unemployment rates for Limerick City and Waterford City compared with the state. Consistent with the findings above, the labour force participation rates for both cities are below the state average and the unemployment rates are significantly higher.

Table 6.2: Labour Force Participation Rates and Unemployment Rates by City 2011		
	Labour Force Participation Rate (Rate)	Unemployment Rate (Rate)
State	61.9	19.0
Limerick City	55.1	28.6
Waterford City	59.8	25.1
Source: CSO Census of Population 2011		
<b>Note:</b> The labour force participation rate is calculated by expressing the labour force (i.e. those at work, looking for first regular job and unemployed) as a percentage of the total aged 15 years and over.		

### 6.3 Employment Probability in Absence of Living City Initiative

An important issue of relevance to this assessment is the potential employment impacts of the proposed initiative compared to what would have been the case without such schemes. It is important that we take into account the opportunity costs of labour as well as the direct employment impacts. Therefore we consider the probability that those construction workers who would be involved in the refurbishments of the relevant buildings would be employed in other projects or in other sectors in the absence of such an initiative, within a given time period.

#### 6.3.1 Alternative Employment Opportunities

A large proportion of the auctioneers indicated that they considered the probability of the construction workers being employed in other projects or sectors in the absence of such an initiative is low and 13.3% think it is very low.

The opinions of the architects and quantity surveyors (who are close to market realities of the construction skills) are relatively consistent with that of the auctioneers. The majority indicated that they felt the probability of employment in other projects and other sectors is low or very low.

Table 6.3: Views on Construction and Other Employment Related Impacts over the Next 3 - 5 Years as a Result of the Living City Initiative		
	% Auctioneers	% Architects/ Quantity Surveyors
Very Low Probability of Employment on Other Projects or in Other Sectors	13.3%	13.8%
Low Probability of Employment on Other Projects or in Other Sectors	40.0%	44.7%
Neither High Nor Low Probability of Employment on Other Projects or in Other Sectors	24.4%	22.3%
High Probability of Employment on Other Projects or in Other Sectors	17.8%	13.8%
Very High Probability of Employment on Other Projects or in Other Sectors	4.4%	5.3%
<b>Total</b>	<b>100%</b>	<b>100%</b>
Source: Indecon Confidential Survey on Living City Initiative		

### 6.4 Assessment of Extent of Quantified Impact on Employment

In this section we examine the extent of the quantified potential impact of the Living City Initiative on employment.

#### 6.4.1 Views on Employment Impacts

Table 6.4 shows that 84.6% of retailers surveyed from Limerick and Waterford indicated that they believed the likely direct employment impacts of the Living City Initiative are very significant or significant.

The views of the auctioneers nationwide are consistent with that of the retailers above. 91% of the respondents believe the potential impact of the initiative on employment in the construction sector and related services would be very significant or significant.

Similarly, 81.1% of the architects and quantity surveyors who participated in the research said that they felt the potential impact of the proposed living city initiative on employment in the construction and related sectors would be very significant or significant.

Table 6.4: Views on Likely Direct Employment Impacts of a Living City Initiative			
	Retailers Views	Auctioneers Views	Architects/Quantity Surveyors Views
Very Significant Impact	35.9%	24%	17.9%
Significant Impact	48.7%	67%	63.2%
Neither Significant Nor Insignificant Impact	10.3%	4%	13.7%
Insignificant Impact	5.1%	4%	4.2%
No Impact	0.0%	0%	1.1%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
Source: Indecon Confidential Survey re Living City Initiative			

Overall, the opinions of the auctioneers, architects and quantity surveyors, retailers and residents and residential property owners suggest that the impact of the tax incentive on employment in the construction and related sectors is likely to be significant.

## 6.5 Alternative Employment Opportunities

In order to further assess the importance of the potential impact that the Living City Initiative would potentially have on employment in construction and related service we have estimated the likely proportion of project expenditure that would be accrued to labour costs including the costs of construction workers, specialists and employment of related professional service employees.

The architects and quantity surveyors who were surveyed by Indecon were asked to indicate their professional opinion on the average percentage of overall project expenditure that would be accounted for by labour costs both in the case of residential and retail projects. The proportion of project expenditure on residential refurbishments which would be spent on labour costs is estimated by the architects and quantity surveyors at almost 56%. This highlights that expenditure arising out of the Living City Initiative would be focused on very labour intensive activity.

Table 6.5 also reveals estimates of the likely average labour costs as a percentage of total project costs for a range of construction projects. The estimates of architects and quantity surveyors suggest that the refurbishment of existing residential and retail buildings (as per the purpose of the initiative), is likely to be more labour intensive compared with the building of new residential buildings, new commercial premises and much more than compared to major infrastructural projects.

**Table 6.5: Indecon Survey of Architects and Quantity Surveyors re Living City Initiative - Views on Average Labour Costs as a Percentage of Total Project Costs**

	<b>Refurbishment of Existing Residential Buildings – Labour Costs %</b>	<b>Refurbishment of Existing Retail Premises – Labour Costs %</b>	<b>New Residential Buildings – Labour Costs %</b>	<b>New Commercial Premises/ Buildings – Labour Costs %</b>	<b>Major Infrastructural Projects such as Roads, Bridges etc. - Labour Costs %</b>
Mean	56.0%	47.4%	46.9%	42.1%	33.5%

Source: Indecon Confidential Survey of Architects and Quantity Surveyors - Nationwide re Living City Initiative

## 6.6 Summary of Main Findings

It is important to consider the opportunity cost of labour as well as the direct employment impacts and therefore we assess the respondents' opinions regarding the probability that workers would be employed in other projects/sectors in the absence of such an initiative. The views of the groups of respondents consistently supported the finding that the probability of these workers being employed elsewhere over the next 3 – 5 years is low. The survey evidence suggests that the labour content of employment expenditures is higher for refurbishment projects than for new buildings and other major infrastructural projects. This confirms other views suggesting the potential significance of the employment impacts of this initiative.

## 7 Estimates of Scheme Take-up of Living City Initiative

### 7.1 Introduction

### 7.2 View on Likely Take-Up of Living City Initiative

Crucial to the analysis of the benefits of undertaking this proposed Living City Initiative is an assessment of the likely take-up rate of the Scheme in the cities. In order to address this, retailers were asked to indicate their potential interest over the next five years if the scheme was introduced.

#### 7.2.1 Views of Retailers

Table 7.1 presents evidence on the potential interest of the retailers in taking up this Scheme over the next five years. The views of retailers surveyed varied. 12.8% of retailers indicated that they were very likely to take up the Scheme while a further 35.9% said it was likely they would take it up.

Table 7.1: Indecon Survey of Retailers re Living City Initiative - Views on Take-Up of Living City Initiative	
	%
Very Likely to Take Up Incentive	12.8%
Likely	35.9%
Neither Likely Nor Unlikely	12.8%
Very Unlikely	23.1%
Not Likely	15.4%
<b>Total</b>	<b>100%</b>
Source: Indecon Confidential Survey of Retailers in Limerick and Waterford re Living City Initiative	

#### 7.2.2 Views of Auctioneers

Auctioneers were asked to indicate their views on the likely level of take-up of the initiative aimed at urban regeneration in a number of major Irish cities. The majority (61.9%) indicated that there would potentially be a high level of interest in the Scheme in Dublin city. Much lower levels of interest were predicted for Waterford and Limerick city (the pilot areas).

**Table 7.2: Indecon Survey of Auctioneers re Living City Initiative - Views on the Likely Take-Up of Living City Initiative**

	% of Respondents		
	Likely High Level of Interest	Likely Medium Level of Interest	Likely Low Level of Interest
Dublin City	61.9%	31.0%	7.1%
Cork City	52.6%	39.5%	7.9%
Galway City	52.5%	45.0%	2.5%
Limerick City	39.0%	41.5%	19.5%
Waterford City	28.2%	48.7%	23.1%
Kilkenny City	44.7%	50.0%	5.3%
<b>Source: Indecon Confidential Survey of Auctioneers Nationwide re Living City Initiative</b>			

### 7.2.3 View of Architects and Quantity Surveyors

Similarly Architects and quantity surveyors also held the opinion that only medium levels of interest in the initiative were likely for Limerick and Waterford while higher levels of interest in the initiative were likely for Dublin and in Cork, Galway and Kilkenny.

