Budget 2006:

Review of Tax Schemes

Volume II:

Goodbody Review of
Area-Based Tax Incentive Renewal Schemes

Department of Finance
February 2006

Introductory Note

A major review of existing tax incentive schemes was undertaken in 2005, on foot of the announcement by the Minister for Finance, Mr Brian Cowen T.D., to this effect in Budget 2005.

The review process involved internal reviews conducted by officials in the Department of Finance and the Office of the Revenue Commissioners, as well as reviews of certain schemes by external consultants. Goodbody Economic Consultants were retained in April 2005 to conduct a detailed review of area-based tax incentive renewal schemes.

Goodbody submitted their report on 4 November 2005. The full text of the Goodbody report is reproduced in this volume, which is Volume II of the series. The review of certain sectoral property-based tax incentive schemes, conducted by Indecon, is set out in Volume I. Volume III reproduces the finalised reports of the internal reviews.

Department of Finance
February 2006

Review of Area-Based Tax Incentive Renewal Schemes

Final Report

November 2005

Goodbody Economic Consultants in association with
Mazars and HKR
Ballsbridge Park, Ballsbridge, Dublin 4 • Tel: 353-1-6410482 • Fax: 353-1-6682388
www.goodbody.ie/consultants/ • e-mail – econsultants@goodbody.ie

Table of Contents

List of Tables

List of Figures

Executive Summary

General

The Minister for Finance announced in his Budget Statement of December 2004 that the Department of Finance and the Office of the Revenue Commissioners would undertake a detailed review of certain tax incentive schemes and tax exemptions in 2005.

As part of this process, the Department of Finance has commissioned a study of the area-based tax incentive schemes viz.

- The Rural Renewal Scheme;
- The Urban Renewal Scheme;
- The Town Renewal Scheme; and
- The Living over the Shop Scheme.

Goodbody Economic Consultants in association with Mazars and Horan Keogan Ryan were commissioned to undertake the study.

Objectives of the Review

The objectives of the review may be summarised as follows:

- To assess the costs and benefits of each scheme, taking account of dead-weight and displacement effects;
- To assess the costs to the Exchequer of the tax Incentives and the gross and net impact on Exchequer revenues;
- In particular, to assess the success of the schemes in the economic and social development and regeneration of designated areas;
- To identify successful and unsuccessful aspects of the schemes;
- To identify changes in the design of the schemes that would promote effectiveness and value for money; and
- To consider the extent to which alternative public expenditure measures could be used to achieve the same objectives.

Approach of the Consultants

The approach of the consultants to the assignment was based on the following elements:

- The derivation of a cost-benefit framework, within which the Urban and Town Renewal Schemes could be evaluated;
- Use of the Department of Environment, Heritage and Local Government databases, detailing expenditures on the Urban, Town and Living over the Shop Schemes;

- Development of basic data on the Rural Renewal Scheme through a series of surveys, as data on the Scheme were not available from official sources;

- Development and use of a model to assess the tax costs of the Schemes;

- Consultation with Departmental and local authority officials;

- Collection of relevant planning statistics from the local authorities

- A postal survey to elicit local authority planning officials views on the Schemes;

- Seven full case studies and two partial case studies of urban areas and towns benefiting from all four Schemes; and

- A review of similar and alternative schemes in operation abroad.

Cost to the Exchequer

It is estimated that the area-based tax incentive Schemes will cost the Exchequer €639m in tax forgone in present value terms in respect of developments undertaken to end of 2004.

By the end of July 2006, when the Schemes are due to expire, it is predicted that the costs to the Exchequer will have risen to €1,933m. Almost 74 per cent of these anticipated costs will arise in respect of the Urban Renewal Scheme.

The major impact on the Exchequer is yet to come, as even those developments completed by end 2004 will give rise to claims for tax relief for a considerable future period.

These tax costs are high relative to the outputs achieved. For example, the present value of tax costs represent up to 43 per cent of the building cost associated with developments undertaken as part of the Schemes.

The Rural Renewal Scheme

Th Rural Renewal Scheme has delivered a modest increase in housing output, which has improved the quality of the housing stock in the participating areas. Overall, it has had relatively little impact on industrial and commercial development and thus directly on economic activity. However, it has helped vitalise the towns of Longford and Leitrim, through both residential and commercial developments.

With regard to the housing output under the Scheme, it is evident that there is substantial dead-weight and a significant proportion of the output would have occurred in any event.

A key objective of the Scheme was to support a reversal of the population decline in the participating areas. There is evidence that much of the housing output has been taken up by existing residents, further increasing the dead weight associated with the Scheme. As a result, the Scheme has not represented value for money. This has been exacerbated by the tendency, on the part of a significant minority of participants to build relatively large houses.

It is now evident that the very substantial increase in housing output has now resulted in excess supply and that house prices are softening and rents have declined.

A positive feature of the Scheme has been the large number of participants, and thus a reasonably widespread distribution of the tax benefits. However, the Scheme, in common with the other area based incentive, has fundamentally adverse equity impacts.

The Urban Renewal Scheme

The Urban Renewal Scheme has been successfully implemented, and it is anticipated that by mid July 2006 a very high proportion of developments earmarked for the designated sites will have been completed. The structures put in place, including the Integrated Area Plans, have been vital in matching development to local needs and priorities. Areas where resources were applied to managing and marketing the Scheme were particularly successful.

The Scheme has had very positive impacts on dereliction and has been reasonably successful in improving urban design. With regard to economic impacts, the Scheme has enhanced housing outputs in the target areas. This housing has been taken up and there is no evidence of excess supply. Moreover, the Scheme had a strong emphasis on commercial development and has delivered significant benefits in this area.

The Scheme has been less successful in delivering social and community benefits, as significant funding for initiatives in this area was not raised. Because of the heavy involvement of residential investors in the Scheme and the increased supply of rental properties, concerns have arisen that there have been negative impacts on social integration. This has arisen because mental properties have often attracted a transient population, with excessive dependency on occupation by social welfare recipients.

While dead-weight continues to be an aspect of all such schemes, there is evidence that the Urban Scheme kick started developments in a number of areas, and was crucial in focusing developments on inner city locations, that developers might normally have eschewed.

While the Scheme has proved extremely valuable, its very success, together with the strength of the economy and the increase in private capital, has reduced the need for it going forward. Dead weight is now relatively high at the level of the individual project.

The tax benefits of the Scheme have accrued to relatively few higher income individuals. There has also been significant inflation of property prices as a result of the tax incentives and this has benefited a small number of landowners and developers. Thus, the Scheme has had strong negative income distributional effects, although this is to some extent inevitable when only a small number of sites are tax designated.

The Town Renewal Scheme

The Town Renewal Scheme has been less successfully implemented than the Urban Renewal scheme. A large number of developments at designated sites remain to be commenced. In a significant proportion of towns only a minority of developments have been completed by end of 2004. That said, some towns have benefited enormously from the Scheme.

Where progress has been poor, this is result largely of lack of interest on the part of developers and site owners. To some extent this lack of interest reflected a level of risk of investment in relatively small towns, which the tax incentives were insufficient to offset. It was also the result of the fact that in many towns the designations provided largely for refurbishment of existing commercial property and this proved less attractive to developers than new build.

There is some evidence that the Town Renewal Scheme was not as well managed as the Urban Scheme. Local authority resources were often spread too thinly across a number of towns. Either the allocation of greater managerial resources or a limit on the number of towns included in the Scheme would have produced better outcomes.

The impact of the Scheme has thus been relatively patchy. Where the Scheme was successfully implemented the impacts would have been on a par with those of the Urban scheme. This was not the case for a significant minority of towns.

Where successfully implemented, the Scheme, given its emphasis on refurbishment, had a strong impact on dereliction. Urban design issues featured less strongly than for the Urban Scheme, as did conservation. Because of the relatively low level of new build, economic impacts have not been to the fore. Community and social impacts were not really a feature of the Scheme, and there would not have been any real prospect of raising levies to fund initiatives in this area.

It must be recognised that there was substantial cross over between in terms of scale between areas designated under the Urban and Town Schemes. Larger towns in the Town scheme that had a relatively high level of designation for new build tended to derive similar economic benefits as did their counterparts in the Urban Scheme.

With regard to dead weight, it would appear that this was lower than for the Urban, as the higher risks in towns with lower populations made the tax incentives more crucial in the decision to develop a site.

Living over the Shop Scheme

The Living over the Shop Scheme, as with its predecessors, suffered from low levels of take up. This is a problem that is unlikely to be overcome, as the disruption to retail activities and the loss of storage space act as a deterrent to shopkeepers. Additionally, over the shop residences may not be very attractive to prospective tenants. Because of low take-up, the impacts of the Scheme on the urban environment has been limited. However, the Scheme has been more successful in some urban areas than others. The key factor appears to have been the application of resources to managing and marketing the Scheme.

Recommendations

It is recommended, subject to compliance with EU State Aids policies, that the expiry date for the current Schemes be extended to end 2007.

Thereafter, the Rural Renewal Scheme should not be continued. It is not regarded as cost-effective approach to the problems of rural decline, and is not a model that should be employed elsewhere in the country.

As the Living over the Shop Scheme has a narrow focus on fostering a living urban environment, it should be retained, despite the difficulties with take-up. It is recommended that the tax incentives be made available contingent on a commitment of resources by local authorities to managing the process.

With regard to the Urban and Town Renewal Schemes, the scale of economic activity and the availability of capital have reduced the need for such Schemes. That said, it is recommended that Government retain tax incentivisation as a tool of policy, should economic conditions require further action to regenerate urban areas.

If Government chooses to reintroduce area based tax incentivisation in the post 2007 period, then it is recommended that changes to the structure of the schemes be implemented to reduce the cost to the Exchequer and their inequitable effects.

These changes include:

- Targeting the schemes in areas or towns for which there is evidence of development activity , but where problem sites, such as old dock lands and industrial sites, are being neglected;
- Giving priority to urban areas identified as Gateways and Hubs in the National Spatial Strategy and to towns and cities that host RAPID areas;
- Ensuring that adequate resources are applied to the management of the Schemes;
- Incorporating structures to share experience and promote good practice
- Introducing measures to control abuse of the Schemes;
- Ensuring that designated sites have a prospect of being serviced;
- Establishing the Scheme for a sufficient duration to allow developers to respond;
- Increasing the level of owner-occupation in the housing output mix;
- In order to incentivise the latter, granting 100 per cent relief to owner-occupiers over ten years and restricting the investor relief to 50 per cent; and
- Improving the equity and cost effectiveness of the Schemes by allowing the relief in relation to a proportion of expenditure only.

1. Introduction

1.1 General

The Minister for Finance announced in his Budget Statement of December 2004 that the Department of Finance and the Office of the Revenue Commissioners would undertake a detailed review of certain tax incentive schemes and tax exemptions in 2005.

As part of this process, the Department of Finance has commissioned a study of the area-based tax incentive schemes viz.

- The Rural Renewal Scheme;
- The Urban Renewal Scheme;
- The Town Renewal Scheme; and
- The Living over the Shop Scheme.

Goodbody Economic Consultants in association with Mazars and Horan Keogan Ryan were commissioned to undertake the study.

1.2 Objectives of the Review

The objectives of the review may be summarised as follows:

- To assess the costs and benefits of each scheme, taking account of dead-weight and displacement effects;
- To assess the costs to the Exchequer of the Tax Incentives and the gross and net impact on Exchequer revenues;
- In particular, to assess the success of the schemes in the economic and social development and regeneration of designated areas;
- To identify successful and unsuccessful aspects of the schemes;
- To identify changes in the design of the schemes that would promote effectiveness and value for money; and
- To consider the extent to which alternative public expenditure measures could be used to achieve the same objectives.

1.3 Approach of the Consultants

The approach of the consultants to the assignment was based on the following elements:

- The derivation of a cost-benefit framework, within which the Urban and Town Renewal Schemes could be evaluated;
- Use of the Department of Environment, Heritage and Local Government databases, detailing expenditures on the Urban, Town and Living over the Shop Schemes;
- Development of basic data on the Rural Renewal Scheme through a series of surveys, as data on the Scheme were not available from official sources;
- Development and use of a model to assess the tax costs of the Schemes;
- Consultation with Departmental and local authority officials;
- Collection of relevant planning statistics from the local authorities
- A postal survey to elicit local authority planning officials views on the Schemes;
- Seven full case studies and two partial case studies of urban areas and towns benefiting from all four Schemes; and
- A review of similar and alternative schemes in operation abroad.

1.4 Layout of the Report

The layout of the report is as follows.

Section 2 describes the background to the Schemes and the nature of the tax incentives offered,

Section 3 discusses the economic backdrop against which the Schemes operated and analyses the economic issues impinging on the Schemes and their evaluation, including the development of a cost-benefit framework.

Sections 4, 5, 6 and 7 present the reviews of the Rural, Urban, Town and Living over the Shop schemes respectively.

Section 8 discusses the future of the Schemes in light of European Union State Aids policies, and alternative schemes and approaches that are available.

Finally, Section 9 presents the conclusions and recommendations.

2. Background to the Schemes

2.1 Urban Renewal Scheme

The first Urban Renewal Scheme was introduced in 1986 to address the increasing problem of dereliction and decay affecting large parts of the inner city areas throughout the State. At that stage, many of these areas had sustained large population declines, as growth and development were increasingly concentrated in the suburbs. The core objective of the Scheme was to encourage urban renewal and redevelopment by promoting investment and reconstruction of buildings in designated areas.

The current Urban Renewal Scheme, which was put in place in 1998, followed a detailed review of the previous urban renewal schemes carried out by KPMG.[1] The study found that the schemes had been highly successful in attracting investment to designated areas. This conclusion was subsequently confirmed by an academic study, which compared the experience of tax based incentives in Dublin and Chicago.[2] It concluded that "tax incentives have played an important role and there is little doubt that the scale of physical renewal in Dublin would not have been achieved in their absence".

However, the KPMG study also found that some of the architectural/design elements had been of mixed quality, and the pattern of development was often piecemeal and not targeted at areas most in need. In addition, it was considered that the incentive schemes did not address issues central to the regeneration and sustainability of these areas, such as employment, the lack of public amenities, education and youth development. The KPMG review and the more recent academic study also highlighted issues such as dead weight, and the displacement of investment from non-designated areas.

The KPMG study led to several changes, when the 1998 scheme came to be designed viz.

- The adoption of a more structured approach to the process of designating areas for urban renewal;
- A focus on areas most in need of renewal; and
- A more selective approach to applying the various incentives.

For the new Urban Renewal Scheme, local authorities were requested to draw up Integrated Area Plans (IAPs) in respect of each urban area that they wished to include in the Scheme. Priority for selection was to be given to physically run down areas, which also suffered from high levels of social disadvantage. In order to minimise the resultant cost to the Exchequer, the plans also promoted the optimum use of existing infrastructure. A total of 78 Integrated Area Plans were submitted to the Minister for the Environment and Local Government. The Integrated Area Plans were assessed by a broad based Expert Advisory Panel set up by that Minister for the

[1] KPMG. Study on the Urban Renewal Schemes. Department of the Environment. 1996.

[2] S.McGreal at al. Tax-Based Mechanisms in Urban Generation: Dublin and Chicago Models. Urban Studies. Volume 39, No.10, 2002.

purpose of making recommendations in relation to the designation of areas. Work on assessing the Integrated Area Plans was completed in 1998. The Expert Panel recommended designation in respect of 49 of the 78 integrated area plans submitted. The designations cover a total of 43 cities and towns.

Unlike previous urban renewal schemes, a selective approach to the areas and the incentives available was adopted. In some instances, only one or two incentives apply in many small sub areas within individual Integrated Area plans and, in other cases, the incentives are often limited to residential tax incentives only. The Expert Panel recommended Section 23-type relief (Rented Residential) for new house construction in a very limited number of cases, for which it was considered absolutely necessary to achieve Integrated Area Plan objectives. A less restrictive approach was taken in respect of refurbishment of older buildings.

The residential elements of the Scheme were introduced from the 1st March 1999 and the Industrial/Commercial elements from the 1st July 1999.

2.2 Town Renewal Scheme

In 1999, The Minister for Housing and Urban Renewal announced a new Town Renewal Scheme. The Town Renewal Scheme focuses on the restoration, consolidation and revitalisation of the built fabric of smaller towns (towns with populations of between 500 and 6,000). The main objectives of the scheme are to counter the continuing trend for people moving out of towns, to make the town environment more attractive as a place to live, to restore older buildings and to help promote a wide range of commercial, leisure and social activities in towns. In recent years, many smaller towns and villages had begun to serve as dormitory or weekend centres with many vacant or under utilised upper floors and derelict sites. Tax incentives for a range of residential and commercial development were introduced on the same lines as for the Urban Renewal Scheme.

There were 226 towns potentially eligible to participate in the Scheme and one hundred of these were designated. The selection and designation process was similar to the process undertaken for the Urban Renewal Scheme. Local authorities were asked to submit a Town Renewal Plan to an Expert Advisory Panel before December 1999. This panel advised the Minister for the Environment and Local Government regarding the towns and sub areas within towns that were suitable for designation under the scheme. The areas and sub-areas designated for relief under the Scheme were announced by the Minister for the Environment and Local Government in late July 2000, and the residential elements of the Scheme were introduced with immediate effect. The commercial elements of the Scheme were introduced from 6thApril 2001, following agreement with the European Commission. Under the Scheme, capital allowances were made available to small and medium sized enterprises only.

2.3 Rural Renewal Scheme

This is a pilot initiative of rural renewal aimed at developing the Upper Shannon region. It extends to all of the counties of Leitrim and Longford as well as certain areas in counties Cavan, Roscommon and Sligo on a District Electoral Division basis.

The scheme has been in operation for rented residential projects since June 1998, for owner-occupied residential properties from the 6th April 1999 and for certain commercial and industrial projects since July 1999. The delay in introducing the business elements of the scheme was due to difficulties encountered in securing EU Commission approval. The Commission, in approving the scheme specified that investors active in certain sectors including the agricultural and financial services sector could not avail of the reliefs available under the scheme. The Commission also excluded property developers from claiming relief under the scheme.

2.4 Living Over the Shop Scheme

The KPMG study concluded that the Living Over the Shop Scheme, with the exception of Cork, had not been successful for several reasons such as security, legal issues, fire and building regulations and access problems. In order to ensure a greater measure of success, the new Scheme, which commenced in 2001, extended to streets outside the integrated areas designated under the Urban Renewal Scheme. The reliefs apply to specific lengths of streetscape, which were recommended by authorities in the five county borough areas and approved by a special panel of experts.

2.5 Nature of the Tax Reliefs

2.5.1 Tax Incentives Available

The incentives provided under the Urban, Town and Rural Renewal Schemes are as follows:

Industrial Buildings and Commercial Premises

Allowances can be claimed on the cost of construction or refurbishment of commercial buildings. An initial allowance of 50 per cent of expenditure may be claimed by both the owner-occupiers and lessors with an annual allowance of 4 per cent thereafter up to 100 per cent. Alternatively, an accelerated allowance of up to 50 per cent of expenditure may be claimed by owner-occupiers only with an annual allowance of 4 per cent thereafter up to 100 per cent.

Rented Residential Accommodation

Relief is granted against all rental income for the cost of construction (excluding site costs) of rented residential accommodation.

Relief is also granted against all rental income for the cost of conversion into rented residential accommodation of a building which had not previously been in use as a dwelling or the conversion into two or more houses, of a building which had not previously been used as a dwelling, or had been used as a single dwelling.

Relief is granted against all rental income for expenditure incurred on refurbishment of a building, which before and after refurbishment contains one or more residential units.

Owner Occupier Residential Accommodation

Owner-occupiers of residential accommodation may claim a deduction of 5 per cent per annum for 10 years in the case of construction expenditure and 10 per cent per annum for 10 years in the case of refurbishment expenditure.

The individual incurring the expenditure must be the first owner and occupier of the dwelling after the expenditure has been incurred and the dwelling must be the sole or main residence of the individual.

2.5.2 Allowable Expenditure

The qualifying expenditure on which tax relief can be claimed is the actual cost of construction, refurbishment or conversion work excluding the site costs of a property. Costs in relation to an individual's own labour do not qualify. Grants and other payments received directly or indirectly from the State, any board established by statute or any public or local authority are deducted in arriving at the amount of the expenditure, which qualifies for relief. Legal fees in respect of the purchase of a residential property, and stamp duty payable on such a purchase do not qualify for tax relief.

Where a newly constructed or refurbished property is purchased from a developer or a builder the value of the gross tax break to the purchaser is calculated as the price paid to developer or builder multiplied by the fraction A / (B + C),

Where:

A = Qualifying construction expenditure incurred in the relevant period

B = Total construction expenditure on that property

C = Expenditure on acquisition of the site.

In the case of refurbished properties, A and B represent the refurbishment costs with C being the costs of the building inclusive of the site before refurbishment.

Where the property is purchased from a person not carrying on the trade of a builder or is not a developer then the build costs will normally equal the gross tax relief as gross relief is the lower of:

- The direct cost of construction, excluding site costs and costs attributable to the purchase of the site, or
- The amount produced by the above formula.

In a property market with rising prices the direct construction costs will be the lower of the two (i.e. the formula will not apply).

2.5.3 Qualifying Periods

The qualifying period for the Schemes extends to 31st July 2006. In the case of the Urban and Town Renewal Schemes, this is the third extension of the qualifying period, with end-dates of 31st December 2002 and 31st December 2004 previously specified. With regard to the Urban Scheme, the July 2006 date applies to developments where the local authority has certified that 15 per cent of total expenditure has been incurred by 30th June 2003. For developments under the Town, Rural and Living over the Shop Schemes, to benefit from the extension of the qualifying period, an application to the planning authority must have been made before 31st December 2004.

3. Economic Issues

3.1 Economic Backdrop

3.1.1 General Overview

Since the introduction of the Schemes in 1999-2000 period, the economy has experienced strong rates of growth. This is indicated by levels of GDP, which increased in real terms from €76.3 billion in 1999 to €102.5 billion in 2004[3]. Despite the end of the Celtic Tiger growth era in 2000, GDP continued to grow strongly year-on-year, with preliminary figures for 2004 suggesting an annual growth rate of 4.9 per cent.

Another indicator of the strength in the economy is the rate of unemployment, which remained low over the period. In 2004, the average number of people unemployed stood at 86,825, compared to 95,125 in 1999, a fall of 8.7 per cent. Since 1999, the average unemployment rate for the country as a whole has remained steady, not exceeding 5.0 per cent.

Table 3.1 Annual Changes in GDP & Unemployment Rates: 1999 – 2004

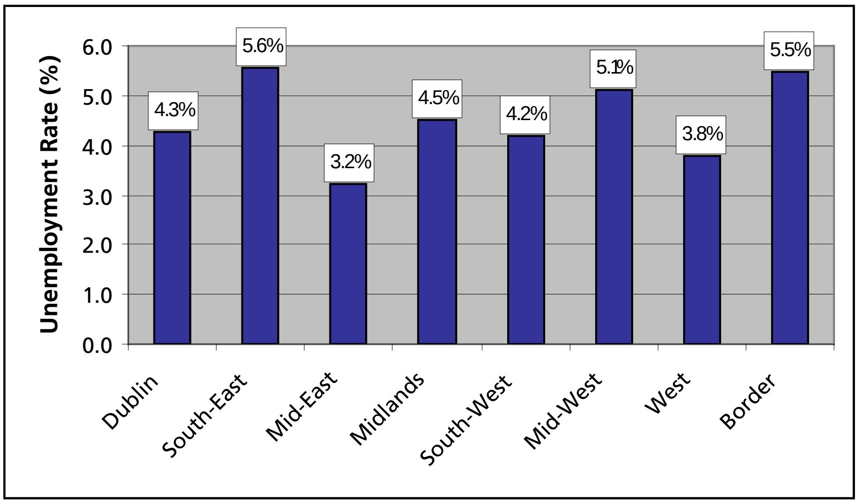
Year	Annual Change in GDP (%)	Average Rate of Unemployment (%)
1999	11.1	5.6
2000	9.9	4.3
2001	6.0	3.9
2002	6.1	4.4
2003	3.7	4.7
2004	4.9*	4.5

*Based on preliminary figures for 2004
Source: Central Statistics Office

Figure 3.1 below illustrates the average unemployment rate for each region in 2004. The Mid-East region had the lowest rate (3.2 per cent) followed by the West (3.8 per cent). At 5.6 per cent, the South-East region had the highest rate of unemployment in 2004. However, it is clear that unemployment rates are uniformly low across all regions.

[3] Constant 1995 prices

Figure 3.1: Average Rates of Unemployment by Region, 2004



Source: Central Statistics Office

The construction industry has been a particularly vibrant part of the economy over the last decade and has accounted for a good deal of the economic growth experienced. Output from the construction industry as a whole amounted to €6.4 billion in real terms in 1995. It increased at an average annual rate of 9.7 per cent to reach €10.1 billion in 1999. Over the next five-year period, output from the sector in real terms continued to grow at a more modest average rate of 4.2 per cent per annum to reach €13.3 billion in 2004[4].

When it is expressed as a proportion of GDP, total output from the construction industry accounted for 12.1 per cent in 1995 and the proportion increased steadily, with the industry accounting for 16.4 per cent of GDP in 1999. By 2004, it accounted for 19.3 per cent of GDP.

3.1.2 Construction Industry Output

The main impacts of the tax incentive schemes have been on residential, commercial and industrial development. These parts of the construction industry accounted for 7.8 per cent of GDP in 1995 and this proportion also increased steadily, with these elements of construction accounting for 10.9 per cent of GDP in 1999 and 13.9 per cent in 2004 respectively.

In Table 3.2 below, output for each of these sectors is aggregated for each of the two five-year periods, immediately preceding and over the course of the Schemes. Between 2000 and 2004, output from residential, industrial and commercial construction was 40.8 per cent higher than during the five-year period preceding the Schemes. Output generated by residential construction was 47.8 per cent higher and output generated by commercial construction was 38.5 per cent higher, whereas output from industrial construction had fallen and was 7.4 per cent lower.

[4] Source: Review of the Construction Industry and Outlook, Dept. of the Environment. Data referred to are constant 1995 prices.

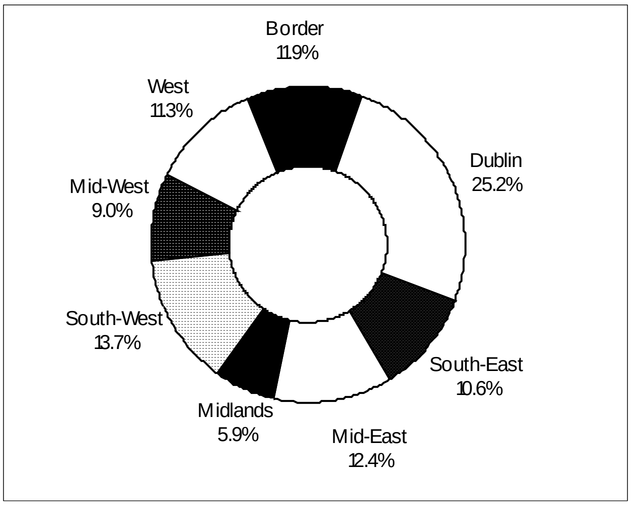
Table 3.2 Residential, Industrial and Commercial Building Output in Constant (1995) Prices: 1995-1999 & 2000-2004

Construction Sector	1995 – 1999 (€m)	2000 – 2004 (€ m)	% Change (€m)
Residential	20,540.6	30,360.2	47.8
Industrial	2,818.7	2,609.1	-7.4
Commercial	3,448.6	4,777.7	38.5
Total	**26,807.9**	**37,747.0**	**40.8**

Source: Department of the Environment, Heritage and Local Government. Review of the Construction Industry and Outlook (various issues).

Regional output data are available for 2003. Figures 3.2 to 3.4 illustrate the regional breakdown of output by each construction sector. Output from residential construction is more evenly distributed on a regional basis than that from the other two construction sectors. The greatest proportion of output from residential construction in 2003 was generated in the Dublin region. Each of the other regions generated between 9.0 and 13.7 per cent of it in monetary terms, except for the Midlands region, which generated only 5.9 per cent of total output from residential construction.

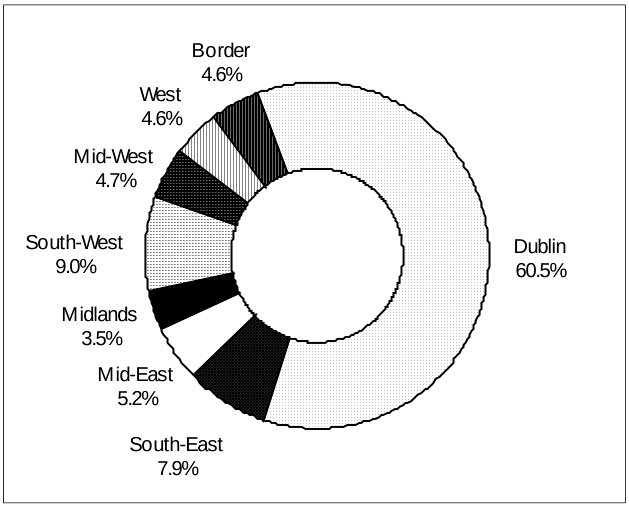
Figure 3.2: Regional Distribution of Output from Residential Construction, 2003



Source: Review of the Construction Industry and Outlook

The major share (60.5 per cent) of output from commercial construction was generated in the Dublin region, with each of the other regions producing, on average, 5.6 per cent of output in monetary terms.

Figure 3.3: Regional Distribution of Output from Commercial Construction, 2003



Source: Review of the Construction Industry and Outlook

3.1.3 Availability of Capital for Investment

As well as a need to meet demand, the construction industry has undoubtedly been driven by increased levels of private capital available for investment. Table 3.4 indicates the very substantial growth in the availability of private funds for investment. In nominal terms, funds available for capital formation amounted to an aggregate of over €114bn in the period 2000-2003, compared to €67bn in the previous four years, an increase of 70 per cent. There is thus now no shortage of funds seeking suitable investments.

Table 3.3: Private Capital Available for Investment: 1995 – 2003

Year	€m
1995	9,666
1996	11,540
1997	14,804
1998	18,699
1999	22,103
2000	26,140
2001	27,434
2002	29,098
2003	32,314

Note: There are no data available for 2004
Source: Central Statistics Office

3.1.4 Conclusions

During the period that the Tax Incentive Schemes have operated, the economy has experienced strong growth and low unemployment levels. The benefits have been felt throughout the country, as evidenced by low unemployment rates experienced across the regions.

The period of the Schemes has witnessed substantial output growth in building and construction. In the last five years, residential construction output has been 47.8 and commercial construction output 38.5 per cent above the level of the previous five years in real terms. Capital has become plentiful with funds available for investment some 70 per cent above the previous period.

The strong performance of the construction industry in the last five years and the increased availability of capital raise the issue of the need to continue to intervene in the market through the tax incentivisation of property development.

3.2 Economic Analysis of Property Based Tax Incentives

3.2.1 Introduction

Economic evaluation of the Schemes requires consideration of the nature of the benefits and costs to which they give rise. Government interventions in the property market must be based on the objective of improving market efficiency or addressing market inequities. Market inefficiency arises from market failures, while market inequity occurs where, left to itself, the market does not deliver an appropriate distribution of benefits. This Section of the report first discusses these issues and then considers how they can be incorporated into a formal cost-benefit evaluation of the Schemes.

3.2.2 Efficiency Benefits

Efficiency benefits arise where market failures are addressed. With regard to property, market failures are usually viewed as occurring for certain reasons:

- Certain locations may be high risk and property development at these locations will be hindered by the fact that no investor will wish to go first (pioneer risk);
- Where site assembly is required, similar considerations as well as high transaction costs may apply (co-ordination failure);
- There are risks in the sale of property that has low current value, as there is a risk to selling at a low price, when a much better offer may materialise in the future (asymmetric risks);
- Property development may have positive spillover benefits on a local area that the property developer cannot capture. These spillover effects arise because individual property developments may improve the physical image of the local environment and by increasing activity locally improve both the security and attractiveness of the area (neighbourhood effect).

However, it should be noted that these effects are more likely to be present at specific locations in urban areas than in rural areas. In urban areas, the availability of sites may be restricted, there is often a need to achieve scale in development, and the potential for spillover benefits is large. Thus, there are benefits associated with urban renewal in these areas.

Such market failures are the reason that Governments have intervened in the property market in the past, through urban renewal measures. An added reason is another form of non-property related market failure. This is where there is excess unemployment locally that the market is not eliminating. The employment demand created by the building industry on foot of the incentivisation of development or the creation of industrial or commercial activity in newly developed properties reduces such unemployment.

However, it should be noted that where Government intervenes in the market in the absence of market failures, there are real dangers that the benefits generated will not exceed the costs.

3.2.3 Equity Benefits

Governments intervene in the market in order to achieve a more equitable distribution of income or public services among certain groups in the population. Such policies are usually aimed at addressing the problems of social deprivation or ill-health and disability. Governments may also have spatial development aims such as maintaining or enhancing regional or local (rural) population levels, part of the motivation for which may be economic as well as social.

In implementing policies aimed at redistributing income either at the individual or spatial level, Governments have to take account of the possibility of adverse equity impacts. In the case of tax-based initiatives, this occurs where the general taxpayer, including those on lower incomes faces an increased tax burden as a result of tax forgone, whereas the scheme beneficiaries are those with higher incomes. This is an issue of real concern in relation to a number of tax incentive schemes at present, including the area-based schemes under review in this report.

3.2.4 Delivering Efficiency and Equity Benefits

Financial Returns to Development

Tax Incentives will not deliver efficiency and equity benefits unless economic agents, such as developers, are induced to engage in property development that they would otherwise have eschewed.

Perceived financial return is the primary factor influencing developer investment decisions and anticipated market demand is the major determinant of financial return. In areas where market demand is low, capital appreciation and growth in rental values will be low, and developers will look elsewhere for investment opportunities. In areas in need of renewal, there are risks that market demand for property will not materialise, so that first movers into the market bear high financial risks. Similarly, the costs of development may be exceptionally high, as sites may be awkward, relatively inaccessible, or subject to special conservation requirements. Tax incentives are a means of enhancing developer return from such sites and encouraging their development. They may thus tip the balance in favour of development on such sites. It is important, however, to note that where anticipated market demand is very weak, even very substantial tax incentives will not be sufficient to encourage development.

Dead Weight and Displacement

Dead weight and displacement are two means by which an investment in a particular area does not have the desired impact on the local area, and the value for money of the incentives policy is reduced. Dead weight occurs where, in the absence of the incentives scheme, the investor would have invested in the designated area on some scale and at some time. Displacement occurs where, by investing in the area, activity is created, which displaces activities from other areas.

If there is zero or partial dead weight, then the investment has a beneficial impact on the area i.e. it has some measure of additionality for the area. However, it is important to know whether this benefit to the local area is also beneficial at the national level. If, in the absence of the scheme, the participant would have invested abroad, then there is both local and national additionality or benefit. If, on the other hand, the participant would simply have invested elsewhere in the country, then here is no net national additionality, simply a transfer of activity from one part of the State to the other. While such a transfer of activity is of benefit, in that the policy objectives underlying the scheme would have been achieved, it is obviously less beneficial than if there were also net additionality from a national viewpoint.

3.3 Cost-Benefit Framework

3.3.1 Overview

The terms of reference require the evaluation of the Schemes to be conducted in a cost-benefit framework. Cost-benefits of projects, programmes or policies usually consider a number of dimensions of the intervention viz.

- Effectiveness: the extent to which the intervention has delivered the anticipated benefits;

- Efficiency: the extent to which the benefits delivered are good value for the Government support provided; and

- Equity: the extent to which the benefits and costs have produced desirable outcomes in terms of the distribution of incomes and benefits.

With respect to effectiveness and efficiency, cost-benefit usually attempts to monetise these impacts and establish an economic rate of return. This requires imputing money values, where the market does not do so. Current guidelines on cost-benefit are set out by the Department of Finance.[5] These recognise that imputation of money values is not always possible and that a cost effectiveness approach, which compares quantified physical output measures to costs, should then

[5] Department of Finance. Guidelines for the Appraisal and Management of Capital Expenditure Proposals in the Public Sector. February 2005.

be employed. The Guidelines also indicate that multi-criteria analysis may also be employed where benefits cannot be quantified.

With regard to urban renewal, monetisation of market efficiency benefits arising from market failure is very difficult. For example, the neighbourhood effects of reduced crime and higher quality of life are difficult to monetise, because of the need both to link urban renewal actions with these effects and to ascribe monetary values to them. Also, many of the benefits arise from a redistribution of activity into the designated areas, and such redistribution cannot be valued in a way that facilitates measurement of economic rates of return, as a market value cannot be imputed.

