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Report to the Four Dublin Local Authorities

Review of Current Market Conditions

05 July 2012
Strictly private and confidential

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5 July 2012

Dear Sirs

We enclose our report (the "Report") prepared in connection with the Review of Current Market Conditions in accordance with the terms of the contract dated 30th March 2012 (the "Contract"), a draft of which is attached as Appendix 2 to the Report, and the scope provided by the Four Dublin Local Authorities (as defined in the Contract) on 29 May 2012.

The Report is confidential to the Four Dublin Local Authorities and should not be released to any other party without our express permission. Notwithstanding receipt of this permission, no party is entitled to rely on the Report for any purpose whatsoever and we accept no responsibility or liability to any party in respect of the contents of this Report.

We draw your attention to the section titled "Scope and Basis of Review" included in the Report in which we refer to the scope of our work, sources of information and the limitations of the work undertaken.

Yours faithfully

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2003 Circular	Department of Environment, Heritage and Natural Resources, Circular Letter PD 4/2003, Development Contributions
2007 Circular	Review of the Inter-Departmental Committee on Development Contributions and Department of Environment, Heritage and Natural Resources, Circular Letter PD 5/2007, Development Contributions
ACA	Architectural Conservation Areas
Acts	The Planning and Development Act, 2000 as amended by the Planning and Development (Amendment) Act, 2010
Advisors	Deloitte, CBRE, McGill Planning Ltd
CBRE	CBRE Property Consultants
CIF	Construction Industry Federation
Co. Co.	County Council
Contribution Rate	The contribution to infrastructure levied as part of the terms of planning permissions granted by the Four Dublin Local Authorities.
CSO	Central Statistics Office
CSO RPPI	CSO Residential Property Price Index
Current Scheme(s)	The Development Contribution Scheme introduced by each of the Four Dublin Local Authorities applicable for the period 1 January 2010 to 31 December 2017
DCC	Dublin City Council
Department	Department of Environment, Heritage and Natural Resources
Development Contribution Scheme	Schemes introduced by Local Authorities and county councils under Section 48 and 49 of the Acts to set the level of Contribution Rate levied as part of the granting of planning permissions.
DLRCC	Dun Laoghaire-Rathdown County Council
EU	European Union
Existing Methodology	Methodology developed by Deloitte and McGill and used by the Four Dublin Local Authorities in calculating the Contribution Rate for both the First and Current Schemes
FCC	Fingal County Council
FDI	Foreign direct investment
First Scheme(s)	The Development Contribution Scheme introduced by each of the Four Dublin Local Authorities applicable for the period 1 January 2004 to 31 December 2009
Four Dublin Local Authorities	Dublin City Council, Fingal County Council, South Dublin County Council and Dun Laoghaire-Rathdown County Council
IDA	Industrial Development Authority
IMF	International Monetary Fund
IPD	Investment Property Databank
McGill	McGill Planning Ltd
Minister	Minister for Environment, Community and Local Government
NAMA	National Asset Management Agency
RPPI	Residential Property Price Index produced by CSO
SDCC	South Dublin County Council
SDZ	Strategic Development Zone – a site or sites for which a planning scheme has been made and is in force
SME	Small / Medium enterprises
Special Contributions	As set out in Section 48(2)(c) of the Planning and Development Act 2000
Sq. m.	Square metres