**Table 7.3: Indecon Survey of Architects and Quantity Surveyors re Living City Initiative - Views on the Likely Take-Up of Living City Initiative**

	% of Respondents		
	Likely High Level of Interest	Likely Medium Level of Interest	Likely Low Level of Interest
Dublin City	71.3%	25.3%	3.4%
Cork City	50.6%	43.4%	6.0%
Galway City	49.4%	42.2%	8.4%
Limerick City	32.1%	47.6%	20.2%
Waterford City	29.1%	51.2%	19.8%
Kilkenny City	48.8%	44.0%	7.1%
<b>Source: Indecon Confidential Survey of Architects and Quantity Surveyors - Nationwide re Living City Initiative</b>			



### 7.2.4 Views of a Limited Sample of Residents and Residential Property Owners

Residents of the relevant areas and residential property owners were also invited to indicate their own level of interest in terms of the potential interest in this incentive by way of the likelihood that they would take up this incentive over the next five years if it were available. 56.5% of respondents indicated that they were very likely or likely to take up this incentive but 43.4% indicated that they were not likely to take it up.

Table 7.4: Indecon Survey of Residents and Residential Property Owners re Living City Initiative - Views on Take-Up of Living City Initiative	
	%
Very Likely to Take Up Incentive	43.5%
Likely	13.0%
Neither Likely Nor Unlikely	0.0%
Very Unlikely	4.3%
Not Likely	39.1%
<b>Total</b>	<b>100%</b>
Source: Indecon Confidential Survey of Residents and Residential Property Owners - Limerick re Living City Initiative	

Overall the interest in taking up this initiative over the next five years is mixed among most respondents to the Indecon surveys.

## 7.3 Barriers to Take Up of Living City Initiative

In order to add further context to the predicted levels of take-up, we also considered opinions on the potential factors that would present a barrier to levels of take-up.

### 7.3.1 Views of Retailers

Each of the factors listed in table 7.5 were judged to be somewhat significant by the retailers in terms of potential barriers to take-up of the Living City Initiative. Difficulties obtaining funds to finance costs of refurbishment has been indicated as the most significant potential barrier while the evidence suggests that the requirement that residential relief is available only where the property is owner-occupier / principal private residence is also a particularly significant potential barrier to take-up.

**Table 7.5: Indecon Survey of Retailers re Living City Initiative - Views on Barriers to Take-Up of Living City Initiative**

	% of Respondents			
	Very Significant Barrier	Significant Barrier	Neither Significant Nor Insignificant Barrier	Not a Barrier to Take-Up
The fact that the incentives are targeted at owner occupiers rather than investors	16.2%	27.0%	32.4%	24.3%
Difficulties in obtaining funds to finance costs of refurbishment	48.7%	46.2%	2.6%	2.6%
The level of tax incentives under consideration (namely 10% income tax relief per year for 10 years for residential properties, and 15% capital allowances for first 6 years and 10% in year 7 for retail premises)	21.6%	29.7%	27.0%	21.6%
Requirement that cost of refurbishment must be at least 10% of the pre-works value of the property	16.2%	40.5%	24.3%	18.9%
Requirement that residential relief is available only where property is owner-occupied / principal private residence	39.5%	26.3%	26.3%	7.9%
<b>Source: Indecon Confidential Survey of Retailers in Limerick and Waterford re Living City Initiative</b>				

### 7.3.2 Views of Auctioneers

Consistent with the views of the retailers above, the auctioneers also indicated that in their opinion difficulties obtaining funds to finance costs of refurbishment and the requirement that residential relief is available only where property is owner-occupied / principal private residence are the two most significant potential barriers to take-up. The next most significant factor was that the incentives are targeted at owner occupiers rather than investors.

**Table 7.6: Indecon Survey of Auctioneers re Living City Initiative - Views on Barriers to Take-Up of Living City Initiative**

Please indicate your views on whether any of the following factors would represent a barrier to the potential levels of take-up of a Living City incentive:	% of Respondents			
	Very Significant Barrier	Significant Barrier	Neither Significant Nor Insignificant Barrier	Not a Barrier to Take-Up
The fact that the incentives are targeted at owner occupiers rather than investors	17.4%	41.3%	19.6%	21.7%
Difficulties in obtaining funds to finance costs of refurbishment	47.8%	41.3%	8.7%	2.2%
The level of tax incentives under consideration (namely 10% income tax relief per year for 10 years for residential properties, and 15% capital allowances for first 6 years and 10% in year 7 for retail premises)	8.7%	34.8%	28.3%	28.3%
Requirement that cost of refurbishment must be at least 10% of the pre-works value of the property	6.5%	28.3%	41.3%	23.9%
Requirement that residential relief is available only where property is owner-occupied / principal private residence	33.3%	42.2%	8.9%	15.6%
<b>Source: Indecon Confidential Survey of Auctioneers Nationwide re Living City Initiative</b>				

### 7.3.3 View of Architects and Quantity Surveyors

The opinions of the architects and quantity surveyors are again consistent with the respondents above, identifying the same two most significant factors which could potentially be barriers to take-up – finance and the requirement that the property is owner occupied / principal private residence. A number of these respondents also hold the opinion that the fact that the incentive is targeted at owner-occupiers rather than investors could also be a significant or very significant barrier to take-up.

**Table 7.7: Indecon Survey of Architects and Quantity Surveyors re Living City Initiative - Views on Barriers to Take-Up of Living City Initiative**

Please indicate your views on whether any of the following factors would represent a barrier to the potential levels of take-up of a Living City incentive:	% of Respondents			
	Very Significant Barrier	Significant Barrier	Neither Significant Nor Insignificant Barrier	Not a Barrier to Take-Up
The fact that the incentives are targeted at owner occupiers rather than investors	9.6%	56.4%	17.0%	17.0%
Difficulties in obtaining funds to finance costs of refurbishment	50.5%	45.2%	4.3%	0.0%
The level of tax incentives under consideration (namely 10% income tax relief per year for 10 years for residential properties, and 15% capital allowances for first 6 years and 10% in year 7 for retail premises)	8.5%	25.5%	31.9%	34.0%
Requirement that cost of refurbishment must be at least 10% of the pre-works value of the property	1.1%	21.3%	43.6%	34.0%
Requirement that residential relief is available only where property is owner-occupied / principal private residence	21.3%	46.8%	16.0%	16.0%
<b>Source: Indecon Confidential Survey of Architects and Quantity Surveyors - Nationwide re Living City Initiative</b>				

### 7.3.4 Views of Residents and Residential Property Owners

Finally the sample of residents and residential property owners were also asked to reveal their views in relation to the potential barriers to take-up of the Living City Initiative. The views of these respondents are again consistent with all other respondents in the tables above.

**Table 7.8: Indecon Survey of Residents and Residential Property Owners re Living City Initiative - Views on Barriers to Take-Up of Living City Initiative**

Please indicate your views on whether any of the following factors would represent a barrier to the potential levels of take-up of a Living City incentive (please select one option per row below):	% of Respondents			
	Very Significant Barrier	Significant Barrier	Neither Significant Nor Insignificant Barrier	Not a Barrier to Take-Up
The fact that the incentives are targeted at owner occupiers rather than investors	29.2%	33.3%	20.8%	16.7%
Difficulties in obtaining funds to finance costs of refurbishment	45.8%	33.3%	20.8%	0.0%
The level of tax incentives under consideration (namely 10% income tax relief per year for 10 years for residential properties)	30.4%	17.4%	17.4%	34.8%
Requirement that cost of refurbishment must be at least 10% of the pre-works value of the property	25.0%	25.0%	33.3%	16.7%
Requirement that residential relief is available only where property is owner-occupied / principal private residence	50.0%	20.8%	8.3%	20.8%
<b>Source: Indecon Confidential Survey of Residents and Residential Property Owners - Limerick re Living City Initiative</b>				

Overall the opinions of all the respondents to the surveys (auctioneers, architects and quantity surveyors, retailers and residents and residential owners) were consistent across the analysis of potential barriers to take-up. The factor which was identified most frequently among respondents as very significant was access to funds to finance the cost of refurbishment.