Accordingly, the evaluation framework adopted here is to assess the effectiveness and equity impacts of the Schemes through a multi-criteria analysis, with efficiency impacts being assessed using cost effectiveness indicators. However, there is a difference between the Schemes in terms of their objectives, with the Urban and Town Schemes having a range of urban renewal objectives, while the Rural and LOTS schemes being more narrowly focussed. Accordingly, the cost-benefit framework is developed with the first two Schemes in mind and has more limited application to the latter two.

3.3.2 Effectiveness

This report analyses the effectiveness of the Schemes in terms of a number of benefit categories or criteria:

- Physical development benefits;
- Economic benefits; and
- Social and community benefits.

Physical development benefits are those related to the physical structure of the designated area. They may be further resolved into a number of dimensions as follows:

- Urban design: provision of civic spaces, delivering sustainable urban areas, and high quality building design;
- Dereliction: addressing problems with derelict and poor quality buildings;
- Conservation: conserving heritage buildings and archaeological sites;

Economic benefits comprise the employment impacts of construction activity as well as the ongoing impacts caused by housing development and population growth on the one hand and commercial/industrial development on the other.

Three elements of social and community benefit have been identified viz.

- Community linkage: using the proceeds of levies on developers to fund community projects;

- Employment and training of people from deprived areas; and
- Provision of social housing.

3.3.3 Equity Impacts

Analysis of the equity impacts of the Schemes requires consideration of two fundamental questions:

- To what extent are the benefits of the Schemes confined to a relatively few individuals; and
- To what extent are those individuals in the higher income and wealth groups.

Obviously, the more concentrated the group of scheme beneficiaries is and the higher their income and wealth status, the more inequitable the Scheme is.

With regard to the spread of benefits, a key issue is the extent to which the benefits of the scheme are garnered by those who supply the properties or those that purchase them. Where the properties are supplied by the building industry and some of the benefits of the scheme accrue to the industry, the greater the likelihood that there will be a concentration of Scheme benefits among relatively few individuals. This raises the question of the incidence of benefits. If developers have the capacity to raise prices, then some of the tax benefits will accrue to them. Appendix 1 discusses the conditions under which developers will tend to have some price setting power.

4. Review of the Rural Scheme

4.1 Introduction

The Pilot Rural Renewal Scheme was introduced with the aim of invigorating the Upper Shannon region. The scheme covers all of the counties of Leitrim and Longford as well as certain areas in counties Cavan, Roscommon and Sligo on a District Electoral Division basis. These areas were recognised as having suffered long term population decline and less than average economic growth. They were also regarded as lacking significant urban centres necessary to attract inward investment and generate economic growth. In an effort to address these problems, the Scheme was introduced both to encourage people to reside in the area and to promote new economic activity.

This section of the report begins in Section 4.2 with an analysis of the construction expenditure that has occurred under the Scheme to date and an estimate of the total expenditure up to the end of the Scheme in July 2006. In Section 4.3, the cost of the Scheme to the Exchequer in terms of tax foregone is presented. The overall outputs of the Scheme are evaluated in Section 4.4. Section 4.5 presents an analysis of the Scheme's costs and benefits. Conclusions and recommendations are contained in Section 4.6.

4.2 Overview of Expenditure

4.2.1 Introduction

This section of the report presents an estimate of allowable construction expenditure under the Scheme. Calculation of allowable expenditure is an essential first step to determining the tax cost of the Scheme, as well as representing the value of the Scheme outputs.

In contrast to the Urban and Town Renewal schemes, no data were routinely collected on construction expenditures under the Scheme. Moreover, the local authority planning development information systems were not readily amenable to analysis to determine even the number of developments that had taken place in areas designated under the RRS. Thus, estimating construction expenditure under the scheme presented a considerable challenge. Appendix 2 presents a brief account of the methodology by which expenditure was calculated. Essentially, the expenditure estimates with regard to the residential elements of the Scheme are based on applications for certificates of reasonable cost and compliance made to the Department of the Environment, Heritage and Local Government's (DOEHLG) Building Grants Section.

The estimates of expenditure for the period 1999-2004 presented below refer to allowable expenditure on foot of certificates issued in that period. At end 2004, approximately 50 per cent of applications under the Scheme made in that period had not been finalised and certificates had yet to be issued. In most of these cases, however, the bulk of the building work was already completed, so that the figures presented below are likely to be a significant underestimate of building activity under the Scheme in the period 1999-2004.

Late finalisation of applications would appear to be largely the result of applicants waiting until all ancillary works have been completed or until they have made adjustments to the works to ensure their compliance with the Scheme eligibility conditions.

4.2.2 Aggregate Allowable Scheme Expenditure 1999-2004

Expenditure under the Scheme on foot of finalised certificates is estimated at a total of €453m for the period 1999-2004. Table 4.1 profiles expenditure over time. No expenditure was recorded for 1999, as the Scheme only commenced in June 1998. After a slow start, expenditure rose rapidly from €24.6m in 2000 to a peak in the year 2002 at €107.5, which was the first extended date at which the Scheme was expected to cease. This level of expenditure was broadly maintained in 2003, before growing substantially to €134.8m in 2004, the year to which the Scheme was subsequently extended.

Table 4.1: Trend in Expenditure 2000-2004

Year	Expenditure €m	Rate of Growth (%)
2000	24.6	-
2001	81.0	+229.3
2002	107.5	+32.7
2003	105.4	-2.1
2004	134.8	+27.9
Total	**453.4**	

Source: Goodbody Economic Consultants Estimate

4.2.3 Profile of Expenditure by County 1999-2004

Table 4.2 sets out the aggregate expenditure under the Scheme in the period 2000-2004. Of the total of €453.4m, Longford and Leitrim account for similar levels of expenditure at €131.4m and €137.3m or approximately 30 per cent each of the total. The dominance of these two counties is not surprising given that the whole of each county was designated under the Scheme. Roscommon, although only partly designated, is also a major contributor to expenditure at €94.7m or 20.9 per cent of the total.

Table 4.2: Profile of Aggregate Expenditure by County (2000-2004)

County	Expenditure €m	Proportion of Total (%)
Cavan	36.9	8.1
Leitrim	131.4	29.0
Longford	137.3	30.3
Roscommon	94.7	20.9
Sligo	53.0	11.7
All	**453.4**	**100.0**

Source: Goodbody Economic Consultants Estimate

4.2.4 Profile of Expenditure by Type of Sector and Type of Build

Of the total of €453.4m, €398.5m (88.1 per cent) was in respect of residential developments and €54.4m (11.9 per cent) related to commercial/industrial developments. The bulk of expenditure was on new-build. Developments that were solely new-build or that contained an element of new-build accounted for €436.5m or 96.3 per cent of total expenditure. Expenditure on developments that were purely refurbishment was at very low levels, for both residential and commercial/industrial activity. This is the result of both a small number of developments that were purely refurbishment, and a low average expenditure per development.

Table 4.3: Profile of Scheme Expenditure by Sector and Type of Build (€m) 1999-2004

Type of Build	Sector		
	Residential €m	Commercial/ Industrial €m	Total €m
New Build Only	382.6	31.8	414.4
Refurbishment or Conversion Only	12.1	4.4	16.5
Combination of New Build and Refurbishment/Conversion	3.8	18.6	22.4
Total	**398.5**	**54.8**	**453.3**

Source: Goodbody Economic Consultants Estimate

4.2.5 Predicting Future Scheme Expenditure

Developments, in respect of which a planning application was made before end December 2004, are eligible to participate in the Scheme, provided that planning and other requirements are met. Expenditures, in respect of such developments, in the period up to July 2006 are eligible for tax relief.

An estimate of total expenditure under the Scheme must take account of expenditure arising from;

- The backlog in finalising applications for certificates already made under the Scheme; and
- The certificates that will be issued on foot of applications made in the period remaining to July 2006.

With regard to the backlog of applications, it was assumed that these would give rise to expenditure levels pro-rata with those arising from finalised applications. With regard to expenditure on foot of future applications, it was necessary to predict the number of applications in the remaining period up to July 2006

Table 4.4 compares the number of planning applications in the designated areas of each county for 2003 and 2004, with the exception of Roscommon for which no data were received at the time of writing. It is evident that very large increases in the number of planning applications submitted took place as people sought to ensure that they could avail of the Scheme. The average increase was 78 per cent. Data available for 2005 indicate that the number of applications for certificates under the Scheme has risen in line with the increase in planning applications. In predicting applications to July 2006, it was assumed that this high rate of applications would continue.

Table 4.4: Comparison of Planning Applications in Scheme Areas 2003–2004

County	2003	2004	Increase (%)
Longford	714	1,401	96
Sligo	412	684	66
Cavan	543	1,264	132
Leitrim	1,414	2,147	52
Average	**771**	**1,374**	**78**

Source: Local Authorities

However, because only expenditure incurred before July 2006 is allowable under the Scheme, it is evident that expenditure on foot of some applications will not be eligible, as it will take place outside the Scheme eligibility period. In making predictions, it was assumed that 90 per cent of expenditure under applications between September 2005 and July 2006 would prove to be allowable.

It is predicted that the Scheme will give rise to an estimated €1,072.5m of allowable expenditure, of which €453.3m has already been incurred of foot of certificates issued in the period up to end 2004.

Table 4.5: Predicted Total Scheme Expenditure

Period in which Certificates Issued	Predicted Expenditure €m
1999-2004	453.3
2005+	619.2
All	**1072.5**

Source: Goodbody Economic Consultants Estimate

4.2.6 Conclusions

Allowable expenditure under the Scheme is estimated at total of €453m for the period 1999-2004. After a slow start, expenditure rose rapidly from € 24.6m in 2000 to €134.8m in 2004. There is a significant backlog in finalising applications, so that this is a significant underestimate of actual building activity in the period.

Of the total of €453.4m, Longford and Leitrim account for similar levels of expenditure. Roscommon, although only partly designated, is also a major contributor to expenditure at €94.7m or 20.9 per cent of the total.

Of the total of €453.4m, €398.5m (88.1 per cent) was in respect of residential developments and €54.4m (11.9 per cent) related to commercial/industrial development.

The bulk of expenditure was on new-build. Developments that were solely new-build or that contained an element of new-build accounted for €436.5m or 96.3 per cent of total expenditure.

Very large increases in planning applications took place in 2004 as people sought to ensure that they could avail of the scheme. The average increase in planning applications was 78 per cent on that year. Taking account of these applications, the predicted allowable expenditure under the Scheme is estimated at €1,072.5m.

4.3 Analysis of Tax Costs

4.3.1 Introduction

This section provides an analysis of the tax forgone arising from the Rural Renewal Scheme. It begins with and analysis of the tax forgone associated with residential projects and then presents a similar analysis for commercial developments. A more detailed methodology is presented in Appendix 3. It should be noted that the process described below considers the tax costs that will be incurred in respect of developments that take place up to July 2006. A separate estimate for the anticipated tax costs associated with developments that were completed by end 2004 is also provided. As not all tax reliefs are taken immediately but are taken over a period of years, tax costs will also arise in future years, even in respect of completed developments. Thus, there is a need to present not only the nominal costs to the Exchequer but also the present value of these costs.

4.3.2 Tax Forgone on Residential Properties

The following information is required to calculate tax costs:

- The number of housing units arising (by sub-category of housing type);
- Average build costs (by sub-category);
- Average sale price (by sub-category);
- Average site costs (by sub-category); and
- The tax payers' marginal tax rate (by sub-category).

Step 1: Estimating Residential Units by Type

It is anticipated that 10,596 residential units will benefit from the Scheme by the end of July 2006. These residential units must then be split into the four sub-categories of eligible residential reliefs as the tax reliefs available differs slightly between each (as do the assumptions made in estimating tax forgone). On the basis that 60 per cent of housing under the scheme is classified as owner occupier, owner occupied units are put at 6,358 with investors accounting for the balance of 4,238.[6] This split between owner occupier and investors is further broken down between new builds and refurbishments/conversions on the observed 95 per cent: 5 per cent mix. For example,

- Owner occupier new builds is calculated by multiplying 6,358 by 95 per cent to give 6,040 units; and
- Investor new build units is worked out by multiplying 4,238 by 95 per cent to give 4,026 units.

[6] See Section 4.4 for derivation of this figure.

Further details are given in Table 4.6. The rate of tax relief available and the time over which the tax relief may be exhausted varies within the residential category[7]; hence housing units are divided into sub-categories.

Step 2: Average Build Cost

Average build cost is calculated by dividing total estimated build costs over the life of the scheme by the number of units expected to be developed up to July 2006 to give €94,499. Average build costs for refurbishments/conversions is calculated in the same way at €21,345.

Step 3: Average Sale/Purchase Price and Site Cost

The average price is calculated in two ways, depending on the type of residential housing concerned:

- For owner occupied new builds, DOEHLG data on new house and apartment prices are used and weighted by the proportion of housing output delivered each year as shown in Table 4.6. This produces an average purchase price of €195,830 per unit;

- For investor new builds the same process was adopted plus a premium of €15,000 was added based on observations from the Irish Auctioneers and Valuers Institute's most recent annual survey of members. This produces an average purchase price of €210,830.

Owing to the low average build cost per refurbishment/conversion a view was taken that these projects were undertaken by existing property owners and therefore purchase price and site costs were not estimated, as in these cases the gross tax relief arising is set at build costs.

For new builds, site costs are set at 65 per cent of build cost, again based on observations from the Irish Auctioneers and Valuers Institute and the Irish Home Builders Association (please see Appendix 3 for more details).

The results from applying these steps and assumptions are given in Table 4.6.

[7] Owner occupiers of new build residential units are entitled to 50% of gross relief at 5% p.a. over 10 years whereas owner occupiers of refurbished units are entitled to 100% gross relief at 10% p.a. over 10 years. Residential investors get 100% gross relief with no time frame attached.

Table 4.6: Unit Data Used in Estimating Tax Forgone on Residential Rural Renewal Scheme Projects

	O.O. New Build	O.O. Refurb	Investor New Build	Investor Refurb	Total
No. of Units	6,040	318	4,026	212	10,596
Share of Units	57.0%	3.0%	38.0%	2.0%	100.0%
Avg .Build Cost	€94,499	€21,345	€94,499	€21,345	
Assumed Price	€195,830	-	€210,830	-	
Site Cost (65% of build cost)	€61,424	-	€61,424	-	

Step 4: Gross Tax Forgone

Based on Dept. of Environment, Heritage and Local Government's housing data the share of units built directly by individuals is 30 per cent, with 70 per cent assumed to be build by builders/developers. In the case of own account projects gross relief equals build costs, whereas the formula (see Appendix 3) applies to units purchased from builders/developers.

As noted, it is assumed that refurbishment projects are undertaken by existing building owners and therefore the formula is not applied. Instead, the gross tax relief equals build cost.

Applying this mix to the data in the table above gives €1,158.6m gross tax relief arising in Table 4.7.

Step 5: Net Tax Forgone before Discounting

The second last step in arriving at net tax forgone is to apply a marginal tax rate to the gross tax relief attached to each project. To do this the following enabling assumptions, as fully explained in Appendix 3, were made:

- For owner occupied projects two marginal rates could apply: 20 per cent or 42 per cent. It is assumed that 30 per cent of owner occupiers have a marginal tax rate of 20 per cent. The remaining owner occupiers are assumed to pay tax at a marginal rate of 42 per cent.

- It is assumed that all investors pay a marginal rate of 47 (the higher rate plus PRSI and levies) per cent in year one and 42 per cent thereafter.

Following all the steps detailed above gives Table 4.7, transforming the €1,158.6m gross tax relief to net tax relief of €328.6m.

Table 4.7: Undiscounted Tax Forgone on Residential Rural Renewal Scheme Projects

	O.O. New Build	O.O. Refurb	Investor New Build	Investor Refurb	Total
Unit Gross Tax Relief via formula	€118,685	-	€127,776	-	
Unit Gross Tax Relief at Cost	€94,499	€21,345	€94,499	€21,345	
All Units - Gross Tax Relief	€672,999,668	€6,785,288	€474,289,500	€4,523,525	€1,158,597,982
Net Tax Cost at Standard Marginal Rate	€20,189,990	€407,117	-	-	
Net Tax Cost at Higher Marginal Rate	€98,930,951	€1,994,875	€205,130,209	€1,956,425	
Total Net Tax Forgone	€119,120,941	€2,401,992	€205,130,209	€1,956,425	€328,609,567

Step 6: The NPV of Net Tax Forgone

The last step in arriving at net tax forgone is to calculate present values, this is done by taking a 5 per cent discount rate to reflect that the relief is a fixed values but it has to be exhausted over a period of years, reducing its value today. The Scheme's rules state that owner-occupiers must take the relief over ten years. Investors do not operate to this time constraint and in practice tend to consume the tax relief over a much shorter period, believed to be 4 years.

Table 4.8: Discounted Tax Forgone on Residential Rural Renewal Scheme Projects

	O.O. New Build	O.O. Refurb	Investor New Build	Investor Refurb	Total
Undiscounted Tax Forgone	€119,120,941	€2,401,992	€205,130,209	€1,956,425	€328,609,567
Annual Undiscounted Tax Forgone	€11,912,094	€240,199	€51,282,552	€489,106	€63,923,952
Discount Rate	5%	5%	5%	5%	
Time Period (in years)	10	10	4	4	
NPV of Tax Forgone	€91,982,033	€1,854,755	€181,845,392	€1,734,346	€277,416,526
NPV of Tax Forgone per Unit	€15,230	€5,835	€45,162	€8,184	€26,181

The total tax forgone for residential projects is put at €277.4m, of which:

- Investor new builds accounts for €181.8m (65.6 per cent);
- Owner occupied new builds accounts for €92m (33.2 per cent);
- Owner occupied refurbishment/conversions accounts for €1.9m (0.7 per cent); and
- Investor refurbishment/conversions accounts for €1.7m (0.6 per cent).

In all, the discounted tax forgone represents 29 per cent of the build cost associated with these projects and 23.9 per cent of the gross tax relief arising.

Looking at individual units the tables shows that the overall NPV of tax forgone per unit is €26,181. This is a large degree of variability in this figure with the NPV of tax forgone per owner occupier refurbished unit running at €5,835 as against €45,162 per investor new build unit. This large difference is driven by the original build costs, the fact that all investors are assumed to be high rate tax payers, and timing issues, with investors exhausting the 100 per cent relief over a shorter time period.

4.3.3 Tax Forgone on Commercial Properties

In calculating tax forgone, each step in the process is explained in less detail as the steps involved are very similar to the residential Scheme and the reader can refer to Appendix 3. Data on commercial projects were not disaggregated into different types of commercial buildings such as office, retail, industrial etc. as the tax relief attaching to commercial buildings does not change with use or ownership. Again, data are required on the number of units, build costs, site costs and purchase price.

Step 1: Estimating Units

The total number of units expected under the Scheme to July 2006 is converted into commercial units by applying a multiplier of 1.2 commercial units per development (sourced from the case studies). This yields an estimated 344 units over the life of the Rural Renewal Scheme.

Step 2: Average Build Cost

Average build cost is calculated by dividing total estimated build costs over the life of the scheme by the number of units expected to be developed up to July 2006 to give €371,317.

As tax relief is available at 100 per cent for new builds and refurbishments there is no need to further disaggregate commercial projects.

Step 3: Average Selling/Purchase Price and Site Cost

Based on observations, the average price of a commercial unit in the area covered by the Rural Scheme is €600,000 and site costs are set at 50 per cent of build cost. This combination of build costs, site costs and selling price allows for a reasonable profit margin for the vendor.

Step 4: Gross Tax Forgone

The analysis allows for three broad types of commercial projects:

- Those purchased from builders/developers to which the gross formula is applied in establishing gross tax forgone (as detailed in Appendix 3);
- Those developed by individuals who occupy the unit for which only the build cost can qualify for relief;
- Lastly, those purchased from a person other than a builder/developer where the value of the gross tax break to the individual is the lower of:
  - The direct cost of construction, excluding site costs and costs attributable to the purchase of the site, or;
  - The amount produced by the formula;

  In a property market with rising prices the construction costs will be the lower of the two (i.e. the formula will not apply).

We have assumed that commercial projects are split 70 per cent: 30 per cent between those purchased from builders/developers and others. This produces a gross tax forgone of €134.6m.

Step 5: Net Tax Forgone

The last step in arriving at net tax forgone is to apply a marginal tax rate to the gross tax relief. It is assumed that a marginal tax rate of 47 per cent applies to 90 per cent all of these projects as they are owned by individual and the remaining 10 per cent are owned by companies with a marginal tax rate of 12.5 per cent.

Table 4.9 shows the results. Before discounting, €58.6m of tax forgone is associated with these projects.

Table 4.9: Tax Forgone on Commercial Rural Renewal Scheme Projects

	Commercial
No. of Units	344
Average Build Cost	€371,317
Sale Price per Unit	€600,000
Site Costs (50% of build cost)	€185,658
Unit Gross Tax Relief via formula	€400,000
Unit Gross Tax Relief at cost	€371,317
Total Gross Tax Cost	€134,639,880
Net Tax Cost at 47%	€56,952,669
Net Tax Cost at 12.5%	€1,682,999
Net Tax Cost	€58,635,668
Discount Rate	5%
Time Period (in years)	14
NPV	€48,312,244
NPV of Tax Forgone per Unit	€140,443

The net present value of tax forgone is determined by discounting at 5 per cent over 14 years. This gives a net present value of tax forgone of €48.3m which represents 37.8 per cent of build costs. On a unit basis, the NPV of tax forgone works out at €140,443 per unit.

4.3.4 Tax Forgone on by Development Status

This section presents an analysis of the tax cost of residential and commercial projects by the development status of the projects.

Residential Units

Table 4.10 gives the development status of residential units. Given that 4,532 units were delivered up to 2004 and 10,596 are to be delivered over the life of the scheme, projects yet to be delivered were divided equally into those in planning and those in progress.

The NPV of tax forgone per sub-category of residential unit multiplied by units in each development status grouping gives the NPV of tax forgone by development status. Of the €277.4m of residential tax costs, €118.7m is associated with projects which are complete and €158.7m is due to projects yet to be completed.

Commercial Units

Table 4.11 repeats the analysis for commercial units, with the timing of commercial units assumed to match the delivery of residential units.

Table 4.10: The Development Status of Residential Rural Renewal Scheme Projects and Tax Costs

	O.O. New Build	O.O. Refurb	Investor New Build	Investor Refurb	Total
NPV of Tax Forgone per Unit	€15,230	€5,835	€45,162	€8,184	€26,181
Number of Units by Development Status					
- Completed	2,584	136	1,723	91	4,534
- Work in Progress	1,728	91	1,152	61	3,031
- In Planning	1,728	91	1,152	61	3,031
Totals	6,040	318	4,026	212	10,596
NPV of Tax Forgone by Development Status					
- Completed	€39,358,866	€793,645	€77,811,156	€742,122	€118,705,788
- Work in Progress	€26,311,584	€530,555	€52,017,118	€496,112	€79,355,369
- In Planning	€26,311,584	€530,555	€52,017,118	€496,112	€79,355,369
Totals	€91,982,033	€1,854,755	€181,845,392	€1,734,346	€277,416,526
Share	33.2%	0.7%	65.5%	0.6%	100.0%

Table 4.11: The Development Status of Commercial Rural Renewal Scheme Projects and Tax Costs

	Commercial
NPV of Tax Forgone per Unit	€140,443
Number of Units by Development Status	
- Completed	147
- Work in Progress	98
- In Planning	99
Total	344
NPV of Tax Forgone by Development Status	
- Completed	€20,645,058
- Work in Progress	€13,763,372
- In Planning	€13,903,814
Total	€48,312,244

4.3.5 Overview

In conclusion, the NPV of all tax forgone associated with Scheme up to July 2006 is estimated at €325.7m, of which residential projects account for €277.4m or 85.2 per cent and commercial projects account for €48.3m or 14.8 per cent. With regard to developments completed by end 2004, the tax cost is estimated to be €139.3m.

Table 4.12: Overview of Present Values of Predicted Scheme Tax Foregone

	Residential (€m)	Commercial (€m)	Total (€m)
Predicted Tax Cost to Mid July 2006	277.4	48.3	325.7
Tax Cost Incurred to end 2004	118.7	20.6	139.3

4.4 Scheme Outputs

4.4.1 Introduction

This Section of the report summarises the main outputs of the Scheme, such as the number of developments and housing units. The data presented are estimates, which were constructed from the data on certificates issued and from the results of the Goodbody survey of files held by the Building Grants Section of the Department of the Environment and Local Government, to which reference was made in Section 4.2. See Appendix 2 for an overview of the methodology.

The data thus refer to developments in respect of which a final certificate has been issued. As indicated in Section 4.2, there were a significant number of applications awaiting finalisation at end 2004.

4.4.2 Developments under the Scheme

4.4.2.1 Aggregate Developments under the Scheme

Table 4.13 presents an estimate of the total number of developments under the Scheme, distinguishing between residential and industrial/commercial. An estimated 1,876 developments were completed in the period 1999-2004. Of these, 1,753 or 93.4 per cent were residential in nature.

Table 4.13: Number of Developments by Year and Sector, 2000-2004

Year	Residential	Commercial/ Industrial	Total
2000	97	6	103
2001	312	23	335
2002	414	28	442
2003	406	29	435
2004	524	37	561
Total	**1,753**	**123**	**1,876**

Source: Goodbody Economic Consultants Estimate

4.4.2.2 Developments by County

Of the total of 1,876 developments, the largest number was in Leitrim and Longford, with an estimated 544 and 572 developments respectively. These account for just under 60 per cent of all developments to date. Roscommon was the next largest with an estimated 388 developments (20.7 per cent of the total).

Table 4.14: Profile of Aggregate Developments by County (2000-2004)

County	Developments	Proportion of Total
	No.	(%)
Cavan	152	8.1
Leitrim	544	29.0
Longford	572	30.5
Roscommon	388	20.7
Sligo	220	11.7
All	**1,876**	**100.0**

Source: Goodbody Economic Consultants Estimate

4.4.2.3 Profile of Developments by Type of Sector and Type of Build

The vast majority of developments, 1,561 (83.2 per cent) were new-build only, with 1,650 developments (88.0 per cent) having at least some element of new build. Only 226 developments were estimated to be refurbishment or conversions. The dominance of new-build applied to both residential and commercial/industrial developments.

Table 4.15: Profile of Developments by Sector and Type of Build 1999-2004

Type of Build	**Sector**		
	Residential	**Commercial/ Industrial**	**Total**
New Build Only	1,490	71	1,561
Refurbishment or Conversion Only	216	10	226
Combination of New Build and Refurbishment/Conversion	47	42	89
Total	**1,753**	**123**	**1,876**

Source: Goodbody Economic Consultants Estimate

4.4.3 Housing Output of the Scheme

From the above, it may be seen that residential developments have dominated the Scheme output and that the vast bulk of these were in respect of new-build. These new-build developments were divided approximately equally between single and multiple housing units, so that on average there were some 2.6 units per residential development. Table 4.16 profiles the estimated new housing unit completions under the Scheme, based on finalised certificates.

A total of 4,320 housing units were completed in the Scheme area in the period 1999-2004. As might be expected the distribution of output by year and county mirrors that for Scheme expenditure and number of developments. The Table also compares the Scheme housing output to the total of private house completions in the counties designated. This shows that the proportion of all new private houses that benefited under the Scheme peaked at 29.1 per cent in 2002, and averaged 23.3 per cent over the Scheme period to date. In interpreting this Table, it should be noted that in the case of Roscommon, Cavan and Sligo, the total of private dwellings refers to the county as a whole, whereas the Scheme output refers only to the parts of those counties which were designated.

Longford and Leitrim were fully designated under the Scheme. Examination of these counties indicated that the Scheme completions peaked at 55 per cent in the case of Longford (2004) and 54 per cent for Leitrim (2003).

Table 4.16: Housing Units Developed under the Scheme by Year and County

County	2000	2001	2002	2003	2004	Total
Cavan	4	64	91	94	93	347
Leitrim	83	305	262	367	245	1,261
Longford	76	216	300	241	476	1,310
Roscommon	42	126	214	195	318	895
Sligo	32	63	155	109	148	507
Total Scheme	237	774	1,023	1,006	1,280	4,320
Total Private Housing Unit Completions	2,555	3,116	3,510	3,908	5,417	18,506
Scheme as Proportion of Total Private Completions	9.3	24.8	29.1	25.7	23.6	23.3

Sources: Goodbody Economic Consultants Estimate and DOEHLG Housing Statistics

In the case of Longford and Leitrim, it may reasonably be asked why the vast bulk of housing completions are not falling under the Scheme. It is clear, as mentioned in Section 4.2 that a significant number of people have built houses but have yet to finalise their applications and therefore do not appear in our estimates. It is thus recognised that the housing calculated outputs are likely to be under-estimates. There are other reasons why output under the Scheme may fall short of total output viz.

- Some residents may be ignorant of the Scheme;
- Some persons building houses may not apply, as they consider the development ineligible, as they do not intend to either owner occupy the house or let it (e.g. holiday homes);
- Some housing developments may be ruled out because they are above the maximum floor area permitted, although it is difficult to see this as a major contributor, as the maximum limits are relatively generous; and
- A final reason, which local planning officials mentioned, was that when the Scheme is brought to the attention of some house owners, they indicate that they do not wish to avail of it, for fear of coming to the notice of the Revenue Commissioners.

It is possible to make an alternative estimate of housing output under the Scheme on the basis that the applications made but not finalised represent houses that are occupied. Based on this assumption, estimated housing output under the Scheme rises to 5,700 for the period up to end 2004, representing 30 per cent of all housing output in the Scheme counties. In the case of the fully designated counties of Longford and Leitrim, these data suggest that approximately two-thirds of housing completions are benefiting from the Scheme.

4.4.4 House Tenancy

Housing completed under the Scheme could be occupied by owners or be let. Based on the survey of DOEHLG files and the case study, it is estimated that some 60 per cent of the units became owner occupied, with 40 per cent rented. Based on the same sources and interviews with local planning officials, it is obvious that the occupants are diverse and vary from location to location. They include:

- Sons, daughters and other relatives of the site owners;
- Young people using the opportunity move out of home;
- Migrant workers attracted to job opportunities in the area (Longford and Carrick-on-Shannon);
- Asylum seekers (Longford); and
- Dublin and East Region families seeking lower accommodation costs and a better life style.

It may be noted that not all of the housing output would have supported a population increase, but rather facilitated existing residents in setting up independent homes.

4.4.5 Predicted Housing Output

Making the same set of assumptions as were made in respect of predictions of expenditure, it is possible to make a prediction of the number of additional housing units that may be built up to the end of the Scheme in 2006. Table 5.5 sets out the results. The overall prediction is that the Scheme, when it terminates, will have contributed 10,596 housing units to the Scheme areas.

Table 4.17: Predicted Scheme Housing Outputs

Period in which Certificates Issued	No. of Housing Units
1999-2004	4,320
2005-2006	6,276
All	10,596

Source: Goodbody Economic Consultants Estimate

4.4.6 Conclusions

An estimated 1,876 developments were completed under the Rural Renewal Scheme in the period 1999-2004. Of these, 1,753 or 93.4 per cent were residential in nature, and 6.4 per cent commercial/industrial.

Of the total of 1,876 developments, the largest number was in Leitrim and Longford, with an estimated 544 and 572 developments respectively. These account for just under 60 per cent of all developments to date. Roscommon was the next largest with an estimated 388 developments (20.7 per cent of the total).

The vast majority of developments, 1,561 (83.2 per cent) were new-build only, with 1,650 developments (88.0 per cent) having at least some element of new build. The dominance of new-build applied to both residential and commercial/industrial developments.

A total of 4,320 housing units were completed in the Scheme area and benefited from tax relief in the period 1999-2004. Houses that benefited under the Scheme accounted for 29.1 per cent of all new private houses in 2002, and averaged 23.3 per cent over the Scheme period to date.

A significant number of people have built houses but have yet to seek the appropriate certificates and therefore do not appear in the above estimate. Taking these into account, estimated housing output under the Scheme rises to 5,700 for the period up to end 2004, representing 30 per cent of all housing output in the Scheme counties.

In the case of the fully designated counties of Longford and Leitrim, these data suggest that approximately two-thirds of housing completions are benefiting from the Scheme.

4.5 Impact of the Scheme

4.5.1 Introduction

This Section of the report considers the impact of the Scheme. It commences with a discussion of the nature of Scheme impacts. This focuses on the distinction between impacts that improve the efficiency and effectiveness of the economy on the one hand, and on other hand, aspects of Government policy that related to the distribution of income, both at the individual and spatial levels. A prerequisite to determining the impact of the Scheme is the identification of whether it had effects over and above those that would have occurred in its absence. i.e. whether a degree of additionality occurred. If additionality was limited and there was substantial dead weight in the Scheme effects, then the benefits of the Scheme would have been small. Having examined this issue, the economy and distributive impacts of the Scheme are then assessed.

4.5.2 Nature of Scheme Impacts

4.5.2.1 Introduction

The Rural Renewal Scheme represents a Government market intervention in that it results in the subsidisation of certain economic activities. In this instance, the tax reliefs available represent a subsidy to certain types of property development. Such interventions are normally justified on the basis of market failure or for the purpose of achieving a more equitable distribution of income or economic activity than would result from the operation of the market.

4.5.2.2 Market Failure and Economic Effectiveness and Efficiency

Market failure may occur for a variety of reasons, which have been identified in Section 2. However, they are more likely to be present at specific locations in urban areas. In such areas, the availability of sites may be restricted, there is often a need to achieve scale in development, and the potential for spillover benefits is large. Thus, there are benefits associated with urban regeneration in these areas.

In the context of the Rural Renewal Scheme, therefore, these market failures are likely to be present to a significant degree only in the principal towns such as Longford and Carrick-on-Shannon.

4.5.2.3 Distribution Benefits

Governments interfere in the market in order to achieve a more equitable distribution of income or public services among certain groups in the population. Such policies are usually aimed at addressing the problems of social deprivation or ill-health and disability. Governments may also have spatial development aims such as maintaining or enhancing regional or local (rural) population levels, part of the motivation for which may be economic as well as social. As indicated in Section 2, a prime motivation for introducing the Rural Renewal Scheme was to address the depopulation of the areas designated under the Scheme.

Finally, in implementing policies aimed at redistributing income either at the individual or spatial level, Governments have to take account of the possibility of adverse equity impacts. In the case of tax-based initiatives, such as the Rural Renewal Scheme, this occurs where the general taxpayer, including those on lower incomes faces an increased tax burden as a result of tax forgone, whereas the Scheme beneficiaries are those with higher incomes. This is an issue of real concern in relation to a number of tax incentive schemes at present, including the Rural Renewal Scheme.

4.5.3 Additionality and Dead Weight

Section 4.5 indicated that a large number of properties have benefited under the Scheme to-date. However, the impact of the Scheme is determined by the extent to which these developments are additional or to the absence of dead weight.

Table 4.18 depicts the ratio of housing output in the Scheme counties to that of other BMW counties in aggregate. This shows that during the 1990s, this ratio was remarkably stable at 21 to 22 per cent. However, following the first impacts of the Scheme in 2000, the ratio rose sharply. Moreover, there is a correlation between the years in which the Scheme output was high and those in which the ratio was high. This suggests that the Scheme was successful in increasing housing output in the participating counties.

It also suggests a methodology for measuring dead-weight. As the ratio of output in the Scheme counties to that of the rest of the BMW region was constant during the 1990s, one means of predicting what would have occurred in the absence of the Scheme would be to assume that the ratio would have been maintained, and to predict total housing output in the Scheme counties on this basis. This approach to predicting the "do-nothing" outputs has the benefit of taking account of the effect of general economy-wide increase in economic activity and population levels that would have occurred in any event. The aggregate housing output for the Scheme counties was predicted to be 15,454 on this basis (See Table 4.19).