Overview

Introduction

- Dublin City Council, on behalf of the Four Dublin Local Authorities, appointed Deloitte with its subcontractors McGill Planning and CBRE, to conduct research in relation to the Section 48 Development Contribution Schemes (2010 – 2017). This report has been prepared in response to the requirements of the scope provided by Dublin City Council on 29 May 2012.
- The Local Government (Planning & Development) Act, 1963 enabled a planning authority to grant planning permission subject to conditions requiring payment of a contribution towards expenditure incurred or proposed to be incurred by it in respect of works to facilitate the proposed development.
- The Planning and Development Act, 2000 as amended by the Planning and Development (Amendment) Act, 2010 (collectively known as the "Acts") replaced the Local Government (Planning and Development) Act, 1963. The Acts provide for a new system for charging development contributions in order to increase the flexibility Local Authorities can apply in setting Contribution Rates and the range of infrastructure that can be funded by this mechanism. Since the introduction of the Acts, Contributions under Section 48 have helped to fund a range of roads, water and drainage, parks, and community projects.
- The Planning and Development (Amendment) Act, 2010 extended the infrastructural scope of Section 48 of the 2000 Act to include the provision of high capacity telecommunications infrastructure such as broadband, schools sites and service connections.
- In addition to the referred to legislation, the following reports and Guidance Notes should also be taken into account when considering the Development Contribution Scheme:
  - Department of the Environment, Heritage and Local Government Circular (June 2003) PD 4/2003;
  - Report of the Inter Departmental Committee on Development Contributions (April 2007); and
  - Department of the Environment, Heritage and Local Government Circular (May 2007) PD 5/2007.
- The Acts required planning authorities to introduce a Development Contribution Scheme under Section 48 by 10 March 2004. The First Scheme operated by the Four Dublin Local Authorities was introduced and adopted in 2004 and applied to planning permissions granted from 1 January 2004. The First Scheme was in operation from this date until 31 December 2009.
- The Current Development Contribution Scheme (the "Current Scheme") was introduced in January 2010 and it is intended to operate until December 2017. Based on market conditions prevailing at the time of drafting of the Current Scheme, the Four Dublin Local Authorities recognised that the market would not be able to accommodate an increase on the Contribution Rate charged under the First Scheme, as was projected by the completion of the methodology to calculate the contribution rate.

Overview

2010 - 2017 Contribution rates

Local Authority	Residential €/sqm	Non-Residential €/sqm
Dublin City Council	156.62	127.00
South Dublin County Council	120.00	111.00
Dun-Laoghaire Rathdown County Council *Domestic extensions over 40sqm*	15,000 per unit *130.00 per sqm*	130.00
Fingal County Council	143.00	111.00

Source: DCS 2010 - 2017

- It was agreed in the last review of the Development Contribution Schemes in 2010 that the Wholesale Price Index (Buildings and Materials) produced by the Central Statistics Office (CSO) should be used to index Contribution Rates on 1 January each year. We understand that since 2010 none of the Dublin Local Authorities has applied indexation to Development Contribution Rates.
- The Current Scheme Contribution Rates for each of the Four Dublin Local Authorities are set out in the table on the left.

Reason for a re-examination of the 2010 – 2017 Scheme

- The purpose of this analysis is to provide an overview of the construction / development market in light of current economic and development sector circumstances.
- In the scope provided by Dublin City Council on 29 May 2012, specifically the Advisors were asked to:
  - Provide an overview of current market conditions;
  - Provide an overview of the level of change in the market since the drafting of the current contribution Scheme (September 2009) and today;
  - Advise on whether a change in the Contribution Rate is necessary and provide a justification / rationale for same (including a specific recommendation on a percentage reduction, if any);
  - Advise on the type of indexation that is most appropriate for the Scheme, given changes in trends in relevant indices.
- The specific Terms of Reference are set out in Appendix 1.

Overview

Methodology of re-examination of the 2010 – 2017 Scheme

- Our review of the Current Schemes and current market conditions involved:
  - Consideration of relevant market conditions and their impact on the success or otherwise of the implementation of the Current Schemes;
  - Consideration of the general reduction in the cost of capital projects;
  - Informal discussions with interested parties or relevant stakeholders (namely NAMA and the CIF).

Market conditions

Introduction

- Recent economic issues have had a significant impact on development levels which has had a knock-on impact on infrastructure requirements as well as income levels for the Four Dublin Local Authorities. It is clear that these issues need to be considered. Set out below are some of the key issues impacting on the Current Schemes.

