

Can it be built
for €250k?

Keogh Consulting. March 2020

Is a target starter house price of €250k achievable?

In a March opinion piece in the Irish Times¹ Dermot Desmond set the aspirational target of €250k to deliver an affordable home. The homes would be constructed on State owned lands with a payment of €50k being made to the land owner.

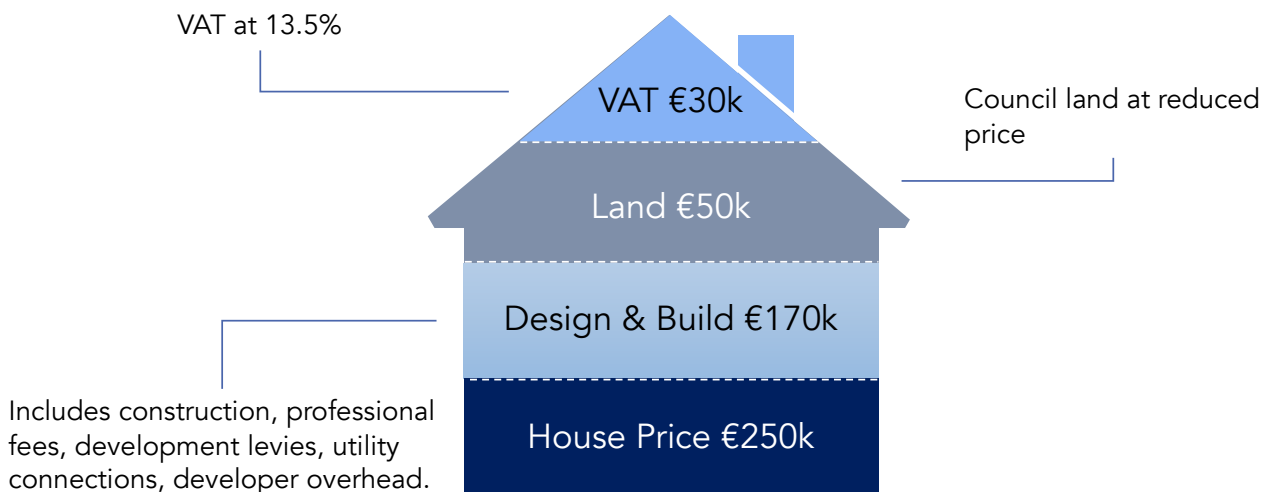


Figure 1 - Affordable Home Price Target

Mr Desmond then proposed that the state would provide a second mortgage interest free of between €10k and €50k per household depending on their income and occupation. The second mortgage would be repayable on the sale of the house.

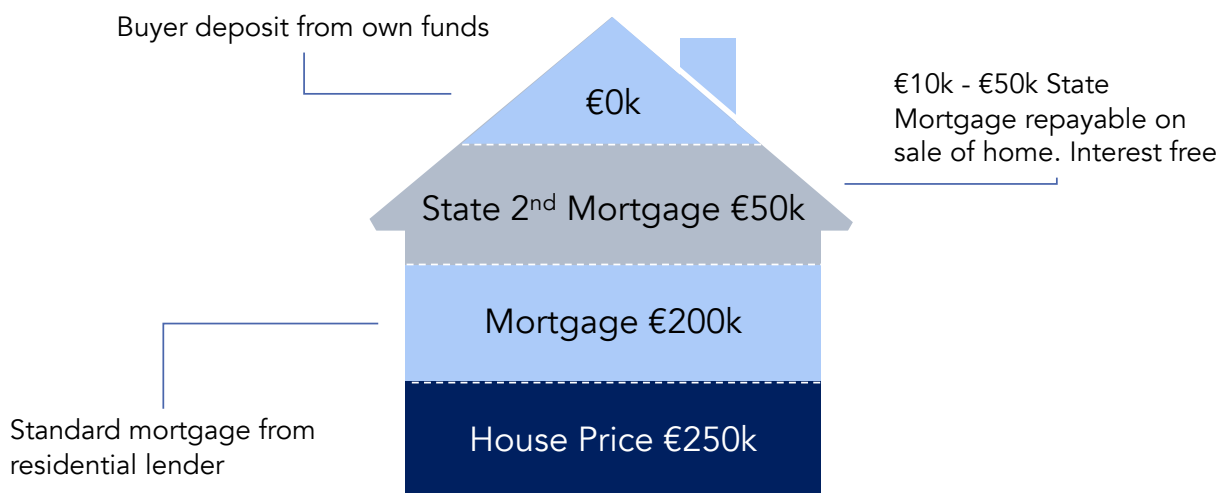


Figure 2 - Proposed affordable mortgage scheme

Our estimates from benchmark construction projects indicate that the buildup of the base construction cost of a 1,000 sq ft house would be as indicated in Figure 3 - 1,000 sq ft House Construction Cost Buildup, with the overall development cost buildup detailed in Table 1 - Comparison of development cost for homes for private sale on open market.

Our analysis shows that with free land a reduced size affordable house of 1,000 sq ft could be brought for sale at €210k. (€266.8k incl. land) This assumes that serviced land is available at zero cost on which to build these homes. Including the land cost the outturn cost is €16.8k over the €250k target. From experience it

¹ Source: Irish Times 7th March 2020. "Everyone has a right to a home. Here is how it can be done."

probable that site development costs would be higher than the noted €18.6k on account of the unserviced nature of such sites and the requirement to bring services to the sites.