Table 4.18: Housing Output in the Scheme Counties and the Remainder of the BMW Region

Year	Housing Output RRS Counties	Housing Output Other BMW Counties	Output in RRS Counties as a Proportion	Scheme Housing Output
	No.	No.	(%)	No.
1994	1,070	4,855	22.0	
1995	1,216	5,466	22.2	
1996	1,520	6,890	22.1	
1997	1,654	7,966	20.8	
1998	1,965	9,274	21.2	
1999	2,411	10,620	22.7	
2000	2,555	12,280	20.8	237
2001	3,116	13,556	23.0	774
2002	3,510	12,273	28.6	1023
2003	3,908	15,482	24.7	1006
2004	5,417	16,681	32.1	1280

Sources: Goodbody Economic Consultants Estimate and DOEHLG Housing Statistics

Table 4.19: Measuring Dead Weight

Measure	Aggregate Number of Houses 2000-2004
Predicted Housing Output in Scheme Counties (A)	15,454
Actual Housing Output in Scheme Counties (B)	18,506
Additional Unanticipated Output in Scheme Counties (C=B-A)	3,052
Housing Output Under the Scheme (D)	5,700
Dead weight Output (E=D-C)	2,648
Dead Weight (%) (E/D)	46.4

Source: Goodbody Economic Consultants Estimate

This aggregate predicted output may be compared with the actual output that occurred (18,506), to measure the scale of unanticipated output. The unanticipated output is estimated at 3,052. However, housing outputs under the Scheme were in excess of this number at 5,700,[8] indicating that a dead weight output of 2,648 or 46.4 per cent occurred. This is a minimum estimate of the dead-weight, as it effectively assumes that all of the unanticipated increase was due to the Scheme.

While all measurements of dead-weight are subject to error, the above measurement suggests that the Scheme was successful in stimulating housing output, but that there were very substantial dead-weight losses.

A similar calculation was not possible in respect of the commercial/industrial developments under the Scheme. In the discussion below, a similar level of dead weight as for housing is assumed.

4.5.4 Benefits arising from Market Failures

4.5.4.1 Urban Regeneration Benefits

Section 4.5.2.2 indicated that property-related market failure type benefits were more likely to occur in urban areas. An analysis of the situation in Carrick-on-Shannon revealed that almost 1,000 housing units have been constructed in the town and its environs during the course of the Scheme to date. As the total housing output to date is 5,700, and output in Longford has also been considerable, it is clear a large share of development (c.40 per cent) has taken place in the major urban areas.

[8] It is considered that the higher estimate of output under the Scheme is more accurate.

The case study of Carrick-on-Shannon revealed that the Scheme has contributed significantly to the development of the town (See the Box below). Prior to its introduction, there would have been a lack of confidence in the town, which inhibited local development. The advent of MBNA, together with the introduction of the Scheme, overcame this barrier. There were also synergies between the two events in that the housing output under the Scheme provided accommodation for MBNA workers. However, the mix of developments under the Scheme is a cause for concern with too little in the way of commercial/industrial development and in-fill development and an emerging over-supply of housing. This, together with the scale of current development indicates that the Scheme has fulfilled its purpose in respect of the town.

Information with regard to Longford indicates a somewhat similar story, with the Scheme being a significant factor in the animation of the town. The increased residential output here has provided accommodation for both a migrant workforce for local manufacturing plants and for State supported asylum seekers. Again, there is some concern that there may prove to have been over-provision of housing in the medium term.

A common feature of both towns is that the Scheme did not operate within a dedicated area planning structure, with designation of specific areas or sites where market failure was evident. This has reduced the benefits of the Scheme in combating such market failures.

Outside of these major urban areas, property-based market failure would not have been a factor to a significant degree. As it is estimated that approximately 55 per cent of housing development occurred outside these areas, the specific benefits arising from addressing property market failures were absent from much of the Scheme.

4.5.4.2 Employment Creation

The Scheme contributed to employment demand in two ways viz. through increased:

- Building activity in the area; and
- Employment in commercial and industrial enterprises.

The €453m spent within the Scheme in the period 2000-2004 would have given rise to significant demand for labour in the building industry. However, as dead weight is estimated to have been a minimum of 46 per cent, only €243m would have created additional demand. Based on the average employment content in building and construction[9], this level of spend would have created a demand for over 1,300 person years of direct employment during the period 2000 to 2004, or an average annual demand for 260 workers. Income tax and PRSI receipts would have totalled just under €15m.

[9] See: CSO. 2002 Census of Building and Construction

These impacts only occur during the construction phase of the Scheme. More lasting economic impacts could occur through the expansion and refurbishment of industrial and commercial premises. Only an estimated 123 industrial and commercial premises were developed under the Scheme. Assuming, a similar level of dead weight as for housing indicates an additional 66 premises. It is by no means the case that all of these would have given rise to increased employment demand: some developments were undoubtedly replacements or refurbishments without expansion. The indications, therefore, are that the economic benefits arising from this source are not substantial.

The scale of these developments is unknown, so that an estimate of employment demand is not possible. However, given the small number of developments and the likelihood that their scale is small, employment demand is unlikely to be significant. The fact that additional employment demand was created does not imply that economic benefits occurred. This would occur only if the shadow price for labour was below the market price. If unemployment levels are low, then shadow and market prices are close, and the impact of the additional employment demand will be simply to drive up wages, as firms compete for limited labour resources. The unemployment rates for the Scheme area has been 5 per cent or lower. Such low levels of unemployment have led the IDA to assume that the shadow price for labour is a maximum of some 90 per cent of the market price outside the Dublin area. This in turn implies that for each increase in employment demand of 100, only 10 additional jobs are created for unemployed people. Thus, on this basis, employment demand on foot of the Scheme does not contribute substantially to economic welfare.[10]

[10] One impact of the Scheme on the building sector was that, as a result of the increased activity, local builders found employment locally rather than having to seek work in the East Region market.

Case Study: Carrick-on-Shannon

Carrick-on-Shannon is the county town and administrative centre of Co. Leitrim. It is strategically located on the Dublin to Sligo road (N4) and is serviced by rail. Leitrim is one of the poorest counties in the country and has suffered from a declining population in recent decades – a trend which has only started to change in the last number of years. There are two large employers in the town: Masonite and MBNA. Masonite has been established in Carrick-on-Shannon for almost 10 years and employs 320 people. MBNA opened its offices in Carrick-on-Shannon in July 2001 and employs 1,100 people.

In the years prior to the introduction of the Rural Renewal Scheme there was no commercial development undertaken in the town, and only a limited amount of residential development (approximately 30 to 40 houses).

The developments carried out in Carrick-on-Shannon have been mostly residential. The level of commercial development has been very low apart from a few significant projects such as the Landmark Court and Central Park. The Landmark Court development provided a number of new business and retail outlets which have helped to develop a new street on the waterfront. The Central Park development will accommodate 65,000 square feet of retail and commercial premises. Almost all of the development which has taken place under the scheme has been new build with very little refurbishment projects carried out.

Since the introduction of the scheme at least 960 residential units have been built in Carrick-on-Shannon. Approximately 25 per cent of these units are apartments despite concerns that there was no market for this type of accommodation in the town. Of the total residential units developed, approximately 70 per cent are owner-occupied with 30 per cent rented. Most of the apartment developments have been sold to investors, though in recent years owner-occupiers have been a stronger segment of the market. The tax incentives available have made houses in Carrick-on-Shannon more affordable with the result that young single people now make up a large segment of buyers.

The increased supply of houses has led to increased quality as competition for buyers intensifies. As a result, the quality of housing outputs is quite high, however there are a number of developments which are considered to be of poor quality. In the earlier years of the scheme there was no area plan for Carrick-on-Shannon with which planning applications were to be aligned and so a number of developments have been located on greenfield sites outside the town centre.

The huge number of residential units which have been developed in Carrick-on-Shannon have led to an over-supply of accommodation. In the past number of years, rents have dropped by 50 per cent and tenant-hopping has become a prominent feature of the rental market.

It is estimated that the vacancy rate for residential property in Carrick-on-Shannon is approximately 30 per cent. Given this high level of vacancies and the attraction of the town as a tourist destination, it is possible that a proportion of these residential units are being used as holiday homes, or have been bought by persons who have yet to occupy them.

The Local Authority has benefited from the Rural Renewal scheme through increased income from Developer Contributions and Commercial Rates. There has been an estimated 25 per cent increase in Commercial Rates since the introduction of the scheme. Other direct benefits of the scheme are proceeds from the sale of Local Authority owned lands. Two sites have been sold in Carrick-on-Shannon for approximately €2 million. The Local Authority has also been able to fund a new Leisure Centre in the town as a PPP joint venture.

Overall, the Rural Renewal Scheme has had a very positive effect on Carrick-on-Shannon and is credited with having given a psychological boost to the town. While some level of development is likely to have taken place in any event, it would certainly have been to a much lesser extent in the absence of the scheme. The housing output accruing from the scheme has accommodated a significant increase in the population in recent years. This increased population has stimulated the local economy through increased spending. However, there have been some negative outcomes from the scheme such as instances of poor quality housing developments. Also, the huge increase in the housing developments has led to over-supply in the housing market. The high levels of vacant apartments have also given rise to concerns over the future use of these properties. Low maintenance and dereliction may become an issue.

As there was no initial requirement under the Rural Renewal Scheme for an Integrated Area Plan to be produced, developments carried out in the early years of the scheme were not subject to any framework or standards in relation to the overall development of the area. In 2004 a Local Area Plan was developed for Carrick-on-Shannon to establish a framework for the development of the town. Planning applications submitted following the introduction of this plan had to comply with the standards set out therein.

Given the high level of residential development that has taken place in Carrick-on-Shannon, relative to the size and population of the town, it would seem that the Rural Renewal Scheme does not need to be continued in this area. The scheme has provided the town with the necessary boost to invigorate the economy and attract the larger population needed to expand and develop the town into the future.

4.5.4.3 Overview

The overall conclusion is that as some 40 per cent of activity under the Scheme was concentrated in the major urban areas, property-related urban regeneration benefits occurred. Our case study and analyses have suggested that the Scheme has played a role in creating such benefits. While, the Scheme has created demand for additional employment, the economic benefits have not been significant due to the low levels of unemployment in the Scheme counties.

4.5.5 Population and Housing Benefits

4.5.5.1 Population Change and Housing Outputs

The prime aim of the Scheme was to help reverse the declining population trend in the designated counties by encouraging an adequate supply of housing and facilitating an expansion of commercial and industrial output. It is clear from the analysis of Section 4.5, that the Scheme failed to engender much permanent economic activity arising from commercial and industrial development.

The contribution to housing supply was more pronounced. Taking account of dead weight, the Scheme contributed 3,052 additional housing units in the period 2000 to 2004. While the average occupancy of these units is not known the evidence of the Carrick-on-Shannon case study is that a significant proportion was taken by single persons. At an average occupancy of two persons, a total of some 6,000 persons may have been catered for.

There are no data on county populations for intercensal periods. The Census data for 1991, 1996 and 2002 are presented in Table 6.3. In 1996, shortly before the Scheme commenced, the population of the Scheme area had declined by 2.5 per cent compared to 1991, whereas other counties in the BMW region were experiencing population growth. By 2002, the decline in the Scheme area had been reversed, with all Scheme counties experiencing population growth, which amounted to 2.6 per cent or 2,917 persons for the Scheme area as a whole. By 2002, a minimum of 2,135 housing units had been certified under the Scheme, more than sufficient to cater for this population increase.

Table 4.20: Population Growth in BMW Region 1991- 2002

County	Population 1991	% Change	Population 1996	% Change	Population 2002
Leitrim	25,301	-1.0%	25,057	3.0	25,799
Longford	31,496	-4.2%	30,166	3.0	31,068
Sligo	14,593	-1.6%	14,365	2.8	14,769
Roscommon	32,573	-2.6%	31,723	0.6	31,926
Cavan	13,029	-2.5%	12,708	5.2	13,374
Total	**116,992**	**-2.5%**	**114,019**	**2.6**	**116,936**
BMW	**733,899**	**2.1%**	**749,227**	**8.5**	**812,807**
State	**3,525,719**	**2.8%**	**3,626,087**	**8.0**	**3,917,203**

This indicates the presence of another form of dead weight, as it suggests that a significant proportion of the additional housing units were occupied by existing residents of the area. That is, that the additional housing encouraged additional household formation through young people setting up independent homes before they would otherwise have done so. Thus, a significant but unquantifiable element of housing output under the Scheme was not available to support population growth. As against this, it could be argued that the increased availability to young people of housing at lower cost will encourage them to remain in their local areas, leading to a retention of the existing population.

However, on balance the comparison of housing provision and population growth suggests that while the aim of the Scheme of reversing population decline has been achieved, a significant proportion of the Scheme output did not contribute to that aim.

4.5.5.2 Value for Money

Given the two types of dead weight, there will be concerns over whether the Scheme constitutes value for money. Three indicators are presented below for residential and commercial units:

- The tax costs per additional unit;
- The present value of tax costs per additional unit;
- The ratio of the present value of tax costs to new build costs.

At €31,427 per housing unit, the cost to the Exchequer is substantial. On average, it constitutes 16 per cent of the typical house price of €200,000. If dead weight losses are considered, the tax cost per housing unit rises to €59,300. By any measure, this is a very high price for the Exchequer to pay for incentivising housing development in the Scheme area. The implication is that the Scheme has proved to be an extremely expensive means of encouraging population growth. The NPV of tax costs account for 29 per cent of residential build costs incurred by those developing new housing. By way of comparison these figures are very similar to the tax costs arising under TRS but less that those associated with URS.

The table also gives efficiency indicators for commercial units; however these are not directly comparable with the other incentive schemes which measure commercial floor space, not units. At 37.8 per cent the NPV of tax costs to commercial build costs is quite high, but similar to the ratio observed for other schemes.

The tax costs of the Scheme will not be offset to a significant degree by either direct income tax and PRSI payments by the construction industry or developer contributions. Taken together, these amount to less than 5 per cent of build costs.

Table 4.21: Efficiency Indicators

Item	Value
Tax cost per housing unit (€)	31,427
Present value of tax costs per housing unit (€)	26,181
Ratio of discounted tax cost to build costs	29.0
Tax cost per commercial unit (€)	170,452
Present value per commercial unit (€)	140,443
Ratio of discounted tax cost to commercial build costs	37.8

4.5.5.3 Housing Quality

The census of 1991 and 2002 provide information on the proportion of houses in each county which are lacking basic amenities such as central heating and water supply. In the BMW region, Longford and Leitrim were shown as having the highest percentage of dwellings which are without basic amenities, and the highest percentage of houses built pre 1940. According to the 2002 Census, the number of houses in Leitrim with no piped water was 3.7 times the national average as can be seen from Table 4.20. Given the high number of residential units developed in the designated area, a further benefit of the scheme would be the extent to which it improved the quality of the housing stock in the designated area.

Table 4.22: Percentage of Private Dwellings Lacking Basic Amenities in BMW Area

		% of private dwellings		
Area	**No Central Heating**	**No Piped Water**	**No Sewerage Facility**	**Built Pre 1940**
Leitrim	17.60	1.27	*2.27*	34.08
Longford	18.14	0.95	1.29	26.58
BMW Average	15.01	0.71	1.04	23.85
National	13.00	0.34	0.55	21.98

Source: Census 2002, Central Statistics Office

4.5.6 Equity Impacts

4.5.6.1 Introduction

Analysis of the equity impacts of the scheme requires consideration of two fundamental questions:

- To what extent are the benefits of the Scheme confined to a relatively few individuals; and
- To what extent are those individuals in the higher income and wealth groups.

Obviously, the more concentrated the group of scheme beneficiaries is and the higher their income and wealth status, the more inequitable the Scheme is.

4.5.6.2 Incidence of Benefits

If there are few tax-designated sites, then supply is relatively fixed, and the pressure of demand for these few sites will raise their price and thus the price of the property (see Appendix 1). While relatively few sites were designated under the Urban and Town Renewal Schemes, this was not true of the Rural Scheme. The whole of the counties of Leitrim and Longford and significant parts of Cavan, Roscommon and Sligo were designated. Therefore, site availability would not have been a factor in inhibiting supply. With regard to the availability of building resources, these were undoubtedly in short supply generally throughout the period of the Scheme, which was characterised throughout the country by rapidly rising house prices. However, the case study and information gathering conducted for this study indicates that this effect may have been mitigated somewhat in the Rural Scheme area. This is because there is evidence that some builders who were resident in but who formerly worked outside the Scheme area, concentrated their activities locally once the Scheme got underway. Thus, while supply side constraints undoubtedly raised prices during the period of the Scheme, there is no reason to believe that this was particularly pronounced in the Scheme area.

The incidence of the Scheme benefits is determined not only by supply side conditions, but also by demand side. If demand is very sensitive to price, then the capacity of builder/developers to raise prices is limited, as potential purchasers will be deterred by the price increases. Again, the fact that large areas were tax designated would have tended to increase the price elasticity of demand. Purchasers seeking properties in a particular townland or urban area would have a choice of locations, both within and without that area.

The conclusion is that because of the large areas that were designated under the Scheme and the availability of local building resources, it would not have particularly added to price inflation, over and above that which would have occurred because of the strong housing demand that existed throughout the country generally.

Over and Under Supply

New house building under the Scheme comprised both construction for owner-occupation by the site owner and speculative house building. When speculative house building takes place, speculative builders base their decisions as to the levels of output to provide on the demand they anticipate may arise in the future. If they get this decision wrong, then they provide too little or too much housing output, leading to either a softening or hardening of house prices. Thus, it may be seen that the incidence of benefits under the scheme also depends on the behaviour of speculative builders in anticipating the market. Professional builders would have a wealth of experience in judging the market and therefore may avoid oversupplying the market. However, over 80 per cent of residential developments under the scheme were single units, and there is supporting evidence that a proportion of these were built speculatively by site owners uninvolved in the building trade for subsequent sale. This would have tended to increase the scope for speculative over supply of the market.

4.5.6.3 Price and Cost Trends in the Market

The above analysis suggests that the fact that the Scheme applied over a wide area, the availability of local building resources, and the potential of some speculative building to oversupply the market indicates that it would not necessarily have added to house and price inflation, over and above that which would have occurred in any event because of general market conditions. The implications are that a significant element of the tax gain would have accrued to house owners or renters.

If this is not the case, then it would be expected that, building costs, house prices and rental values in the Rural Renewal Scheme area would have risen strongly by comparison with other areas. With regard to building costs, there is no evidence that these were particularly high. It is estimated that the average cost of house building under the Scheme was approximately €70 per square foot. The Institute of Auctioneers and Valuers provide indicative estimates of house building costs for insurance purposes. These costs include the costs of demolition of existing properties, as well as full professional fees. Currently, the IAAVI estimate these costs at approximately €110 per square foot in rural areas.

With regard to house prices, there are no data that refer to the Scheme area as a whole. However price data are available for the counties of Leitrim and Longford. In the period, 1996 to 2004, the price of private houses in these two counties increased by 197 per cent and 184 per cent. This was considerably lower than the increase for the State as a whole, or, more relevantly, the other BMW counties at 206 per cent. During the period 1999-2004, house prices in these two counties declined from being the 6th and 13th cheapest in the BMW region to being the cheapest and second cheapest. Thus, there is clear evidence of a relative decline in house prices in the two counties that received countywide designation under the Scheme.

Table 4.23: House Price Inflation, 1996-2003

Area	Average Prices 1996	Average Prices 2004
Leitrim	66,077	196,800
Longford	67,986	193,106
BMW Average	70,249	215,588

Source: Irish Permanent Building Society/ESRI Surveys

There are no equivalent data on rental values. However, the Case study of Carrick-on-Shannon revealed that rental values have declined by 50 per cent in the last two years. This may be compared with an equivalent of minus 1 per cent nationally. [11]

[11] As indicated by the CSO Rental Value Index component of the Consumer Price Index

Thus, the overall conclusion is that building costs under the Scheme have not been excessive and that house prices and rents have tended to soften relative to areas outside the Scheme. This, in turn indicates that individual owner-occupiers and investors have benefited from the Scheme to a large degree, in that they have not faced excessive costs or prices for properties constructed or purchased. There is evidence also, that renters are benefiting from lower rents. Finally, the fact that 82 per cent of developments constructed were single dwellings suggests that small builders were very active in delivering the increased housing output.

4.5.6.4 Owner-Occupiers and Investors Benefits: Equity Implications

As with all tax-based schemes, only those with taxable incomes stand to benefit. Moreover, with regard to income tax relief, those taxpayers on higher incomes and paying taxes at the higher tax rate stand to gain most from the Scheme. Additionally, investors seeking Section 23-type relief have other rental income against which they claim relief, implying significant wealth. The Scheme thus favours those on higher incomes and therefore has, in this fundamental sense, negative equity impacts.

This view is reinforced by an analysis of the scale of once-off houses developed under the scheme. Table 4.24 shows that houses were divided almost equally between those that were less than 150 square metres (1614 square feet) and those that were above. Some 13 per cent of houses were in excess of 200 square metres (2,152 square feet) indicating that a sizeable minority of beneficiaries of the scheme had the necessary funding for very large dwellings.

Table 4.24: Distribution of One-off Housing Units by Floor Area

Floor Area (m^2)	% of Total
50 - 100	6.6
100 - 150	44.9
150 - 200	35.2
200-210	13.3
Total	**100.0**

Source: Goodbody Economic Consultants Survey

Having said that, the Scheme differs from the Urban and Town Renewal Schemes in that it does not focus on particular designated sites. Rather, developments within the whole of Longford and Leitrim counties, and in significant tracts of Sligo, Roscommon and Cavan are eligible. Thus, the development opportunities under the Scheme are available to a wide range of land and property owners. This is evident in the large number of individual developments under the Scheme. During the period 1999-2004, there were an estimated 1,876 individual developments under the scheme. Moreover, in respect of the 1,744 residential developments, 82.3 per cent related to a single housing unit development (see Table 4.25)

Table 4.25: Distribution of Housing Developments by Number of Units

Number of Units	Proportion of Total Developments %
1 Unit	82.3
2 - 5 Units	6.3
5 - 10 Units	5.0
10 - 20 Units	3.3
20 + Units	3.0
Total	**100.0**

Source: Goodbody Economic Consultants Survey

4.5.6.5 Overview of Equity Impacts

The overall view of the equity aspects of the Scheme is as follows:

- Owner-occupiers and investors were significant beneficiaries under the Scheme;
- While builder-developers also benefited from the scheme, there is no evidence that they did so to an inordinate degree;
- Because of the large proportion of one-off housing under the Scheme, it is likely that small-scale builders benefited from the additional business that the Scheme brought;
- There is some evidence that the Scheme lead to a moderation of house price increases and low rents, which would be to the benefit of house purchasers and renters generally.
- Thus, the benefits of the Scheme would have been spread widely among owner-occupiers, investors and builders. However, as the Scheme was tax based, it would have fundamental inequitable effects, as the tax benefits were available only to those with taxable incomes. Moreover, those with the highest income had the capacity to benefit most from the Scheme by building relatively large houses.

4.5.7 Compatibility of the Scheme with Planning Policies

The 1997 policy document "Sustainable Development: A Strategy for Ireland" set out a strategic policy framework to deliver sustainable development. The Strategy indicated that there should be a presumption against urban generated one-off housing in rural areas adjacent to towns. The National Spatial Strategy (NSS) indicated that subject to adherence to good planning practice, rural generated housing needs should be accommodated where they arise. The NSS approach was elaborated in the guidelines for rural housing – "Sustainable Rural Housing:

Guidelines for Planning Authorities" issued by the Department of Environment Heritage and Local government. These provided that:

- People who are part of the rural community should be facilitated by the planning system in all rural areas, including those under strong urban based pressures; and
- Anyone wishing to build a house in rural areas suffering persistent and substantial population decline will be accommodated.

As indicated above, there were 1,753 residential developments under the Scheme. 87.8 per cent of these or 1,539 developments related to new build. Of these, 82.3 per cent or 1,260 were one-off developments. As the total housing output under the Scheme was 4,320 in the period 1999-2004, one-off housing units represented 29.2 per cent of the total. Thus, it is clear, that while significant, one-off housing output did not dominate. With regard to the geographic distribution of housing, it is estimated that 40 per cent of this took place in the major urban areas. However, developments in rural areas would not necessarily run counter to good planning, in light of rural housing guidelines acceptance of rural housing in areas of population decline.

A separate aspect of housing development does give rise to concern. Although difficult to quantify, it is evident that some housing development, particularly in Longford gave rise to long distance commuting to the Greater Dublin area, with negative sustainable development impacts.

4.6 Conclusions and Recommendations

4.6.1 Scheme Expenditure

Expenditure under the Scheme is estimated at total of €453m for the period 1999-2004. After a slow start, expenditure rose rapidly from € 24.6m in 2000 to €218.2m in 2004.

Of the total of €453.4m, Longford and Leitrim account for similar levels of expenditure at €130 to €140m. Roscommon, although only partly designated, is also a major contributor to expenditure at €94.7m or 20.9 per cent of the total.

Of the total of €453.4m, €398.5m (88.1 per cent) was in respect of residential developments and €54.4m (11.9 per cent) related to commercial/industrial developments.

The bulk of expenditure was on new-build. Developments that were solely new-build or that contained an element of new-build accounted for €436.5m or 96.3 per cent of total expenditure.

Very large increases in planning applications took place in 2004 as people sought to ensure that they could avail of the scheme. The average increase in planning applications was 78 per cent on that year.

Taking account of these applications, the predicted total construction expenditure on foot of the Scheme is put at €1,072m.

4.6.2 Tax Costs of the Scheme

It is estimated that the total tax forgone arising from the Scheme up to its end date of July 2006 will be €326m in present value terms.

Of the total tax costs, residential developments will account for €277mm in present value terms or 85 per cent and commercial developments for €48m or 15 per cent.

New housing will account for €274m of the tax costs, with refurbishment a very small element at €3m.

Of the new housing residential tax relief, it is estimated that the investor will account for €181m (67 per cent) and the owner-occupier for €92m (33 per cent).

4.6.3 Scheme Outputs

An estimated 1,876 developments were completed under the Rural Renewal Scheme in the period 1999-2004. Of these, 1,753 or 93.4 per cent were residential in nature, and 6.4 per cent commercial/industrial.

Of the total of 1,876 developments, the largest number was in Leitrim and Longford, with an estimated 544 and 572 developments respectively. These account for just under 60 per cent of all developments to date. Roscommon was the next largest with an estimated 388 developments (20.7 per cent of the total).

The vast majority of developments, 1,561 (83.2 per cent) were new-build only, with 1,650 developments (88.0) having at least some element of new build. The dominance of new-build applied to both residential and commercial/industrial developments.

A total of 4,320 housing units were completed in the Scheme area and benefited from tax relief in the period 1999-2004. Houses that benefited under the Scheme accounted for 29.1 per cent of all new private houses in 2002, and averaged 23.3 per cent over the Scheme period to date.

A significant number of people have built houses but have yet to seek the appropriate certificates and therefore do not appear in the above estimate. Taking these into account, the estimated housing output under the Scheme rises to 5,700 for the period up to end 2004, representing 30 per cent of all housing output in the Scheme counties.

In the case of the fully designated counties of Longford and Leitrim, these data suggest that approximately two-thirds of housing completions are benefiting from the Scheme.

4.6.4 Scheme Impacts

A significant proportion of the Scheme output would have occurred without the tax incentives. This dead-weight element is estimated at a minimum of 46 per cent, and reduces substantially the benefits of the Scheme.

Some 40 per cent of activity under the Scheme was concentrated in the major urban areas of Longford and Carrick-on-Shannon. A common feature of both towns is that the Scheme did not operate within a dedicated area planning structure, with designation of specific areas or sites where market failure was evident. This reduced the urban regeneration benefits of the Scheme, as developments sometimes occurred on unsuitable or less than optimum sites.

Outside of these major urban areas, property-based market failure would not have been a factor to a significant degree. As it is estimated that approximately 60 per cent of housing development occurred outside these areas, benefits derived from addressing property–based market failures were absent from much of the Scheme.

The direct contribution of the Scheme to increasing economic demand was small, as commercial and industrial developments under the Scheme were few in number.

While, the Scheme has created demand for additional employment in the building industry, the economic benefits have not been significant due to the low levels of unemployment in the Scheme counties.

Significant housing output occurred under the Scheme. However, a substantial proportion of this output was taken up by existing residents. That is, that the additional housing encouraged additional household formation through young people setting up independent homes. Thus, a significant but unquantifiable element of housing output under the Scheme was not available to support population growth. While the aim of the Scheme viz. that of reversing population decline has been achieved, a significant proportion of the Scheme output did not contribute to that aim.

While many residential developments were modest, almost one in seven had a floor area in excess of 200 square metres, indicating that some house owners used the tax incentives to build or purchase very large dwellings.

Taking account of dead weight, at €59,300 per housing unit, the cost to the Exchequer is very substantial. By any measure, this is a very high price for the Exchequer to pay for incentivising housing development in the Scheme area. The implication is that the Scheme has proved to be an extremely expensive means of encouraging population growth. In present value terms, tax costs account for 29 per cent of build costs incurred by those developing new housing.

The tax costs of the Scheme are not offset to a significant degree by either direct income tax and PRSI payments by the construction industry or developer contributions. Taken together, these amount to less than 5 per cent of build costs.

.

There is clear evidence of an over-supply of housing in the Scheme area. House prices have fallen relative to other areas in the BMW. There is also evidence in some locations of high vacancy rates and rapidly falling rents.

The benefits of the Scheme would have been spread relatively widely among owner-occupiers, investors and builders. However, as the Scheme was tax based, it has fundamental inequitable effects, as the tax benefits were available only to those with taxable incomes. Moreover, as indicated above, those with the highest incomes had the capacity to benefit most from the Scheme by building relatively large houses. A positive aspect of the Scheme is that the majority of residential beneficiaries are estimated to have been owner-occupiers.

4.6.5 Conclusions and Recommendations

In summary, the Scheme:

- Had little direct impact on economic activity, except in the major urban areas;
- Had a modest impact on housing output, due to the high level of dead-weight;
- Resulted in higher quality housing output, but largely to the benefit of existing residents;
- Led in some cases to the construction of excessively large dwellings;
- Was poor value for money as the tax costs per housing unit were very high;
- Has now resulted in an excess supply of housing in the Scheme area.

Based on these conclusions, it is recommended that the Scheme should not be renewed after its current expiry date. Moreover, it is not considered to be a useful model for the regeneration of other areas of the country. The urban regeneration benefits achieved by the Scheme would be better delivered through targeted town renewal schemes.

5. Review of the Urban Renewal Scheme

5.1 Introduction

This Section of the Report presents a review of the Urban Renewal Scheme. It begins with an analysis of expenditure under the Scheme in Section 5.2. That analysis is used to estimate the tax costs of the Scheme in Section 5.3. Sections 5.4 and 5.5 assess the Scheme outputs and impacts. Conclusions are presented in Section 5.6.

5.2 Scheme Expenditure 1999-2004

5.2.1 Aggregate Scheme Expenditure

Expenditure under the Scheme is estimated at total of €1,281m for the period 1999-2004. There are no comprehensive data available to indicate the trend in expenditure over this period. As many of the projects are large and would take a considerable period of planning, it is likely that the bulk of expenditure has been towards the end of the period.[12] There is support for this view from an analysis of applications for certificates of compliance issued in respect of the residential aspects of the Scheme. These relate to numbers of completed residential projects. Table 5.1 below shows that 45.8 per cent of the residential projects completed by end 2004, were completed in that year.

Table 5.1: Number of Completed Residential Projects under the Urban Renewal Scheme, 1999 –2004

Year	Number	Proportion (%)
1999	0	0.0
2000	15	6.3
2001	30	12.6
2002	40	16.8
2003	44	18.5
2004	109	45.8
Total	**238**	**100.0**

Source: DOEHLG

[12] A frequent comment made during the course of the case studies was that the decision to extend residential investor (Section 23) type tax relief to sites that previously only had owner occupied relief effectively kick started the Scheme in certain areas.

5.2.2 Profile of Expenditure by Urban Area 1999-2004

Of the total of €1,281m, expenditure, over half occurred in the Dublin area, with Limerick the next most important at 12 per cent. Of County Boroughs, Waterford and Cork also had high expenditure levels at 7.6 per cent and 3.6 per cent respectively. Locations outside the major urban areas accounted for 19.2 per cent of the total with Kildare and Drogheda being prominent locations for expenditure.

Table 5.2: Estimated Expenditure by Urban Area 1999-2004 (€m)

Location	Expenditure (€m)	Proportion (%)
Major Urban Areas Of which:	1,034.3	80.8
Dublin	711.6	55.6
Cork	46.7	3.6
Limerick	158.7	12.4
Waterford	98.3	7.6
Galway	19.0	1.5
Other Urban Areas	246.4	19.2
Total	**1,280.7**	**100.0**

Source: DOEHLG
Note: Dublin refers to the area of the four local authorities; figures are an underestimate due to missing data in respect of O'Connell Street

5.2.3 Profile of Expenditure by Type of Sector and Type of Build

Of the total of €1,281m, €612.5m (47.6 per cent) was in respect of residential activity and €670.8 m (52.1 per cent) related to commercial/industrial activity.

The bulk of expenditure was on new-build, which accounted for €1,199.2m or 93.2 per cent of total expenditure. Expenditure on refurbishment was low. However, this reflects a low average expenditure on a significant number of developments that had a refurbishment element.

5.2.4 Profile of Expenditure by Project Type

The Urban Renewal Scheme consists of relatively large projects that often comprise both residential and non-residential elements as well as a mix of new-build and refurbishment or conversion.

Newbuild projects in total accounted for €1,149m or 89.7 per cent of all expenditure. Of these, newbuild projects that are a mix of both residential and commercial/industrial development have incurred the greatest expenditure (€601.1m or 46.9 per cent of the total), as they tend to be larger in number and size. Projects that are pure refurbishment or a mix of newbuild and refurbishment accounted for only €121.2m or 9.5 per cent of the total.

Table 5.3: Estimated Expenditure by Type of Project 1999-2004 (€m)

Project Type	**Newbuild Only (€ m)**	**Refurbishment Only (€ m)**	**Mix Newbuild & Refurb. (€ m)**	**Not Stated (€m)**	**Total (€m)**
Commercial/ Industrial only	274.1	28.1	28.0	-	330.2
Residential Only	274.1	22.4	10.3	-	306.8
Mix Res. & Comm./Ind.	601.1	7.1	25.3	-	633.5
Not Stated	-	-	-	10.8	10.8
Total	**1,149.3**	**57.6**	**63.6**	**10.8**	**1,281.3**

5.2.5 Conclusions

Expenditure under the Scheme is estimated at total of €1,281m for the period 1999-2004. Of the total expenditure, over half occurred in the Dublin area, with Limerick the next most important at 12 per cent.

Of the total of €1,281m, €612.5m (47.6 per cent) was in respect of residential activity and €670.8 m (52.1 per cent) related to commercial/industrial activity.

The bulk of expenditure was on new-build, which accounted for €1,199.2m or 93.2 per cent of total expenditure. Expenditure on refurbishment was low. However, this reflects a low average expenditure on a significant number of developments that had a refurbishment element.

Newbuild projects in total accounted for €1,149m or 89.7 per cent of all expenditure. Of these, newbuild projects that are a mix of both residential and commercial/industrial development have incurred the greatest expenditure (€601.1m or 46.9 per cent of the total), as they tend to be larger in number and size. Projects that are pure refurbishment or a mix of newbuild and refurbishment accounted for only €121.2m or 9.5 per cent of the total.

5.3 Analysis of Tax Costs

5.3.1 Introduction

This section provides an analysis of the tax forgone arising from the urban renewal scheme. We begin with residential projects and then present an analysis of the tax forgone associated with commercial developments (with more detailed material relegated to Appendix 3).

The DOEHLG database was the primary source of information on the Scheme expenditure. However, this needed to be adjusted to exclude some elements of expenditure for the following reasons:

- General exclusions arising when a project in the database did not take place and will not take place;
- Timing exclusions arising when only a portion of a project will take place within the scheme's qualifying timeframe;
- Commercial/Residential exclusions arising when either a commercial or a residential element of a mixed use project is excluded, as the site on which that project took place only qualifies for relief for one type of use (not both); and
- Other exclusions arising when a particular commercial or residential sub-categorisation of use is ineligible for tax relief, in which case only the affected cost is excluded and the remaining costs are unaffected as they still qualify for relief.

Allowing for exclusions gives a net qualifying cost for each project. Just as costs were adjusted for exclusions so were the number of residential units and the commercial floor space arising. The next effect of this process was to take €709m out of the URS database for the period up to the end of the Scheme in 2006.

Information on exclusions was sourced from individual local authorities either by the DOEHLG or by the Review team with an emphasis placed on areas with a lot of activity under the schemes and also on large projects in other areas. For example, for all Scheme projects in planning with a build costs over €5m, the relevant local authority was contacted for further details. This process was assisted by an analysis of all projects against the relevant statutory instrument giving effect to the renewal schemes to highlights those with sub-components in conflict with the relevant designation.

5.3.2 Tax Forgone on Residential Properties

Step 1: Estimating Housing Units by Type

The total number of units expected under the scheme to July 2006 is estimated at some 15,538 units based on the housing output stated in the database provided by the DOEHLG. This includes projects known to be completed, developments currently in progress and an assumed delivery of 75 per cent of projects still in the planning phase.