Decline in the economy and in particular in development activity

- There has been an unprecedented slowdown in construction activity in the Irish market over the 2008 to 2011 period, which has come about as a direct response to weakening economic conditions domestically and internationally and difficulties in the Irish Banking Sector. This spans all development sectors, including residential, office, retail, industrial and other commercial uses.
- The Current Schemes were drafted in 2009 during the initial phase of the slowdown. The continued slowdown in construction activity suggests that the projected level of development activity under the Current Schemes will not be achievable and will result in a significant shortfall in funding for the Four Dublin Local Authorities. Having reviewed the information supplied by the Four Dublin Local Authorities on planning permissions granted and commencement notices issued from 2010 onwards, it is clear that the volume of development in all locations has been adversely affected by the downturn in the Irish economy and in particular the decline in construction-related activity since that period. While there is some development planned, it is significantly less than was envisaged, particularly relative to the levels of development that occurred in the 2004 to 2009 period.
- As the projected level of development under the Current Schemes is unlikely to be achieved, this will give rise to a funding shortfall for the provision of infrastructure. The growth in the funding shortfall from declining Contribution Rate income may be partially off-set by declining infrastructure development costs, reduced levels of expenditure and infrastructure development demand. This is considered separately below.
- Notwithstanding the fact that bank funding for speculative development is not available in the Irish market at present, development appears to be economically unviable in the majority of cases considering the rental and capital values currently prevailing. Contribution Rates are one element impacting on the financial viability of new development at this juncture.

Lack of bank funding & deliverability of development in the current climate

- The single biggest issue impacting on the development sector at present is the lack of funding from the banking system, which is impacting significantly on development activity across all development sectors. While there are a number of development schemes in the planning process, the likelihood of many of these schemes being developed in the short to medium term is severely impacted by a lack of bank funding.
- This is compounded by the fact that rents in most sectors of the commercial property market have fallen by more than 50% from peak in 2007 (CBRE Research), capital values have fallen by more than 65% from peak in 2007 levels (IPD), and house prices have declined by almost 55% from peak (CSO RPPI), rendering speculative development unfeasible in many instances.

Market conditions

Reduction in the cost of infrastructure

- The costs associated with infrastructure projects have declined as a result of the decline in land prices and the more competitive environment for tender prices as a result of the reduction in construction activity. Information from the Society of Chartered Surveyors Ireland shows that there was a significant decline in construction tender prices during 2009 and 2010 (Index was 116.4 in the first half of 2009, compared with 101.5 by the second half of 2010) but prices stabilised in the first half of 2011 and increased by 2% in the second half of the year (H2 2011: 103.5).
- The decline in private development will also impact on the demand for infrastructure development resulting in a reduced infrastructure spend. Nevertheless, Local Authorities will be required to provide a certain level of infrastructure regardless of the level of development (refurbishment and required upgrade).

Reduction in Central Government capital funding for infrastructure

- Central Government's fiscal position has deteriorated significantly over the 2009 to 2011 period manifesting itself in the Irish Government seeking the financial support from the EU and IMF and certain sovereign States in order to meet day to day expenditure. As a result Central Government's ability to provide capital funding for infrastructure has become more restricted than that projected at the time of drafting the Current Scheme. Local Authority funding from central Government has fallen dramatically over the past number of years with a c.84% cut implemented in the 2011 budget alone, albeit the introduction of the household charge has marginally reduced the impact of this reduction.

Reduction in Local Authorities' capacity to fund infrastructure from their own resources

- Under the Current Schemes it is projected that Local Authorities will fund part of the infrastructure capital cost through their own resources, the balance being provided by Central Government and the Scheme. Local Authorities, to date, have for instance used the proceeds from the sale of land to part fund infrastructure development. However, even where sales are possible, land prices have continuously declined over the period from when the Current Schemes were drafted to date undermining the Local Authorities ability to contribute to the funding of infrastructure.

Reduction in property values, transactional activity and development

- There has been an unprecedented deterioration in market conditions in the commercial and residential property market in Ireland over the last four years. Fuelled by an unexpected credit crunch, the volume of commercial and residential transaction activity has declined spectacularly from the market peak in 2007. Average price declines of up to 65% (Source IPD) have manifested in the commercial property sector in the most recent cycle with price declines of between 80% and 90% experienced in the development land sector of the market specifically (Source CBRE).
- Statistics in the housing sector vary but the most widely used index, the RPPI (Residential Property Price Index) series produced by the CSO suggests that prices have declined by 49% on a national basis with housing in Dublin down 55% from peak levels and prices of apartments in Dublin having deteriorated by more than 60% from peak levels.
- Against this backdrop, the volume of development activity in all sectors of the market has fallen very dramatically. There was a marked slowdown in the volume of development activity in all sectors from 2007 onwards. Schemes were finished out over the course of 2008 and 2009 but little new development was undertaken since. Consequently, the deterioration in the volume of new construction became particularly apparent from 2009 onwards.