Again and again during our consultations the dangers of not recognising the barriers to take-up were noted. For example, one retailer suggested “they seem so interested on putting in restrictions that nothing will happen.” Another referred to the fact that “minor tweaking with tax incentives is unlikely to be attractive.” Some other illustrative views expressed by retailers are outlined below.

Other Illustrative Views of Barriers to Take-Up
“If you wish to limit this to the owner occupiers only, then you need to increase the tax relief considerably. Also who is going to lend money to the owner occupier? Banks are not lending to SMEs at present and will not in future unless the tax breaks are much greater.”
“Level of tax incentives needs to be attractive/innovative to ensure positive interest/take-up.....A prompt take-up is required and incentives need to be attractive to match the aspiration.”
<b>Source: Indecon Confidential Survey of Retailers</b>

Businesses in Waterford and Limerick were very aware that barriers to take-up existed and there would be a need for adjustments if a prompt or significant level of activity was to be incentivised.

## 7.4 Estimated Take Up

In terms of our assumptions for the level of take-up this will depend on firstly what buildings are eligible and secondly on what level of interest there is likely to be among owner occupiers to respond to any incentive. The relevant local authorities have not as yet designated precise areas or building numbers which are likely to be eligible and this in turn will depend on the age criteria ultimately set by policymakers. Our estimates of likely levels of eligible buildings and our estimates of levels of take-up are presented below. These are based on assuming changes to the Scheme to assist in overcoming some of the barriers to take-up.

**Table 7.9: Estimated Levels of Take Up**

	<b>Total Pre 1919 Residential Buildings</b>	<b>No. of Eligible Residential Buildings</b>	<b>No. of Eligible Retail Premises</b>	<b>Take up of Residential Premises assuming revised incentives</b>	<b>Take up of Retail premises assuming revised incentives</b>	<b>Take up of Residential with no change in incentives</b>	<b>Take up of Retail with no change in incentives</b>
Limerick City	1,496	546	70	182	23	55	7
Waterford City	1,333	499	64	166	21	50	6

**Source: Indecon Confidential Survey re Living City Initiative**

In Limerick City there are 1,496 residential buildings of pre 1919 construction. However, we believe that eligible buildings which would ultimately be designed would be less than this. In our estimates we assume approximately 546 residential buildings would be potentially eligible. In Waterford City while there are 1,333 residential buildings of pre 1919 construction, we are assuming only 499 would be eligible.

Without precise designation of policymakers it is not possible to develop definitive estimates but our estimate of 546 residential buildings in Limerick is based on the average number of owner occupied pre 1919 buildings in a narrow old city area and in a wider Limerick City geographic area. In Waterford we base our estimate of 499 on the average number of selected buildings in Waterford in the inventory of Architectural Heritage and the number of owner occupied pre 1919 buildings in a wider Waterford City area.

For retail building we look at estimates based on the average of the number of retail premises in a narrow geographic and under a wider city geographic definition. This suggests potential number of eligible buildings of 70 for Limerick and 64 for Waterford.

For our estimate of take-up we assume that over the period of five years, a third of potentially eligible buildings will be refurbished under the Scheme but this in our judgement would require changes to the timing of tax relief to enable relief to be given in the year in which expenditure is made. It would also require changes in the age of buildings which would be eligible and some other adjustments to the Scheme.

If, however, there is no change in the phasing of the incentives to encourage take-up and if the tax allowance is spread over a number of years as currently specified, we believe there would be very low levels of take-up. While it is not feasible to be precise on what this will be, we have assumed under this scenario that only 10% of eligible buildings would avail of the incentive. This would suggest only about 10 residential and one retail buildings per year would be refurbished in each area under the Scheme. While this is inevitably a judgement based on our research, this seems reasonable and is consistent with our review of uptake of previous incentives and our research with auctioneers/architects.

## **7.5 Summary of Main Findings**

The views of respondents on the likely levels of take-up on the Living City Initiative are mixed with many suggesting that take-up rates could potentially be higher in Dublin City than in the two pilot cities - Limerick and Waterford. Each of the groups of respondents to the surveys identified a number of barriers to take for the initiative. In particular, access to funding and the requirement that residential relief is available only where the property is owner-occupied / principal private residence were flagged as most significant. Without changes to the Scheme, very low levels of take-up would be likely.

## 8 Cost Benefit Analysis of Living City Initiative

### 8.1 Introduction

While various stakeholders have expressed very positive views on the potential benefits of a Living City Initiative these need to be tested and evaluated in a rigorous cost benefit appraisal so that the costs and benefits can be compared. This requires decisions on a number of technical assumptions as well as quantification of the potential take-up and measurement of the costs and benefits over time.

### 8.2 Outline of Modelling Assumptions

The key assumptions used in our cost benefit appraisal are summarised in Table 8.1. In all cases we include assumptions as recommended in DPER guidelines but as independent economists we also examine alternatives where we believe these may more accurately reflect current economic conditions, or the specific characteristics of the scheme under review.

Table 8.1: Cost-Benefit Analysis of Living City Initiative - Global Assumptions	
Variable	Level Assumed
Time period	30 years
Discount Rate	5%
Shadow Cost of Public Funds	130%, 100%
Shadow Price of Labour - Construction Sector	80%, 51%
Tax Rate on Wages (Construction)	35%
Tax Rate - Property Owners	52%
Multiplier - Indirect Wages (Construction Sector, Type I)	1.83
Scheme Deadweight	36%
Average Expenditure	€100,000
Tourism Multiplier	1.55
Tourism Deadweight/Displacement	92.5%
Source: Indecon analysis, DPER guidelines	

#### Time Period

The choice of time period for evaluating the costs and benefits of urban renewal/environmental projects must be chosen based on the economically useful life of the investments. While major refurbishment of rundown historic buildings could have an economic value of more than 50 years, Indecon believes that the appropriate time horizon to evaluate the cost and benefits for such an environmental heritage scheme is 30 years. The OECD guidelines on the time horizon for appraising water and environmental projects indicate a 30-year appraisal period. While a case could be made for examining this over a shorter or longer period given the discount rate used the costs and benefits towards the end of the evaluation period do not have a significant impact.



### Discount rate

A real discount rate of 5% is used as per DPER recommendation. This replaces the previous guidance on a 4% rate. Indecon believes that a discount rate of this order is appropriate and so while slightly lower rates could be justified, we do not see the merits of including any alternative rates in our sensitivities.

### Shadow Cost of Public Funds

An issue in cost benefit appraisals is whether to adjust the exchequer costs to take account of the possibility of wider distortions on the economy of public expenditure.

In our analysis we have used both a 130% and 100% factor to represent the shadow price of public funds. This factor attempts to estimate the economic impact, if any, of any distortions due to sub-optimal taxation. The 130% assumption is in line with DPER recommendations. We believe that it is also prudent as a sensitivity to examine the results using a 100% shadow cost of public funds.

In many OECD countries a shadow price of public funds of 100% is used but historically in Ireland the official departmental working rules for cost benefit appropriately used a shadow price of 150% to attempt to take account of the potential distortionary effects of taxation.

Indecon accept that the Department of Public Expenditure and Reform have recommended the use of a specific additional shadow price of public funds of 130% to take account of the potential distortionary effects of non-optimal taxes on the rest of the economy and for that reason we use this in our analysis. Indecon also accepts that for consistency purposes it is also important to compare different CBAs using the same underlying assumptions.