It is necessary to split these 15,538 housing units into the four sub-categories of eligible residential reliefs as the tax breaks available differs between each sub-category (as detailed in Appendix 3). The disaggregation was based on the use mix ratio indicated in the database.

The same method was used to apportion build costs.

Step 2: Average Build Cost

The average build cost per sub-category of residential type was calculated across all completed, in progress and in planning projects. This calculation produced a very high build cost for new build units (€155,878 per owner occupier unit and €192,065 per investor units); giving rise to a situation that when site costs were factored in new builds appeared to be unprofitable. This problem is very likely due the fact that the database appears to include site costs in with build costs for projects seeking to comply with the 15 per cent requirement.

This problem was overcome by taking the data from completed projects and applying an average build cost based on these. The completed projects would then have excluded the site costs in obtaining the relevant certification, as it was the base for calculating development levies. These 'completed averages' were then adjusted for construction inflation to give the figures presented in Table 5.4. The need for an inflation adjustment arose due to the fact that most of the activity under the scheme is taking place towards the end of its life cycle.

Step 3: Average Sale/Purchase Price and Site Cost

Data is required for the purchase price or sale price and site cost in estimating gross tax relief in situations were units are purchased from a builder or developer. In cases of own account developments undertaken by existing owners, the gross value of the tax cost is set at the build cost allowing for a builder's margin.

The average selling price per unit was calculated based on Dept. of Environment, Heritage and Local Government data on new apartment prices weighted to reflect:

- The location mix between Dublin, the cities of Cork, Galway, Limerick and Waterford and the smaller urban areas and the number of units expected to arise in each of the three location groups;

- The timing of activity under the scheme, which is loaded towards the end of the Scheme's timeframe.

The above gave a selling price per unit of €266,657. Investor properties were then given a price premium of €50,000 per unit to reflect the additional prices the vendors can get for these properties. This premium is based on comments in the IAVI's most recent survey of members.

Site costs are set at 70 per cent of build cost, based on observations from the IAVI and the Irish Home Builders Association (see Appendix 3 for more details). In the case of refurbishments an additional €60,000 is added to site costs as in these cases eligible site costs include the building occupying the site.

The results from applying these steps and assumptions are given in Table 5.4, with a total build cost of €1,804m.

Table 5.4: Unit Data Used in Estimating Tax Forgone on Residential Urban Renewal Scheme Projects

	O.O. New Build	O.O. Refurb	Investor New Build	Investor Refurb	Total
No. of Units Arising at 75% Completion of Projects in Planning	4,363	2,018	7,053	2,104	15,538
Database Average Build Cost per Unit	€155,878	€40,080	€192,925	€54,549	
Inflation Adjusted Average Build Cost per Completed Unit	€143,544	€31,109	€143,544	€48,828	
Gross Inflation Adjusted Build Costs	€626,277.9m	€62,768. 2m	€1,012,441.4m	€102,727.6m	€1,804,215m
Assumed Price per Unit	€266,657	€266,657	€316,657	€316,657	
Site Cost (set at 70% of build cost)	€100,481	€160,481	€100,481	€160,481	

Step 4: Gross Tax Forgone

The Department of Environment, Heritage and Local Government data information suggested a scheme mix of 70 per cent builder/developer constructed and 30 per cent other for new builds. The mix for refurbishments was put at 20 per cent builder/developer and 80 per cent other to account for the likelihood that many of these projects are undertaken by existing property owners.

Applying this mix to the data in the table above gives the gross tax relief arising, which is put at €2,071.3m in Table 5.5. Allowing for purchase price in situations where units are purchased from a builder/developer drives the gross value of the tax relief above build costs.

Step 5: Net Tax Forgone before Discounting

The second last step in arriving at net tax forgone is to apply a marginal tax rate to the gross tax relief attached to each unit. To do this the following enabling assumptions, as fully explained in Appendix 3, were made:

- For owner occupied projects two marginal rates could apply: 20 per cent or 42 per cent. It is assumed that 10 per cent[13] of owner occupiers have a marginal tax rate of 20 per cent. The remaining owner occupiers are assumed to pay tax at a marginal rate of 42 per cent.

- It is assumed that all investors pay a marginal rate of 47 per cent (the higher rate plus PRSI and levies) in year one and 42 per cent thereafter.

Following all the steps detailed above gives Table 5.5.

Table 5.5: Undiscounted Tax Forgone on Residential Projects in the Urban Scheme

	O.O. New Build	O.O. Refurb	Investor New Build	Investor Refurb	Total
Unit Gross Tax Relief via formula	€156,857	€43,298	186,269	€73,870	
Unit Gross Tax Relief at Cost	€143,544	€31,109	€143,544	€48,828	
All Units - Gross Tax Relief	€666,937,765	€67,686,799	€1,223,384,921	€113,264,838	€2,071,274,323
Net Tax Cost at Standard Marginal Rate	€6,669,378	€1,353,736	-	-	
Net Tax Cost at Higher Marginal Rate	€126,051,238	€25,585,610	€529,113,978	€48,987,043	
Total Net Tax Forgone	€132,720,615	€26,939,346	€529,113,978	€48,987,043	€737,760,982

Table 5.5 shows that before discounting the net tax cost associated with Urban Renewal Scheme residential units is €737.8m, as against a gross tax relief of €2,071.3m.

Step 6: The NPV of Net Tax Forgone

The last step in arriving at net tax forgone is to calculate present values, by taking a 5 per cent discount rate to reflect that the relief is a fixed values but it has to be exhausted over a period of years, reducing its value today.

As per the scheme's rules owner occupiers must take the relief over 10 years. Again, investors do not operate to this time constraint and tend to consume the tax relief over a much shorter period, believed to be 4 years.

[13] This is lower than the 30% assumption for RRS and TRS as the average price of a residential unit under this scheme is higher which means that standard rate tax payers are less likely to purchase such units.

Combining the 5 per cent discount rate and 10 and 4 years periods gives the present values shown in Table 5.6.

Table 5.6: Discounted Tax Forgone on Residential Urban Renewal Scheme Projects

	O.O. New Build	O.O. Refurb	Investor New Build	Investor Refurb	Total
Undiscounted Tax Forgone	€132,720,615	€26,939,346	€529,113,978	€48,987,043	€737,760,982
Time Period (in years)	10	10	4	4	
Discount Rate	5%	5%	5%	5%	
NPV of Tax Forgone	€102,483,341	€20,801,849	€469,052,994	€43,426,407	€635,764,592
NPV of Tax Forgone per Unit	€23,489	€10,310	€66,502	€20,641	€40,917

The total discounted tax forgone for residential projects is put at €635.8m, of which:

- Investor new builds accounts for €469.1m (73.8 per cent);
- Investor refurbishment accounts for €43.4m (6.8 per cent);
- Owner occupied new builds accounts for €102.5m (16.1 per cent); and
- Owner occupied refurbishment/conversions accounts for €20.6m (3.3 per cent).

In all, the discounted tax forgone represents 35.2 per cent of the build cost associated with these projects and 30.7 per cent of the gross tax relief arising.

Looking at individual units, the table shows that the NPV tax cost per unit, regardless of type, is €40,917. The highest tax cost per unit is associated with investor new builds, followed by investor refurbishments. The tax cost per unit for owner-occupier new builds and refurbishments are less than half those associated with similar investor held proprieties.

5.3.3 Tax Forgone on Commercial Properties

In calculating tax forgone each step in the process is explained in less detail as the steps involved are very similar to the residential scheme. Data on commercial projects was not disaggregated into different types of commercial buildings such as office, retail, industrial etc. as the same rates of capital allowances apply to each category.

Step 1: Estimating Square Metres

The database did not record data on the number of commercial units associated with each development but did give good data on a square metre for each project.

In arriving at a calculation of the area given to commercial use for a mixed use project the total floor space was multiplied by the percentage of the project stated in the database to be commercial. Once this was repeated for all projects in the Scheme database, the total commercial floor space was determined. As with the residential analysis, an adjustment was made by assuming that 75 per cent of projects still in planning will be completed by July 2006. Those in progress are assumed to be fully completed by July 2006. This gives 1,580,416 square metres of commercial space arising under Scheme.

Commercial build costs were calculated using the same methodology.

Step 2: Average Build Cost

On average build costs per square metre was arrived at by dividing total estimated commercial build costs over the life of the scheme by the floor space expected to be developed up to July 2006. This gave an average build cost of €1,355 per square metre. Again, we repeated the calculation using data on completed project only as completion costs are more likely to better capture true costs. This gave an average build cost of €1,230 per square metre allowing for inflation.

Multiplying total floor space arising by €1,230 per square metre gives an indicative build cost of €1,943.7m.

Step 3: Average Sale/Purchase Price and Site Cost

Data on rental rates and yields per square metre was used to establish the average price per square metre of commercial space under Urban Renewal Scheme. This data was weighted to reflect location and timing. This resultant average price per square metre was €2,474

Site costs are set at 70 per cent of build cost giving €861 per square metre.

Step 4: Gross Tax Forgone

For new build projects the gross tax forgone is calculated by applying the formula which yields a value of €1,455 per square metre and €1,230 per square metre in situations where the property is build directly or acquired from a non-builder/non-speculator.

We have assumed that commercial projects are split 70 per cent: 30 per cent between those purchased from builders/developers and others. This produces a gross tax forgone of €2,193m.

Step 5: Net Tax Forgone

The second last step in arriving at net tax forgone is to apply a marginal tax rate to the gross tax relief. It is assumed that a marginal tax rate of 47 per cent applies to 90 per cent all of these developments as they are owned by individual and the remaining 10 per cent are owned by companies with a marginal tax rate of 12.5 per cent. Table 5.7 shows the results. Before discounting, €955m of tax forgone is associated with commercial projects, which represents 43.6 per cent of the gross tax costs.

Table 5.7: Undiscounted Tax Forgone on Commercial Urban Scheme Projects

	Commercial
Floor Space in Sq Metres at 75% Completion of Projects in Planning	1,580,416
Average Sq. Metre Build Cost (All Projects)	€1,355
Inflation Adjusted Sq. Metre Build Costs for Completions	€1,230
Total Inflation Adjusted Build Costs	€1,943,737,071
Sale Price per Sq. Metre	€2,474
Site Costs per Sq. Metre (70% of build costs)	€861
Sq. Metre Gross Tax Relief via formula	€1,455
Sq. Metre Gross Tax Relief at cost	€1,230
Total Gross Tax Cost	€2,192,974,114
Net Tax Cost at 47%	€927,628,050
Net Tax Cost at 12.5%	€27,412,176
Total Net Tax Cost	€955,040,227

The net present value of tax forgone is determined by discounting at 5 per cent over 14 years. This gives a net present value of tax forgone of €786.9m which represents 40.5 per cent of build costs and 35.9 per cent of gross tax relief. On a unit basis, the NPV of tax forgone works out at €498 per square metre.

Table 5.8: Discounted Tax Forgone on Commercial Urban Renewal Scheme Projects

	Commercial
Undiscounted Tax Forgone	€955,040,227
Discount Rate	5%
Time Period (in years)	14
NPV of Net Tax Forgone	€786,895,383
NPV of Net Tax Forgone per Sq. Metre	€498

5.3.4 Tax Forgone on by Development Status

This section presents an analysis of residential and commercial projects by the development status of the projects. As per the Department's database projects are either completed, in progress or still in planning.

Residential Units

Table 5.9 gives the development status of residential units. Of the 15,538 residential units arising, 4,057 (26.2 per cent) were delivered, 8,561 (55.1 per cent) are in progress and the remainder are in planning.

Table 5.9: The Development Status of Residential Urban Scheme Projects and Tax Costs

	O.O. New Build	O.O. Refurb	Investor New Build	Investor Refurb	Total
NPV of Tax Forgone per Unit	€23,489	€10,310	€66,502	€20,641	€40,917
Number of Units by Development Status					
- Completed	1,139	527	1,841	549	4,057
- Work in Progress	2,404	1,112	3,886	1,159	8,561
- In Planning	820	379	1,325	395	2,920
Totals	4,363	2,018	7,053	2,104	15,538
NPV of Tax Forgone by Development Status					
- Completed	€26,755,772	€5,430,829	€122,457,708	€11,337,521	€165,981,830
- Work in Progress	€56,468,102	€11,461,774	€258,447,196	€23,927,857	€350,304,929
- In Planning	€19,259,467	€3,909,245	€88,148,091	€8,161,029	€119,477,832
Totals	€102,483,341	€20,801,849	€469,052,994	€43,426,407	€635,764,592
Share	16.1%	3.3%	73.8%	6.8%	100.0%

The NPV of tax forgone per sub-category of residential unit multiplied by units in each development status grouping gives the NPV of tax forgone by development status. Of the €635.8m of residential tax costs, €166m is associated with units which are complete, €350.3m is attributed to those in progress and €119m is related to units in planning.

Commercial Space

Table 5.10 repeats the analysis for commercial space.

Table 5.10: The Development Status of Commercial Urban Scheme Developments and Tax Costs

NPV of Tax Forgone per Sq. Metre	€498	
Sq. Metres by Development Status		
- Completed	542,654	
- Work in Progress	705,246	
- In Planning	332,515	
Total	1,580,416	
NPV of Tax Forgone by Development Status		Share
- Completed	€270,189,655	34.3%
- Work in Progress	€351,144,977	44.6%
- In Planning	€165,560,751	21.0%
Total	€786,895,383	100.0%

Of the €786.98m of tax costs, 34.3 per cent is associated with completed projects, 44.6 per cent is linked to work in progress and projects still to start account for 21 per cent.

5.3.5 Overview

In conclusion, the present value of all tax forgone associated with Scheme up to July 2006 is estimated at €1,422.7m, of which residential projects account for €635.7m or 44 per cent and commercial projects account for €787m or 56 per cent. With regard to developments completed by end 2004, the tax cost is estimated to be €436.2m.

Table 5.11: Overview of Present Values of Predicted Scheme Tax Foregone

	Residential (€m)	**Commercial (€m)**	**Total (€m)**
Predicted Tax Cost to Mid July 2006	635.8	787.0	1,422.7
Tax Cost Incurred to end 2004	166.0	270.2	436.3

Source: Consultants' Estimates

5.4 Scheme Outputs

5.4.1 Introduction

This Section of the report summarises the main outputs of the Scheme, such as the number of developments and housing units. The data presented are based on the DOEHLG database and the Survey of Local Authorities. This survey elicited responses from nineteen of the twenty-nine local authorities, representing 32 of the 49 IAPs.

5.4.2 Developments under the Scheme

Under the Urban Renewal Scheme, a total of 49 Integrated Area Plans were approved across 23 counties. Within these plans there are a total of 1,015 projects, of which 426 or 42 per cent were completed by the end of 2004. A further 237 are at work-in-progress stage, making a total of two-thirds of all projects that were substantially advanced or complete by end 2004.

Table 5.12: Distribution of Projects by Status

Development Status	Number of Projects	Proportion (%)
Completed	426	42.0
Planning or Preplanning Stage	349	34.4
Work in Progress	237	23.3
Not Stated	3	0.3
Total	**1,015**	**100.0**

The database for the Urban Renewal Scheme showed that the vast majority (78.7 per cent) of developments have been granted planning permission. At the end of 2004, fewer than 8 per cent are awaiting planning permission and 6.3 per cent have been granted exemptions. It is evident, therefore, that the vast bulk of developments will be completed by mid 2006.

5.4.3 Developments by Urban Area

Of the total of 426 developments, the largest number was in Dublin, with 94 developments or 22.1 per cent of the total. The major urban areas accounted for 43.0 per cent of the total. As we have seen in Section 5.2 the major urban areas, including Dublin accounted for a higher proportion of total expenditure, reflecting the large average projects size in these areas.

The survey of local authorities revealed a high level of satisfaction on the part of local authority officials with progress under the Scheme. More than three-quarters

(76.7 per cent) indicated that they were satisfied with progress under the Scheme (see Table 5.6).

Of the 32 IAPs, for which the local authorities expressed an opinion, eight were identified as having performed poorly. [14]

Table 5.13: Number of Developments Completed by Urban Area 1999-2004

Location	Number	Proportion (%)
Major Urban Areas		
Of which:	183	43.0
Dublin	94	22.1
Cork	37	8.7
Limerick	23	5.4
Waterford	23	5.4
Galway	6	1.4
Other Urban Areas	243	57.0
Total	**426**	**100.0**

Source: Derived from DOEHLG Database

Table 5.14:Distribution of Local Authorities by Satisfaction with Progress of the Scheme

Level of Satisfaction with Scheme	Proportion of Respondents (%)
Very satisfied	23.8
Satisfied	42.9
Neither satisfied nor dissatisfied	19.0
Dissatisfied	14.3
Very dissatisfied	0.0
Total	**100.0**

Source: Goodbody Survey of Local Authorities

[14] These were Passage West, Buncrana, Dun Laoghaire, Tuam, Newcastle West, Dundalk, Birr, and the City docks area of Cork.

5.4.4 Reasons for Lack of Progress

Where progress was poor, a number of reasons were identified as follows:

- Lack of interest on part of developers, builders or owner-occupiers;
- Tax incentives available were not appropriate;
- Property in hands of elderly and other people not interested in developing it;
- Failure of land/property owners to reach agreement;
- Disputes over legal title to land or property;
- Failure to acquire planning permission;
- Lack of local authority services; and
- Poor marketing of the Scheme

Lack of interest on the part of developers was the most prevalent reason, followed by legal disputes and failure of landowners to agree.

5.4.5 Profile of Developments by Type of Sector and Type of Build

Developments are either new build, refurbishment or a combination of both. Similarly, they can be residential, industrial/commercial or a mixture of both. Table 5.12 indicates the number of developments that fall into each of the new categories. This shows that 167 or 39.2 per cent of developments involve commercial/industrial development only, 122 or 28.7 per cent involve residential development only and 125 or 29.3 per cent are a combination of both. Over half (223 developments) are newbuild developments, 32.8 per cent are refurbishment and 12.0 per cent are a combination of both. With a number of developments having more than one use or type of build, the greatest number of completed developments (86) are a combination of Residential and Commercial/Industrial and are newbuild developments. A further 85 developments fall into the commercial/industrial-refurbishment category, followed by the residential-newbuild category (80 developments).

This shows that there was significant activity under the Scheme in refurbishment projects, although the average expenditure on them was, as one would expect, relatively low. Similarly, the Scheme has had good mix of developments, with a strong focus on commercial/industrial developments, and was not dominated by residential developments.

Table 5.15: Completed Projects by Use and Type of Build

	Newbuild	Refurbishment	Mix Newbuild & Refurb.	Not Stated	Total
Commercial/ Industrial	57	85	25	-	167
Residential	80	37	5	-	122
Mix Res. & Comm./Ind.	86	18	21	-	125
Not Stated	-	-	-	12	12
Total	**223**	**140**	**51**	**12**	**426**

Source: Derived from DOEHLG Database

5.4.6 Scale of Developments

When all completed projects are analysed by scale of cost of development, 40.4 per cent have estimated costs of €500,000 or less. Just over 40 per cent have estimated costs of over €1 million, with 7.7 per cent having costs of over €10 million.

Table 5.16: Estimated Cost of Completed Developments

Est. Cost of Development (€)	No. Projects	As % of all Projects
<= €100,000	63	14.8
€100,001 – €500,000	109	25.6
€500,001 – €1,000,000	55	12.9
€1,000,001 – €3,000,000	84	19.7
€3,000,001 – €10,000,000	55	12.9
€10,000,001 – €20,000,000	21	4.9
> €20,000,000	12	2.8
Not Stated	27	6.3
Total	**426**	**100.0**

Source: Derived from DOEHLG Database

5.4.7 Conclusions

The Urban Renewal Scheme has been successfully implemented, with 426 developments completed by end 2004. It is anticipated that the vast bulk of all 1,015 developments will be completed by the time the Scheme ends in July 2006. Local authorities are generally very satisfied with progress in implementing the Scheme.

Dublin has highest number of completed projects at 94 or 22 per cent of the total. The major urban areas account for 44 per cent of all projects.

For areas where progress has been poor, the major reasons are lack of interest on the part of developers or site owners, together with legal and other problems associated with site assembly. Lack of local authority services and poor marketing of the Scheme were also cited as reasons for lack of progress.

The Scheme has provided a good mix of developments to date. Residential developments have not dominated the Scheme, with developments comprising commercial/industrial elements being somewhat in the majority.

Similarly, while newbuild developments have formed the larger part of the total, developments involving refurbishment have been substantial in number.

In terms of scale, the Scheme has also produced a good mix. Almost half of all developments were less than €0.5m, with only a minority (7.7 per cent) of very large developments over €10m.

5.5 Impact of the Scheme

5.5.1 Introduction

This Section of the Report identifies the impacts of the Scheme and evaluates them using the framework outlined in Section 2. The analysis draws on the DOEHLG database, the Survey of Local Authorities and the case studies to provide an overview of Scheme impacts. It begins with an analysis of Scheme effectiveness, followed by consideration of efficiency and equity impacts. Urban case studies were undertaken in the HARP, Limerick, Monaghan, and Athy IAPs. More limited data were also collected from Tallaght and Ballymun IAPs.

5.5.2 Scheme Effectiveness: Physical Development Benefits

5.5.2.1 Dereliction

The refurbishment or replacement of degraded, underused or derelict properties was a major focus of the IAPs prepared for the Scheme. This is reflected in the strong element of refurbishment and also the focus on commercial/industrial in individual scheme designations.

For example, in Athy, the major emphasis of designation was on back land sites showing a high level of dereliction, canal side properties made up of disused warehouses and industrial building, and a prominent area of dereliction close the historic White's Castle environment. As a result, the major focus of the IAP was on refurbishment and commercial/industrial developments.

The concentration of IAPs on refurbishment and commercial/industrial developments resulted in a substantial impact on dereliction. This is supported by the fact that 191 or 45 per cent of the completed developments under the Scheme had a refurbishment content. In addition, 292 developments (or 67 per cent) had a commercial/industrial component. The positive impact on dereliction showed through in the case studies. For example, it is estimated that in Limerick City, there were eight hectares of derelict property within the IAP area in 1992, which has been reduced to 2 hectares currently.

The survey of Local authorities also indicated significant impacts in this area. Table 5.17 shows that 95 per cent of local officials surveyed indicated agreed or strongly agreed with the view that there were positive impacts on dereliction. The overall conclusion is that the Scheme performed strongly in this area.

Table 5.17: Local Authority Views on Dereliction Impact

The scheme has contributed to a reduction in the degree of dereliction in the area	**Proportion of Respondents** **%**
Strongly agree	47.4
Agree	47.4
Neither agree nor disagree	0.0
Disagree	5.2
Strongly disagree	0.0
Total	**100.0**

Source: Goodbody survey of Local Authorities

5.5.2.2 Urban Design

The case studies undertaken included a number where urban design issues were central to the IAP. For example, in the HARP area in Dublin, the encouragement of good urban design was identified as a key objective, with the development of formal and informal civic spaces, a mixed-use strategy and high quality architecture, all being highlighted. The view within Dublin City Council is that the scheme has been generally successful in delivering on these objectives.

With regard to Tallaght, because of past developments, the town centre had developed in a form that facilitated vehicle access, with extensive car parking around commercial sites. There was thus a need to develop coherent streetscapes and pedestrian friendly routes, as part of the development of an integrated town centre with a distinct urban character. This necessitated the introduction of a greater mix of uses allied to "back of footpath" development and provision of off-street car parks. Thus, a central element of the plan was the development of a new pedestrian environment.

South Dublin County Council are broadly satisfied that the scheme is delivering on the majority of their objectives, though there are still outstanding elements of the urban framework to be completed. There have been difficulties in achieving certain urban design objectives where such planning aspirations are not sustainable by the commercial return that developers might achieve on the sites in question.

Anecdotal evidence from Waterford City Council suggests a reasonable degree of satisfaction with the nature and level of development, which has been achieved. Urban design issues were also to the fore in many other IAPs, but not always on the scale evident in the major urban centres such as Dublin and Tallaght.

Notwithstanding some instances where the objectives of IAPs have not been fully achieved, the general conclusion with regard to this impact is that the Scheme has been reasonably successful in delivering urban design benefits.

Issues of the design quality of tax designated development has arisen in certain instances, whereby it has been suggested that quality of design and build may have suffered due to timescale and programme constrains imposed by the deadlines inherent in the legislation. It is not possible to support this hypotheses as the myriad factors which come into play in the design and construction of developments are such that it is not possible to confirm that, where tax driven development has been criticised for being of poor quality, the relevant issues are attributable exclusively to tax-related issues.

In contrast, it is arguable that the introduction of the IAP process has generally served to improve the quality of the design in urban terms, as it has by its very nature encouraged a more integrated approach to development than was previously the case with development in general.

There is a general consensus at local authority level that tax incentive-led development has been broadly successful in terms of the extent and nature of physical development, which has been achieved over the last 20 years. This is particularly the case in situations where market forces would not have supported development or, in certain instances, where the pace of development would have been significantly slower in the absence of tax incentives.

5.5.2.3 Conservation

The emphasis on conservation varied from one IAP to another depending on the extent of the architectural heritage in various areas. In three of the four case studies – Limerick, HARP and Athy, conservation of buildings was a major objective of the plan. With regard to the Tallaght, preservation of the historic area was a prime objective. These objectives reflected the conservation objectives embodied in the Development Plans produced by the particular local authorities, which in turn generally reflected the relevant conservation aspects of the Local Government Planning and Development Act 1999.

Issues of building conservation within IAPs typically focussed on:

- Promoting the rehabilitation and renovation and reuse of existing buildings; and

- Ensuring that all new developments were acceptable from an architectural heritage viewpoint where the context so demanded

The achievement of conservation objectives is made difficult by the fact that owners and developers are reluctant to incur the perceived high costs associated with the refurbishment of listed buildings, particularly in instances where there may be alternative developments of lesser risk available to developers. The protracted planning process associated with the development of listed buildings has been cited in several instances as a disincentive to development. This has been a major reason why projects have not commenced on tax designated sites in Henrietta Street, Bow Street, and North King Street in the HARP area.

In Limerick, designation is credited with assisting in the conservation and preservation of a number of listed Georgian buildings. Almost all of the refurbishment under the scheme has taken place in the Georgian area of the city, restoring buildings considered to be under threat and enhancing Limerick's Georgian heritage. Out of the 12 designated conservation sites, four were redeveloped and enhanced and another site is in progress. However, it is questionable whether development will take place on the remaining sites.

These examples highlight the difficulties in conserving buildings and the fact that tax designation can help overcome the cost penalties associated with the development of protected buildings. However, it is also the case that in some instances, tax designation fails to provide a sufficient motivation to developers. This is reflected in the views of local authorities, when they were canvassed on this subject. While 50 per cent of respondents agreed or strongly agreed with the view that the Scheme has contributed to conservation, a very substantial 38.9 per cent were doubtful and 11 per cent believed the impact was negative. (see Table 5.15). On balance, therefore, the Scheme is viewed as having a moderately positive impact on conservation.

Table 5.18: Local Authority Views on Conservation Impact

The scheme has contributed to the preservation of the natural architectural and archaeological heritage in the area	**Proportion of Respondents (%)**
Strongly agree	5.6
Agree	44.4
Neither agree nor disagree	38.9
Disagree	11.1
Strongly disagree	0.0
Total	**100.0**

Source: Goodbody Survey of Local Authorities

Case Study: Limerick

As stated in the Limerick Centre IAP, its purpose is "to give effect to the goals of the city development plan which are to promote the economic and community development in Limerick". The IAP process was viewed as an opportunity to consolidate the various promotional, renewal, conservation and community development actions engaged in over the previous 20 years such as the transition from dereliction in Charlottes Quay

The Council chose to focus the IAP, geographically, on the centre of Limerick City as it was, and still is, the largest single employment and business centre in the Mid-West. It should also be pointed out that Limerick City Council took a very targeted approach to the IAP. They opted to put forward specific sites for designation, rather than seeking designation on a blanket basis for certain locations.

The 51 projects in Limerick City expected to be delivered by July 2006 have a total estimated build cost of €330m or an average build cost of €6.5m, these development are fully private sector led and do not arise from local authority/central government actions or assistance. Most of the projects have been of mixed-use variety comprising residential/commercial developments. New builds account for 95% of activity with refurbishment accounting for the balance.

It was clear from the consultations that the Council's officials saw Limerick city centre's designation as successful for a number of reasons. This view was reinforce by the March 2005 Urban Renewal Progress Report which stated that "consequent to the designation Limerick City has taken on a completely new image as one of the leading European riverside cities with the city focusing its new face towards the River Shannon".

Some of this success is attributed to past work in stimulating development and building on lessons learned. In the 1980s Limerick was a city in decline and in need of development. The Council and Shannon Development came together to simulate development through creating focus, sharing ideas and building a vision for the city centre. At a practical level the Council engaged in site assembly, via CPOs where necessary, to establish title, installed essential infrastructure and packaged development projects.

A number of factors were sighted as facilitating the progress made under Urban Renewal Scheme, these include:

- The tightly focused and targeted approach adopted in drafting the IAP, as opposed to the blanket designation approach favoured in other city centre IAPs. This forced developers wishing to avail of the scheme to developed sites viewed by the Council as most in need of improvement;

- Well serviced sites. Only sites capable of being developed, to the Council's knowledge, were put forward for approval;

  The high level of Council supplied essential services. Owing to experience gained from previous designations the Council knew where past service constraints to development were and how to address them, hence these constraints were address before the roll out of the Urban Renewal Scheme and these did not hinder development;

- Lessons learned from previous tax designation status. Again, past experience was applied to ensure that constraints to development did not bite, e.g. the Northern Relief Road;

- Site assembly was not viewed as a constraint. In fact, under previous tax designation schemes the Council helped packaged sites for development to animate the local property development market; and

- The general economic boom experience in Ireland since 1997 also spurred property development within the IAP zone.

  The property developers and estate agents consulted were of the opinion that the development of Limerick would not have taken place on the scale that it did but for its tax designation status, not just the Urban Renewal Scheme but previous schemes as well. The common conclusion was that designation in the 1980s "kick-started" Limerick by showing what could be done and generating confidence. Subsequent designations ensured that progress was maintained and allowed critical mass to build. For example, tax designation status is credited with providing a substantial increase in commercial multi-storey car parks facilities which meet the growing demand for short-term and long-term off-street parking in the city.

5.5.3 Scheme Effectiveness: Economic Benefits

5.5.3.1 Construction Employment

The €1,281m expenditure of the Scheme in the period 2000-2004 would have given rise to significant demand for labour in the building industry. Based on the average employment content in building and construction[15], this level of spend would have created a demand for approximately 7,000 person years of direct employment during the period 2000 to 2004, or an average annual demand for 1,400 workers. Income tax, Employers PRSI and Employees PRSI payments to the Exchequer would have been of the order of €47m, €20m and €11m, making €78m in total.

As for the Rural Renewal Scheme, the fact that additional employment demand and Exchequer payments were created does not imply that economic benefits occurred. Given that, as depicted in Section 2, national and regional unemployment rates were very low throughout the scheme period, very little of this increased employment would have been drawn from the ranks of the unemployed, so that the net impact on unemployment levels and Exchequer receipts would have been minimal.

5.5.3.2 Housing Development and Population Growth

An additional 4,527 housing units were developed with the aid of the Urban Renewal Scheme in the period to end 2004. Table 5.16 presents a breakdown by urban area. Dublin accounted for half of all housing units, and output was dominated by the major urban areas.

[15] See: CSO. 2002 Census of Building and Construction

Table 5.19: Number of Housing Units Completed by Urban Area 2000-2004

Location	Number	Proportion (%)
Major Urban Areas Of which:	3,657	80.8
Dublin	2,191	48.4
Cork	142	3.1
Limerick	669	14.8
Waterford	493	10.9
Galway	162	3.5
Other Urban Areas	870	19.2
Total	**4,527**	**100.0**

Source: Derived from DOEHLG Database

A total of over 300,000 new housing units as a whole were constructed in the State in the same period. However, the impact of the Scheme is not principally in adding to total housing output but with creating additional housing in the designated areas. From this point of view, the Scheme was relatively successful, a view which is also held by local authority officials. Two thirds of the latter were of the view that the Scheme contributed to housing supply in the IAP area (see Table 5.17). However, there is a sizeable minority who disagree, reflecting perhaps the greater success in major urban areas, as opposed to the smaller urban areas included in the Scheme.

Table 5.20: Local Authority Views on Housing Impact of the Scheme

The scheme has contributed significantly to housing supply in the area	Proportion (%)
Strongly agree	25.0
Agree	30.0
Neither agree nor disagree	15.0
Disagree	25.0
Strongly disagree	5.0
Total	**100.0**

Source: Goodbody Survey of Local Authorities

The evidence of the case studies is that this housing output was taken up, and there is no real evidence of oversupply or high vacancy levels. There are concerns however at the low level of owner occupation. In all of the case study areas, the proportion of investor/rental properties exceeded 90 per cent of the total. This has the potential to create social and other problems, an issue that will be discussed in Section 5.6.4 below.

This level of output would have encouraged population growth in the IAP areas. There is strong evidence from the case studies that such population growth is occurring e.g. Limerick, Athy, and the HARP area enjoyed a 1996-2002 growth rate of 22.3, 14 per cent and 43 per cent respectively. This shows that IAP areas are successfully regenerating, but also that some of this was occurring prior to the bulk of the housing output under the Scheme being delivered. In the case of Limerick and HARP, where the Scheme was part of a relatively long-standing process of urban renewal, the 2002 population growth probably reflects past urban renewal efforts. For other urban areas, which were incentivised for the first time, it is evidence that a resurgence was in part taking place prior to the Scheme impacting.

The conclusion is that the scheme has successfully contributed to housing and population growth, particularly in the major urban areas, but that there are concerns with the tenure mix resulting as well as the possibility of dead-weight losses.

5.5.3.3 Commercial and Industrial Development Impacts

As indicated in Section 5.5, the Scheme had a strong focus on industrial and commercial developments, with 292 out of the 426 completed developments including a commercial/industrial element. Expenditure on industrial/commercial accounted for the bulk of completed expenditure under the Scheme (€670.8m). An overwhelming majority of local authority officials were in agreement that the Scheme contributed significantly to the level of economic activity in their IAP area.

Table 5.21: Local Authority Views on Economic Activity Levels

The scheme has contributed significantly to economic activity in the area	**Proportion (%)**
Strongly agree	30.0
Agree	50.0
Neither agree nor disagree	10.0
Disagree	10.0
Strongly disagree	0.0
Total	**100.0**

Source: Goodbody Survey of Local Authorities

Based on a knowledge of square metres provided, it is possible to estimate the employment and value added potential associated with commercial and industrial development, based on standard factors. This suggests that investment in commercial and industrial development under the Scheme in the period up to 2004 had the potential to create 16,000 jobs and the capacity to produce just under €0.7bn in gross value added annually in the IAP area economies.

This indicates a strong commercial and industrial impact of the scheme in the targeted urban areas.

5.5.4 Scheme Effectiveness: Social and Community Benefits

5.5.4.1 Community Gain Impacts

There was an intention at the outset of the Scheme that it would provide community benefits through a number of mechanisms viz.

- Special levies on developers to fund community facilities and education and training initiatives;
- Allocation of jobs in the construction phase to local people.

In general terms, this aspect of the Scheme appears to have been poorly implemented.

This was due to both a failure to prioritise this aspect of the Scheme and concerns that application of special community levies could serve to deter developers. The evidence from the case studies is that the levies were relatively low. In the case of Tallaght the community levy has amounted to €1.3m (0.9 per cent) in a total Scheme expenditure of €142m to date. In the HARP area a levy of €2.2m or 1 per cent of total Scheme expenditure of €201m was obtained. In Limerick, it would appear that no special levies were put in place, although Athy levied commercial developments to help fund RAPID projects. Thus, the maximum contribution was about 1 per cent of Scheme expenditure in IAP areas where a serious effort was made.

Only those Schemes that were proactively managed had the capacity to influence developers and builders to take on local labour. Even then, there were generally very poor outcomes. Again Tallaght is an exception in that the Tallaght Local Employment Service Network engaged developers in order to maximise local employment effects, with up to 100 training and employment positions being obtained.

5.5.4.2 Social Housing Impacts

The Urban Renewal Guidelines indicates that at least 15 per cent of the additional bed spaces provided in IAP areas should be social housing. The Guidelines envisaged that social housing within the IAP area would be provided by the local authorities themselves, in co-operation with the voluntary housing agencies, or through special arrangements with the private sector. From the point of view of the cost-benefit of the Scheme, it is the latter arrangement that is relevant. However, no instances of the private support for social housing could be found. The local authority officials surveyed indicated by an overwhelming majority (79 per cent) that the Scheme did not make a significant contribution in this area.