Market conditions

- Approximately 5,000 new housing units are forecasted to be provided in Ireland in 2012, compared to more than 93,000 housing units per annum at the peak of the market. In the commercial property sector, the picture is even bleaker with literally no speculative commercial development underway in any sector at the present time.
- The lack of speculative development activity at present is influenced by a number of factors, most notably the lack of funding in the Irish banking system to facilitate development activity, together with low levels of underlying demand. However, for the most part, developers are reluctant to consider development on the basis that the cost of construction exceeds the underlying market value at present. With this unlikely to change over the next two to three year period, little speculative development activity is envisaged in any of the four Dublin local authority areas for the foreseeable future.
- Following almost four years of declining property values, the Irish commercial property sector is now finally showing signs of stabilisation. Take-up activity in the office, retail and industrial sectors of the occupier markets is holding up relatively well, albeit much of this activity is fuelled by the phenomenal decline in rental and capital values that has materialised since the market peaked in 2007. Occupiers are now in a position to negotiate relatively short-term lettings and rents are at least 50% less than the rental values that prevailed at the peak and this is fuelling some of the activity in this sector, particularly in prime locations in Dublin. Although there is an emerging scarcity of prime Grade A buildings in some of the most sought-after locations, any notable increase in rental values is unlikely in the next two to three year period. Against this backdrop, there is little rationale for proceeding with speculative development and there is limited funding to facilitate such development in any event.
- There are also tentative signs of stabilisation starting to emerge in the housing sector of the economy. According to the latest RPPI report produced by the Central Statistics Office, house prices nationally were flat for the month of March 2012 - only the third time in the last 53 months when prices have remained flat as there have been declines in all other months since the peak in 2007. In Dublin, residential property prices rose by 0.7% in March and apartment prices in Dublin were actually up by 2.3% in the month following a 6.3% decline in February 2012. Another recent report on the residential rental sector by DAFT.ie suggests that residential rental values are stabilising with some modest increases in rental values being experienced in parts of Dublin in the last quarter.
- With some improvement in demand being experienced in the Dublin housing sector, there could be some improvement in construction activity in this sector over the next 12 months. However, in the absence of a meaningful improvement in bank funding, to fund development and in turn purchasers, development volumes are unlikely to be significant.

Market conditions

Contribution Rate as a % of Development Costs

- Contribution Rates are one of the input costs that impact on the viability or otherwise of development. Despite the fact that property values have at least halved since 2007 with the decline more acute in the commercial property sector, the monetary cost of Contribution Rates have remained static. Contribution Rates therefore now account for a greater proportion of the overall cost of development than would have been the case previously. This is an issue which could be addressed as it one of the financial elements which may be rendering development unviable.
- To demonstrate this, CBRE has considered two example case studies, one focusing on the costs associated with developing an average three bed semi-detached house in Dublin and the other focusing on the costs of developing a 2,500m² office building in the capital.
  - These examples demonstrate that development contributions typically accounted for less than 3% of the cost of developing a typical three bed semi-detached house in Dublin in 2007 but account for more than 7% of costs in 2012 – a multiplier of more than 2.5 times the rate prevailing five years ago.
  - In the case study that looked at a typical office building, development contributions typically accounted for less than 0.75% of the overall cost of development in 2007 but account for more than 3% in 2012 – a multiplier of more than 4 times the rate prevailing five years ago.
  - In considering the period since the introduction of the Current Scheme specifically, development contributions typically accounted for just less than 5% of the cost of developing a typical three bed semi-detached house in Dublin at the beginning of 2010 but account for more than 7% of costs in 2012 (multiplier of c. 1.5 times the 2010 rate). Development contributions typically accounted for more than 2.5% of the overall cost of development of a typical office building in the capital in 2010, compared to more than 3% of costs in 2012 (multiplier of c. 1.2 times the 2010 rate).
- A substantial cut in the rate of development contributions, in order to bring the Contribution Rate back in line with the proportion of development costs it was at the beginning of the Scheme, by itself will not stimulate development to any great extent but it would nonetheless make development more viable and could kick-start development activity quicker than it might occur otherwise. However, it must be remembered that if a substantial reduction in the current rate of development contributions is introduced, a clear anomaly will arise between new applications and those that arise from the extension of previous grants of planning permission.