In Indecon's professional opinion, however, the level of uncertainty in estimating the shadow price of public funds is of such a magnitude that there could be a danger that using levels above 100% could lead to a distortion between private and public sector investments at a time when such investment is particularly needed. This could lead to under investment in the economy. Of course when CBAs are completed, the Government should choose those with the highest NPV and given the scarcity of public funding policymakers should reject projects with lower NPVs even where these are positive if better opportunities exist. The European Commission guidelines on cost benefit appraisal require that in the absence of any specific national guidelines to adjust for sub-optimal taxes, cost benefit appraisals should assume that the marginal cost of public funds should be taken as 1.0 or 100%.

Academics views on this issue are divided. There is recent academic research which would support a shadow price of public funds of 1.0. For example, a study by Professor Bas Jacobs of Erasmus University Rotterdam funded by the Dutch Ministry of Economic Affairs and the Netherlands Organisation for Scientific Research came to the conclusion that a 100% value for the cost of public funds should be used. (There is of course some academic research suggesting a value above 1.0). In addition, the detailed HEATCO large multi-country report commissioned by the European Commission recommended that in treating the marginal cost of public funds "to assume a marginal cost of public funds of 1.0, i.e., not to use any additional costs of public funds." Indecon's view is that if an additional shadow price of public funds is used, it could raise numerous complexities between projects of different types, e.g., direct public expenditure vis a vis public-private finance projects (because of the difference in timing of payments) or between two projects with identical costs and with identical NPVs but with different tax components in the benefits. We fully accept that there can be distortions due to sub-optimal taxes but believe these should be addressed by reform of taxation policy and by setting National limits on public expenditure rather than to attempt to adjust specific project appraisals to take account of this fact. For these reasons

we, in all cases, show as a sensitivity, the impact of using the 100% assumption for the cost of public funds. However in all cases we also use to the DPER suggested rate of 130%.

### **Shadow Price of Labour**

Another key assumption involves the opportunity cost of labour. The current DPER guidance recommends a value between 80-100%. We use the 80% parameter in our estimates but also use as one of the sensitivities a shadow price of labour which in our opinion more accurately reflects current levels of unemployment in the construction sector. Analysis of Census 2011 indicates that around 49% of workers classified as being in construction type occupations were unemployed. Taking account of this figure, we use a shadow price of labour of 51% for the next five years. This estimate is consistent with the findings from our survey research with architects/quantity surveyors concerning the probability of construction workers involved in such projects finding employment on other construction projects or in other sectors. Many of the construction workers have been longer term unemployed for two or more years and the average exit rate for people on the Live Register for this period is currently of the order of 26%. In light of this we believe our use of a shadow price of labour of 51% is appropriate for this sector at this time. To assume that, over the next 3-5 years, 80% of the unemployed construction workers will exit the live register, may in our view be unrealistic.

Indecon, however, believes that the opportunity cost of labour is likely to vary over time and for that reason in our 2005 review of property based tax incentives for the Department of Finance we suggested the opportunity costs were very high and this contributed to our recommendation for the abolition of most of the incentives. We also believe that after a period of five years the DPER recommendation of a minimum of 80% shadow price of labour even for the construction sector is likely to be appropriate.

Indecon believes that for the next three to five years, the opportunity costs of some categories of labour such as construction workers is low; but after that, a higher rate is appropriate. Indecon also believes that there should be as assumption of very high (up to 100%) opportunity cost of labour for certain skills such as ICT, pharmaceutical and certain internationally traded services.

Indecon accepts that even for construction workers one has to evaluate possible opportunities in other sectors. However, the evidence suggests that there are very high levels of unemployment in many sectors where construction workers might traditionally have obtained jobs (such as warehousing, security work, factory operatives, cleaners and retail etc.). Some of the additional construction employment generated has however an opportunity costs and so we assume a 51% opportunity cost for this labour as one of our sensitivities.

### **Multiplier estimates**

We use Type 1 multipliers to capture the indirect benefits of new investment in construction and tourism. These figures are from taken from Indecon's input-output model of the Irish economy using CSO data. We take the average multiplier of the recreation sector and the hotels and restaurant sector to compute our tourism multiplier.

### **Scheme deadweight**

Deadweight measures the extent to which the behaviour change would have occurred without policy intervention. It will differ on a scheme by scheme basis. For this particular scheme, we have assumed that around 36% of the activity may have occurred without the scheme. Our survey of architects and quantity surveyors and other groups implicitly suggests that most of stakeholders believe the probability of activity taking place over a five-year period would be low. For refurbishment type projects in inner city areas our assumption that 36% would have occurred over this period may be optimistic but we believe it is important to take account of the fact that some activity may have occurred even in the absence of any incentives.

### **Tourism deadweight/displacement**

We believe that there are likely to be positive tourism effects of the Scheme but only if there are sufficient levels of take-up. In our primary research, we consider survey evidence on the likely increase in tourism as a result of this Scheme. We have applied a weighted average of the estimates to a baseline level of tourism expenditure in both Waterford and Limerick but only to overseas tourism spend.

This increase in tourism is, however, in our view likely to be subject to very significant levels of deadweight and displacement and we do not believe this has been taken into account by survey respondents. Thus, the incremental impact of the Scheme is likely to be much smaller than the survey research indicates. For this reason, we have applied a conservative assumption of very high levels (92.5%) for deadweight and displacement for increased tourism spend. In terms of displacement, the Scheme is likely to divert most of this business from other parts of Ireland and in such cases the tourism benefit is not additional.

It is also important to note that economic benefits should be measured in terms of additional benefit to the Irish economy. Thus, we make a further adjustment to the value of the expenditure in the tourism sector to account for expenditure on imports. In particular, we deduct 60% of the tourism spend from our benefit calculation to take account of leakages from the Irish economy.

### **CO<sub>2</sub> emissions**

We have applied detailed methodology to estimate the likely CO<sub>2</sub> savings associated with the different levels of take-up. The buildings in this Scheme are likely to be energy inefficient and thus upgrading them will lead to energy savings and reduced CO<sub>2</sub> emissions. We match these buildings to the BER ratings database, which describes buildings in terms of their energy rating.

We have assumed that around 20% of the investment is spent on improving the energy performance of the buildings. This leads to energy savings<sup>9</sup> and we have converted these savings in CO<sub>2</sub> savings based on recent Department of Finance guidance.

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<sup>9</sup> The energy savings are based on detailed modelling undertaken by Indecon/SEAI as part of ongoing research.

**Effective Tax Rate**

We use an average effective tax rate of 52% to estimate the cost of the initiative. Thus, for every €100 investment, we are assuming the state will lose €52 in tax foregone.

Given the fact that owner occupiers may not all be paying tax at the top rate, we have also modelled a scenario where the average effective tax rate was only 35%. This would lower financial costs to the state.

We are, however, assuming in our base case that the high tax rate will apply to those securing relief under the scheme but there will be, a lower tax rate on the benefit side of 35% to reflect the lower estimated incomes of construction workers.

**Average Expenditure**

We have assumed in this appraisal that the average level of expenditure for each building participating in the Scheme is around €100,000. Through consultation, it was felt that this was a reasonable estimate of average expenditure. One condition of the Scheme is the investment must be worth at 10% of the property value and this will result in the exclusion of minor projects. While some projects may have higher level of spend others are likely to come in below this level.

**Administration costs**

We have assumed that there are costs associated with the administration of the Scheme. We have assumed that this represents 5% of the total tax foregone.

This administration cost is included in our estimates of gross economic costs.

**Level of Scheme take-up**

Ultimately, the costs of the Scheme are driven by the level of take-up. Our assumptions on take-up have been outlined in the previous section.

**Length of Scheme**

We have assumed that the Scheme will run for five years and the level of scheme take-up will be distributed across the five years. As indicated we assume a 30 year timeframe for the NPV calculations.

## **8.3 Description of Benefits**

Indecon assessment of the cost benefit appraisal is based on a quantification of potential impacts on economic value as measured by enhanced value of buildings and other quantified benefits.