Table 5.22: Views of the Local Authorities on Social Housing

The scheme has contributed significantly to the supply of social housing in the area	**Proportion (%)**
Strongly agree	0.0
Agree	5.3
Neither agree nor disagree	15.8
Disagree	73.6
Strongly disagree	5.3
Total	**100.0**

Source: Goodbody Survey of Local Authorities

Moreover, it is clear that, for some of larger urban areas, the Scheme did not contribute to social integration aims, as the housing of social welfare recipients was concentrated in a few tax incentivised developments.

5.5.5 Spillover Benefits

The benefits of the Scheme would be enhanced, if developments within the IAP areas were to lead to a spillover into other non-IAP areas. None of the case studies supported this view that spillovers occurred. Rather, there were indications that tax designation caused developments that would have occurred elsewhere to transfer to designated sites (see Section 5.6.6 below). Additionally, a majority of local authority officials surveyed were of the opinion that such impacts were at most slight.

However, there was evidence from the case studies that the development of tax designated sites had spillover benefits for the IAP areas as a whole. Very often tax designated developments raised the quality of buildings in the area and improved its ambience. Tax designated residential developments *sometimes* changed the social mix, increasing the attractiveness of the whole area for further residential development. Again, this was a view supported by the survey of local authority officials (see Table 5.23)

Table 5.23: Local Authority Views on Success of the Scheme in Levering other Investment in the Area

Level of success	Proportion (%)
Very successful	15.8
Successful	31.6
Neither successful nor unsuccessful	42.1
Unsuccessful	10.5
Very unsuccessful	0.0
Total	**100.0**

Source: Goodbody Survey of Local Authorities

5.5.6 Management of the Scheme

Integrated Area Plans were the basis for designation under the Scheme. The better plans set clear objectives in terms of local needs and used tax designation to advance those objectives. A particularly successful feature of the IAP approach has been the manner in which the IAP process allowed for the bringing together of the many bodies who had an interest in development of particular localities e.g. resident's groupings, Chambers of Commerce and similar. The contributions of such bodies to the formulation of IAPs is viewed as being particularly positive, in that it arguably allowed for greater consensus to be achieved at the outset as to the nature of developments suited to particular locations, resulting in less difficulties in progressing schemes through statutory consents.

The level of leadership by local authorities in the promotion and management of the development process in designated areas has been a key actor in the success or otherwise of tax incentive-led development. The use of Integrated Area Plans as mechanisms to ensure an integrated approach to development in urban areas has been broadly successful, in that many of the failings in urban and environmental terms of the earlier tax-led schemes in urban areas have been addressed and to a significant extent, resolved. Community gain was a more prominent feature of the Schemes in those instances, as resources were available to make this aspect of the Scheme happen. The Tallaght and HARP IAPs are examples of where a dedicated management team aided the success of the Scheme, with Tallaght in particular achieving positive community benefits.

5.5.7 Additionality, Dead Weight and Displacement

The analysis of the effectiveness of the Scheme, which was set out above, was based on the outputs in terms of residential and commercial/industrial developments on designated sites. However, a key is the extent to which these developments are truly a consequence of the tax incentives or would have occurred in any event. That is, to what extent were they additional?

The extent of additionality is very difficult to gauge. This is especially the case as the key issue is the extent to which developments were additional to the IAP area, as opposed to the urban area as a whole. While our analyses indicated that non-Urban Renewal towns also underwent considerable development in the last five years, this does not prove that the Scheme had no effect. This is because the Scheme was targeted on sub-areas that were suffering from dereliction and other ills, and these may not have attracted developments even in a buoyant economy.

In order to assess the extent of additionality, the views of developers, local authority officials, and estate agents were canvassed. A range of views emerged. Local authority officials tended to see the Scheme as a success, particularly in kick-starting development. In other words, they saw it as a means of overcoming market failures associated with pioneer risk (as outlined in Section 3). This view would be supported by the case studies, where, for example, in the case of Athy, the surge in development coincided closely with the introduction of the Scheme. Developers indicated that the Scheme was vital element in influencing the *location* and *timing* of their investments. They also made reference to the role of the tax incentives in raising the commercial return on investment in urban centres, where commercial risks are often higher and the costs of development rise because of access and site assembly problems. However, they usually suggested that if the incentives had not been in place, they would have investment elsewhere in the urban area, usually on a green field site. In other words, the incentives displaced investment into the targeted areas.

Estate agents were similar to local authority officials in their view that tax incentivisation has kick-started development, but indicated that currently developments do not require tax incentivisation. This a view is corroborated by the case studies, which identified instances where:

- Other non-incentivised developments were taking place on significant scale in the IAP; and

- Developers were opting not to take up the tax incentives in order to allow greater commercial freedom in terms of the nature and mix of development.

These differing views can be reconciled. Local authority officials tend to view the Scheme as a whole. They therefore see the benefits of the Scheme in animating development during a first phase of its implementation, and that second phase developments occur because pioneer risk problems have been overcome. Developers views are determined by when they entered the market. Those who entered early on tend to view the Scheme as crucial in terms of investing in IAP locations or in the manner dictated by the IAP. Those that enter later have more mixed views, as investment in IAP areas have now become more commercially acceptable. They tend to look at their own circumstances and sometimes do not see the catalytic effect of the Scheme. Estate agents understand the catalytic effects of the Scheme, but as they are focused on individual properties, they recognise that later phase developments do not necessarily require incentivisation.

These observations suggest a number of conclusions regarding dead weight and additionality:

- Additionality may be viewed at the level of the Scheme as a whole, as well as individual developments. While individual developments may now have substantial dead weight, the Scheme as a whole may have substantial additional impact through its catalytic or animating effect.

- Additionality occurs not only in terms of additional developments, but crucially in terms of encouraging developers to invest in more problematic locations and to undertake developments, such as refurbishments, that may be commercially less rewarding.

- Quantifying additionality is extremely difficult as both the scheme and individual development effects have to be taken into account, as well as the phase of scheme implementation being considered.

With regard to additionality of individual developments, the feedback from the sources surveyed indicates that dead weight has increased over the duration of the Scheme. Figure 5.1 presents as stylised illustration of the way in which dead weight has risen. It depicts the annual expenditure on developments over the five-year period of the Scheme. There is evidence of strong additionality and relatively low dead weight at the early stages, but that dead weight is now at a high level. This is depicted by the expanding area ABDC, which shows that an increasingly lower proportion of developments are additional.

It is difficult to be precise about the level of dead weight, particularly as it will vary from location to location. However, the consultants are of the view that in the early stages of the Scheme, dead weight at the project level tended to lie in the range of 20 to 40 per cent, but that it has now risen above 70 per cent in many cases.

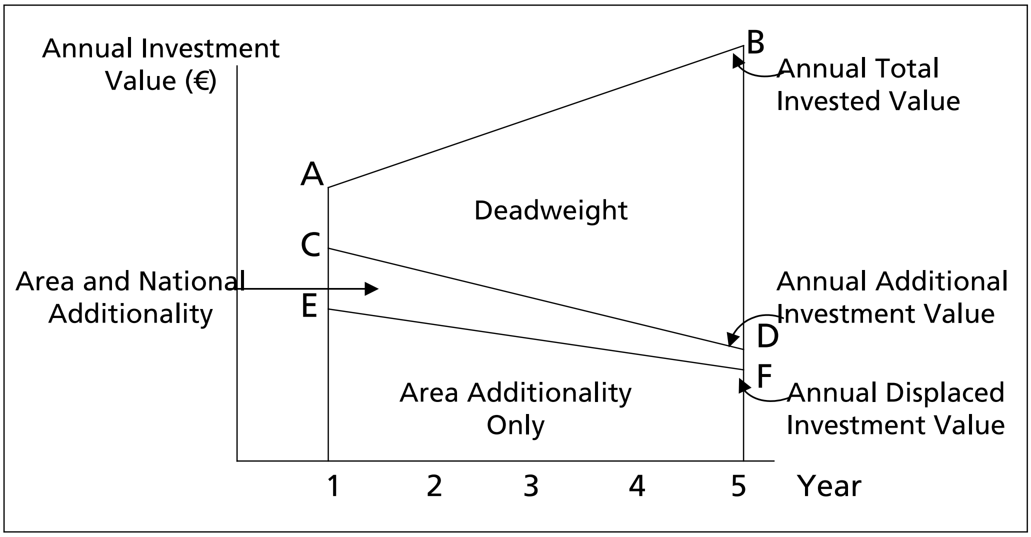
The Figure also encapsulates the view that at an early stage in the Scheme, a substantial proportion of the additional developments were not displacing other projects outside the IAP area, and that this has been maintained, if not increased as the supply of capital has increased.

Therefore, it is concluded that:

- The Scheme played a substantial role in animating developments in the IAP area and kick-starting the development process;

- The need for tax incentivisation of individual developments has diminished because of the Scheme's success and the higher levels of dead weight now occurring.

Figure 5.1: Additionality and Displaced in Urban Schemes



5.5.8 Equity Impacts

Analysis of the equity impacts of the Schemes requires consideration of two fundamental questions:

- To what extent are the benefits of the Scheme confined to a relatively few individuals; and
- To what extent are those individuals in the higher income and wealth groups.

The Urban Renewal Scheme is based on the identification of a limited number of tax designated sites in each area. This is in contrast to the Rural Renewal scheme where tax designation extended to whole counties or considerable parts of counties. The tax designation of a relatively few number of sites automatically confers benefits on these site owners, as they can either raise the price of the site if they chose to sell or gain additional economic rents on it through development of tax incentivised properties for onward sale. These developers and landowners thus garner a significant element of the tax benefits associated with the site. They can increase the benefits to them by raising their selling prices. The arguments set out in Section 2 suggest that site owners and developers in the Urban Scheme will have significant economic power to raise prices. Our case studies have identified instances in which tax incentivised apartments were on sale at higher prices than their equivalent non-incentivised dwellings close by. This is a view supported by the IAVI Annual Property Survey, which recorded a €55,000 to €70,000 price premium for tax incentivised apartments.[16]

[16] IAVI. Annual Property Survey. 2004.

Thus, developers have been able to achieve higher than normal prices for tax incentivised properties, some of which undoubtedly have been passed on to land owners.

Our analysis has indicated that over 90 per cent of residential units developed under the scheme have been sold to investors and rented out. The evidence of the case studies suggests that multiple purchase of tax incentivised properties was commonplace. As 4,527 housing units were developed under the Scheme, multiple purchase concentrated the tax benefits in the hands of an even smaller number of taxpayers. Moreover, as these taxpayers were obtaining Section 23 relief, it follows that they have rental income, and thus would have much above average incomes.

With regard to non-residential properties, there is less evidence on whether they are owner occupied or investor. However, in either case, as these properties tend to large, and thus expensive, and their ownership will be either corporate or in the hands one or a few investors. Thus, it is inevitable that the tax reliefs will be obtained by few individuals or entities.

It is difficult to escape the conclusion that the Scheme has had very negative equity impacts. It should be noted, however, the concentration of benefits among landowners is an inevitable result of the selective nature of tax designations and can hardly be avoided. With regard to investors, there is scope for reducing the inequitous aspects of the Scheme by limiting individual investor's access to tax reliefs.

5.5.9 Value for Money

Three indicators are presented below:

- The tax costs per additional unit/square metre;
- The present value of tax costs per additional unit/square metre;
- The ratio of the present value of tax costs to new build costs.

At €40,917 per residential unit, the discounted cost to the Exchequer is very substantial, especially as it does not take account of dead-weight. The discounted tax cost per unit is well above the approximately €26,000 calculated under Rural Renewal Scheme. The NPV of tax costs are 35.2 per cent of residential build costs, a higher tax costs than for the RRS and TRS and reflecting, in part, the increased investor involvement.

On the commercial side, the Exchequer cost is substantial at €498 per square metre (the highest of all four schemes). The NPV of tax forgone accounts for 40.4 per cent of commercial build costs incurred, the second highest ratio observed across the four schemes.

The tax costs of the Scheme will not be offset to a significant degree by either direct income tax and PRSI payments by the construction industry or developer contributions. Taken together, these amount to approximately 7 per cent of build costs.

Table 5.24: Efficiency Indicators

Item	Value
Tax cost per housing unit (€)	47,483
Present value of tax costs per housing unit (€)	40,917
Ratio of undiscounted tax cost to build costs	35.2
Tax cost per sq. metre of commercial space (€)	604
Present value of a sq. metre of commercial space (€)	498
Ratio of discounted tax cost to commercial build costs	40.5

5.6 Conclusions

The Urban Renewal Scheme has resulted in a high level of investment in the designated urban areas. Up to end 2004, some 426 developments have been completed at a cost of €1,281m. There was a good mix of expenditure as between residential and industrial/commercial. There was also a balance between refurbishment and new build developments, although the latter naturally dominated in terms of Scheme expenditure.

The NPV of all tax forgone associated with Scheme up to July 2006 is estimated at €1,423m, of which residential projects account for €636m or 45 per cent and commercial projects account for €787m or 55 per cent. With regard to developments completed by end 2004, the tax cost is estimated to be €436m.

The Integrated Area Approach has worked well and the Scheme has had very positive impacts on reducing dereliction, which was one of its key objectives. The Scheme has been reasonably successful in delivering urban design benefits.

However, it has been only moderately successful in supporting the conservation of architectural heritage buildings.

With regard to economic benefits, the Scheme has contributed significantly to housing supply within the IAP areas. Over 4,500 residential units have been developed under the Scheme in the period to end 2004. The evidence is that the additional housing output has been taken up and there is little evidence of over supply or vacant dwellings.

The Scheme had a strong focus on industrial/commercial developments. Investment in commercial and industrial development under the Scheme in the period up to 2004 had the potential to create 16,000 jobs and the capacity to produce just under €0.7bn in gross value added annually in the IAP area economies.

Social and community benefits arising from the Scheme were limited. Community gain impacts were small, although there are some examples of good practice. The scheme has not contributed to the supply of social housing. In many of the larger urban areas, a negative impact of tax-driven development has been the emergence of large transient or social welfare dependent populations in areas, which have a high proportion of investor-owned residential units. In consequence, there are concerns at low levels of social integration with allied social problems.

There is evidence that the Scheme kick started development in many urban areas, creating an environment in which the risks associated with development were reduced. The scheme successfully encouraged developers to invest in more problematic locations and to undertake developments, such as refurbishments, that may be commercially less rewarding.

However, there was evidence that the development of tax designated sites had spillover benefits for the IAP areas as a whole, but not to the wider urban environment.

The Scheme achieved the best impacts where there was a capacity to avail of the incentives either in terms of the infrastructure in place or the administrative resources devoted to it.

In the early stages of the Scheme, dead weight at the project level tended to lie in the range of 20 to 40 per cent, but has now risen above 70 per cent in many cases.

The Scheme has proved expensive in value for money terms. For example, at €40,917 per residential unit, the discounted cost to the Exchequer is very substantial, especially as it does not take account of dead weight.

The need for tax incentivisation of individual developments has now diminished because of the Scheme's success and the higher levels of dead weight now emerging.

The tax benefits of the Scheme have accrued to relatively few higher income individuals. There has been an inflation of property prices as a result of the Scheme, which has benefited landowners and developers. It is difficult to escape the conclusion that the Scheme has very negative equity impacts.

6. Review of the Town Renewal Scheme

6.1 Introduction

This Section of the Report presents a review of the Town Renewal Scheme. It begins with a brief description of the objectives of the Scheme. This is followed by analysis of expenditure under the Scheme in Section 6.3. That analysis is used to estimate the tax costs of the Scheme in Section 6.4. Sections 6.5. and 6.6 assess the Scheme outputs and impacts. Conclusions are presented in Section 6.7.

6.2 Objectives of the Town Renewal Scheme

The main aim of the scheme was to bring about the restoration, consolidation and improvement of the built fabric of Irish towns, to promote sensitive infill and, in the course of this, to revitalise the centres of small towns. As such, the main objectives of the scheme were to[17]:

- Increase the attractiveness of the town as a place to live, stabilise its population and counteract the trend of people moving to the outskirts and the countryside;
- Promote its position as a local commercial and social centre and thereby increase its sustainability as a place in which to live and work, and stem the loss of shopping and other facilities to larger towns;
- Promote the town as a centre for cultural and local heritage, including the further development of designated heritage towns, and thus enhance the sense of identity both psychically and socially;
- Enhance its environment and amenity in the interests of residents, businesses, visitors and the promotion of tourism; and
- Promote more sustainable development patterns.

6.3 Scheme Expenditure 1999-2004

6.3.1 Aggregate Scheme Expenditure

Expenditure under the Scheme is estimated at total of €122.6m for the period 1999-2004. There are no comprehensive data available to indicate the trend in expenditure over this period. A frequent comment made during the course of the case studies was that the decision in 2001 to extend residential investor (Section 23) type tax relief to sites that previously only had owner occupied relief effectively kick started the Scheme in certain areas. This suggests that many projects would have started towards the end of the 1999-2004 period. There is support for this view from an analysis of applications for certificates of compliance issued in respect of the residential aspects of the Scheme. These relate to numbers of completed residential projects. Table 6.1 below shows that 35.9 per cent of the residential projects completed by end 2004, were completed in that year.

[17] Town Renewal Scheme Guidelines, Department of the Environment, Heritage and Local Government, July 1999.

Table 6.1: Number of Completed Residential Developments under the Town Renewal Scheme, 1999 –2004

Year	Number	Proportion (%)
1999	0	0.0
2000	8	3.7
2001	34	15.7
2002	35	16.1
2003	62	28.6
2004	78	35.9
Total	**217**	**100.0**

Source: DOEHLG

6.3.2 Profile of Expenditure by Type of Sector and Type of Build

Of the total of €122.6m, € 67.5m (55.1 per cent) was in respect of residential activity and € 54.7m (44.6 per cent) related to commercial/industrial activity.

The bulk of expenditure was on new-build, which accounted for € 78.7m or 64.2.per cent of total expenditure. Expenditure on refurbishment was relatively high at €43.5m (35.5 per cent).

6.3.3 Profile of Expenditure by Project Type

Newbuild projects in total accounted for €66.6m or 54.3 per cent of all expenditure. Of these, newbuild projects that are residential have incurred the greatest expenditure (€29.6m or 24.1 per cent of the total). Projects that are pure refurbishment or a mix of newbuild and refurbishment accounted for €55.7m or 45.8 per cent of the total. Thus, refurbishment expenditure is more important in the Town Renewal than the Urban Renewal context.

Table 6.2. Estimated Expenditure by Type of Project 1999-2004 (€m)

	Newbuild (€ m)	Refurbishment (€ m)	Mix Newbuild & Refurb. (€ m)	Not Stated (€ m)	Total (€ m)
Commercial/Industrial	13.2	12.1	9.5	-	34.8
Residential	29.6	7.6	4.3	-	41.5
Mix Res. & Comm./Ind.	23.8	8.8	13.4	-	46.0
Not Stated	-	-	-	0.3	0.3
Total	**66.6**	**28.5**	**27.2**	**0.3**	**122.6**

6.4 Analysis of Tax Costs

6.4.1 Introduction

This section provides an analysis of the tax forgone arising from the town renewal scheme. We begin with residential developments and then present an analysis of the tax cost associated with commercial developments.

Allowing for exclusions (see Appendix 3) gives a net qualifying cost for each project. Just as costs were adjusted for exclusions so were the number of residential units and the commercial floor space arising. The net effect of this process was to take €18m of expenditure from the database information.

6.4.2 Tax Forgone on Residential Properties

Step 1: Estimating Housing Units by Type

The total number of units expected under the town renewal scheme to July 2006 is estimated to be some 2,905 units based on the housing output stated in the DOEHLG's Town Renewal Scheme database for projects known to be completed, currently in progress and an assumed delivery of 50 per cent of projects still in the planning phase. This is below the 75 per cent completion rate for Urban Renewal, as projects under the town scheme are smaller in scale and less likely to be undertaken by professional developers/builders.

These 2,905 housing units were then split into the four sub-categories of eligible residential reliefs. The disaggregation was based on the use mix indicated in the Town Renewal Scheme database on a project by project basis, leading to the overall mix of residential units presented in Table 6.3.

Residential build costs were calculated using the same methodology.

Step 2: Average Build Cost

Just like the Urban Renewal Scheme, the average build costs per sub-category of residential housing type was estimated across all completed, in progress and in planning projects with a residential element. Again, this produced a very high build cost for new build units, implying that new builds are unprofitable.

This problem was overcome by taking the data from completed projects and applying and average build costs. The completed projects would then have excluded the site costs in obtaining the relevant certification as it was the base for calculating development levies. These 'completed averages' were then adjusted for construction inflation to give the figures presented in Table 6.3. The need for an inflation adjustment accounts for the fact that most of the activity under the scheme is taking place towards the end of its life cycle.

Step 3: Average Selling Price and Site Costs

Data is required on the purchase or sale price and site cost in estimating gross tax relief in situations where units are purchased from a builder or developer. In cases of own account developments undertaken by existing owners the gross value of the tax cost is set at the build cost allowing for a builder's margin.

As with the URS, the average selling price per unit was calculated based on Dept. of Environment, Heritage and Local Government's data on new apartment prices outside of the major town weighted to reflect the timing of activity under the scheme, which is loaded towards the end of the Town Renewal Scheme's timeframe. This gave a selling price per unit of €225,724. Investor properties were then given a price premium of €15,000 per unit to reflect the additional prices the vendors can get for these properties in smaller towns.

For new builds site costs are set at 65 per cent of build cost, based on observations from the IAVI and the Irish Home Builders Association. In the case of refurbishments an additional €50,000 is added to site costs as in these cases eligible site costs include the building occupying the site.

The results from applying these steps and assumptions are given in Table 6.3, with a total build cost of €222.9m.

Table 6.3: Unit Data Used in Estimating Tax Forgone on Residential Town Renewal Scheme Projects

	O.O. New Build	O.O. Refurb	Investor New Build	Investor Refurb	Total
No. of Units Arising at 50% Completion of Projects in Planning	621	704	792	790	2,905
Database Average Build Cost per Unit	€169,815	€76,919	€128,986	€83,498	
Inflation Adjusted Average Build Cost per Completed Unit	€109,141	€42,009	€109,141	€49,626	
Gross Inflation Adjusted Build Costs	€67,725,328	€29,569,779	€86,462,401	€39,183,513	€222,941,020
Assumed Price per Unit	€225,724	€225,724	€240,724	€240,724	
Site Cost (set at 65% of build cost)	€70,942	€120,942	€70,942	€120,942	

Step 4: Gross Tax Forgone

Based on Dept. of Environment, Heritage and Local Government data information the Town Renewal Scheme mix was 30 per cent builder/developer and 70 per cent other for new builds (polar opposite to the URS). The mix for refurbishments was put at 20 per cent builder/developer and 80 per cent other to account for the likelihood that many of these projects are undertaken by existing property owners.

Applying this mix to the data in the table above gives the gross tax relief arising, which is put at €242.3m in Table 6.4. Allowing for purchase price in situations where

the units are purchased from a builder/developer drives the gross value of the tax relief above build costs.

Step 5: Net Tax Forgone before Discounting

The second last step in arriving at net tax forgone is to apply a marginal tax rate to the gross tax relief attached to each unit. To do this the following enabling assumptions were made:

- For owner occupied units it is assumed that 30 per cent of owner occupiers have a marginal tax rate of 20 per cent and remaining owner occupiers pay tax at a marginal rate of 42 per cent. This assumption mirrors the mix under the RRS and allows for the lower purchase price in TRS areas relative to URS;

- It is assumed that all investors pay a marginal rate of 47 per cent (the higher rate plus PRSI and levies) in year one and 42 per cent thereafter.

Following all the steps detailed above gives Table 6.4.

Table 6.4: Undiscounted Tax Forgone on Residential Town Renewal Scheme Projects

	O.O. New Build	O.O. Refurb	Investor New Build	Investor Refurb	Total
Unit Gross Tax Relief via formula	€136,803	€58,192	€145,893	€70,038	
Unit Gross Tax Relief at Cost	€109,141	€42,009	€109,141	€49,626	
All Units - Gross Tax Relief	€72,874,754	€31,848,011	€95,197,047	€42,406,819	€242,326,631
Net Tax Cost at Standard Marginal Rate	€2,186,243	€1,910,881	-	-	
Net Tax Cost at Higher Marginal Rate	€10,712,589	€9,363,315	€41,172,723	€18,340,949	
Total Net Tax Forgone	€12,898,831	€11,274,196	€41,172,723	€18,340,949	€83,686,699

The table shows that before discounting the net tax cost associated with Town Renewal Scheme residential units is €83.7m, as against a gross tax relief of €246.3m (before allowing for marginal tax rates).

Step 6: The Net Tax Forgone

The last step in arriving at net tax forgone is to calculate present values, by taking a 5 per cent discount rate to reflect that the relief is a fixed values but it has to be exhausted over a period of years, reducing its value today.

As per the scheme's rules owner occupiers must take the relief over 10 years. Again, investors do not operate to this time constraint and tend to consume the tax relief over a much shorter period, believed to be 4 years.

Combining the 5 per cent discount rate and 10 and 4 years periods gives the present values shown in Table 6.5.

Table 6.5: Discounted Tax Forgone on Residential Town Renewal Scheme Projects

	O.O. New Build	O.O. Refurb	Investor New Build	Investor Refurb	Total
Undiscounted Tax Forgone	€12,898,831	€11,274,196	€41,172,723	€18,340,949	€83,686,699
Annual Undiscounted Tax Forgone	€1,289,883	€1,127,420	€10,293,181	€4,585,237	€17,295,721
Discount Rate	5%	5%	5%	5%	
Time Period (in years)	10	10	4	4	
NPV of Tax Forgone	€9,960,136	€8,705,635	€36,499,109	€16,259,025	€71,423,905
NPV of Tax Forgone per Unit	€16,051	€12,368	€46,073	€20,592	€24,585

The total discounted tax forgone for residential projects is put at €71.4m, of which:

- Investor new builds accounts for €36.5m (51.1 per cent);
- Investor refurbishment accounts for €216.3m (22.8 per cent);
- Owner occupied new builds accounts for €10m (13.4 per cent);
- Owner occupied refurbishment/conversions accounts for €8.7m (12.2 per cent).

In all, the discounted tax forgone represents 32 per cent of the build cost associated with these projects and 29.5 per cent of the gross tax relief arising.

Looking at individual units, the table shows that the NPV tax cost per unit, for all types, is €24,585. The highest tax cost per unit is associated with investor new builds, followed by investor refurbishments. The tax cost per unit for owner occupier new builds and refurbishments are well below those associated with similar owner occupier held proprieties. To illustrate, the €46,073 tax cost associated with an investor new build is two and a half times the tax cost of a comparable owner occupier new build. Much of this gap is explained by the fact that new build owner occupiers are only entitled to 50 per cent of the gross relief while investors are entitled to 100 per cent of the gross relief. The difference in the marginal tax rates also accounts for some of the gap.

6.4.3 Tax Forgone on Commercial Properties

In calculating tax forgone each step in the process is explained in less detail as the steps involved are very similar to the residential scheme. Data on commercial projects was not disaggregated into different types of commercial buildings such as office, retail, industrial etc. as the same rates of capital allowances apply to each category.

Step 1: Estimating Square Metres

In arriving at an estimate of the square metres given to commercial use for each project a project's total floor space was multiplied by the percentage of the project stated to be commercial in the TRS database. Once this was repeated for all projects in the Town Renewal Scheme database the total commercial floor space was determined. As with the residential analysis, an adjustment was made by assuming that 50 per cent of projects still in planning will be delivered by July 2006. Those in progress are assumed to be fully completed by July 2006. This gives 189,974 square metres of commercial space arising under Town Renewal Scheme.

Commercial build costs were calculated using the same methodology.

Step 2: Average Build Cost

On average build costs per square metre was arrived at by dividing total estimated commercial build costs over the life of the scheme by the floor space expected to be developed up to July 2006. This gave an average build cost of €1,229 per square metre. Again, we repeated the calculation using data on completed projects only as completion costs are more likely to better capture true costs. This gave average build cost of €949 per square metre allowing for inflation.

Multiplying total floor space arising by €949 per square metre gives an indicative build cost of €180m.

Step 3: Average Price and Site Costs

To get in idea of the average price per square metre of commercial space data on rental values per square metre was compared with the associated yield to give a purchase price. Given that the scheme deals with a range of commercial space usage data was gathered on the retail, office and industrial rental sectors to give an average price per square metre of €1,999. This average price accounts for the type of towns covered by the Town Renewal Scheme.

As per the IAVI's insight site costs were again set at 65 per cent of build costs.

Step 4: Gross Tax Forgone

For new build projects the gross tax forgone is calculated by applying the formula which yields a value of €1,176 per square metre and €949 per square metre in situations where the property is build directly or acquired from a non-builder/non-speculator.

We have assumed that commercial projects are split 70 per cent: 30 per cent between those purchased from builders/developers and others. This produces a gross tax forgone of €210.4m.

Step 5: Net Tax Forgone

The next step in arriving at net tax forgone is to apply a marginal tax rate to the gross tax relief. It is assumed that a marginal tax rate of 47 per cent applies to 90 per cent all of these projects as they are owned by individual and the remaining 10 per cent are owned by companies with a marginal tax rate of 12.5 per cent.

Table 6.6 shows the results. Before discounting, €93.7m of tax forgone is associated with commercial projects, which represents 52 per cent of the build cost and 43.6 per cent of gross tax relief.

Table 6.6: Undiscounted Tax Forgone on Commercial Town Renewal Scheme Projects

	Commercial
Floor Space in Sq Metres at 50% Completion of Projects in Planning	189,974
Average Sq. Metre Build Cost (All Projects)	€1,229
Inflation Adjusted Sq. Metre Average Build Cost for Completions	€949
Total Inflation Adjusted Build Costs	€180,211,035
Sale Price per Sq. Metre	€1,999
Site Costs per Sq. Metre (65% of build costs)	€617
Sq. Metre Gross Tax Relief via formula	€1,211
Sq. Metre Gross Tax Relief at cost	€949
Total Gross Tax Cost	€215,167,217
Net Tax Cost at 47%	€91,015,733
Net Tax Cost at 12.5%	€2,689,590
Net Tax Cost	€93,705,323

The net present value of tax forgone is determined by discounting at 5 per cent over 14 years. This gives a net present value of tax forgone of €77.2m which represents 42.8 per cent of build costs and 35.9 per cent of gross relief. On a unit basis, the NPV of tax forgone works out at €406 per square metre.

Table 6.7: Discounted Tax Forgone on Commercial Town Renewal Scheme Projects

	Commercial
Undiscounted Tax Forgone	€93,705,323
Discount Rate	5%
Time Period (in years)	14
NPV of Tax Forgone	€77,207,518
NPV of Tax Forgone per Sq. Metre	€406

6.4.4 Tax Forgone on by Development Status

This section presents an analysis of residential and commercial projects by the development status of the projects. As per the Department's database projects are either completed, in progress or still in planning.

Residential Units

Table 6.8 gives the development status of residential units. Of the 2,905 residential units arising, 971 (33.5 per cent) were delivered, 704 (24.3 per cent) are in progress and the remaining units 1,230 (44.3 per cent) are in planning.

Table 6.8: The Development Status of Residential Town Renewal Scheme Projects and Tax Costs

	O.O. New Build	O.O. Refurb	Investor New Build	Investor Refurb	Total
NPV of Tax Forgone per Unit	€16,051	€12,368	€46,073	€20,592	€24,585
Number of Units by Development Status					
- Completed	207	235	265	264	971
- Work in Progress	150	171	192	191	704
- In Planning	262	298	335	334	1,230
Totals	620	704	792	790	2,905
NPV of Tax Forgone by Development Status					
- Completed	€3,324,279	€2,910,269	€12,201,547	€5,435,345	€23,876,806
- Work in Progress	€2,409,691	€2,109,585	€8,844,614	€3,939,954	€17,307,734
- In Planning	€4,210,114	€3,685,781	€15,452,948	€6,883,726	€30,239,365
Totals	€9,944,085	€8,705,635	€36,499,109	€16,259,025	€71,423,905
Share	13.9%	12.2%	51.1%	22.8%	100.0%

The NPV of tax forgone per sub-category of residential unit multiplied by units in each development status grouping gives the NPV of tax forgone by development status. Of the €71.4m of residential tax costs, €23.9m is associated with units which are complete, €17.3m is attributed to those in progress and €30.3m is related to units in planning.

Commercial Space

Table 6.9 repeats the analysis for commercial space.

Table 6.9: The Development Status of Commercial TRS Projects and Tax Costs

NPV of Tax Forgone per Sq. Metre	€406	
Sq. Metres by Development Status		
- Completed	66,225	
- Work in Progress	46,408	
- In Planning	77,342	
	189,974	
NPV of Tax Forgone by Development Status		Share
- Completed	€26,914,450	34.9%
- Work in Progress	€18,860,527	24.4%
- In Planning	€31,432,542	40.7%
	€77,207,518	100.0%

Of the €77.2m of tax costs, 34.9 per cent is associated with completed projects, 24.4 per cent is linked to work in progress and projects still to start account for 40.7 per cent.

6.4.5 Overview

In conclusion, the NPV of all tax forgone associated with Scheme up to July 2006 is estimated at €148.6m, of which residential projects account for €71.4m or 48 per cent and commercial projects account for €77.2m or 52 per cent. With regard to developments completed by end 2004, the tax cost is estimated to be €50.7m.

Table 6.10: Overview of Present Values of Scheme Tax Foregone

	Residential (€m)	Commercial (€m)	Total (€m)
Predicted Tax Cost to Mid July 2006	71.4	77.2	148.6
Tax Cost Incurred to end 2004	23.8	26.9	50.7

Source: Consultants' estimates

6.5 Scheme Outputs

6.5.1 Introduction

This Section of the report summarises the main outputs of the Scheme, such as the number of developments and housing units. The data presented are based on the DOEHLG database and the Survey of Local Authorities. With regard to the Survey of Local authorities, fifteen out of twenty-four local authorities responded in respect of 63 out of the 100 towns included in the Scheme.

6.5.2 Developments under the Scheme

Under the Town Renewal Scheme, a total of 100 Town Renewal Plans were approved across 23 counties. A total of 1,209 projects have been reported by local authorities, of which 372 have been completed. A further 196 are at work-in-progress stage, 568 or 46.8 per cent that have been either completed or commenced.

Table 6.11: All Projects by Project Development Status

Development Status	No. Projects	As % of All Projects
Completed	372	30.8
Work in Progress	196	16.2
Planning or Pre-Planning Stage	635	52.5
Not Stated	6	0.5
Totals	**1,209**	**100.0**

The database for the Town Renewal Scheme showed that only just over half (53.9 per cent) of developments has been granted planning permission. This raises the doubt that many developments may not be completed by July 2006.

6.5.3 Progress of the Scheme

The survey of local authorities revealed a substantial minority (35 per cent) of local authority officials who were dissatisfied with progress under the Scheme. Some 60 per cent indicated that they were satisfied with progress under the Scheme (see Table 6.12)

Of the 63 towns, for which the local authorities expressed an opinion, 23 were identified as having performed poorly.

Table 6.12: Distribution of Local Authorities by Satisfaction with Progress of the Scheme

Level of Satisfaction with Scheme	Proportion of Respondents (%)
Very satisfied	15.0
Satisfied	45.0
Neither satisfied nor dissatisfied	5.0
Dissatisfied	35.0
Very dissatisfied	0.0
Total	**100.0**

Source: Goodbody Survey of Local Authorities

Table 6.13 shows that only 4.1 per cent of towns had completed more than 75 per cent of the proposed developments, while over 80 per cent of towns had less than 50 per cent of their developments completed.

It is clear that much less progress has been made in implementing the Town Renewal Plans than is the case for the Urban Renewal Scheme.

Table 6.13: Distribution of Towns by Level of Development Completion

Development Completion Level	Proportion of Towns (%)
Less than 25 per cent of developments complete	52.6
More than 25 and less than 50 per cent complete	27.8
More than 50 and less than 75 per cent complete	15.5
More than 75 per cent complete	4.1
Total	**100.0**

Source: Derived from DOEHLG database

6.5.4 Reasons for Lack of Progress

Where progress was poor, a number of reasons were identified as follows:

- Lack of interest on part of developers, builders or owner-occupiers;
- Tax incentives available were not appropriate: in particular, some schemes were largely focused on refurbishment , which proved unattractive to developers;
- Property in hands of elderly and other people not interested in developing it;
- Failure of land/property owners to reach agreement;
- Disputes over legal title to land or property;
- Failure to acquire planning permission;
- Lack of Local authority services; and
- Poor marketing of the Scheme

Lack of interest on the part of developers was the most prevalent reason, often arising because refurbishment activity only was allowed.