Market conditions

Conclusion – impact on the operation of the Development Contribution Schemes

- The costs associated with infrastructure projects have declined since the introduction of the Current Scheme. The Society of Chartered Surveyors Ireland Tender Price Index available at the time of the drafting of the Current Scheme (June 2009) was 116.4 and has fallen to 103.5 in the second half of 2011 – a decrease of c.12.9%.
- Market conditions as outlined above have indicated over the past few years that there has been a significant drop in the construction / development market. Commercial, residential and development land sectors have all been effected to varying degrees – with declines in prices varying between 65%, 55% and 80% across each sector respectively (in Dublin). Against this backdrop, the volume of development activity in all sectors of the market has fallen very dramatically.
- The reduction in development activity and the decline in the market has driven a reduction in development costs whilst the Contribution Rate has remained static. This has led to a significant increase in the proportion that Contribution Rates account for of the overall cost of development.
- The significant decline in the construction / development market over the past few years has resulted in a decline in Development Contribution Income available to the Four Local Authorities to finance infrastructure development. Furthermore, other sources of funding previously available to Local Authorities (Central Government and self finance) have also declined over the period. For the afore mentioned reasons the financing of infrastructure development has become increasingly challenging for Local Authorities.

Indexation

Introduction

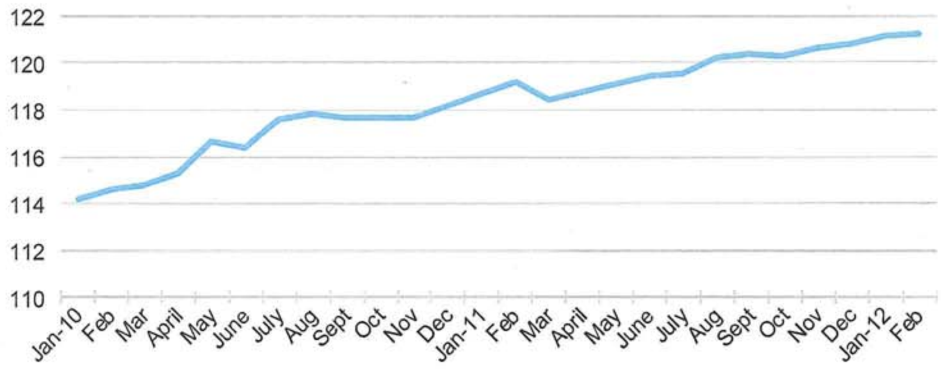
- It was agreed in the last review of the Development Contribution Schemes in 2010 that the Wholesale Price Index (Buildings and Materials) produced by the Central Statistics Office (CSO) was the most appropriate inflation index to apply for the Scheme. Prior to 2010, the Tender Price Index was the measure used. The idea behind application of indexation is to provide for an adjustment mechanism to the Contribution Rate to adjust the rate with any increase or decrease in the cost of the provision of infrastructure.
- We understand that since 2010 none of the Dublin Local Authorities has applied indexation to Development Contribution Rates, due to the difficult economic conditions faced by the country.