We have undertaken detailed modelling of possible CO<sub>2</sub> benefits from a scheme of this type which is likely to slightly improve the energy performance of older energy inefficient buildings. We also examine construction and other employment benefits<sup>10</sup> adjusted for opportunity cost of labour.

### 8.3.1 Indecon CBA Model

The use of standard CBA model is, in Indecon's assessment, the most appropriate method to measure the costs and benefits for a scheme of this type. A summary of the potential benefits from this approach is shown in Table 8.2.

Table 8.2: Summary of Benefits	
Benefit:	% of Total
Urban Renewal other benefits reflected in increase in value of premises	51.1%
Construction benefits (initial)	7.6%
Tourism benefits (annual benefit)	20.0%
CO2 emission savings	6.4%
Multiplier Impacts from construction	4.3%
Multiplier Impacts from Tourism	10.7%
<b>Note: Benefits based on a shadow price of labour of 80% and a shadow price of public funds of 130%</b>	
<b>Source: Indecon analysis</b>	

The urban renewal and other benefits which are reflected in increases in the value of premises can be broken into two types:

- ❑ Affected houses; and
- ❑ Other houses in the area.

As this benefit relates to the value of an asset, it is a once-off benefit. The benefit in terms of the value of premises for the buildings which are refurbished is assumed to be equal to the level of new investment. However, improving these derelict properties is also positive benefits for the value of other premises in the vicinity. We have in our estimate assumed that 10% of the other buildings in the area would experience, on average, a 14.7%<sup>11</sup> in their property value of their premises.

There is also likely to be 'benefit'<sup>12</sup> in the employment that is created by the Scheme. This can be estimated based on the shadow price of labour.

We also estimate tourism benefits based on new primary survey research along with current levels of tourism expenditure in two cities. This is adjusted to account for the likely levels of import

<sup>10</sup> We include these as an adjustment to the cost estimates but show them as a benefit in this regard

<sup>11</sup> This estimate is based on result from our primary research.

<sup>12</sup> Treated as a reduction in costs in the CBA.

leakages of this tourism expenditure which we assume to be 60%. An adjustment is made to this economic value of increased net tourism expenditure by applying a very high deadweight/displacement adjustment of 92.5%.

The multiplier benefits of both of these economic benefits are then estimated.<sup>13</sup> Finally, the CO<sub>2</sub> reduction benefit from upgrading the energy performance of the housing stock is included in our estimates.

## 8.4 Costs Benefit Model

Our estimates indicate a positive return for this Scheme. However, the scale of this impact is very dependent on the assumptions that are used. Our CBA results are shown in Table 8.3 in respect of the benefits and costs of operating the initiative in Limerick and Waterford. If one assumes an opportunity cost of public funds of 130% and 80% shadow price of labour as per DPER recommended guidelines the Scheme has a small positive B/C ratio. If one assumes a 100% shadow price of public funds, and a 51% shadow price of labour which Indecon believes is more aligned with labour market realities the results suggest a B/C ratio of 1.47:1.

In our central CBA estimates, we assume that the tax relief is given in the year of expenditure and that the take-up is spread over a period of five years.

Table 8.3: Cost Benefit Appraisal				
Tax incentive provided in the year of expenditure	Shadow price of public funds		Shadow price of public funds	
	130%	100%	130%	100%
Benefits (NPV values)	Opp. Cost of labour = 80%		Opp. Cost of Labour = 51%	
Property price benefits	24,774,316	24,774,316	24,774,316	24,774,316
Construction benefits (initial)	3,670,876	2,507,667	7,803,324	6,143,785
Tourism benefits (annual benefit)	9,699,006	9,444,018	9,699,006	9,444,018
CO <sub>2</sub> emission savings	3,098,876	3,098,876	3,098,876	3,098,876
Multiplier Impacts from construction	2,073,841	2,073,841	5,080,910	5,080,910
Multiplier Impacts from Tourism	5,175,322	5,175,322	5,175,322	5,175,322
Sum of Benefits	48,492,237	47,074,039	55,631,754	53,717,226
Sum of Economic Costs (NPV values)	42,505,950	36,654,147	42,505,950	36,654,147
Benefit-Cost Ratio	1.14	1.28	1.31	1.47
Note: We note that construction benefits are really a reduction in costs but show these in the table above for clarity.				
Source: Indecon Cost-Benefit Analysis of Living City Pilot Scheme				

Our CBA estimates assume that changes will be made to the Scheme to secure a sufficient level of scheme take-up. We also consider the likely economic cost benefits if no changes are made to the Scheme and if this results in low levels of take-up. In Indecon's opinion there is a need for a given level of scheme take-up in order for many of the wider economic benefits to materialise. With low

<sup>13</sup> We use Type 1 estimates which may be conservative if there are also induced effects that result due to this scheme.

levels of take-up, some of the economic benefits of the Scheme will not arise. Although lower scheme take-up leads to a lower cost of the Scheme, it leads to a greater reduction in benefits. For example, if there are low levels of take-up the Scheme will not have any significant impact on the level of tourism expenditure and would not result in a significant improvement in the cultural and other reputation of the city. We also assume that wider increase in the value of other premises would not be realised. Some economic benefits will remain on a pro rata basis including:

- ❑ CO<sub>2</sub> emissions savings of the affected properties; and
- ❑ Construction benefits.

These benefits are directly related to the number of properties that avail of the tax incentive. The implications of low level of take-up are shown in Table 8.4 and the Scheme would have a negative economic net present value (or a BCR of less than unity), if one assumes a shadow price of public funds of 130% and an opportunity cost of labour of 80%.

Table 8.4: Cost Benefit Appraisal –assuming low take-up				
Phased incentives	Shadow price of public funds		Shadow price of public funds	
	130%	100%	130%	100%
Benefits (NPV values)	Opp. Cost of labour = 80%		Opp. Cost of Labour = 51%	
Property price benefits	6,859,942	6,859,942	6,859,942	6,859,942
Construction benefits (initial)	1,056,539	752,375	2,296,398	1,843,320
Tourism benefits (annual benefit)	-	-	-	-
CO2 emission savings	929,756	929,756	929,756	929,756
Multiplier Impacts from construction	622,214	622,214	1,524,425	1,524,425
Multiplier Impacts from Tourism	-	-	-	-
Sum of Benefits	9,468,451	9,164,287	11,610,520	11,157,443
Sum of Economic Costs (NPV values)	12,382,738	10,946,615	12,382,738	10,946,615
Benefit-Cost Ratio	0.76	0.84	0.94	1.02
Source: Indecon Cost-Benefit Analysis of Living City Pilot Scheme				

### Different methods of calculating benefits

We also examined the impacts of using alternative methods to estimate the economic benefits of the Scheme. The results of this analysis are shown in Annex 1. These models indicate a slightly higher level of economic benefits than our main benefit estimation method but we do not believe they represent the most accurate estimation method of the costs and benefits of this particular scheme.

### Wider extension of the Scheme

In order to examine the likely effects of a larger rollout of this Scheme to other areas, it may be useful to consider scenarios where take-up is 5 – 7.5 times greater than our base case. We believe that an extension to other areas to achieve this would result in a pro rata increase in costs and benefits.

However, it must be noted that our modelling has not been designed to examine the different features of the possible areas that the Scheme would cover in the event of its extension. Thus, our estimates should be treated as indicative. However, we believe a pro rata increase in the costs and the benefits if applied to parts of other cities which had other run down areas, would be appropriate.



## 8.5 Employment Impacts

One of the significant short-term benefits relates to employment impacts of the Scheme. These are reported in terms of the number of jobs created in Table 8.5. The results are significant and indicate the creation of around 144 jobs per annum in the pilot areas over the five year lifetime of the initiative. It must be noted that our new primary research indicated that a scheme of this type would be very labour intensive and directly aligned with the skill base of large numbers of long term unemployment. If there was a significant extension of the initiative to other areas the employment impacts could be order of 3,600-5,400 man years or between 700-1,100 jobs in each of the next 5 years. In addition, sustained employment increases would arise as a result of the increased business activity.