6.5.5 Profile of Developments by Type of Sector and Type of Build

Developments are either new build, refurbishment or a combination of both. Similarly, they can be residential, industrial/commercial or a mixture of both. Table 6.14 indicates the number of developments that fall into each of the new categories. This shows that 142 or 38.2 per cent of developments involve commercial/industrial development only, 125 or 33.6 per cent involved residential development only and 99 or 26.6 per cent are a combination of both. Over half (192 developments) are refurbishment, 117 or 31.4 per cent were newbuild only, and 57 (15.3 per cent) are a combination of both. With a number of developments having more than one use or type of build, the greatest number of completed developments (97) are a refurbishment of Commercial/Industrial properties.

This shows that a major focus of the Scheme is on refurbishment projects.

Table 6.14: Completed Projects by Use and Type of Build

	Newbuild	Refurbishment	Mix Newbuild & Refurb.	Not Stated	Total
Commercial/Industrial	22	97	23	-	142
Residential	61	55	9	-	125
Mix Res. & Comm./Ind.	34	40	25	-	99
Not Stated	-	-	-	6	6
Total	**117**	**192**	**57**	**6**	**372**

Source: Derived from DOEHLG Database

6.5.6 Scale of Developments

When all completed projects are analysed by scale of cost of development, 35.2 per cent have estimated costs of €100,000 or less. Just over 32 per cent have estimated costs of over €500,000, with only 7.8 per cent having costs of over €1 million. The relatively small scale of developments reflects the large refurbishment element in the Scheme.

Table 6.15: Estimated Cost of Completed Developments

Estimated Cost of Development	No. Projects	Distribution (%)
<= €50,000	77	20.7
€50,001 – €100,000	54	14.5
€100,001 – €250,000	86	23.1
€250,001 – €500,000	65	17.5
€500,001 – €1,000,000	26	7.0
€1,000,001 – €10,000,000	29	7.8
Missing	35	9.4
Total	**372**	**100.0**

Source: Derived from DOEHLG Database

6.5.7 Conclusions

To date, the Town Renewal Scheme has been less than successfully implemented, with only 372 out of total of 1,209 developments completed. In only 4.1 per cent of towns are more than 75 per cent of designated developments complete.

A sizeable minority of local authorities are dissatisfied with progress in implementing the Scheme.

For areas where progress has been poor, the major reasons are lack of interest on the part of developers or site owners. In the event, the justifiable emphasis on refurbishment within the Scheme proved unattractive to developers

Lack of local authority services and poor marketing of the Scheme were also cited as reasons for lack of progress.

6.6 Impact of the Scheme

6.6.1 Introduction

This Section of the Report identifies the impacts of the Scheme and evaluates them using the framework outlined in Section 2. The analysis draws on the DOEHLG database, the Survey of Local Authorities and the case studies to provide an overview of Scheme impacts. Case studies of Loughrea and Cavan towns were undertaken.

It begins with an analysis of Scheme effectiveness, followed by consideration of efficiency and equity impacts.

6.6.2 Scheme Effectiveness: Physical Development Benefits

6.6.2.1 Dereliction

For many towns, to the extent that development has occurred, it has often focussed on the outskirts of the town. This resulted in under use and dereliction of town centre properties. As a result, many small towns have a streetscape characterised by buildings in poor external and internal condition. The focus of the Scheme was on refurbishment of these properties. Where the Scheme was successfully implemented they were positive impacts on these properties.

The survey of Local authorities also indicated significant impacts in this area. Table 6.16 shows that 87 per cent of local officials surveyed indicated agreed or strongly agreed with the view that there were positive impacts on dereliction.

Table 6.16: Local Authority Views on Dereliction Impact

The scheme has contributed to a reduction in the degree of dereliction in the area	Proportion of Respondents %
Strongly agree	43.7
Agree	43.7
Neither agree nor disagree	0.0
Disagree	12.6
Strongly disagree	0.0
Total	**100.0**

Source: Goodbody survey of Local Authorities

The overall conclusion is that the Scheme performed strongly in this area in certain towns.

6.6.2.2 Urban Design and Conservation

Where the Schemes have been successfully, there have been significant positive impacts on conservation. While relatively few town centre properties would be listed, many are of architectural or heritage merit. The relative concentration of the Town scheme on refurbishment of commercial properties resulted in a renewal of buildings, with consequent positive impacts on the streetscape. The result has been an overall improvement in the town environment.

The local authorities surveyed were of the view that this was an area in which the Scheme has a profound impact, as evidenced by the fact that 82 per cent of respondents indicated that there were positive impacts.

Table 6.17: Local Authority Views on Conservation Impact

The scheme has contributed to the preservation of the natural architectural and archaeological heritage in the area	Proportion of Respondents (%)
Strongly agree	11.8
Agree	70.6
Neither agree nor disagree	11.8
Disagree	5.8
Strongly disagree	0.0
Total	**100.0**

Source: Goodbody Survey of Local Authorities

6.6.3 Scheme Effectiveness: Economic Benefits

6.6.3.1 Construction Employment

The €122.6m spent of the Scheme in the period 2000-2004 would have given rise to significant demand for labour in the building industry. Based on the average employment content in building and construction[18], this level of spend would have created a demand for approximately 673 person years of direct employment during the period 2000 to 2004, or an average annual demand for 154 workers. Income tax, Employers PRSI and Employees PRSI payments to the Exchequer would have been of the order of €4.5m, €1.1m and €1.9m, making €7.5m in total.

As for the Rural Renewal Scheme, the fact that additional employment demand and Exchequer payments were created does not imply that economic benefits occurred. Given that, as depicted in Section 2, national and regional unemployment rates were very low throughout the scheme period, very little of this increased employment would have been drawn from the ranks of the unemployed, so that the

net impact on unemployment levels and Exchequer receipts would have been minimal

6.6.3.2 Housing Development and Population Growth

An additional 988 housing units were developed with the aid of the Town Renewal Scheme in the period to end 2004. This output must be viewed against the background that much of the designation was in respect of refurbishment, so that the performance was bound to be relatively modest. There were obviously a group of towns where the designation allowed significant house building, reflected in the largely positive view of local authority officials on housing output.

In towns where housing output was high, again there are concerns at the low level of owner occupation.

Table 6.18: Local Authority Views on Housing Impact of the Scheme

The scheme has contributed significantly to housing supply in the area	Proportion (%)
Strongly agree	17.6
Agree	41.2
Neither agree nor disagree	5.9
Disagree	29.4
Strongly disagree	5.9
Total	**100.0**

Source: Goodbody Survey of Local Authorities

[18] See: CSO. 2002 Census of Building and Construction

6.6.3.3 Commercial and Industrial Development Impacts

The Scheme had a strong focus on industrial and commercial developments, with 241 out of the 372 completed developments including a commercial/industrial element. More than two-thirds of local authority officials were in agreement that the Scheme contributed significantly to the level of economic activity in their Town Renewal area.

Case Study - Cavan Town

Cavan town is located in the centre of county Cavan, on the N3 between Dublin and Donegal. The town acts as the anchor and focus for much of the economic and social activity in the County of Cavan and is the county's administrative centre. The main employers in the town include the VEC, Elliots Construction, Quinn Direct and the Regional Hospital.

In the period leading up to the designation under the Town Renewal Scheme, the population in Cavan Town was increasing very moderately, at an average annual rate of 0.4 per cent over the period 1981 – 1996. The relative stagnation of the inner town area and the growth in population of the town environs was one of the main reasons put forward by advocates of Cavan Town's designation under the Town Renewal Scheme. The overall aim of the Town Renewal Scheme in Cavan Town was to revitalise and bring life back to the town of Cavan. Prior to designation there were a lot of old, abandoned buildings and derelict sites scattered throughout the town, especially at the back of retail premises in the town centre. A large proportion of the town centre was impoverished and in need of regeneration.

In total, 66 projects have been recorded under Town Renewal Scheme in Cavan town. To date, 24 of these have been completed, 10 are in progress, while the remaining 32 projects are in the planning stage. The total costs of all 66 developments are €45.4 million. All projects were privately financed.

Of the 24 completed, just over half of these are totally commercial in nature. These developments include a small number of newbuild purpose-built office developments, (including a medical centre), and several refurbished retail premises such as shops and pub fronts. Eight of the 24 completed projects are entirely residential in nature. These projects include four new-build apartment projects ranging in size from 20 – 34 units, and two refurbishment developments which together amount to 15 units.

Residential development under the TRS could potentially create 287 additional housing units. It is reported that the residential units constructed to date have sold quickly, mostly to investors rather than owner-occupiers. It is estimated that investors bought up approximately 80 per cent of most residential developments. The occupancy rate for these units is high at an estimated 90%.

Opinions vary regarding the current and future demand for residential accommodation in the town. Some believe that there is still a demand for apartments in the town, otherwise the market would stop supplying them. It is anticipated that the opening of a College of Further Education, currently under construction, which will cater for up to 800 students, will increase the demand for rental property in the town.

Others claim that the market for residential property in the town has softened and the town and is entering a position of over-supply where rents are flattening because demand has slowed while supply has continued.

A number of stakeholders blamed the scheme for the creation of a dual property market in the town, where two apartments, similar in all aspects, are selling at a price differential of up to 50 per cent because one is part of the scheme and the other is not. An apartment under the scheme is reaching €300,000 while a similar non-designated apartment within relatively close proximity is selling for €165,000. This price differential is explained by some as relating to the heavier costs (in terms of access/storage/time costs) associated with building in restricted and difficult TRS sites.

There are 22 projects involving commercial activity either completed or in the process of being completed in Cavan Town. These projects include a small number of new build and refurbished office developments and a large number of refurbished shop/pub fronts. One large medical centre was constructed under the scheme. There was also one relatively large-scale office development to the north west of the town, which has been rented by local solicitors/accountants/architects who have moved premises to avail of the new high quality office development.

Retail and commercial property is currently selling at a premium in Cavan Town. There is still a growing demand for commercial developments, especially new-build purpose built developments. A review of rental incomes showed that Commercial rental incomes are increasing. There has been minimal dead weight arising from the scheme with 80 per cent of developers stating that their projects would not have gone ahead in the absence of the TRS. There was a general consensus that the scheme did not divert developments from other areas into TRS areas.

A number of issues were cited as having limited the take up of the scheme, including:

- Difficulties with site ownership/access/clearance costs
- Sites in ownership of bodies (such as a Church of Ireland School) with limited capital;
- Sites with residing tenants where tenancy agreements could not be broken to allow the commencement of development within scheme's timeframe; and
- Inappropriate development incentives.
- Land assembly difficulties;
- Lengthy planning process;
- Lack of investor mentality among site owners;
- A lack of developers with the expertise and capital necessary to deal with lengthy planning process.

Local Authorities and key stakeholders in Cavan town feel that the scheme has been successful in tidying up and revitalising the town. The scheme stimulated development in derelict and abandoned areas where no previous development has taken place. The scheme also induced the release of capital in Cavan Town by both developers and by others who were not normally risk takers. As more people have started to reside in town, more retail units are being refurbished/developed. Also, the refurbished shop fronts and commercial developments have created a more positive image of the town, especially in the main street. According to one stakeholder, the TRS developments have given Cavan "an air of a town that is going places". The scheme is also credited with Cavan having been chosen as a location for decentralisation.

The Local Authorities believe the scheme should be continued but with some modifications in terms of to whom the benefits from the scheme accrue and to focus on particular sites within the town.

Table 6.19: Local Authority Views on Economic Activity Levels

The scheme has contributed significantly to economic activity in the area	Proportion (%)
Strongly agree	31.3
Agree	37.5
Neither agree nor disagree	18.7
Disagree	12.5
Strongly disagree	0.0
Total	**100.0**

Source: Goodbody Survey of Local Authorities

Based on a knowledge of the quantity of commercial and industrial floor space provided under the Scheme, it is possible to estimate the employment and value added potential associated with commercial and industrial development, based on standard factors. This suggests that investment in commercial and industrial development under the Scheme in the period up to 2004 had the potential to create 902 additional jobs and the capacity to produce just under €29m in gross value added annually in the town renewal areas.

This indicates a modest commercial and industrial impact of the scheme in the targeted town areas.

6.6.4 Scheme Effectiveness: Social and Community Benefits

6.6.4.1 Community Gain Impacts and Social Housing Impacts

There is little evidence of any significant impacts in this area. The difficulties with take-up militated against any levies to fund initiatives in this area. A conclusion confirmed by local authority officials

Table 6.20: Views of the Local Authorities on Social Housing

The scheme has contributed significantly to the supply of social housing in the area	Proportion (%)
Strongly agree	0.0
Agree	11.8
Neither agree nor disagree	23.5
Disagree	47.1
Strongly disagree	17.6
Total	**100.0**

Source: Goodbody Survey of Local Authorities

6.6.5 Additionality, Dead Weight and Displacement

The view emanating from the case studies and consultations was the Scheme had a crucial role to play in animating development in certain towns. For other towns, the availability of tax incentives was not sufficient to overcome the lack of market demand. Because development was less commercially attractive, the Scheme was vital in marginal situations in encouraging development. As a result, the dead - weight element appears to have been lower than for the Urban Scheme. In the consultant's view dead-weight at the project level would initially have been low at approximately 20 per cent.

With regard to the current situation, towns would appear to fall into three categories:

- Those where the Scheme has been a success and dead-weight associated with developments has increased, in some instances to above 70 per cent;

- Those where lack of market demand means that the Scheme will continue to be of limited value; and

- The remainder where the Scheme is beginning to have an impact and significant dead -weight has not yet emerged.

6.6.6 Equity Impacts

As with the Urban Renewal Scheme, there was evidence that landowners and developers garnered some of the tax benefits of the Scheme. The case study of Cavan Town (See Box) indicated that a premium was demanded and paid for incentivised housing. Some of this would have been passed on to landowners.

In the larger towns and for the larger developments, much of the residential output was sold to investors. The same tendency for multiple purchases was evident as for the Urban Scheme.

However, the Scheme had a strong emphasis on the refurbishment rather than new build of commercial premises. Thus, a meant that a considerable proportion of the take-up of the Scheme was by owner-occupier retailers making relatively small-scale improvements to their premises. To this extent, the Scheme benefits were more widely distributed than was the case for the Urban Scheme. To that extent, while this Scheme, as with all such tax driven schemes, was fundamentally inequitable in its impact, its benefits would not have been as concentrated among high-income individuals as was the Urban Scheme.

6.6.7 Value for Money

Three indicators are presented below:

- The tax costs per additional unit/square metre;

- The present value of tax costs per additional unit/square metre;

- The ratio of the present value of tax costs to new build costs.

At €24,585 per residential unit, the cost to the Exchequer is substantial, especially as it does not take account of dead-weight. However, the cost per unit is not as excessive as for the Urban Scheme and similar to the Rural Scheme. Tax costs account for 32 per cent of residential build costs incurred, again not as high as the Urban Scheme and in line with the Rural Scheme.

On the commercial side, the Exchequer cost is substantial at €406 per square metre. However, the tax cost per square metre is not high as per URS and LOTS. The NPV of tax forgone accounts for 43.8 per cent of commercial build costs incurred, the highest ratio observed across the four schemes.

The tax costs of the Scheme will not be offset to a significant degree by either direct income tax and PRSI payments by the construction industry or developer contributions. Taken together, these amount to approximately 7 per cent of build costs.

Table 6.21: Efficiency Indicators

Item	Value
Tax cost per housing unit (€)	28,806
Present value of tax costs per housing unit (€)	24,585
Ratio of discounted tax cost to residential build costs	32
Tax cost per sq. metre of commercial space (€)	493
Present value of a sq. metre of commercial space (€)	406
Ratio of discounted tax cost to commercial build costs	43.8

6.7 Conclusions and Recommendations

Expenditure under the Scheme is estimated at total of €122.6m for the period 1999-2004.

Of the total of €122.6m, € 67.5m (55.1per cent) was in respect of residential activity and € 54.7m (44.6 per cent) related to commercial/industrial activity.

The bulk of expenditure was on new-build, which accounted for € 78.7m or 64.2.per cent of total expenditure. Expenditure on refurbishment was relatively high at €43.5m (35.5 per cent).

To date, the Town Renewal Scheme has been less than successfully implemented, with only 372 out of total of 1,209 developments completed. In only 4.1 per cent of towns are more than 75 per cent of designated developments complete.

A sizeable minority of local authorities are dissatisfied with progress in implementing the Scheme.

For areas where progress has been poor, the major reasons are lack of interest on the part of developers or site owners. The emphasis on refurbishment within the Scheme proved unattractive to developers

Lack of local authority services and poor marketing of the Scheme were also cited as reasons for lack of progress.

The present value of all tax forgone associated with Scheme up to July 2006 is estimated at €149m, of which residential projects account for €71m or 48 per cent and commercial projects account for €77m or 52 per cent. With regard to developments completed by end 2004, the tax cost is estimated to be €51m.

There is some evidence that the Town Renewal Scheme was not as well managed as the Urban Scheme. Local authority resources were often spread too thinly across a number of towns. Either the allocation of greater managerial resources or a limit on the number of towns included in the Scheme would have produced better outcomes.

The impact of the Scheme has thus been relatively patchy. Where the Scheme was successfully implemented the impacts would have been on a par with those of the Urban schemes. This was not the case for a significant minority of towns.

Where successfully implemented, the Scheme, given its justifiable emphasis on refurbishment, had a strong impact on dereliction and conservation. Urban design issues featured less strongly than for the Urban Scheme. Because of the relatively low level of new build, economic impacts have not been to the fore. Community and social impacts were not really a feature of the Scheme, and there would not have been any real prospect of raising levies to fund initiatives in this area.

It must be recognised that there was substantial cross over between in terms of scale between areas designated under the Urban and Town Schemes. Larger towns in the Town scheme that had a relatively high level of designation for new build tended to derive similar economic benefits as did their counterparts in the Urban Scheme.

With regard to dead weight, it would appear that this was lower than for the Urban, as the higher risks in towns with lower populations made the tax incentives more crucial in the decision to develop a site.

7. Review of the Living over the Shop Scheme

7.1 Introduction

Under the 1986 Urban Renewal Scheme, certain areas in the five cities – Cork, Dublin, Galway, Limerick and Waterford, were designated for tax incentives aimed at tackling the issues of dereliction and decay, which were affecting inner city areas. In order to build on the progress made under this scheme in inner city areas, the Living over the Shop Scheme was introduced in 2001, in the five city boroughs of Cork, Dublin, Galway, Limerick and Waterford.

This Section of the report first sets out a description of the Scheme in terms of its objectives and eligibility conditions and tax benefits that apply. It then provides an overview of expenditure and tax forgone under the Scheme in Sections 7.3 and 7.4. Section 7.5 describes the outputs of the Scheme, while Section 7.6 assesses the Scheme impacts. Conclusions and recommendations are presented in Section 7.7.

7.2 Description of the Scheme

7.2.1 Objectives

The objectives of this scheme were to:

- Provide additional residential units in areas suitable and attractive for such development;

- Achieve greater economic use of such premises with a view to relieving the pressure on housing supply, particularly for rented residential accommodation;

- Promote sustainable development patterns and assist in fostering a living urban environment in certain designated streets; and

- Promote more sustainable use of existing building stock and infrastructure and relieve pressure for green field development.

Under the Living over the Shop Scheme, tax incentives were available for the construction and refurbishment of residential accommodation and associated commercial development of premises in the designated streets. As with the other Schemes, the closing date for the scheme is 31st July 2006 having been extended from the original date of 31st December 2004.

This section of the report begins with a description of the incentives available under the Living Over the Shop scheme. A breakdown of the expenditure, which has been incurred under the scheme, is then presented. The cost of the scheme to the Exchequer in terms of tax foregone in presented and overall outputs of the scheme are evaluated. An analysis of the scheme's costs and benefits is then conducted.

7.2.2 Designated Areas

Under the LOTS scheme, certain streets in the five city boroughs – Cork, Dublin, Galway, Limerick and Waterford - were designated. The decision, as to which streets to include in the Scheme, was taken by an Expert Advisory Panel based on proposals from the relevant Local Authorities. Following an assessment of the proposals, the Expert Advisory Panel made recommendations to the Minister for the Environment and Local Government. The designated streets were announced in April 2001. A total of almost 13,000 linear metres of street were designated.

In order to quality for designation the following criteria for streets had to be met:

- Streets where the ground floor use was primarily commercial, located in areas where residential was an appropriate use and permissible under the Development Plan zoning;

- Streets containing a high proportion of vacant or under-utilised space in the upper floors;

- Streets containing premises capable of being adapted to form residential units generally of minimum floor area of 55 square metres and complying in other respects with the Department of the Environment's Guidelines on Residential Developments in Urban Renewal Tax incentive Areas of September 1995;

- Streets containing premises capable of providing accommodation to comply with building/fire regulations and to meet the Department of the Environment's standards for grant-aided accommodation;

- Streets which could benefit, in streetscape terms, from new build development in cases where
    - Extra storeys were needed to restore/enhance the streetscape i.e. to bring the height up to that of adjacent buildings
    - A Dangerous Building Order had been issued by the Local Authority and a replacement building was needed to restore the streetscape; and

- Streets where there was a clear need for incentives i.e. where the desired development is not likely to take place without the aid of incentives.

7.2.3 Tax Incentives Available

The tax incentives available under the scheme were as follows:

Residential Development

Owner-occupiers could claim tax relief on 100 per cent of the eligible expenditure on the refurbishment or conversion of under-utilised space for residential accommodation, at a rate of 10 per cent per annum over 10 years against total income. Residential units had to have a minimum floor space of 38 square metres.

Investors or lessors could claim relief on 100 per cent of eligible expenditure on the refurbishment, conversion or necessary new build costs of residential accommodation, against Irish rental income, including income from other lettings.

Associated Commercial Development
Owner-occupiers could claim a capital allowance in the form of a 50 per cent initial allowance in Year 1 and a 4 per cent annual allowance up to a maximum of 100 per cent. Alternatively, free depreciation could be claimed, of up to 50 per cent in Year 1 and a 4 per cent annual allowance up to a maximum of 100 per cent. The free depreciation could be taken over a number of years, but the maximum amount on which the increased rate may be claimed was limited to 50 per cent of the qualifying expenditure.

Investors or lessors could claim a capital allowance in the form of a 50 per cent initial allowance in Year 1 and a 4 per cent annual allowance up to a maximum of 100 per cent.

The commercial incentives were conditional on the residential element of the development being carried out.

7.2.4 Allowable Expenditure

The Living Over the Shop scheme provides tax relief on expenditure incurred for residential and commercial development. The commercial development however, was restricted to retail and the provision of services only within the State, excluding mail order and financial services. Office and industrial developments were also excluded. Expenditure on the commercial element could not exceed expenditure on the residential element.

Expenditure on new build was only allowable for tax relief where limited extensions to existing premises are necessary to facilitate access to the residential accommodation or to provide essential facilities such as toilets. New build incentives were only allowable where the extension did not exceed 30 per cent of the total floor area.

7.3 Overview of Expenditure

7.3.1 Introduction

This section of the report presents an analysis of the allowable expenditure incurred under the scheme. The data used in this analysis was provided by the monitoring returns submitted to the Department of the Environment, Heritage and Local Government by the relevant Local Authorities. Under the monitoring guidelines set out by the DOEHLG, each Local Authority provided details of projects initiated under the scheme in relation to the type of development being carried out as well as the scale and estimated costs of the project.

7.3.2 Scheme Expenditure

7.3.2.1 Completed Projects

The total expenditure under the scheme for completed projects is €31.2 million, €27.2 million of which relates to residential development and €4 million of which relates to commercial development.

Dublin had the highest proportion of expenditure under the scheme at €21,1m or 67.8 per cent of the total. The expenditure under the scheme in Cork amounts to €7.3m or 23.3 per cent of the total while Waterford accounts for only 1.6 per cent of the costs. There was no recorded expenditure under the scheme in Galway. [19]

Table 7.1: Total Costs of Completed Projects by City

City	No. Projects	Costs Incurred by Residential Development (€ '000s)	Costs Incurred by Commercial Development (€ '000s)	Total Estimated Costs (€ '000s)
Cork	18	7,274.9	-	7,274.9
Dublin	13	17,544.3	3,594.0	21,138.3
Galway	-	-	-	-
Limerick	2	1,863.2	412.6	2,275.8
Waterford	3	492.0	-	492.0
Totals	**36**	**27,174.4**	**4,006.6**	**31,181.0**

7.3.2.2 Scale of Development

The projects carried out under the scheme were relatively small in terms of the level of expenditure with 44.4 per cent of projects incurring residential development costs of less than €250,000. Just 16.6 per cent of completed projects involved expenditure of €1million or greater. Where 30.6 per cent of projects incur residential development costs of more than €500,000, just 8.4 per cent of projects incur associated retail development costs in excess of this amount.

Table 7.2: Profile of Completed Projects by Scale of Costs of Development

Scale of Cost of Development	Residential Element %	Commercial Element %	Entire Development %
<= €250,000	44.4	16.7	41.7
€250,001 – €500,000	25.0	8.3	19.4
€500,001 – €750,000	11.1	5.6	16.7
€750,001 – €1,000,000	5.6	2.8	5.6
€1,000,001 – €2,500,000	11.1	-	8.3
>€2,500,000	2.8	-	8.3
None (no assoc. retail dev.)	-	27.8	-
Not Stated	-	38.8	-
Totals	**100.0**	**100.0**	**100.0**

[19] It would appear that some costs in respect of commercial development may have been excluded from the database.

7.3.3 Predicting Future Scheme Expenditure

There are a total of 132 projects identified under the Living Over the Shop scheme of which 98 have either been granted, or are exempt from planning permission. Of these 98 projects, 36 have been completed, 34 are work in progress and 28 are in the planning stage.

In predicting the future expenditure under the scheme to July 2006, it was assumed that:

- All projects for which planning permission has been granted or exempted, and which are currently work in progress, will be completed by the deadline of July 2006; and,
- 10 per cent of projects which are currently in the planning stage will be completed by the deadline.

Based on the above, the total expenditure under the scheme to the end of July 2006 is expected to be €72.3million.

Table 7.3: Predicted expenditure to July 2006

Status of Project	Residential Expenditure (€ '000s)	Commercial Expenditure (€ '000s)	Total (€ '000s)
Completed Projects	27,174.4	4,006.6	31,181.0
Work in Progress	31,126.5	7,952.3	39,078.8
Planning (10 per cent)	1,390.4	687.9	2,078.3
Totals	**59,691.3**	**12,646.8**	**72,338.1**

7.3.4 Summary

- Total estimated costs for completed projects amount to €31.2 million, which can be broken down into €27.2 million on the residential aspect of development and €4.0 million on the commercial or associated retail development aspect.

- Of the five cities designated under the scheme, Dublin has had the most development, accounting for €21.1 million of total expenditure. Cork has the next highest level with total development amounting to €7.2million. There has been no expenditure under the LOTS scheme in Galway city.

- By the end of the scheme in July 2006 it is estimated that the total expenditure will be €72.3 million of which €59.6 million will relate to residential development and €12.6 million will relate to commercial development.

7.4 Analysis of Tax Costs

7.4.1 Introduction

This section provides an analysis of the tax forgone arising from the living over the shop scheme. Like before, this section begins with residential units and then presents an analysis of the tax forgone associated with commercial developments.

7.4.2 Tax Forgone on Residential Properties

Step 1: Estimating Housing Units by Type

As already pointed out, this scheme is much smaller than the others under the area-based tax incentive umbrella. Across the 100 or so live projects some 440 residential units are expected to be delivered by July 2006. The number of residential units was worked as per the Urban and Rural Schemes. Given the small number of projects pending it is assumed that all will be delivered by the end of the scheme's operational life.

These 440 units fall into two categories:

- Owner occupier refurbishments accounting for some 114 units;
- Investor held refurbishments accounting for 326 units.

Build cost for residential activity was provided in the Department's database and did not have to be worked out.

Step 2: Average Build Cost

Across projects which are complete, those in progress and those in planning the average build cost per residential unit was €162,031. In order to maintain consistency with the analysis of the other schemes, the average build cost for completed projects was also calculated at €172,258. This figure is used for subsequent analysis and gives and indicative total build cost of €75.8m for all projects.

Step 3: Average Selling Price and Site Costs

The average selling price for an apartment was calculated based on Dept. of Environment, Heritage and Local Government data for Dublin, Cork, Galway, Limerick and Waterford weighted to allow for the timing of projects to be delivered. This gave a selling price per unit of €248,696. Investor properties were then given a price premium of €50,000 per unit to reflect the additional prices the vendors can get for these urban properties.

Site costs are set at 35 per cent of build cost, given the nature of LOTS designated sites.

The results from applying these assumptions are given in Table 7.4.

Table 7.4: Unit Data Used in Estimating Tax Forgone on Residential Living Over The Shop Projects

	OO	Investor	Total
Residential Units Arising	114	326	440
Average Build Cost for All Units	€162,031	€162,031	
Average Build Cost for Completions	€172,258	€172,258	
Total Build Cost based on Completions Data	€19,625,061	€56,168,279	€75,793,341
Assumed Price	€248,696	€298,696	
Site Cost (set at 35% of build cost)	€56,711	€56,711	

Step 4: Gross Tax Forgone

Taking account of the refurbishment nature of these projects the builder/developer versus non-builder/non-developer mix was put at 30 per cent builder/developer and 70 per cent other to account for the likelihood that many of these projects are undertaken by existing property owners.

Applying this mix to the data in the table above gives the gross tax relief arising, which is put at €81.4m in Table 7.5. The gross value of the tax relief exceeds build costs because purchase price is taken into account in calculating gross relief in situations where units are purchased from a builder/developer.

Step 5: Net Tax Forgone before Discounting

The second last step in arriving at net tax forgone is to apply a marginal tax rate to the gross tax relief attached to each unit. To do this the following enabling assumptions were made:

- For owner occupied units we take the higher marginal rate (42 per cent) as the people who own and occupy these units are likely to own the commercial space within the same LOTS development. The price of these units also puts them out of the reach of the average standard rate tax payer; and

- It is assumed that all investors pay a marginal rate of 47 per cent. However, we have to modify this marginal rate to better reflect reality because relief carried forward does not attach to PRSI and levies, lowering the marginal rate to 42 per cent. On the basis that investors exhaust the tax relief over four years the relevant marginal rate is 47 per cent in year one and 42 per cent in years two, three and four. This gives an average marginal rate of 43.25 per cent over the four years.

  Following all the steps detailed above gives Table 7.5.

Table 7.5: Tax Forgone on Residential Living over the Shop Projects

	OO	Investor	Total
Unit Gross Tax Relief via formula	€187,099	€224,715	
Unit Gross Tax Relief at Cost	€172,258	€172,258	
All Units - Gross Tax Relief	€20,132,308	€61,299,706	€81,432,014
Net Tax Cost at Higher Marginal Rate	€8,455,569	€26,512,123	€34,967,692
NPV of Net Tax Forgone	€6,529,167	€23,502,669	€30,031,835
NPV of Net Tax Forgone Per Unit	€57,309	€72,078	

Table 7.5 shows that before discounting the net tax cost associated with residential units is €35m, as against a gross tax relief of €81.4m.

Step 5: Net Tax Forgone in Current Terms

The last step in arriving at net tax forgone is to calculate present values, by taking a 5 per cent discount rate to reflect that the relief is at fixed values but it has to be exhausted over a period of years, reducing its value today. As per the scheme's rules owner occupiers must take the relief over 10 years. Again, investors do not operate to this time constraint and tend to consume the tax relief over a much shorter period, believed to be 4 years.

Combining the 5 per cent discount rate and 10 and 4 years periods gives the present values shown above. The total discounted tax forgone for residential LOTS units is put at €30m, of which:

- Investor refurbishments accounts for €23.5m (78.4 per cent); and
- Owner occupied refurbishments accounts for €6.5m (21.7 per cent).

In all, the discounted tax forgone represents 39.6 per cent of the build cost associated with these projects and 36.9 per cent of the gross tax relief arising.

Looking at individual units, the table shows that the NPV tax cost per unit ranges between €57,309 and €72,078.

7.4.3 Tax Forgone on Commercial Properties

As before each step in the process is explained, but in less detail as the steps involved are very similar and data on commercial projects was not disaggregated into different types of commercial buildings such as office, retail, industrial etc. as the relief categories are identical.

Step 1: Estimating Square Metres and Costs

Data on the floor space of commercial developments was provided in the DOEHLG's database and did not have to be estimated. In all 11,400 square metres of space are expected to be developed under LOTS.

Commercial build costs were provided and did not have to be worked out.

Step 2: Average Build Cost

The average build cost for all projects was €1,653. However, we take the average for completions only and this gives a build cost €1,136 per square metre. Multiplying total floor space arising by the €1,136 gives an indicative build cost of €12.9m.

Step 3: Average Purchase Price and Site Costs

The average selling price for a retail space in the areas covered by LOTS is estimated to be €2,500 per square metre as the sites are in less central locations.

Site costs are set at 35 per cent of build cost, given the nature of LOTS designated sites.

Step 4: Gross Tax Forgone

Taking account of the refurbishment nature of these projects the builder/developer versus non-builder/non-developer mix was put at 30 per cent builder/developer and 70 per cent other.

Applying this mix gives the gross tax relief arising put at €15.4m in Table 7.6. As before, allowing for site costs in situations where the units are purchased from a builder/developer pushes gross value relief above build costs.

Step 5: Net Tax Forgone before Discounting

The second last step in arriving at net tax forgone is to apply a marginal tax rate to the gross tax relief. It is assumed that a marginal tax rate of 47 per cent applies to 90 per cent all of these developments as they are owned by individual and the remaining 10 per cent are owned by companies. As the relief is given by way of capital allowance the issues of rolling over relief does not arise and the individual's marginal rate is taken to include PRSI and levies.

Table 7.6 shows the results. Before discounting, €6.7m of tax forgone is associated with commercial projects, which represents 43.6 per cent of the gross tax costs.

Table 7.6: Tax Forgone on Commercial Living over the Shop Projects

	Total
Build Cost	€18,838,520
Floor Space in Sq Metres	11,400
Average Build Cost for All Projects	€1,653
Average Build Cost Completions (Inflation Adjusted)	€1,136
Total Build Cost based on Completions Data	€12,947,251
Purchase Price per Sq. Metre	€2,500
Site Cost (set at 35% of build cost)	€398
Unit Gross Tax Relief via formula	€1,852
Unit Gross Tax Relief at cost	€1,136
Total Gross Tax Cost at Cost	€15,396,409
Net Tax Cost at 47%	€6,512,681
Net Tax Cost at 12.5%	€192,455
Net Tax Cost	€6,705,136
NPV of Net Tax Forgone	€5,524,627
NPV of Net Tax Forgone Per Square Metre	€485

The net present value of tax forgone is determined by discounting at 5 per cent over 14 years. This gives a net present value of tax forgone of €5.5m, which represents 35.7 per cent of gross relief. On a unit basis, the NPV of tax forgone works out at €484 per square metre.

7.4.4 Tax Forgone on by Development Status

This section presents an analysis of residential and commercial projects by the development status of the projects. As per the Department's database projects are either completed, in progress or still in planning.

Residential Units

Table 7.7 gives the development status of residential units. Of the 440 residential units arising, 157 were delivered, 159 are in progress and the remaining 124 are in planning.

Table 7.7: The Development Status of Residential Living over the Shop Projects and Tax Costs

	OO	Investor	All
NPV of Tax Forgone per Unit	€57,309	€72,078	€68,254
Number of Units by Development Status			
- Completed	41	116	157
- Work in Progress	41	118	159
- In Planning	32	92	124
Total	114	326	440
NPV of Tax Forgone by Development Status			
- Completed	€2,329,725	€8,386,180	€10,715,905
- Work in Progress	€2,359,403	€8,493,010	€10,852,413
- In Planning	€1,840,038	€6,623,479	€8,463,517
Total	€6,529,167	€23,502,669	€30,031,835

The NPV of tax forgone per sub-category of residential unit multiplied by units in each development status grouping gives the NPV of tax forgone by development status. Of the €30.8m of residential tax costs, €10.7m is associated with units which are complete, €10.8m is attributed to those in progress and €8.sm is related to units in planning.

Commercial Space

Table 7.8 repeats the analysis for commercial space.