Appropriateness of this index

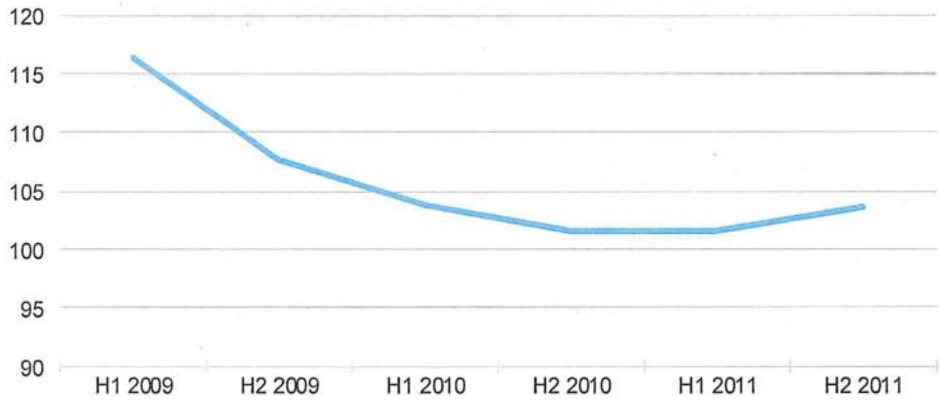
- Between Q1 2010 and Q1 2012, Wholesale Price Index (Buildings and Materials) has increased by 6.04% according to CSO. The wholesale price index is a family of price indices that measure the average prices achieved for manufacturing outputs in the home and export market; wholesale prices for building and construction materials (imported and home produced); wholesale prices for capital goods (imported and home produced); wholesale prices for energy products (imported and home produced). Although in 2010, it was deemed that this index was the most appropriate index to apply indexation to development Contribution Rates, in reality there is not one perfect index that would accurately capture all of the influencing factors on the development sector. The Wholesale Price Index is susceptible to currency fluctuations and pricing factors and supply/demand variables outside of the local market.
- Although construction and tender prices have continued to decline in the Irish market, the Building and Construction element of the Wholesale Price Index increased 1.7% in the last 12 month period. Significant increases in prices for some elements that are counted as part of this index have led to the overall increase in the index. These include:
  - Bituminous materials by 17.6%
  - Insulating materials (+10.1%)
  - Other timber materials excluding windows and doors (+9.7%)
  - Concrete blocks and bricks (+7.8%)
- The index of prices for Capital Goods showed a 0.7% annual increase, driven largely by goods for use in agriculture. The price of energy products increased by 3.9% in the year to February 2012 driven largely by the increase in petrol prices which rose 10.3% over the year.
- There has been a significant deterioration in the market value of residential and non residential development over the 2010 to 2012 period. Since the peak of the market in 2007, there has been a 65% deterioration in commercial property values (Source IPD); a deterioration of at least 50% in commercial rents (Source CBRE) and a decline of at least 55% in average Dublin house prices (Source CSO) from peak levels in 2006.
- The decline in market value over the period coupled with the increase in input costs ultimately impacts on the economic viability of development projects.
- Adjusting current Contribution Rates for inflation by using the Wholesale Price Index would further exacerbate the deterioration in the economic viability of development projects and likely have a further impact on the future development levels. It is clearly not appropriate to increase the Contribution Rate in the current circumstances.
- It is important to ensure the Contribution Rate is set at a sufficient level to fund infrastructure but not excessive as to cause developers not to undertake development projects. In order to achieve this it is important that Contribution Rates are not excessively high relative to the costs of development and

Indexation

Wholesale Price Index for Building and Construction Materials



Tender Price Index



provision of infrastructure.

- It could be argued that using the Tender Price Index or the Residential Property Price Index (both of which declined significantly since 2010) might be more accurate indices to use for indexation. However, both of these measures have their own inherent characteristics. The Tender Price Index has certainly been reflective of market trends since 2010 but is also subject to over-correcting as contractors bid competitively during periods of downturn. Equally, the RPPI index is not a perfect index in that it only tracks mortgage drawdowns from 8 lenders and excludes cash purchases which make up the most of market activity at present.

Conclusion

- While the Wholesale Price Index was deemed to be the most appropriate index to use for indexation purposes in 2010 , it is arguable that the Tender Price Index or the Residential Property Price Index would have tracked the market a little better since that time. None of these indices are ideal for various reasons outlined previously.
- Regardless of what index is deemed to be the most appropriate one to use in this circumstance, we would not advocate applying indexation in the current economic climate.
- It is recommended that the Local Authorities include the ability to apply indexation at its discretion within the new Scheme. This should allow flexibility until more discernible trends in the market become apparent.

Other considerations

Legislation and the relationship with Government initiatives

- Work is currently underway regarding the introduction of a valuation based property tax (Household Charge) and water charges. Services and infrastructure to be funded through these charges should be examined closely to avoid any duplication of costs between the Development Contribution Scheme and the property tax and water charges initiatives. References to the provision of water infrastructure under each legislation should be specific to avoid any potential for confusion and duplication.