**Table 8.5: Estimate of Construction Jobs created**

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Employment in Pilot Areas	144	144	144	144	144	718
Employment – Extended Initiative	720 - 1,080	720 - 1,080	720 - 1,080	720 - 1,080	720 - 1,080	3,600 – 5,400

Source: Indecon Analysis of Living City Pilot Scheme

## 8.6 Exchequer Impacts

We show the exchequer impacts of our base scenarios. When we take account of deadweight and displacement the Scheme would have modest exchequer costs as outlined in the table below. Prior to taking account of deadweight, displacement and the opportunity costs of the labour scheme would be an annual net exchequer benefit of the order of €440,000 per annum.

**Table 8.6: Exchequer Cash Flow Analysis of Living City Pilot Scheme**

100% of subsidy given in the first year	Tax Rate=52%	Tax Rate=52%	Tax Rate=35%
	130% & 80%	100% & 51%	100% & 51%
<b>Net Exchequer Benefits (NPV values)</b>			
Income Tax revenue (inc. deadweight)	1,140,230	2,148,896	2,148,896
VAT (from investment – inc. deadweight adjustment)	6,540,586	5,258,763	5,258,763
VAT from tourism	708,628	689,998	689,998
Decrease in Social Welfare spending	650,808	1,594,481	1,594,481
<b>Sum of Exchequer Benefits</b>	9,040,253	9,692,137	9,692,137
<b>Sum of Exchequer Costs (NPV values)</b>	24,245,478	18,650,368	12,553,132
<b>Net Exchequer Costs (NPV values)</b>	-15,205,225	-8,958,230	-2,860,995
<b>Annual Net Exchequer Costs over 5 years</b>	-3,041,045	-1,791,646	-572,199

Source: Indecon Exchequer Flow Analysis of Living City Pilot Scheme

Note: % figures below tax rates refer to shadow price of public funds and opportunity cost of labour



## 8.7 State Aids

The Living City Initiative is designed to enhance Ireland's cultural built heritage and to create sustainable urban renewal.

Article 167 of the TFEU provides that "the Community shall contribute to the flowering of the cultures of the Member States, while respecting their national and regional diversity and at the same time bringing the common cultural heritage to the fore." "The Community shall take cultural aspects into account in its action under other provisions of this Treaty, in particular in order to respect and to promote the diversity of its cultures."

According to Article 107(3)(d) of the TFEU, "aid to promote culture and heritage conservation where such aid does not affect trading conditions and competition in the Community to an extent that is contrary to the common interest" may be considered to be compatible with the internal market.

There is, however, no automatic exemption from the State Aid rules for aid for promoting culture; there is a derogation under Article 107 (3)(d) of the Treaty which allows aid to be given for promoting culture as long as it is notified to the European Commission and the Commission has given its approval. Article 107(3)(d) could be used to notify a scheme where aid is given to a commercial undertaking to promote cultural objectives. Culture and urban renewal projects such as Living City have to be considered in the light of Commission decisions on previous cases.

In this context it is useful to consider a recent case of state aid in Latvia.

On 8 March 2012, the Latvian authorities notified a conglomerate of aid measures under Article 108(3) of the TFEU<sup>1</sup> to promote culture and cultural heritage conservation in Latvia. The Commission requested additional information which was provided by the Latvian authorities.

The objective of the Latvian support was primarily aimed at development of the sector of culture, while its secondary objective is preservation of cultural infrastructure and heritage. The Scheme is intended to cover a wide range of activities including in particular construction, improvement, renewal, restoration and conservation of the cultural infrastructure, as well as the provision of maintenance of cultural institutions, the organisation of various cultural events and the digitisation of cultural heritage.

In their assessment of the measure the European Commission had to evaluate and it reported State aid within the meaning of Article 107 (1) of the TFEU. The Commission has to assess whether the notified measure can be characterised as State aid within the meaning of Article 107(1) of the TFEU, according to which "save as otherwise provided in the Treaty, any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the internal market".

The European Commission appears to have taken the view that it cannot exclude the notified scheme, which consists of a conglomerate of measures, in some of its many applications constitute State aid within the meaning of Article 107(1) of the TFEU. However, we understand that the Commission considered that, to the extent that the measure constitutes State aid, it is necessary and proportionate for the promotion of culture and heritage conservation and does not affect trading conditions and competition in the Community to an extent that is contrary to the common interest within the meaning of Article 107(3)(d) of the TFEU.

There have also been other cases similar to Living City where the Commission allowed the aid. One example in the UK is the Northwest Urban Investment Fund (JESSICA).

The UK authorities and the European Investment Bank (EIB) have set up a JESSICA Holding Fund under the name of the Northwest Urban Investment Fund (NWUIF). The NWUIF operates as a Holding Fund (fund of funds) and will support investments via financial intermediaries, so-called Urban Development Funds (UDFs), in urban regeneration projects in order to facilitate sustainable and integrated urban development in the Northwest region of England.

Under the notified measure, sub-commercial public investments will be made where the market would not deliver urban regeneration projects by itself in order to provide the necessary incentives to private investors. Moreover, public support will be limited to the minimum necessary to avoid undue distortions of competition in the internal market.

Overall, Indecon believes that the proposed aid is proportional and should be allowed by the European Commission. However, a comprehensive examination of this issue, or the preparation of the submission to the Commission, is outside the scope of this study.

## **8.8 Summary of Main Findings**

Indecon's analysis suggests that there are significant benefits from the proposed initiative and assuming changes are made to facilitate satisfactory levels of uptake the economic benefits outweigh the economic costs involved. Our estimates suggest that there would be a net gain to the Irish economy from the Scheme and this is reflected in a positive cost benefit ratio. Our analysis suggests direct employment benefits of 718 full-time equivalent jobs over the period. Properly planned, the Scheme could have positive impacts on economic activity and business in the affected areas and help achieve urban renewal and conservative objectives. We believe the Scheme would be permitted under EU state aid requirements.

## 9 Conclusions and Recommendations

### 9.1 Conclusions

#### 9.1.1 Socio-Economic Context

The proposed pilot for the Living City Initiative is targeted on the old historic city areas of Waterford and Limerick. Indecon's findings suggest these areas are of significant economic deprivation with high levels of unemployment and low levels of educational attainment. In Waterford City male unemployment is 29.6% and in Limerick City is 32.7%. There are, however, similar high levels of unemployment in parts of other cities and other urban areas.

#### 9.1.2 Economic and Business Impact of Living City Initiative

Indecon's research with retailers and with architects and auctioneers suggests that an initiative to refurbish historic buildings in the city centre areas could have significant economic and business impacts. Over 89% of retailers suggested it would have a significant or very significant impact on economic activity in the cities and a similar percentage felt it would have such impacts on the commercial viability of businesses.

#### 9.1.3 Tourism Impacts

Sensitive urban redevelopment also has potential consequences for tourism in the affected areas. Waterford and Limerick both benefit from significant tourism numbers and spend.

The weighted average increase in tourism visitors estimated by our research with architects/quantity surveyors suggests a potential tourism uplift in the areas of the order of 11.4%. Indecon, however, believes that most of this impact would represent a displacement from other parts of Ireland.

#### 9.1.4 Impact on Urban Renewal and Conservation

One of the most important benefits of the initiative could be the impact on urban renewal and on conservation and cultural reputation of the inner cities of Ireland's cities. It could also result in a reversal of the trend of de-population of the city centres. In Limerick 32.4% of the old city buildings are unoccupied. In Waterford, 25.8% are unoccupied.

A targeted initiative which would enhance the historic areas of Ireland's cities by refurbishment of run down and vacant buildings has the potential to enhance economic benefits which would be reflected in the value of other buildings in the areas. Our research suggests that the likely impact on the value of premises from such an initiative would range between 12.2% - 17.6%. This is an indirect measure of the wider economic benefits of such an initiative.