Table 7.8: The Development Status of Commercial Living over the Shop Projects and Tax Costs

NPV of Tax Forgone per Sq. Metre	€485	
Sq. Metres by Development Status		
- Completed	4057	
- Work in Progress	4206	
- In Planning	3137	
Total	11400	
		Share
NPV of Tax Forgone by Development Status		
- Completed	€1,966,089	35.6%
- Work in Progress	€2,038,296	36.9%
- In Planning	€1,520,242	27.5%
Total	€5,524,627	100.0%

Of the €5.5m of tax costs, 35.6 per cent is associated with completed projects, 36.9 per cent is linked to work in progress and projects still to start account for 27.5 per cent.

7.4.5 Overview of the Tax Costs

In conclusion, the NPV of all tax forgone associated with Scheme up to July 2006 is estimated at €35.5m. With regard to developments completed by end 2004, the tax cost is estimated to be €12.7 m.

Table 7.9: Overview of Present Values of Scheme Tax Foregone

	Residential (€m)	Commercial (€m)	Total (€m)
Predicted Tax Cost to Mid July 2006	30.0	5.5	35.5
Tax Cost Incurred to end 2004	10.7	2.0	12.7

Source : Consultants' estimates

7.5 Scheme Outputs

7.5.1 Introduction

This section of the report presents an analysis of the outputs of the scheme in terms of residential units and other developments. The data presented here relates to completed projects as notified by the Department of the Environment, Heritage and Local Government database.

7.5.2 Developments Under the Scheme

The two primary incentive types under the Living Over the Shop scheme are Residential Investor and Residential Owner-Occupier. A number of projects also involve a third incentive, Associated Retail Development, and some of them overlap all three incentive types.

Since the introduction of the Living Over the Shop scheme in 2001, a total of 36 projects have been completed, accounting for 27.3 per cent of all projects. Table 7.10 below shows the distribution of completed projects by incentive type.

Table 7.10: Number of Completed Projects incorporating each Incentive Type

Incentive Type	No. Projects	Distribution (%)
Residential Investor	30	83.3
Residential Owner-Occupier	6	16.7
Associated Retail Development	22	61.1

Note: Totals do not add up, as some projects are a combination of more than one incentive type.

Over 40 per cent of the projects completed were in the category Residential Investor with associated retail development. A total of 15 projects in this category have been completed. Owner-occupiers account for only 15.7 per cent of completed projects.

Table 7.11: Completed Projects by Project Type

Project Type	No. Projects	As % of All Projects
Residential Investor	11	30.6
Res. Investor with Assoc. Retail Dev.	15	41.7
Res. Owner-Occupier with Assoc. Retail Dev.	2	5.6
Res. Inv. & Res. Owner-Occ. with Assoc. Retail Dev.	4	11.1
Unspecified Res. Type with Assoc. Retail Dev.	1	2.7
Not Stated	3	8.3
Total	**36**	**100.0**

7.5.3 Residential Developments

A total of 155 residential units have been developed under the scheme, of which 24 were existing units which have been refurbished, and 131 are additional units created as part of the development.

The breakdown of residential units by city is shown in Table 7.12 below. As can be seen from this table, the majority of residential developments took place in Dublin, which accounts for 53.6 per cent of the total, while Waterford accounts for only 4.5 per cent.

Table 7.12: Profile of Residential Units by Designated Area

City	No. of Residential Units Created	As % of Total Residential Units
Cork	54	34.8
Dublin	83	53.6
Galway	0	0.0
Limerick	11	7.1
Waterford	7	4.5
Total	**155**	**100.0**

7.5.4 Commercial Developments

Under the LOTS scheme, associated commercial development was allowed where residential development is also being carried out and where the costs of the commercial element do not exceed the costs of the residential element. Most of the commercial development was carried out in Dublin which accounted for 68.6 per cent of the total. Waterford had the lowest level of commercial development, accounting for just 1.1 per cent of the total.

Table 7.13: Profile of Commercial Development by Designated Area

City	No of Projects with Commercial Element	Total scale of commercial development (Sq Mts)	As proportion of total commercial development (%)
Cork	11	1006	25.2
Dublin	10	2740	68.6
Limerick	2	203	5.1
Galway	0	0	0
Waterford	3	45	1.1
Total	**26**	**3994**	**100.0**

7.5.5 Scale of Completed Developments

The scale of development projects under this scheme was relatively small. As Table 7.14 shows, 69.5 per cent of the completed projects are between 100 and 400 square metres in scale with only 13.9 per cent accounted for by large scale projects of 600 square metres or greater. This prevalence of relatively small scale development would be expected given the nature of the scheme which incentivises the development of individual properties.

Table 7.14: Profile of Completed Developments by Scale

Scale (m²)	Residential Development %	Commercial Development %	Entire Project %
0 –100	16.7	36.1	8.3
100 – 200	47.2	27.8	38.9
200 – 400	22.2	2.8	30.6
400 – 600	2.8	2.8	8.3
600 – 800	5.5	0	2.8
800 – 1000	2.8	2.8	2.8
> 1000	2.8	0	8.3
No Assoc. Retail Development	0	22.2	0
Not stated	0	5.5	0
Total	**100.0**	**100.0**	**100.0**

7.5.6 Summary

- The Living Over the Shop scheme has resulted in the development of 155 residential units and 3,994 square metres of commercial development.
- The vast majority of this development has taken place in Dublin, accounting for 53.6 per cent of the residential development and 68.6 per cent of the commercial development.
- Cork City had the next highest level of development with 54 residential units being created, accounting for 34.8 per cent of the total; and 1006 square metres of commercial development which represents 25.2 per cent of the total.
- There has been no development under the scheme in Galway City.

7.6 Impact of the Scheme

7.6.1 Introduction

This section of the report presents an analysis of the impacts, which the Scheme has had on the designated areas. It begins with an assessment of the success of the Scheme.

7.6.2 Evaluation of the Scheme

The findings of the 1996 KPMG report on the Living Over the Shop scheme were that while it had been successful in a small number of areas, it had failed to make a significant impact because refurbishment of existing properties was not as attractive as new build, because of the costs involved. The level of take up of the current scheme suggests that this continues to be the case, for example, in Limerick the take up rate was only 4 per cent with only two of the twelve recorded projects having been completed. The Local Authorities in Cork have had success with the scheme and believe it has delivered value, however there was no take up of the scheme in Galway.

7.6.2.1 Reasons for Lack of Take up

A number of issues have been cited as having hindered the take up of the Scheme:

- The prospect of taking on an extensive refurbishment project may not have appealed to individuals whose primary occupation was in retail;
- The potential for disruption to the retail business for the duration of the development work may have dissuaded shopkeepers from developing their premises;
- Shopkeepers may have to relinquish valuable retail or storage space to allow for access to the residential accommodation;
- There may be security concerns associated with having tenants living above commercial premise;
- A residential unit over a shop may not be attractive to potential tenants given the availability of alternative apartments in purpose built apartment blocks which may offer better facilities. For this reason it is also likely that above-the-shop units would not be attractive to owner-occupiers, leaving the developer dependant on rental income to provide a return on the investment;
- There are sometimes difficulties in marketing the Scheme due to problems in identifying owners as distinct from tenants of properties; and
- As the designated streets for this scheme are in city centre locations, they may not be attractive places to live given the proximity of bars and night-clubs resulting in noise, litter and anti-social behaviour.

7.6.2.2 Economic Impacts

The Scheme has produced 155 residential units and 3,994 squared metres of retail space in the period to end 2004. If all of the latter were additional, it would have given rise to an extra 143 persons employed and an annual gross retail value added of €4.5m annually. However, as a maximum of 30 per cent of the development can be new build, a more reasonable estimate is an extra 43 persons employed and €1.4m in retail value added.

In the construction phase, it is estimated that the Scheme gave rise to 171 man-years of direct employment and direct income tax and PRSI receipts of €2m. However, the impact of the Scheme should primarily be measured by its contribution to fostering a living urban environment. The Scheme has obviously had beneficial impacts of this nature, while making use of existing structures rather than requiring new build.

Case Study 1 – Limerick City

Despite the proactive management and promotion of the LOTS scheme in Limerick, the take up of the scheme was limited. Of the 300 buildings which were eligible for the refurbishment incentives, planning applications were submitted for only 12, or 4 per cent, and only two projects had been completed at the end of 2004.

A number of reasons were put forward of the lack of uptake, including:

- The relative unattractiveness of refurbishment-oriented LOTS projects as against new build projects
- A lack on interest on the part of some property owners
- Unwillingness of traders to cease trading for even limited periods while properties are refurbished
- Excessive valuations put on eligible properties by vendors pushed the overall cost of projects to a level where it was uneconomical for developers to pursue LOTS, taking account of the higher costs associated with refurbishment as opposed to new build
- Legal and insurance difficulties

Financial advisors were important in picking up on the attractiveness of URS to developers and packaging projects for development, however their relative lack of interest in LOTS was perceived as a limiting factor. A report submitted by the Local Authority in Limerick stated that a number of prospective developers had withdrawn from the scheme as a result of advice given to them by their financial advisors.

Those projects that have been progressed under the scheme have had a positive effect on the city and have contributed to urban regeneration on some inner city streets which had been in decline. The LOTS programme has been described as having made a small but useful contribution to promoting sustainability in Limerick City centre.[20]

Case Study 2 - HARP

Under the LOTS scheme, 306 buildings were approved for the scheme in the HARP area of Dublin City. The buildings were approved in clusters to encourage take up of the scheme and a total of 33 developments were planned. These 33 developments involve almost 80 retail units, or between 10 and 15 percent of the potential scheme participants.

Of these 33 projects, only 4 have been completed with a further 26 still in planning, and the remaining 3 being work in progress. Of the 26 projects that are in the planning stage, 14 have been granted planning permission. The estimated total expenditures of these projects, were they all to be completed, is €33.8 million.

[20] Limerick City "Living Over the Shop" Progress Report, December 2004

While take up of LOTS has been relatively good in the HARP area, there have been a number of difficulties with the scheme also. These include:

- The prohibitive costs of developing old, often listed buildings (e.g. Capel Street);
- Long term ownership of non-viable retail units by persons who are unwilling/unable to sell or invest;
- Adjoining owners not willing to participate; and
- Difficulties establishing title to some properties.

The scheme was very well promoted in the area. For instance, two sites owned by the local authority in Capel Street were developed and exhibited to demonstrate what could be achieved. A wide range of other promotions were carried out and Dublin City Council provided a team of people to support potential developers including architects, planners, engineers and financial planners.

The promotion, supported by the access to a team of experts at no cost to the developer, coupled with the enormous potential of the area contributed to the relative success of the scheme in the HARP area.

7.6.3 Value for Money

Three indicators are presented below:

- The tax costs per additional unit/square metre;
- The present value of tax costs per additional unit/square metre;
- The ratio of the present value of tax costs to new build costs.

At €68,254 per housing unit, the cost to the Exchequer is very substantial, the highest of all the area-based incentive schemes. Tax costs account for 35.1 per cent of build costs, comparable with the other incentive schemes examined under this review.

Focusing on commercial space, the discounted tax cost per square metre under LOTS is €485, comparable to the costs arising under Urban Renewal Scheme, but well above Town Renewal Scheme's tax costs per metre of €406. However, at 29.3 per cent the ratio of tax forgone to build costs is lower than for the other schemes.

The tax costs of the Scheme will not be offset to a significant degree by either direct income tax and PRSI payments by the construction industry or developer contributions. Taken together, these amount to approximately 7 per cent of build costs.

Table 7.15: Efficiency Indicators

Item	Value
Tax cost per housing unit (€)	79,472
Present value of tax costs per housing unit (€)	68,254
Ratio of discounted tax cost to residential build costs	35.1
Tax cost per sq. metre of commercial space (€)	588
Present value of a sq. metre of commercial space (€)	485
Ratio of discounted tax cost to commercial build costs	29.3

7.7 Conclusions and Recommendations

7.7.1 Scheme Expenditure

The total expenditure under the scheme for the period April 2001 to December 2004 is €31.2million, of which €27.2 million is expenditure on residential development and €4 million is expenditure on commercial development.

Of the five cities designated under the scheme, Dublin accounts for the highest level of expenditure at €21.1million (68 per cent) of the total, followed by Cork with €7.2 million (23 per cent). Expenditure in Limerick and Waterford accounts for just 7.3 per cent and 1.6 per cent respectively. There was no expenditure recorded for Galway.

By the end of the scheme in July 2006, it is estimated that the total expenditure will be €72.3 million of which €59.6 million will relate to residential development and €12.6 million will relate to commercial development.

The discounted value of the total tax costs to mid 2006 is €35.5m of which €30.0m will relate to residential development and €5.5m to commercial development.

A total of 155 residential units have been created under the LOTS scheme along with 3,994 square metre of commercial development. The majority of this development has taken place in Dublin.

While take up of this scheme has been limited with a total of 132 projects recorded for the five designated cities, the scheme has proved successful in those areas where it has been implemented.

The scheme contributed to urban regeneration through the refurbishment of existing buildings and has provided 155 new residential units.. The refurbishment of retail units under the scheme will result in extra employment for an estimated 43 persons and generate €1.4million in retail value added.

While there have been some factors which contributed to the low take up of the scheme, such as disruption to a business while works are being carried out, the scheme itself has not given rise to any issues. The limited take up of the scheme has meant that there has been no discernible impact on the supply of residential or retail property in the designated areas.

8. Future of the Schemes

8.1 Introduction

This section of the report considers the future of the schemes. This must be set against the backdrop of the overall tax costs to the Exchequer and the first part of the Section provides such an overview. As the capacity of Government to use such schemes depends on their compliance with the European Union's State Aid guidelines, this is followed by a summary of the current situation in that regard. Following this, the case for extension of the expiry date of the current schemes is evaluated. A comparison of the role of tax based incentives compared to other urban regeneration measures is then set out. The final two sub-sections consider appropriate reforms of the schemes and their future targeting.

8.2 Overall Exchequer Cost

Table 8.1 summarises the overall costs to the Exchequer arising from tax forgone. In respect of developments completed up to end 2004, the total Exchequer tax costs of the Schemes is estimated to be €639m. This is anticipated to treble by the end July 2006 expiry date to €1,933m. Almost 74 per cent of the total anticipated cost will arise in respect of the Urban Scheme.

Table 8.1: Total Present Value of Exchequer Costs of the Area-Based Tax Incentive Renewal Schemes

Scheme	Residential (€m)	Commercial (€m)	Total (€m)
Completed Developments			
Rural Renewal Scheme	119	21	139
Urban Renewal Scheme	166	270	436
Town Renewal Scheme	24	27	51
Living over the Shop Scheme	11	2	13
Total	320	320	639
All Developments			
Rural Renewal Scheme	277	48	326
Urban Renewal Scheme	636	787	1,423
Town Renewal Scheme	71	77	148
Living over the Shop Scheme	30	6	36
Total	1,014	918	1,933

Source: Consultants' Estimate
Note: Present values at 5 per cent; apparent errors due to rounding

In interpreting the above figures, it should be noted that the major impact on the Exchequer is yet to come, as even those developments completed by end 2004 will give rise to claims for tax relief for a considerable future period.

8.3 State Aids and the Schemes

8.3.1 Existing Position

The Rural, Urban and Town Renewal Schemes are affected by the European Union's State Aid Rules.

Under Article 87(1) of 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, insofar as it affects trade between Member States, be incompatible with the common market." Tax measures, including the Rural, Urban and Town Renewal Schemes come within the scope of the Article by virtue of the reference to "State resources in any form whatsoever". The commercial and industrial, but not the residential elements of these schemes, are regarded as State Aids. The Living over the Shop Scheme is not regarded as breaching the State Aids provisions as it is viewed as impacting on local services only.

Exemptions from the State Aids rules are permitted under Article 87(3)(a) and Article 87 (3)(c) of the Treaty. These relate to measures that may be compatible with the common market e.g. aid to promote the economic development of areas with low standard of living or serious underemployment (87(3)(a)) or the development of certain economic activities or areas where such aid does not adversely affect trading conditions to an extent contrary to the common interest (87(3)(c)).

Derogations under these Articles are based on a demarcation of eligible regions and the setting of maximum aid levels. Under Article 93(3) of the Treaty, Member States must establish a Regional Aid Map setting out the regions and aid levels and have that map adopted by the Commission, in keeping with the commission's Guidelines on Regional Aid. The current Regional Aid Map was adopted in December 1999 and relates to the period up to the end of 2006.[21] Under the map, Ireland was divided into two NUTS 2 regions – the Border Midlands and Western Region and the Southern and Eastern Region, with the former being coming with Article 87(3)(a) and the latter Article 87(3)(c).

Maximum aid levels for large enterprises must not exceed 40 per cent of the Net Grant Equivalent in relation to regions eligible under Article (87(3)(a)[22], while those under Article (87(3)(c)) must not exceed 20 per cent.

The Regional Aid Map established aid intensity ceilings for Ireland ranging from 40 per cent for the BMW region to17.5 per cent for the Dublin region. Aid to small and medium sized enterprises may be 15 and 10 per cent above these levels respectively.

[21] European Commission SG (99) D/10276. 1999.

[22] Net Grant Equivalent (NGE) is the net after tax value of the state aid, whether it is in the form of a grant, subsidised loan or tax relief.

The Net Grant Equivalent of aid under the Tax Renewal Schemes amounts to a maximum of 11.56 per cent. Thus, the schemes fall below the maximum aid levels set for large enterprises, even in relation to the Dublin region. However, projects, for which the eligible expenditure exceeds €50m are subject to separate notification and maximum aid provisions under the EU's Multisectoral Frameworks on Regional Aid for Large Investment Projects, which was established in 2002.

The State Aids and provisions of the Treaty and the Guidelines for Regional Aid have impacted on the operation of the tax renewal schemes. Adjustments to the schemes, including extension to their termination dates have been subject to EU approval. Additionally. Changes have had to be made to the schemes as originally approved to ensure their compatibility with EU law, for example:

- The exclusion of expenditures in respect of buildings used in a range of industries including the agriculture and transport sectors;
- The exclusion of property developers from availing of the Urban Renewal scheme;
- The provisions in the Finance acts 2001 and 2002 that capital allowances cannot be claimed under the Schemes where any other form of State aid is paid: this was to ensure that State grants and tax reliefs cannot exceed the maximum NGE ceilings;

8.3.2 Future Developments

The European Commission has issued Draft Guidelines on National Regional Aid for 2007-2013.[23] Under these guidelines, it is envisaged that no region of Ireland will qualify for aid under Article (87(3)(a) and the BMW region will qualify for significantly reduced aid levels. It is the intention of the Commission to adopt these Guidelines before end 2005. For Ireland to benefit from the state aid exemptions envisaged a new regional aid map will have to be devised and adopted. The European Commission will not give consideration to any new schemes, until this process is complete.

8.3.3 Implications of the Rural, Urban and Town Renewal Schemes

There are significant implications for the commercial and industrial incentives contained in the Schemes:

- Prolonging the period for which expenditures are eligible under the current schemes beyond July 2006 and into 2007 will bring them under the yet to be agreed regional aid regime for post-2007. This means that it may not be possible to extend the Schemes in respect of commercial and industrial incentives in this manner until the current process of establishing the new regional aid regime is complete.

[23] Draft Guidelines on National Regional Aid for 2007-2013. Commission of the European Communities, C (2005).

- Any new schemes that may be considered to succeed the current schemes or extensions of existing schemes beyond end 2006 will fall under the new regional Guidelines. This is likely to mean that a scheme of commercial and industrial incentives that benefit large firms in the SE region will no longer be possible, although a scheme confined to small and medium sized enterprises may be eligible under block exemption arrangements. [24] Lower maximum aid rates will also apply.

8.4 Expiry of the Current Schemes

In light of concerns about the orderly winding down of the Schemes, the expiry date of the Schemes was extended to end July 2006 from the previous expiry date of end December 2004. With regard to Urban Renewal projects, the extension is only in relation to projects for which 15 per cent of project costs had been incurred by 30th June 2003. With regard to the Town and Rural Renewal schemes, the extension was confined to projects for which a planning application had been lodged by the 31st December 2004.

As was indicated in Section 3 the deadline extension has resulted in a flood of applications under the Rural Renewal Scheme.

A similar increase has not occurred in respect of the Urban Scheme, as the 15 per cent rule means that any late applications would not be eligible. However, there are a significant number of projects, which by virtue of their size or other issues are unlikely to be complete by end July 2006.

With regard to the Town Renewal Scheme, as was demonstrated in Section 5, progress in relation to this Scheme has been slow, and there are large number of projects still going through the planning process.

There are a number of adverse aspects of the current position:

- There will be peaking of building activity, as developers seek to complete their projects to meet the deadline. This will give rise to upward pressure on building costs and prices;

- Some projects may be delayed in the planning process and fail to meet the deadline through no fault of the developer;

- There will be pressure on the planning process to expedite applications, which may lead to poor decision-making;

- Some large projects in urban areas may not commence, with negative impacts on IAP objectives;

- There is a basic unfairness in a situation where applications are received, but sufficient time is not allowed for building.

[24] See: Commission Regulation EC No.70/2001

It has been suggested that to address these problems, projects should retain entitlement to tax relief for the period of validity of their planning permission i.e. five years. This is viewed as excessive as developers may postpone projects in the hope of further capital appreciation. It is considered that an extension to end 2007 would be a suitable compromise, giving a reasonable but not excessive time for completion of projects.

State aid rules, as outlined above, complicate such an extension in relation to industrial and commercial projects. One option would be to extend the deadline in respect of residential project elements only. This is not recommended as, in the case of the Urban and Town Schemes, it might distort the outcomes of the IAPs and Town Renewal Plans. Accordingly, it is recommended that any extension apply to all elements of the Schemes.

The real problem in this regard is that current State aid provisions run to the end of 2006 and an application that relates to the period after that might not be currently entertained by the EU. In light of this, the following procedure is proposed:

- An immediate prior notification to extend the schemes up to end 2006 be lodged; and
- Declaration of an intention to notify a further extension, when the new Regional Aid Map is agreed, provided that map permits such an extension.

8.5 Consideration of Alternative Measures

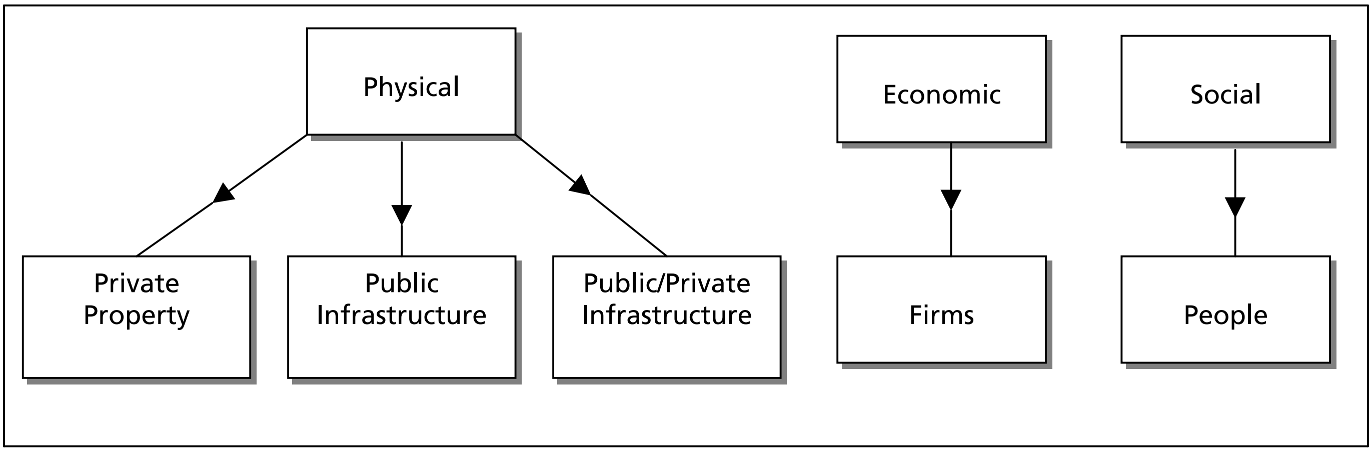
8.5.1 Introduction

The Urban and Town Renewal Schemes are property-focussed fiscal measures aimed at addressing geographically bounded market failures. Consideration of alternatives raises three questions:

- Are there better alternatives to the use of fiscal instruments to encourage private property development?
- Should the emphasis be on development of public rather than private property?
- Are there better alternatives to the focus on property?

Figure 8.1 sets out a typology of urban regeneration mechanisms. This distinguishes between those that are focussed on physical, economic or social development. Within the physical, a distinction is made between those that impact on private and public property.

Figure 8.1: Typology of Urban Regeneration Mechanism



8.5.2 Other Mechanisms for Private Property Development

The alternative to the use of fiscal measures in urban regeneration through private property enhancements is the use of grants. The latter have traditionally been and continue to be the principal policy instrument in use in the UK, its most recent form being the Single Regeneration Budget. This initiative was commenced in 1994 and combined a number of schemes that were then in operation covering a variety of themes that include:

- Enhancing the employment prospects, education and skills of local people;
- Addressing social exclusion, as well as enhancing opportunities for the disadvantaged;
- Promoting sustainable regeneration by improving and protecting the environment and infrastructure including housing;
- Supporting and promoting growth in local communities and businesses; and
- Tackling crime and drug abuse and improving community safety.

The Single Regeneration Budget resources are intended to act as a catalyst for local sustainable regeneration, economic development and industrial competitiveness. Funding is provided for a defined period to local partnerships. There has been an emphasis on tangible outputs, which has resulted in a focus on building development.

However, in contrast, another initiative adopted in the UK - the Enterprise Zone Initiative - included fiscal mechanisms.[25]

There has been significant debate about the relative merits of each approach. This debate has characterised fiscal measures as being administratively simple, flexible, easy for developers to understand and capable of reducing uncertainty, but with the

[25] See: Evaluation of the Enterprise Zone Experiment. Department of the Environment. 1987.

potential for significant dead weight and displacement effects. Grant systems have been identified as administratively cumbersome, opaque, inflexible but with greater capacity for targeting and budgetary control.

In practice, however, there is less difference between the two mechanisms. This is because fiscal approaches have often adopted the so-called 'gateway' approach, in which eligibility for tax incentives has to be established administratively.[26] In these circumstances, developers are likely to be relatively indifferent between the two approaches.

The current Urban and Rural schemes embody aspects of the gateway approach in that the geographic areas are tightly delineated and the types of activity incentivised is tailored to local needs. This creates substantial targeting and some measure of budgetary control. At the same time, the fiscal nature ensures that the scale of incentives offered responds to the scale of development. While a grant-based approach would ensure tighter budgetary control, its administrative nature could create additional uncertainty and thus deter potential investors and purchasers. Accordingly, it is considered that the fiscally based approach is valuable and should
be retained, especially if some of the reforms outlined in Section 8.6 below are implemented.

8.5.3 Mechanisms for Public Property Development

Public property development has traditionally taken place through wholly publicly funded schemes. In recent years, however, a number of alternative means of financing public property development have been used or are in train:

- Increased developer contributions;
- Use of public private partnerships arrangements;
- Establishment of Business Improvement Districts;

The latter arranges for enhancements to local services in return for special voluntary levies on the businesses that will ultimately benefit. As all of these instruments are primarily aimed at improving public rather than private infrastructure, they are essentially complementary to tax incentives for private property development.

Another approach adopted in the USA is Tax Incremental Financing (TIF). This is a programme that allocates future increases in property taxes from designated areas to pay for improved public infrastructure. The absence of rates on residential properties in Ireland would limit the application of such an approach in the Irish context.

Improvements in public property and infrastructure, while vital for urban renewal, can act on only a part of the built environment. In a situation, where the market provides the requisite private property development, the focus of Government

[26] See: The Potential for Fiscal Incentives. ODPM, UK, 2004.

funding should be on public property. However, where market failure occurs, public property enhancements may not be sufficient to stimulate private investment and direct support for the latter is required. In this view, tax-based property initiatives are essentially complementary to public investment in situations where market failure occurs, requiring actions to ensure that both public and private property is enhanced.

8.5.4 Non-Property Related Mechanisms

The third question is whether non-property related interventions would be more successful. Physical mechanisms improve the physical environment and have the advantage of creating a lasting impact on the target area. They are also a means of demonstrating that change is possible and giving hope of enduring renewal. Social mechanisms are largely people-based. They have the advantage of impacting directly on people's well being, although they may have transient effects, because of the possibility of high turnover of population within the target area. Economic mechanisms that support firms to increase employment opportunities raise local incomes, but may be similarly transient and do not impact directly on social problems. Thus, the three approaches may be seen to be somewhat complementary in form. Indeed, there is a widely held view that a holistic approach to regeneration is required, embracing physical, economic and social development.

The Integrated Area Plans, which underpin the Urban Renewal Scheme, include economic, social and environmental objectives. With regard to the social aspects, it was demonstrated in Section 5 that the Scheme achieved only limited success in this area. However, one of the case studies presents an example of very good practice in this regard. As well as seeking to enhance Tallaght town centre, the integrated area plan for that area also included the socially disadvantaged areas of Jobstown, Fettercairn and Killinarden. Along with identifying the needs of the latter area, the IAP also provided for the levying of a community charge on developers, the proceeds of which were to be used in favour of the deprived areas. Additionally, significant efforts were made to ensure that builder developers offered employment opportunities to local people from these areas. These aspects of the IAP were carried through with reasonable success: for example, a total of over €3.5m has been allocated from the Community Infrastructure Fund to social and community development. This indicates that well-managed IAPs can successfully use urban renewal incentives to achieve social, economic as well as physical development objectives. It is recommended that such an integrated approach continue to be a feature of any future urban renewal schemes.

It is also recognised that a similar approach may not be as feasible in respect of Town Renewal schemes, as it is often more difficult to incentivise development and additional levies may hinder such development.

8.5.5 Non Area Based Initiatives

During the course of the study, it was suggested tax incentives should be used to fund local economic and social infrastructure, such as parks, libraries and other community facilities, not necessarily within an area-based approach. While it is not the purpose of this report to give consideration to such proposals, it is clear that they would need to be based on market failure arguments and not simply be a means of reducing the burden on local authority financing.

8.5.6 Conclusions

It is concluded that:

- The tax incentivisation of private property development should continue to have a role in urban regeneration;

- Such incentives are complementary to mechanisms such as PPP and BIDs that are aimed at enhancing public infrastructure; and

- There is scope for tax incentivisation of private property development to take place within a coherent framework aimed at enhancing physical, economic and social development.

8.6 Reform of the Urban and Town Renewal Schemes

8.6.1 Introduction

This Section presents proposals for reform of the Urban and Town Renewal schemes, in the event that similar schemes might be introduced in the future. Reforms to both the Scheme processes and structures are considered.

8.6.2 Reform of the Process

Management Resources

As indicated in the body of the report, the implementation, particularly of some town renewal schemes, was inadequate. In particular, some town schemes were inadequately marketed and insufficient resources devoted to their ongoing management. This was a significant factor in poor take up of the scheme in some instances. It is recommended that, in future, local authorities be required to demonstrate, in advance of areas or towns being admitted to the scheme, that they are committing sufficient resources to its management.

The Urban and Town Renewal Schemes took place within the context of Integrated Area and Town Renewal plans. Guidelines for the monitoring and progress reporting of these plans were set by the DOEHLG. However, monitoring reports were often of poor quality and delivered late or not at all. If adequate resources are committed by local authorities, then this problem should be overcome.

It is noteworthy, too, that no structures were put in place whereby local authorities could share experiences in implementing and managing schemes. It is recommended that any future schemes incorporate such structures to be managed by the DOEHLG. This would also aid the ongoing monitoring processes.

Scale of Designations

In this context also, it is clear that in the case of the Town Renewal Scheme the large number of towns that were designated meant that some towns were included where development prospects were so poor that tax incentivisation was insufficient to encourage development. As the purpose of the Scheme is to address market failure at *specific sites* in towns, one criterion for inclusion in the Scheme would be that the town in question is undergoing significant development generally, but that problem sites are being neglected.

Scheme Control

It is a matter of concern that prospective beneficiaries, particularly under the residential elements of the Schemes, may not have been fully informed as to the conditions under which tax relief may be granted. For example, it came to notice, during the review of the Rural Renewal Scheme, that auctioneers and estate agents, in advertising the Schemes did not specify the eligibility conditions viz. that either owner-occupation or letting on a continuous basis was required. It was also put to us by local officials that those advising purchasers, such as solicitors and accountants, were not always au fait with the provisions of the schemes. This leaves scope for those claiming tax relief to misuse the Scheme, either out of ignorance or by design e.g. by using the property as a holiday home. It is recommended that in future, the local authorities should issue a certificate in respect of each *unit* of property made available for sale under the Schemes. This certificate would identify the unit in question and would stipulate the conditions under which a tax relief is granted. It would be passed on to subsequent purchasers of the property, should it change hands. Presentation of this certificate to the Revenue Commissioners would be a condition of obtaining tax relief. It would also facilitate the latter in controlling abuse of the Schemes.

8.6.3 Reform of Scheme Structures

Duration of the Schemes

Originally, the Schemes were established for a duration of three years. In general terms, this is too short a period in which to arrange for site assembly, design the development and bring a development through the planning process. There is a danger that schemes of short duration increase the likelihood of dead weight, as those schemes already being planned are more likely to proceed and or have a larger proportion of their expenditure eligible for tax relief. Accordingly, it is recommended that any future schemes should operate for a minimum of five years.

Site Designation

In a minority of cases, the reason developments did not progress was that sites were not serviced. Site designation should be contingent on the existence of adequate services or the real prospect that such services will be in place in the first half of the scheme's duration.

Investor and Owner-Occupier Mix

There are a number of features of the schemes that need to be changed. The Urban and Town Renewal schemes have resulted in an inordinate focus on investor rather than owner-occupied purchase. Transient occupation of rental properties has also been a feature, raising fears of future degradation of the buildings. The dominance of rental occupation can, on occasion, reduce the spin-off impacts of these properties on the local economy and run counter to policies for socially integrated housing provision. Future schemes should incorporate a more balance allocation of housing units between owner-occupation and letting, consistent with local area needs. Two options for achieving this present themselves:

- The Section 23 type reliefs for investors are inherently more generous than those for owner-occupiers. If the reliefs available for the two types of occupancy were rebalanced, then there would be greater impetus towards owner-occupation would increase. This could be achieved by granting 100 per cent relief to owner-occupiers over ten years and restricting the investor relief to 50 per cent.

- Another approach would be to stipulate an owner occupation/investor mix for residential units under the scheme, dictated by local conditions. The certification process, which is set out above, would facilitate this in that individual residential units could be designated as either for owner occupation or letting.

The first approach is unlikely to work on its own, as investors tend to have greater resources than owner-occupiers and may still dominate demand for tax incentivised housing. It is recommended that a combination of the to approaches be adopted viz. stipulation of a minimum owner occupation/investor mix, together with a rebalancing of the relative incentives.

Distribution of Tax Benefits

An uneven distribution of tax benefits is evident also because the Urban and Town schemes have resulted in high levels of investor purchase of residential units. This and other aspects of the schemes have raised concerns that the tax benefits are accruing to a relatively small group of people. Equity considerations support a wider distribution of participation in the schemes. This would be partly achieved by changing the owner occupation/investor mix as suggested above.

Scale of Incentives

Finally, there is a need to consider whether the scale of incentives offered under the schemes continues to be appropriate. For individual participants in the schemes, relief will normally obtained against income taxed at the higher 42 per cent rate. Given that there is currently no shortage of capital and continued and more dispersed growth in economic activity, a lower level of relief would not seriously impair the flow of funds into the schemes.

There are a number of options for reforming the way in which reliefs are calculated so as to reduce the costs to the Exchequer. These are:

- Standard rating the reliefs;

- Reducing allowable expenditure to a proportion of that incurred;

- Calculating gross tax relief based on build costs alone;

- Parity of treatment between investors and owner occupiers; and

- Capping gross relief in exchequer cost terms.

Standard Rating the Reliefs

Under this option the gross tax relief is taken at the standard rate and not the higher marginal rate. This has the following advantages:

- It introduces parity between tax payers;
- It would apply to all types of developments and Scheme participants;
- It is in keeping with current policies in respect of tax allowances.