Phased Payment of Contribution and Development in lieu of Contributions

- The practice by most authorities to allow for an agreed phasing of contributions is widely welcomed. However the practice may be at variance with the standard wording that is typically set out in conditions of permission which requires "payment prior to commencement on development." While some local authorities do refer to the potential for alternative payment arrangements in the condition wording, it is recommended that a specific phased payment option be included, for clarity, within the planning conditions. Even though the practice of allowing phased payment is widespread it is considered necessary for the option to be included in the scheme, for avoidance of doubt. Clarity that financial contribution conditions have been complied with, when phased payments are made, is needed given the increased level of due diligence undertaken by funding institutions.
- The current financial crises and depression of the property market has resulted in developers finding it impossible to secure funding in advance of clear evidence of market demand for a proposed development. Funding, if available, is only available on a phased basis. Funders are unwilling to finance significant upfront costs such as Contribution Rates in advance of identifying a clear market demand. Local Authorities should be as flexible as possible in negotiating the timeline of the payment of contributions in order to facilitate developers in securing funding for developments, without compromising the ability of the Local Authority to fund and deliver necessary infrastructure.
- The Development Contribution Scheme also needs to be specific on the issue of seeking contributions in lieu of the provision of open space, parking etc. Equally it is felt that the possibility of offsets should be allowed for, as provided for in the Acts, where a development can provide infrastructure that will also benefit a catchment beyond the confines of a particular development. Section 48 3c allows a Development Contribution Scheme to make provision for reduced payments in certain circumstances in accordance with the provisions of the Development Contribution Scheme. It is clear that the Development Contribution Scheme must contain such provision - the Act only allows for the Development Contribution Scheme to do so.

Conclusion

- The relationship that will now emerge between services to be funded by water pricing and the household charges should be closely examined.
- The terms of planning permissions should be altered to clearly indicate that the Local Authority is amenable to agreeing instalment plans for the payment of the Contribution after commencement.
- Allowances should be made for the provision of infrastructure that serves a wider area in the potential for offset against Contribution Rates.

Recommendations

The effect of a drop in Contribution rates

- The construction / development market has experienced further tightening and contraction during the period since the introduction of the Current Scheme in 2010. The fall in the value of the market cannot be measured by one clear, definable index but instead is reflected by reductions in the following indices:
  - Average price decline of 65% in the commercial property sector since the market peak in 2007;
  - Price declines of between 80% and 90% in the development land sector;
  - The RPPI suggests that, in Dublin, house prices have decreased by 55% from peak levels (2007) whilst apartment prices have decreased by more than 60% in the same period;
  - Tender Price Index has decreased from 145.2 in H2 2007 to 103.5 in H2 2011 (c. 28.5%). The reduction in the index since the drafting of the Current Scheme in H2 2009 was c. 12.9% (H1 2009: 116.4 and H2 2011: 103.5);
  - Contribution Rates as a percentage of development costs on residential properties has increased from 5% in early 2010, to more than 7% in 2012 (increase of c. 40%) whilst Contribution Rates as a percentage of commercial development costs has increased by c. 20% from more than 2.5% on 2010 to more than 3% in 2012.
- A reduction in the Contribution Rate by itself will not be sufficient to stimulate development to any great extent but would nonetheless help to improve competitiveness and kick start development quicker than it might occur otherwise. In the same way that a reduction in the rate of stamp duty generally increases revenue as opposed to reducing it, a significant cut in Contribution Rates now could improve levels of income for public infrastructure for Local Authorities.
- Applying a reduction in the rate of development contributions (albeit for a limited time period) to take account of the unique market circumstances prevailing at present and current rental and capital values could help stimulate some development activity although an improvement in general economic conditions, an increase in demand for commercial and residential accommodation and the availability of funding would also be required to have a meaningful impact.
- Given the range of movement under a number of headings considered (12.9% to 90%) it is extremely difficult to select one point as an appropriate reduction which might be applied to Contribution Rates. Each Local Authority must consider a reduction separately as each has different characteristics in terms of potential future development, levels of capital expenditure requiring funding and availability of other funding. It must always be remembered that a reduction to Contribution Rates alone will not stimulate development in a particular area, the key is that the level is not seen as an overwhelming deterrent to development. In addition, the Four Dublin Local Authorities and developers must remember that with less development potential, the capacity to raise funds from development is reduced significantly. Thus, if the rate was also reduced significantly, there is an even greater risk that the funding required to build the infrastructure needed to support development is not available. On this basis, the range may be lowered based on cost reductions achievable in public contracts based on tender price changes over time and an effort to at least keep the level of contribution somewhat consistent with the costs of development. On this basis, the range may be lowered by between 12.9% and 40%. We believe that there is merit in considering a reduction however ultimately, the level of reduction and setting of Contribution Rates is for the relevant Local Authority to decide.