Indecon's survey work with businesses and with architects/quantity surveyors suggested that significant impacts from such an initiative would arise from this in terms of:

- ☐ Visual attractiveness of the inner cities;
- ☐ Heritage and conservation status of buildings; and
- ☐ Utilisation of buildings currently uninhabited.

#### 9.1.5 Impact on Employment

Indecon believes that an important short-term impact of the Living City initiative would be to increase employment opportunities which are aligned with the skills of those unemployed and who were previously employed in construction related areas. Our research with businesses and with architects and auctioneers suggests a significant impact on employment.

Over 80% of architects/quantity surveyors surveyed indicated their judgement that there would be significant direct employment impacts. A majority also felt there would be a low probability of employment on other projects or in other sectors over the next three to five years. Refurbishment of old buildings is very labour intensive and estimates suggest that approximately 56% of capital spend would be accounted for by labour costs on such initiatives.

Indecon's preliminary estimates suggest direct employment creation in the pilot areas of around 718 man years of employment or 144 jobs for each of the next five years. If there was an extension of the initiative to other areas the employment impacts could be order of 3,600-5,400 man years or between 700-1,100 jobs in each of the next five years. In addition, sustained employment increases would arise as a result of the increased business activity.

#### 9.1.6 Estimates of Scheme Take Up

The likely level of take-up of the Living City initiative is less in the two pilot areas than in other cities in Ireland. While this may provide further justification for targeting the two areas, it also suggests that if significant uptake is to be achieved an extension to other areas merits consideration. In Waterford City and Limerick City Indecon estimates suggest a potential take-up of around 180 premises and in Limerick slightly over 200 over a five-year period assuming changes are made to the Scheme.

There are, however, a number of barriers to take-up, including the specific details of the incentives and the difficulties in obtaining funds to finance the cost of refurbishment of buildings.

Without changes Indecon believes the level of take-up would be minimal and the full potential of the initiative would not be achieved.

#### 9.1.7 Costs and Benefits of Scheme

Given the scarcity of public finances Indecon believes that while the Scheme has important potential benefits, any decisions to proceed with this initiative should be based on a rigorous economic cost benefit analysis. Based on prudent assumptions Indecon estimates suggest a net economic benefit but the benefits are sensitive to the level of take-up and to ensuring a refurbishment of a reasonable number of premises within an area. With very low levels of take-up the B/C ratio is less than 1.0 in certain scenarios. Indecon is assuming in our cost benefit analysis fairly high levels of deadweight and very high levels of displacement. If one assumes an

opportunity cost of public funds of 130% and 80% shadow price of labour as per DPER recommended guidelines the Scheme has a small positive B/C ratio. Assuming an opportunity cost of construction labour of 51% and a shadow price of public funds of 100%, the NPV of net benefits amounts to over €17 million, with a positive cost benefit ratio of 1.47:1. This assumes that changes are made in this Scheme to provide the tax incentive in the year of expenditure and other changes to eligibility criteria to encourage uptake.

## 9.2 Summary of Conclusions

In the table below we outline four key conclusions from our analysis.

Table 9.1: Summary of Conclusions	
1.	<b>There are significant economic benefits from the proposed initiative which outweigh the economic costs involved.</b>
2.	<b>Unlike property incentives in the past both the focus and timing of this incentive is aligned with the requirements of the Irish economy.</b>
3.	<b>There are likely to be some modest exchequer costs required to achieve the identified benefits.</b>
4.	<b>The Scheme is likely to require EU approval under state aids but is similar to schemes approved in other countries.</b>

**There are significant economic benefits from the proposed initiative which outweigh the economic costs involved.**

Indecon's analysis suggests that there are significant benefits from the proposed initiative and assuming changes are made to facilitate satisfactory levels of uptake the estimated economic benefits outweigh the economic costs involved. Our estimates suggest that there would be a net gain to the Irish economy from the Scheme and this is reflected in a positive cost benefit ratio. Our analysis also suggests direct employment benefits over the period and up to 5,400 if extended to other areas. Properly planned, the Scheme could have positive impacts on economic activity and business in the affected areas and help achieve urban renewal and conservation objectives.

**Unlike property incentives in the past both the focus and timing of this incentive is aligned with the requirements of the Irish economy.**

In the past, policymakers have introduced property related tax incentives which were not justified and which contributed to Ireland's economic difficulties. We believe, however, that now is the appropriate time to introduce targeted initiatives which would enhance run down urban areas and increase business activity and tourism. Appropriately designed such an initiative could have positive net economic benefits and also contribute to addressing high levels of unemployment.

In Indecon's review of property based tax incentives for the Department of Finance completed in 2005, Indecon pointed out that in the case of most of the property based incentives, they:

"...have served their purpose and there is absolutely no case for future government incentives. Continuing to approve new projects would contribute to oversupply and represent a clear waste of scarce public resources."<sup>14</sup>

Indecon also pointed out in that report the dangers of oversupply and we referred in specific cases to the fact that we saw:

"...no case of market failure which would justify any further extensions of capital allowances."<sup>15</sup>

In contrast, the Living City Initiative is one where the net economic benefits are likely to exceed the economic costs and would increase economic activity in a very labour intensive sector. Our conclusion is that, unlike property incentives in the past, both the focus and timing of this incentive is aligned with the requirements of the Irish economy.

**There are likely to be some exchequer costs required to achieve the identified benefits.**

To achieve the benefits identified there will be some Exchequer net costs required but which Indecon believes are modest in the context of achieving the economic, urban renewal and employment benefits. If one assumes a shadow price of public funds of 130% and an 80% opportunity cost of labour the net annual exchequer costs amount to approximately €3.0m. Under alternative sensitivities the estimated net annual costs would be of the order of €1.8m.

**The Scheme is likely to require EU approval under state aids but is similar to schemes approved in other countries.**

In our opinion, the initiative will require EU approval under state aid requirements but we believe it is aligned with similar initiatives which have been approved in other countries. The Scheme should not affect trade or competition to an extent that is contrary to the Treaty and is necessary and proportionate to achieve cultural heritage and urban renewal objectives.

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<sup>14</sup> Indecon Review of Property-based Tax Incentive Schemes for the Department of Finance. Report completed October 2005 and published by the Department in February 2006. Page vii and page 313.

<sup>15</sup> Indecon Report op cited page 315

### 9.3 Recommendations

Indecon's recommendations regarding the Living City Initiative are presented below.

**Table 9.2: Indecon Recommendations**

- 1. Indecon recommends proceeding with the proposed Living City Initiative.**
- 2. A targeted extension to run down parts of other cities in Ireland for a defined period should be considered.**
- 3. Provision of tax relief should be provided in the year in which expenditure is incurred.**
- 4. Incentives should be restricted to owner/occupiers but eligible building work should be permitted prior to occupiers owning the premises.**
- 5. There should be adjustments made to the permitted use of buildings.**
- 6. The definition of eligible buildings should be widened.**
- 7. The incentive should only be provided for a limited period of 4 to 5 years.**
- 8. There should be no general extension of the incentives to cover new buildings.**
- 9. The operational aspects of the Scheme should be carefully planned to ensure high quality sympathetic restoration.**

#### **1. Indecon recommends proceeding with the proposed Living City Initiative.**

Indecon recommends proceeding with the proposed Living City Initiative as our estimates suggest the benefits, taking account of deadweight and economic displacement are greater than the resource costs involved. The Scheme is very different to previous incentives and is aligned with the needs of the Irish economy.

#### **2. A targeted extension to run down parts of other cities in Ireland for a defined period should be considered.**

Indecon recommends that consideration is given to a targeted extension of this initiative to run down parts of other cities in Ireland for a defined period. Parts of other cities are likely to score as highly as Limerick and Waterford on economic deprivation and other criteria. For illustrative purposes, areas such as Mountjoy Square and other defined parts of Dublin City's Georgian Core are badly in need of sensitive refurbishment.