Reducing allowable Expenditure to a Proportion of that Incurred

- It is administratively very simple;
- It would apply to all types of developments and Scheme participants;
- It is flexible in that the proportion of allowable expenditure could be determined in light of economic conditions prevailing at the time of the introduction of the Scheme

Calculating Gross Tax Relief Based on Build Costs Alone

The suggestion here is that gross costs are limited to build costs and the formula for working out gross relief no longer applies. This would apply only to residential properties. The positives are:

- A lower administrative burden;
- Reduced administrative complexity;
- Greater parity between vendors;
- Provides incentives to purchasers to resist house price increases

Parity of Treatment between Investors and Owner Occupiers

Given that the residential outputs of the Urban Scheme were weighted in favour of investors it could be argued that the limiting of reliefs to owner-occupiers who bought new builds to half the gross relief available to investors skewed the purchaser profile. This could be accomplished by reducing the relief available to investors, which would reduce Exchequer costs.

This would apply only to residential developments and would run counter to the proposal outlined above viz. that of raising the level of relief to owner-occupiers.

Capping Gross Relief in Exchequer Cost Terms

The suggestion would be that the gross relief is fixed in cash terms, perhaps on an area by area basis with areas of greater need benefiting from a higher cap and therefore attracting more tax relief. The upside of this suggestion is that the tax costs are limited and known with relative certainty.

However, this suggestion has a too many negatives, such as:

- It could be hard to administer;
- It could lead to a fragmentation of projects to keep costs below the cap; and
- It may require specific legislation, which is likely to be complex.

The capping option has too many problems and is not recommended.

In considering the other options, the preference is for changes that are flexible and simple to administer, apply to all types of development, would not distort investor decision-making as between residential and commercial/industrial developments, and would not unduly deter investor interest. It is considered that reducing allowable expenditure to a proportion of that incurred represents the best option in this regard.

As it is also proposed to restrict the investor relief to 50 per cent in respect of residential developments for the purposes of achieving a better tenancy mix, the reduction in allowable expenditure should be relatively modest, so as not to deter investor interest excessively.

8.7 Future Use of Area-based Tax Incentive Schemes

As indicated above, existing schemes should be allowed an extended termination date of end 2007.

In respect of the post 2007 period, it is recommended that:

- The Rural Renewal Scheme should not be renewed or extended to other areas of the country; and
- The option of using tax incentivisation as a tool of urban renewal be retained and appropriate schemes be considered in the light of economic conditions then prevailing.

With regard to the latter, given the scale of activity that has taken place under the existing Schemes, and given the strength of the economy, the need for urban regeneration based on market failures is likely to be much diminished.

As a result, it is recommended that any such schemes be targeted on a small number of town and urban black spots. In order to align the Schemes with economic and social objectives, priority should be given to urban areas identified as Gateways and Hubs in the National Spatial Strategy and to towns and cities that host RAPID areas.

There is also a need to ensure that future schemes lead to improved impacts, particularly on urban design. This would be encouraged through increasing the competitive nature of the schemes, by reducing the number of areas to benefit and granting scheme status to those that produce the best plans, that incorporate key objectives set for urban renewal, such as improvements to urban design. Greater competition could be introduced by signalling in advance a maximum number of areas/towns that would receive designation, and basing access to the Scheme on the basis of the best supported proposals that are made.

9. Conclusions and Recommendations

9.1 Conclusions

Cost to the Exchequer

It is estimated that the area-based tax incentive Schemes will cost the Exchequer €639 m in tax forgone in present value terms in respect of developments undertaken to end of 2004.

By the end of July 2006, when the Schemes are due to expire, it is predicted that the costs to the Exchequer will have risen to €1,933m. Almost 74 per cent of these anticipated costs will arise in respect of the Urban Renewal Scheme.

The major impact on the Exchequer is yet to come, as even those developments completed by end 2004 will give rise to claims for tax relief for a considerable future period.

These tax costs are high relative to the outputs achieved. For example, the present value of tax costs represent up to 43 per cent of the building cost associated with developments undertaken as part of the Schemes.

The Rural Renewal Scheme

Th Rural Renewal Scheme has delivered a modest increase in housing output and has improved the quality of the housing stock in the participating areas. Overall, it has had relatively little impact on industrial and commercial development and thus directly on economic activity. However, it has helped vitalise the towns of Longford and Leitrim, through both residential and commercial developments.

With regard to the housing output under the Scheme, it is evident that there is substantial dead-weight and a significant proportion of the output would have occurred in any event. A key objective of the Scheme was to support a reversal of the population decline in the participating areas. There is evidence that much of the housing output has been taken up by existing residents, further increasing the dead weight associated with the Scheme. As a result, the Scheme has not represented value for money. This has been exacerbated by the tendency, on the part of a significant minority of participants to build relatively large houses.

It is now evident that the very substantial increase in housing output has now resulted in excess supply and that house prices are softening and rents have declined.

A positive feature of the Scheme has been the large number of participants, and thus a reasonably widespread distribution of the tax benefits. However, the Scheme, in common with the other area based incentive, has fundamentally adverse equity impacts.

The Urban Renewal Scheme

The Urban Renewal Scheme has been successfully implemented, and it is anticipated that by mid July 2006 a very high proportion of developments earmarked for the designated sites will have been completed. The structures put in place, including the Integrated Area Plans, have been vital in matching development to local needs and priorities. Areas where resources were applied to managing and marketing the Scheme were particularly successful.

The Scheme has had very positive impacts on dereliction and has been reasonably successful in improving urban design. With regard to economic impacts, the Scheme has enhanced housing outputs in the target areas. This housing has been taken up and there is no evidence of excess supply. Moreover, the Scheme had a strong emphasis on commercial development and has delivered significant benefits in this area.

The Scheme has been less successful in delivering social and community benefits, as significant funding for initiatives in this area was not raised. Because of the heavy involvement of residential investors in the Scheme and the increased supply of rental properties, concerns have arisen that there have been negative impacts on social integration. This has arisen because rental properties have often attracted a transient population, with excessive dependency on occupation by social welfare recipients.

While dead-weight continues to be an aspect of all such schemes, there is evidence that the Urban Scheme kick started developments in a number of areas, and was crucial in focusing developments on inner city locations, that developers might normally have eschewed.

While the Scheme has proved extremely valuable, its very success, together with the strength of the economy and the increase in private capital, has reduced the need for it going forward. Dead weight is now relatively high at the level of the individual project.

The tax benefits of the Scheme have accrued to relatively few higher income individuals. There has also been significant inflation of property prices as a result of the tax incentives and this has benefited a small number of landowners and developers. Thus, the Scheme has had strong negative income distributional effects, although this is to some extent inevitable when only a small number of sites are tax designated.

The Town Renewal Scheme

The Town Renewal Scheme has been less successfully implemented than the Urban Renewal scheme. A large number of developments at designated sites remain to be commenced. In a significant proportion of towns only a minority of developments have been completed by end of 2004. That said, some towns have benefited enormously from the Scheme.

Where progress has been poor, this is largely a result of lack of interest on the part of developers and site owners. To some extent this lack of interest reflected a level of risk of investment in relatively small towns, which the tax incentives were insufficient to offset. It was also the result of the fact that in many towns the designations provided largely for refurbishment of existing commercial property and this proved less attractive to developers than new build.

There is some evidence that the Town Renewal Scheme was not as well managed as the Urban Scheme. Local authority resources were often spread too thinly across a number of towns. Either the allocation of greater managerial resources or a limit on the number of towns included in the Scheme would have produced better outcomes.

The impact of the Scheme has thus been relatively patchy. Where the Scheme was successfully implemented the impacts would have been on a par with those of the Urban schemes. This was not the case for a significant minority of towns.

Where successfully implemented, given its emphasis on refurbishment, the Scheme had a strong impact on dereliction. Urban design issues featured less strongly than for the Urban Scheme, as did conservation. Because of the relatively low level of new build, economic impacts have not been to the fore. Community and social impacts were not really a feature of the Scheme, and there would not have been any real prospect of raising levies to fund initiatives in this area.

It must be recognised that there was substantial cross over in terms of scale between areas designated under the Urban and Town Schemes. Larger towns in the Town scheme that had a relatively high level of designation for new build tended to derive similar economic benefits as did their counterparts in the Urban Scheme.

With regard to dead weight, it would appear that this was lower for the Urban, as the higher risks in towns with lower populations made the tax incentives more crucial in the decision to develop a site.

Living over the Shop Scheme

The Living over the Shop Scheme, as with its predecessors, suffered from low levels of take up. This is a problem that is unlikely to be overcome, as the disruption to retail activities and the loss of storage space act as a deterrent to shopkeepers. Additionally, over the shop residences may not be very attractive to prospective tenants. Because of low take-up, the impacts of the Scheme on the urban environment has been limited. However, the Scheme has been more successful in some urban areas than others. The key factor appears to have been the application of resources to managing and marketing the Scheme.

9.2 Recommendations

It is recommended, subject to compliance with EU State Aids policies, that the expiry date for the current Schemes be extended to end 2007. This would solely be to facilitate the completion of developments that have been granted planning permission under the scheme, but where work has yet to commence.

Thereafter, the Rural Renewal Scheme should not be continued. It is not regarded as cost-effective approach to the problems of rural decline, and is not a model that should be employed elsewhere in the country.

As the Living over the Shop Scheme has a narrow focus on fostering a living urban environment, it should be retained, despite the difficulties with take-up. It is recommended that the tax incentives be made available contingent on a commitment of resources by local authorities to managing the process.

With regard to the Urban and Town Renewal Schemes, the scale of economic activity and the availability of capital have reduced the need for such Schemes. That said, it is recommended that Government retain tax incentivisation as a tool of policy, should economic conditions require further action to regenerate urban areas.

If Government chooses to reintroduce area based tax incentivisation in the post 2007 period, then it is recommended that changes to the structure of the schemes be implemented to reduce the cost to the Exchequer and their inequitable effects.

These changes include:

- Targeting the schemes in areas or towns for which there is evidence of development activity, but where problem sites, such as old dock lands and industrial sites, are being neglected;
- Giving priority to urban areas identified as Gateways and Hubs in the National Spatial Strategy and to towns and cities that host RAPID areas;
- Ensuring that adequate resources are applied to the management of the Schemes;
- Incorporating structures to share experience and promote good practice
- Introducing measures to control abuse of the Schemes;
- Ensuring that designated sites have a prospect of being serviced;
- Establishing the Scheme for a sufficient duration to allow developers to respond;
- Increasing the level of owner-occupation in the housing output mix;
- In order to incentivise the latter, granting 100 per cent relief to owner- occupiers over ten years and restricting the investor relief to 50 per cent; and
- Improving the equity and cost effectiveness of the Schemes by allowing the relief in relation to a proportion of expenditure only.

Appendix 1: Incidence of Tax Benefits

While the tax relief is paid to owner-occupiers or investors purchasing properties, all the benefits of the relief may not accrue to them. This is partly because builder/developers may have to raise property prices in order to obtain the resources to increase supply. The responsiveness of the supply of properties to price (the price elasticity of supply) encapsulates this effect. The responsiveness of supply is in turn determined by two factors:

Figure 1 encapsulates the situation, which may be taken as an illustration of the demand for and supply of housing in a particular location, such as a townland or urban area. In Figure 1A, the supply of properties is depicted by the curve SS1. Supply is relatively inelastic, so that substantial price increases are required to elicit modest supply changes. In this situation, when the demand for housing shifts (from D0D0 to D1D1) because of the availability of tax reliefs, prices rise sharply, and relatively few houses are built. Figure 1B depicts the opposite situation. Here small changes in price elicit substantial increases in supply, so that the rise in price is small in face of rising demand, and a larger number of houses are built. In Figure 1A, the bulk of the benefit of tax designation is garnered by the building industry in the form of rising prices, while in Figure 1B, purchasers of property gain.
The elasticity of supply is determined by:

- The availability of tax designated sites; and
- The extent to which there are unused or underused building resources (e.g. labour) that can be readily put to use to provide the increased supply.

If there are few tax-designated sites, then supply is relatively fixed, and the pressure of demand for these few sites will raise their price and thus the price of the property. While relatively few sites were designated under the Urban and Town Renewal Schemes, this was not true of the Rural Scheme. The whole of the counties of Leitrim and Longford and significant parts of Cavan, Roscommon and Sligo were designated. Therefore, site availability would not have been a factor in inhibiting supply.

The incidence of the Scheme benefits is determined not only by supply side conditions, but also by demand side. If demand is very sensitive to price, then the capacity of builder/developers to raise prices is limited, as potential purchasers will be deterred by the price increases. Again, the fact that in the Rural Renewal Scheme large areas were tax designated would have tended to increase the price elasticity of demand. Purchasers seeking properties in a particular townland or urban area would have a choice of locations, both within and without that area. This is illustrated by Figures 1A and 1B. In Figure 1A, the shape of the demand curve indicates that as prices rise, few purchasers will be deterred, while in Figure 1B, a small increase in price elicits a reduction in demand. The opposite would be true of the Urban and Town Schemes, where tax designated sites in any location would be few in number, increasing the insensitivity of demand to prices

The conclusion is that very different impacts on property prices may be expected from the Urban and Town Renewal Schemes on the one hand the and Rural Renewal Scheme on the other.

Over and Under Supply

New house building under the Schemes comprised both construction for owner-occupation by the site owner and speculative house building. When speculative house building takes place, speculative builders base their decisions as to the levels of output to provide on the demand they anticipate may arise in the future. If they get this decision wrong, then they provide too little or too much housing output, leading to either a softening or hardening of house prices. For example, figure 2A illustrates the situation where speculative builders believe that as a result of the tax reliefs available, the demand for housing will shift to D2D2, and they supply output of OQ2. In fact, only demand at the level of D1D1 arises, and housing output is excessive, so that the price falls from P0 to P2. Figure 2B illustrates the reverse situation, in which speculative builders underestimate the true level of demand and under supply the market, giving rise to price rises. Thus, it may be seen that the incidence of benefits under the scheme also depends on the behaviour of speculative builders in anticipating the market. Professional builders would have a wealth of experience in judging the market and therefore may avoid oversupplying the market. On the other hand private site owners developing houses would not have this experience and could contribute to oversupply in the market. Such private development was a feature of the Rural Renewal scheme but not the Urban or Town.

Figure 1A Inelastic Supply

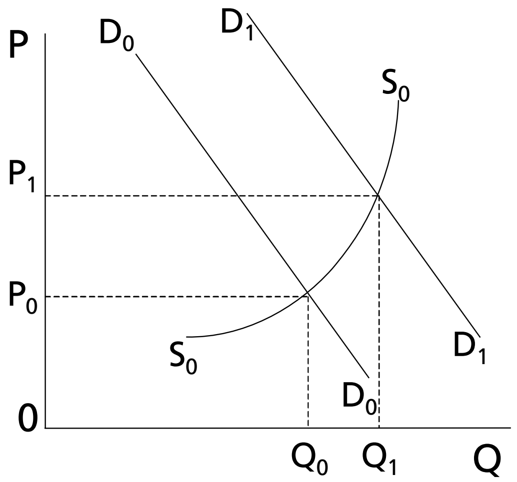


Figure 1B Elastic Supply

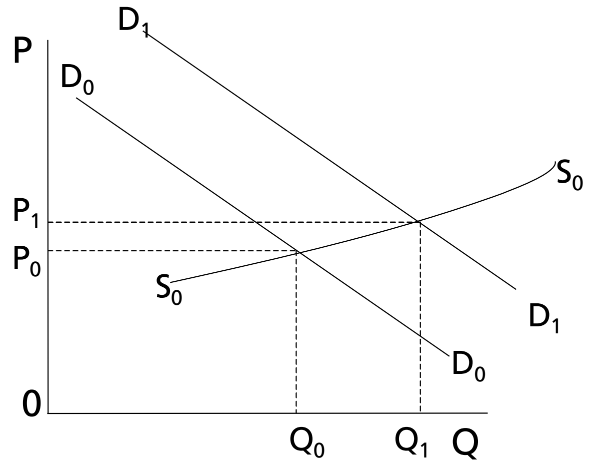


Figure 2A Excess Supply

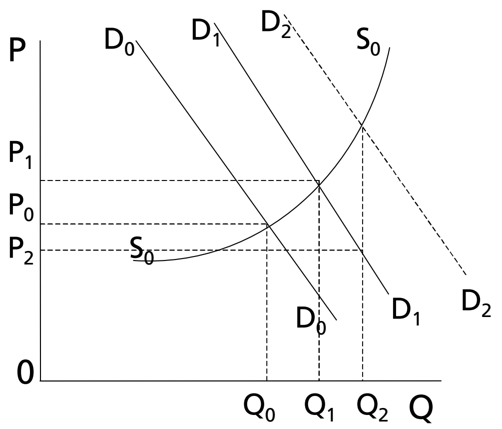
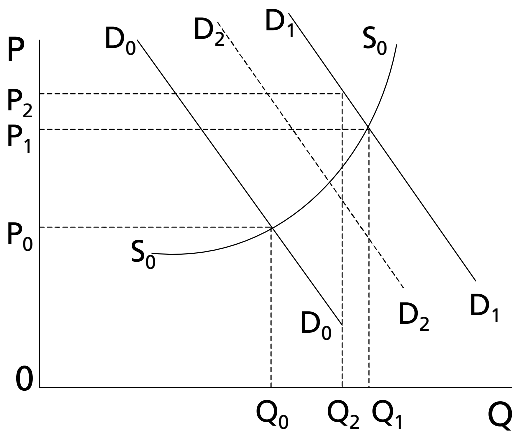


Figure 2B Insufficient Supply



Appendix 2: Methodology for Estimating Expenditure under the Rural Renewal Scheme

Introduction

The methodology employed consisted of a separate estimation of residential and commercial/industrial spending under the Scheme.

Estimating Residential Expenditure

Under the RRS, house owners and developers were required to obtain either a Certificate of Compliance or a Certificate of Reasonable Cost from the Building Grants Section of Department of the Environment and Local Government in Ballina.

A Certificate of Compliance is required where a newly constructed, refurbished or converted house is purchased from a builder. This certifies that the house complies with Department of the Environment construction standards, is within the specified floor space allowed under the scheme and, in the case of refurbishment, that the work was necessary to ensure the suitability of the house as a dwelling. A Certificate of Compliance is usually sought when the property is put up for sale. The Certificate of Compliance does not contain information on the price of the property or the cost of building.

A Certificate of Reasonable Cost is required where:

- A newly built house/flat is to be lived in or let by the person who built it, or had it built, or

- A refurbished or converted house/flat is lived in or let by the person who had it refurbished or converted.

Certificates of Reasonable Cost are generally issued to individuals building on their own site. The costs of the building are confirmed by a quantity surveyor. The certificate is issued following an inspection of the property in question. 4383 Certificates of Compliance and 961 Certificates of Reasonable Cost have been issued for developments under the Rural Renewal Scheme between 1999 and June 2005.

Sampling of Housing Certificates

While the Department was in a position to provide data on the number of certificates issued, no more detailed analysis was available. As a result, the consultants undertook a sample survey of Departmental files containing the certificates.

A stratified quota-based sampling frame was established of the certificate files maintained by the Department. The population of certificates was stratified by year and county, and a number of sample files was drawn for each year and county. A total sample of 300 files were surveyed, divided roughly equally between Certificates of Compliance and Certificates of Reasonable Cost.

The information collected from the sampled files was as follows:

- Address of the property;
- Type of build (New Construction/Conversion/Refurbishment);
- End use (Owner Occupied/ Rented);
- Floor Area of development;
- Whether the applicant is purchasing the property or having it built
- Number of units of accommodation being provided; and
- Estimated cost of development (Certs. of Reasonable Costs only)

Deriving an Estimate of Housing Expenditure

As noted above, the Certificate of Compliance does not contain data on the price or building costs associated with developments. It was thus necessary to derive a methodology for imputing such costs. The approach adopted was to use the data provided by the Certificates of Reasonable Cost to establish the relationship between cost of developments and their floor area as measured in square metres. As the square metres of Certificate of Compliance developments was known, their costs could be estimated.

A regression analysis was undertaken which related building costs to square metres for the Certificates of Reasonable Costs, with the following results:

Building cost = -23,866 + 823.9 Floor Area

This relationship fitted the data reasonably well and was judged to be a sound basis for cost estimation. However, it was also recognised that because developments under the Certificates of Compliance were purchased from a builder, there was a need to inflate the estimates to include the builder's margin. The latter was estimated from CSO statistics at 14 per cent of turnover.

Table A2.1 sets out the results. It shows that the average cost per housing unit developed under the Scheme was €94,499 for Certificates of Reasonable Cost and €86,978 for Certificates of Compliance.

Table A2.1: Average Cost per Housing Unit

Type of Certificate	Average Cost per Unit €
Certs of Compliance	86,978
Certs of Reasonable Cost	94,499

Source: Goodbody Economic Consultants Survey

These estimates were then applied to the total number of housing units developed under the Scheme (4535) to arrive at an estimate of total housing expenditure in the period 1999-2004. The total number of housing units was estimated by adding the number of certificates of compliance (each of which relates to one housing unit) to the number of certificates of reasonable cost multiplied by the number of units per certificate (1.05 per certificate).

Estimating Commercial and Industrial Expenditure

The approach used to estimate residential expenditure was not available in respect of commercial and industrial expenditure, as a similar certification process was not involved. The approach adopted had two stages:

- Estimation of the number of commercial/industrial developments under the Scheme; and

- Application of an average expenditure per development.

In order to establish the number of commercial/industrial developments that might have benefited under the Scheme, the number of commercial/industrial developments and residential developments in the Scheme area for which planning permission was sought was first estimated, and the ratio of commercial/industrial to residential developments was established. It was then assumed that commercial/industrial developments would benefit from the Scheme in the ratio of the planning permissions sought. As the number of residential developments benefiting from the Scheme was known, the number of commercial developments could be inferred.

Based on these data, it was estimated based on an analysis of planning applications in Cavan and Sligo that commercial and industrial developments typically accounted for 6.5 per cent of total developments, or 7 per cent of the level of residential developments. It was estimated on this basis that 122 commercial/industrial developments benefited from the Scheme in the period 1999-2004. These developments were further broken down by type of build.

This was done on the basis of the survey of planning applications conducted in Sligo. The results are presented in Table A2.2, which indicates that 71 (58.2 per cent) of the 122 developments were new build only, 10 (8.2 per cent) were refurbishment/conversion only and 41 (33.6 per cent) were mixed new build and refurbishment/conversion.

Table A.2.2: Number of Commercial/Industrial Developments by Type of Build

Type of Build	Number of Developments	Proportion (%)
New Build Only	71	58.2
Refurbishment or Conversion Only	10	8.2
Combination of New Build and Refurbishment/Conversion	41	33.6
Total	122	100.0

Source: Goodbody Economic Consultants Estimate

Having estimated the number of commercial developments under the Scheme, the next step was to apply an average expenditure per development. There were no directly relevant data on the average expenditure per development. However, such data were available from the Town Renewal Scheme as set out in Table A2.3 below. This indicates a typical spend of €297,000 per development.

Table A2.3: Assumed Average Expenditure per Commercial/Industrial Development

Type of Build	Average Cost per Development €000
New Build Only	476.5
Refurbishment or Conversion Only	159.5
Combination of New Build and Refurbishment/Conversion	463.0
All	296.6

Source: Estimated from DOEHLG Town Renewal Scheme database

Appendix 3: Estimating Gross Costs and Tax Costs

Introduction

This section details how the URS and TRS's gross costs are broken down into the various types of qualifying categories of reliefs. It then goes on to explain how estimates of tax forgone are arrived at. The source databases from DOEHLG are similar for both schemes which allows the same steps to be followed.

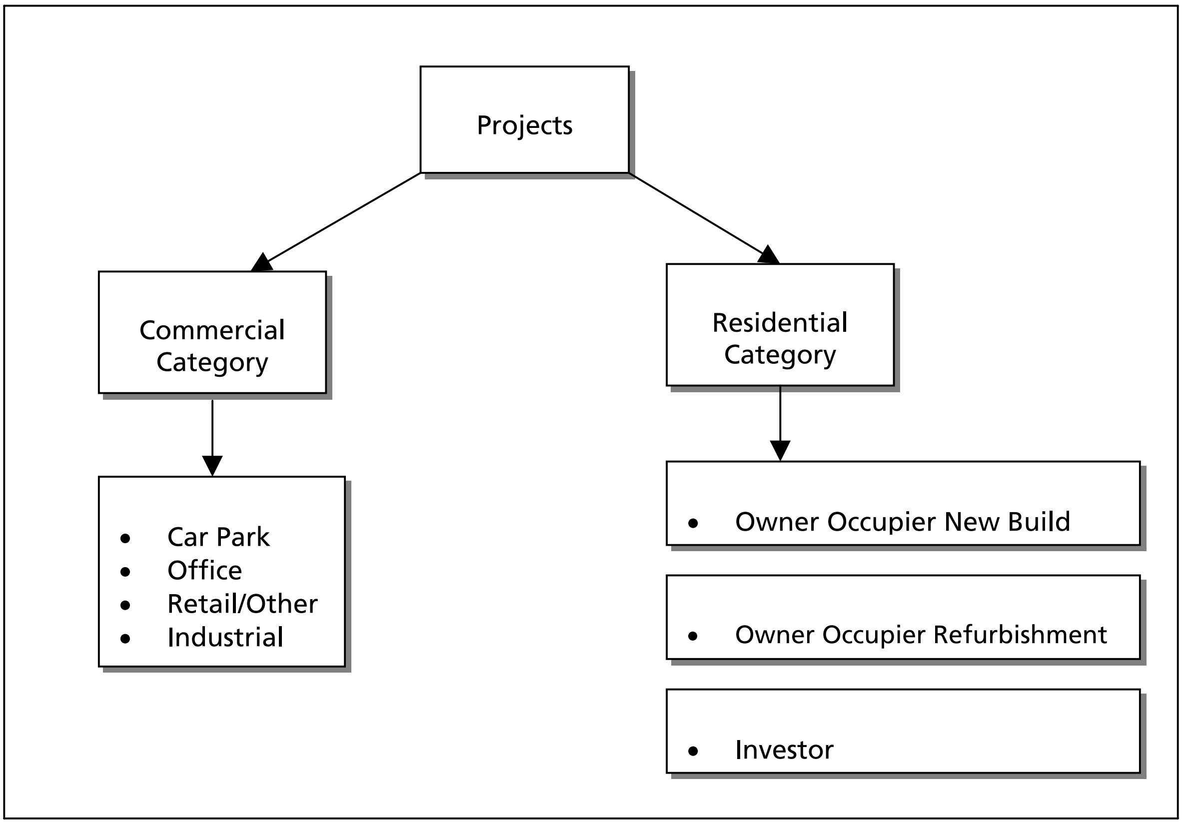
Given that there was no comparable DOEHLG database for the RRS scheme the relevant costs data was sourced from sampling planning applications in the relevant areas and costs were not estimated as described in this section (see Appendix 2 for more details). However, tax forgone was calculated as described in this section.

Estimating Gross Costs, Residential Unit and Commercial Square Metres

In order to (a) break down the gross build costs and (b) allocate build costs across the various types of qualifying expenditure the following steps were taken.

Step 1: The Classification System

The classification system used mirrored that used by the DOEHLG, as shown below.



The source data from DOEHLG noted projects as follows:

- 100 per cent commercial;
- 100 per cent residential; and
- or mixed use as indicated by the percentage mix between commercial and residential use.

This database, in most cases, also give further details on the sub-categorisation of projects breaking them into:

- Commercial car parks;
- Commercial office;
- Commercial retail/other;
- Industrial;
- Residential owner occupier refurbished;
- Residential owner occupier new build;
- Residential investor refurbishment; and
- Residential investor new build.

This classification information was used in disaggregating build costs into the various categories of qualifying reliefs.

Please note that residential output counted in actual units where as the commercial output is measured in floor space as this is how the market tends to value these outputs.

Step 2: Exclusions

For each project, the gross build cost was first taken from the Department's database and we then took account of exclusions which could arise for four reasons, each impacting on the project and its build costs in different ways:

- General Exclusions arising when a project did not take place and will not take place. In this case the project's build costs is excluded from further analysis;
- Timing Exclusions arising when only a portion of a project will take place within the scheme's qualifying timeframe. In this case the relevant exclusion value is taken from the project's total build cost and all subsequent disaggregated figures relating to that project are adjusted proportionately;

- Commercial/Residential Exclusions arising when either a commercial or a Commercial/Residential Exclusions arising when either a commercial or a residential element of a mixed use project is excluded as the site on which that project took place only qualifies for relief for one type of use (not both). In this case only the excluded component's costs are affected, with the cost of the eligible component unadjusted; and

- Other Exclusion arising when a particular commercial or residential sub-categorisation of use is ineligible for tax relief, in which case only the affected cost is excluded and the remaining costs are unaffected as they still qualify for relief.

Allowing for exclusions gives a net qualifying cost for each project.

When the as costs were adjusted for exclusions the relative number of so was the number of residential units and the commercial floor space were also amended.

By way of explanation, information on exclusions was sourced from individual local authorities either by the DOEHLG or by the Review team with an emphasis placed on areas with a lot of activity under the schemes and also on large projects in other areas. For example, for all URS projects in planning with a build costs over €5m the relevant local authority was contacted for further details. This process was assisted by an analysis of all projects against the relevant statutory instrument giving effect to the renewal schemes to highlights those with sub-components in conflict with the relevant designation.

Step 3: Allocating Net Costs, Residential Units and Commercial Floor Space Across Sub-Categories

For each scheme, the total expenditure on residential developments was arrived at by multiplying each project's net build cost by the stated percentage of that project given over to residential purposes. The process was repeated, for each individual project, to establish the total expenditure on commercial developments.

Gaps or missing data for projects in the TRS and URS databases were addressed as follows:

- For projects with missing data on build cost but with indicative information on the project's floor space a build costs was established by multiplying the square metreage by the average costs per square metre for projects in that town. This adjustment mainly arose on the TRS scheme;

- For projects with missing data on floor space but with cost information, the square metreage was established by dividing build costs by the average cost per square metre for that town. Again, this adjustment mainly arose on the TRS scheme; and

- Where a project's percentage mix between commercial and residential use was not provided the average mix for that town was applied. This adjustment affected both schemes.

Then, for both TRS and URS all qualifying expenditure falling under the commercial heading was put into one group as the available tax reliefs are homogenous across building uses and ownership types.

The same project-by-project process was followed in determining total residential build costs. However, a further sub-categorisation was needed as the tax reliefs differ depending on the type of ownership and whether or not the qualifying expenditure relates to refurbishment or new builds. For example, owner-occupiers of new build residential units are entitled to 50 per cent relief whereas investors get 100 per cent relief. In the case of residential refurbishments both owner-occupiers and investors are entitled to 100 per cent relief but over differing time periods. The calculation of reliefs or tax forgone is explained in S.

For each individual project residential build costs were disaggregated in to sub-headings by dividing the total residential expenditure by the sub-categorisation of uses indicated in the databases for that project. For example, if the data indicated that a project's residential elements related to owner occupier new build and owner occupier refurbishment then total residential expenditure was divided in two and so on.

In a few limited cases projects did not have information on use within the residential heading. When this problem arose it was addressed in one of two ways:

- When the affected expenditure was €100,000 or less it was assumed to related to owner occupier refurbishments; and
- When the affected expenditure was greater than €100,000 it was placed in a balancing column and then reallocating across the residential sub-categorises based on the use pattern for the town/urban areas in which the project was located.

Lastly, owning to differing interpretations of the term car park by local authorities the Steering Group directed that the each project's expenditure on car parks be reallocated across the residential and commercial headings based on the stated use mix. It appears that some local authorities misclassified non-commercial car parks attached to residential developments as commercial car parks and this adjustment attempted to correct for this.

Residential and commercial outputs were disaggregated in the same was as costs.

Step 4: Differentiating by Projects' Development Status

Once expenditure was apportioned over the different types the next stage was to sort the projects into those classified as:

- Completed
- Work-in-progress
- In planning.

This was done to enable the Review team to clarify the costs associated with completed projects as against those in progress and those in planning. The case studies highlighted that the build costs indicated in the database may be an overestimated of the actual build costs as applicants incorrectly in included sites and other non-build costs in with build costs either in error or, in the case of the URS, to ensure that the complied with the condition that 15 per cent of costs had to be incurred by mid-2003.

This step also allows the Review team to focus on the projects still in planning in order to model different completion rates to reflect the reality that not all the projects will be delivered within the qualifying timeframe.

Estimating Tax Forgone

The cost data and output data are key parts of the analysis. However, due to the ways in which tax reliefs are calculated data on sale prices and site costs are also needed. We start by explaining by the reliefs are determined.

Step 1: Residential Units - Working Out the Gross Tax Relief

Purchased from a Developer/Builder
Where a newly constructed property is purchased from a developer or a builder the value of the gross tax break to the purchaser is calculated as follows:

Price paid to developer or builder * A / (B + C)

Where:

A = Qualifying construction expenditure incurred in the relevant period

B = Total construction expenditure on that property

C = Expenditure on acquisition of the site.

In the case of refurbished properties, A and B represent the refurbishment costs with C being the costs of the building inclusive of the site before refurbishment.

Purchased from a Non-Developer/Non-Builder
Where the property is purchased from a person not carrying on the trade of a builder or is not a developer then the build costs will normally equal the gross tax relief as gross relief is the lower of:

- The direct cost of construction, excluding site costs and costs attributable to the purchase of the site, or
- The amount produced by the above formula.

In a property market with rising prices the direct construction costs will be the lower of the two (i.e. the formula will not apply).

Own Account
Where an individual engages a builder to construct a residential unit on his or her own behalf all that qualifies for gross relief is the amount charged by the builder; site costs are not eligible for relief and the formula does not apply.

Given that the purchase price and site costs are required to calculate the gross relief when the formula applies this data had to be derived.

Data on the price of an average residential unit was established from DOEHLG data (a) weighted to reflect the location of the developments under schemes and (b) weighted to account for the fact that most of the developments under each scheme take place towards the end of the scheme's life.

Contacts with the IAVI revealed that, in general, site costs work out at between 65 per cent and 75 per cent of a project's build costs. Hence, as a rule of thumb site costs were set a 70 per cent per cent of build costs (with some exceptions).

Once this data was established the Review team was in a position to estimate gross tax relief attached to residential units.

Step 2: Commercial Floor Space - Working Out the Gross Tax Relief

Purchased from a Developer/Builder
As per a residential unit, the formula is applied in working out the tax relief.

Purchased from a Non-builder/Non-developer
Again, if a commercial property is purchased from a non-builder/non-developer the value of the gross tax break is the lower of:

- The direct cost of construction, excluding site costs and costs attributable to the purchase of the site, or
- The amount produced by the above formula

In a property market with rising prices the construction costs will be the lower of the two (again, the formula will not apply).

Own Account
Where an individual or company engages a builder to construct a commercial unit on their behalf all that qualifies for gross relief is the amount charged by the builder; site costs are not eligible for relief and the formula does not apply.

Step 3: Residential Units - Working Out the Net Tax Relief
To move from a gross tax relief figure to net tax relief one must apply a marginal tax rate to the gross tax relief. On the basis that residential units are owned by individual:

- For owner occupiers two rates could apply; 25 per cent (the standard rate plus PRSI and levies) or 47 per cent (the higher rate plus PRSI and levies). As the amount of relief these owner can claim each year is set in legislation there is not issue regarding roll-over; and

* It is assumed that all investor obtain relief at 47 per cent. However, we have to modify this marginal rate to better reflect the fact that net relief carried forward does not attach to PRSI and levies, lowering the marginal rate to 42 per cent. On the basis that investors exhaust the tax relief over four years the relevant marginal rate is 47 per cent in year one and 42 per cent in years two, three and four. This gives an average marginal rate of 43.25 per cent over the four years.

Step 4: Commercial Units/Floor Space - Working Out the Net Tax Relief
The move from gross tax relief to net relief with regard to commercial projects is more straightforward as it can be assumed that those individuals who own commercial units are top rate tax payers (47 per cent - the higher rate plus PRSI and levies) and there is no issue about roll-over as the relief is given by way of capital allowance.

The calculations have also allowed for ownership of commercial units by companies with the split set at 90 per cent owned by individual and 10 per cent owned by companies. The logic behind the low ownership rate by companies is that it is tax inefficient to claim at 12.5 per cent of gross costs when 47 per cent of gross costs is available.

Step 5: Discounting to Net Present Values
The last step in arriving at net tax forgone is to calculate present values.

The Discount Rate
The Review team took a 5 per cent discount rate to reflect that the relief is a fixed values but it has to be exhausted over a period of years, reducing its value today.

Residential Timing
As per the schemes' rules owner occupiers must take the relief over 10 years. Investors do not operate to this time constraint and in practice tend to consume the tax relief over a much shorter period, believed to be 4 years.

Commercial Timing
14 years is used is discounting the net commercial tax relief as the capital allowance rate is up to 50 per cent in the first year of use and 4 per cent p.a. there after up to 100 per cent of eligible costs/relief.