Recommendations

Indexation

- While the Wholesale Price Index was deemed to be the most appropriate index to use for indexation purposes in 2010, it is arguable that the Tender Price Index or the Residential Property Price Index would have tracked the market a little better since that time. None of these indices are ideal for various reasons.
- Regardless of what index is deemed to be the most appropriate one to use in this circumstance, we would not advocate applying indexation in the current economic climate.
- It is recommended that the Local Authorities include the ability to apply indexation at its discretion within the new Scheme. This should allow flexibility until more discernible trends in the market become apparent.

Timing of Contribution payments

- Increasingly as upfront funding costs, particularly Contributions, have become an issue, the incidence of agreed instalment plans has grown. While cases may vary and it is difficult to be prescriptive about terms for so many varied permissions, planning conditions nonetheless need to be amended to more overtly reflect this reality in order to give legal certainty to all parties concerned about how Development Contributions may be paid.

Development in lieu of Contribution payment

- Local Authorities need to be specific on the issue of seeking contributions in lieu of the provision of open space, parking etc.
- Equally it is felt that the possibility of offsets should be allowed for, as provided for in the Acts, where a development can provide infrastructure that will also benefit a catchment beyond the confines of a particular development. Section 48 3c allows a Development Contribution Scheme to make provision for reduced payments in certain circumstances in accordance with the provisions of the Development Contribution Scheme. It is clear that the Development Contribution Scheme must contain such provision - the Act only allows for the Development Contribution Scheme to do so.

Consideration of current Government initiatives

- The introduction of water charges and property tax (Household Charge) legislation will require a review of the Development Contribution Scheme legislation to avoid any confusion regarding which charges fund relevant services and infrastructure.

This appendix should be read in conjunction with the transmittal letter at the front of this report.

Scope of our Work

An overview of our scope is set out below:

- Provide an overview of current market conditions;
- Provide an overview of the level of change in the market since the drafting of the current contribution Scheme (September 2009) and today;
- Advise on whether a change in the Contribution Rate is necessary and provide a justification / rationale for same (including a specific recommendation on a percentage reduction, if any);
- Advise on the type of indexation that is most appropriate for the Scheme, given changes in trends in relevant indices.

We were instructed that the work was to consist of desktop research involving:

- Analysis of the current Scheme by way of reviewing consultants documents and the existing scheme;
- Review relevant market conditions and their impact on the success or otherwise of the implementation of the current Scheme, including specifically in relation to the projections contained in the consultants report prepared for the current scheme and the degree to which these have been delivered;
- Review the general reduction in the cost of capital projects and the declining availability of outside/alternative funding sources;
- Primary data will be provided as per that gathered for the Section 49 Review;

Limitations of our Work

Our work, which is summarised in this Report, has been limited to matters set out in the Scope of our Work (above).

Our work and resultant Report was not conducted in accordance with Section 48 of the Planning and Development Act, 2000 or the Planning and Development (Amendment) Act, 2010 (the "Acts") and related Departmental guidance. In particular, our review is not intended and does not constitute a new Development Contribution Scheme or update to an existing Development Contribution Scheme within the meaning of Section 48 of the 2000 Act. We accept no responsibility for matters not covered by the Report or omitted due to the limited nature of our work.

In particular, the Scope of our work was restricted to the information available to us as:

- Our instructions were to conduct desktop research;
- Consultation was limited to two informal meetings – one with NAMA and the other with CIF.