#### **3. Provision of tax relief should be provided in the year in which expenditure is incurred.**

Provision of the tax relief in the year in which expenditure is incurred is needed to overcome funding barriers to enable refurbishment. This is in line with other heritage tax reliefs. The exchequer costs impacts of this are small and it does not change the overall cost-benefit. However without this change funding will be a barrier and we do not believe there would be significant uptake. Without such uptake the wider benefits will simply not be achieved.

**4. Incentives should be restricted to owner/occupiers but eligible building work should be permitted prior to occupiers owning the premises.**

We recommend Incentives should continue to be restricted to owner/occupiers but that eligible building work can take place prior to occupiers owning the premises. This is in our view essential and would support local artisan enterprises. However, only owner/occupiers would be eligible to claim any tax benefits. We are also in favour of restricting incentives to owner/occupied principal private residence or perhaps providing a lower incentive where this is not the case. While this will impact on take-up we believe on balance that encouraging owner/occupied principal residences in the inner city areas is important to secure urban renewal benefits.

**5. There should be adjustments made to the permitted use of buildings.**

Consideration should be given to permitting more than one use in a building providing most of the building is for residential purposes and that such use of a limited element for non owner occupiers would not deem the property as ineligible. Certain amendments to the incentives should also be considered to encourage cultural use of buildings and this may require permitting non-occupiers to receive the tax incentives. We also recommend that local services use be included under the retail definition.

**6. The definition of eligible buildings should be widened.**

The definition of eligible building should be widened to include a wider definition of Georgian buildings as well as Victorian and Edwardian buildings. There are for example only tiny numbers of buildings in Waterford which would meet the current eligibility requirements and without amendment to this the take-up in Waterford would be insignificant. Even in relation to the Georgian buildings the definition is problematic, and we have been informed by the Georgian Society that a large proportion of the houses built in the Georgian style date were built in the 1840's and 1850's. We believe however that a much wider definition of historic buildings up to 1919 is needed to secure urban development benefits. Indecon recommends that 1919 or earlier should be the cut off date for eligibility. We also believe that the proposed floor size restriction of 38m<sup>2</sup> - 210m<sup>2</sup> would inappropriately exclude some of the more important larger Georgian properties and that the upper limit on size should be raised to 400m<sup>2</sup>.

**7. The incentive should only be provided for a limited period of 4 to 5 years.**

The incentive should only be provided for a limited period of up to 4 or 5 years and its impact should be subject to a rigorous ex-post cost-benefit analysis in order to provide lessons for future policy. After that period access to funding and the employment market may change which would impact on our cost/benefit estimates.

**8. No extension of the incentives should be permitted to cover new buildings.**

No general extension of the incentives should be made to cover new buildings and the tax allowance should be restricted to refurbishment of older housing stock. There is, however, merit in a very limited exception to this for the erection of sympathetic new structures within the curtilage of protected structures to support the economic viability of important older historic buildings.



**9. The operational aspects of the Scheme should be carefully planned to ensure high quality sympathetic restoration.**

Poor quality or inappropriate redevelopment could damage the historic urban fabric of Ireland's cities. It is therefore essential that the operational aspects of the Scheme should be carefully planned to ensure high quality sympathetic restoration. This will require careful specificity of the property designation areas and should be aligned to, inter alia, include Protected Structures and Architectural Conservation Areas and the use of wider Conservation Areas.

## **Annex 1 Alternative Models to Quantification of Potential Benefits of the Scheme**

In this annex we consider two alternative methods to evaluate the benefits of a Living City type initiative focused on urban regeneration and the cultural heritage benefits.

The first alternative approach is similar to UK practice<sup>16</sup> in estimating the economic benefits associated with urban regeneration projects. A summary of the main categories of benefits from this approach are shown in the following table.

Quantification of impacts on business activity and employment	
	% of Total
Increase in Value of Premises	38.8%
Incremental increase in activity (affected hhs)	27.9%
Incremental increase in activity (uplift)	27.9%
CO2 emissions	5.3%
<b>Note: Benefits based on a shadow price of labour of 80% and a shadow price of public funds of 130%</b>	
<b>Source: Indecon analysis</b>	

This approach includes the expected increase in the value of the affected premises and the CO<sub>2</sub> benefits. The other benefits included this approach are related to the incremental expenditure in the regenerated area. This method is based on the assumption that the area under development has standing. A key issue in this approach is that the geographic boundaries for the economic justification are set for the area concerned rather than for the national economy. In Indecon's judgement because of the likely displacement impacts this method may overestimate the national economic benefits. The key findings from this alternative approach are presented below.

Cost Benefit Appraisal – Model 2		
100% of subsidy given in first year	Shadow price of public funds	
	130%	100%
Benefits (NPV values)	Opp. Cost of Labour = 80	
Quantification of urban regeneration potential impacts on business activity and employment		
Property price increase	22,864,185	22,864,185
Incremental increase in activity (affected hhs)	16,453,777	16,453,777
Incremental increase in activity (uplift)	16,453,777	16,453,777
CO2 benefits	3,098,876	3,098,876
Sum of Benefits	58,870,616	58,870,616
Sum of Economic Costs (NPV values)	42,505,950	36,654,147
Benefit-Cost Ratio	1.38	1.61
Source: Indecon Cost-Benefit Analysis of Living City Pilot Scheme		

<sup>16</sup> UK Government Department of Communities and Local Government "Valuing the Benefits of Regeneration: Economics Paper 7: Volume 1 – Final Report"

### Alternative estimation of the economic value of cultural heritage benefits

The other approach that we considered is based on attempting to estimate the value of cultural heritage in Ireland. This is based on a willingness-to-pay approach where a revealed preference estimate is used as the basis for economic benefits. A summary of the benefits from this approach are shown in the table below.

Model 3 - Estimation of the economic value of cultural benefits	
	% of Total
Total affected houses	44.0%
Total houses in area	39.5%
Total houses in wider 2km area	1.7%
CO2 benefits	6.0%
Construction benefits (initial)	4.8%
Multiplier Impacts from construction	4.0%
<b>Note: Benefits based on a shadow price of labour of 80% and a shadow price of public funds of 130%</b>	
<b>Source: Indecon analysis</b>	

This approach utilises recent academic research on the value of cultural heritage in Ireland<sup>17</sup>. This research indicates the distance to the nearest historic building negatively affects the property value. The research indicates that house prices decreasing by 0.6-0.7% for every 100 meters that a house is away from a site of cultural heritage. We have applied this figure to the chosen areas and estimated an economic benefit from this.

The willingness-to-pay approach attempts to capture all benefits of the asset and implicitly for benefits such as increased tourism, improved visual amenities, reduced crime or improved social conditions. Thus, there is no need to estimate these benefits individually as that would lead to double counting of benefits.

Overall, we believe that there may be merit in using this type of approach for some evaluations as it attempts to capture all benefits that are likely to exist. However, as the Living City initiative is not purely a cultural project, and as we do not have precise data on either the willingness to pay or on revealed performance, we believe that this approach is not the most appropriate for this assignment.

The indicative estimates from this approach suggest a net cost benefit ratio of 1:26 compared to the Indecon estimate of 1:14.

<sup>17</sup> Moro, Mayor, Lyons and Tol (2013) "Does the housing market reflect cultural heritage? A case study of Greater Dublin," ESRI Working Paper 386

Cost Benefit Appraisal – Model 3		
100% of subsidy given in first year	Shadow price of public funds	
	130%	100%
Benefits (NPV values)	Opp. Cost of labour = 80%	
	Model 3 – estimation of the economic value of cultural benefits	
Total affected houses	22,864,185	22,864,185
Total houses in area	20,530,544	20,530,544
Total houses in wider 2km area	874,111	874,111
CO2 benefits	3,098,876	3,098,876
Construction benefits (initial)	2,507,667	2,507,667
Multiplier Impacts from construction	2,073,841	2,073,841
Sum of Benefits	51,949,224	51,949,224
Sum of Economic Costs (NPV values)	42,505,950	36,654,147
Benefit-Cost Ratio	1.22	1.42
Source: Indecon Cost-Benefit Analysis of Living City Pilot Scheme		