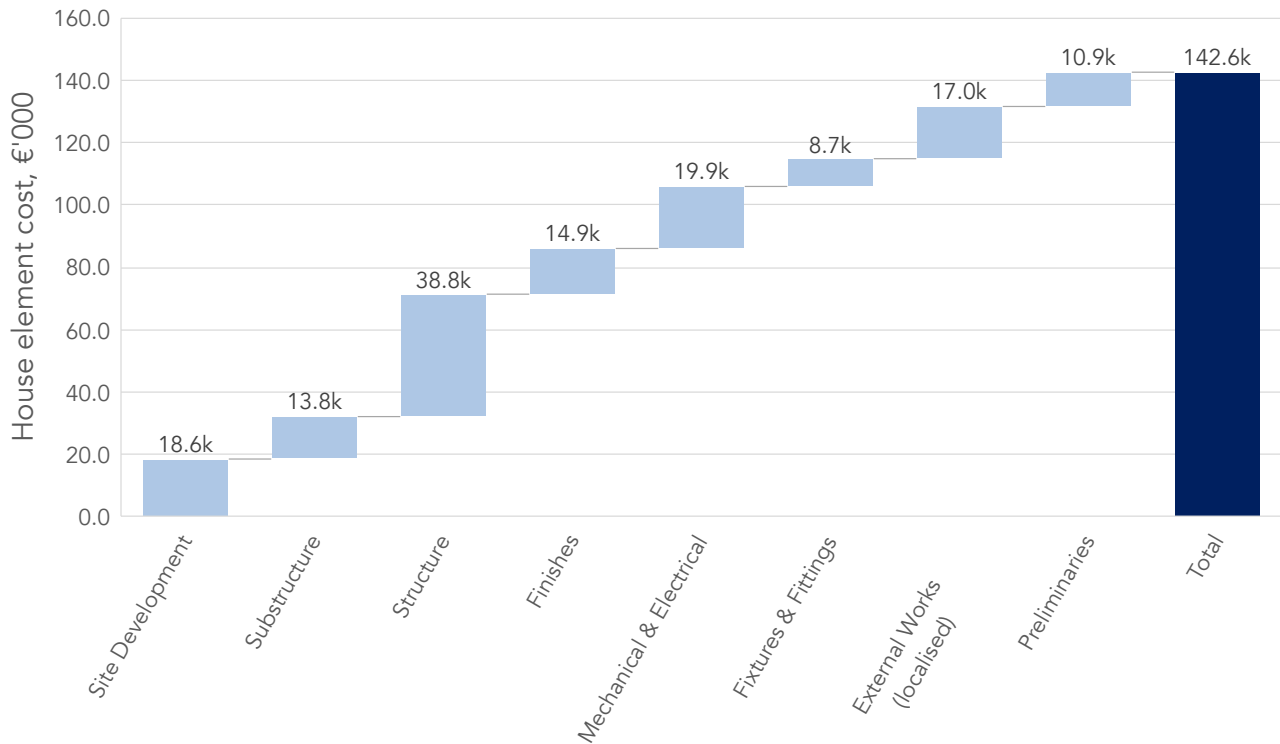


Figure 3 - 1,000 sq ft House Construction Cost Buildup

At a sale price of €267k with proposed government interest free mortgage of €50k personal funds of €217k would be required which could be raised by a standard mortgage with a gross household income of €61.9k at a LYI multiplier of 3.5x.

	1,100 sq ft House	Affordable 1,000 sq ft House. Free Site	Percentage change
Construction Cost	136,400	124,000	-9.0%
Development Contribution	15,400	14,500	-6.0%
Part V Cost (est.)	5,000	0	-100.0%
Design	10,900	9,900	-9.0%
Site Development Works	18,600	18,600	0.0%
Site Purchase (incl. Stamp)	50,000	0	-100.0%
Development Finance	6,600	1,700	-74.0%
Marketing, Legal etc.	8,600	900	-90.0%
Construction Contingency	<u>8,900</u>	<u>8,100</u>	<u>-9.0%</u>
	260,400	177,700	-32.0%
Risk, Profit, Overhead	26,000	7,100	-73.0%
Sale Price (ex VAT)	286,400	184,800	-35.0%
VAT	<u>38,700</u>	<u>24,900</u>	<u>-36.0%</u>
Breakeven Sales Price (incl VAT)	325,100	209,700	-35.0%

Table 1 - Comparison of development cost for homes for private sale on open market & affordable homes

As indicated below Government receipts are still significant (estimated at €66.9k) – given the market failure to service this sector of the housing market these are houses that otherwise would not be constructed (on account of viability issues). Thus, the additionality may be near to 100% with the increased government receipts able to cover the cost of funding a €50k interest free loan.

Estimated Government Receipts			
	1,100 sq ft house	Affordable 1,000 sq ft house	
Building Company Corporation Tax	1,100	900	
Stamp Duty on Site	1,000	0	
Stamp Duty on House	3,000	1,800	
DevCo Corporation Tax	3,500	900	
Construction Worker Income Tax	25,400	21,500	
Other Income Tax	3,000	300	
Investor CGT on Completion	8,000	2,100	
Development Levy & Part V	20,400	14,500	
VAT	<u>41,100</u>	<u>24,900</u>	
	106,500	66,900	
Help to rent cost	<u>(18,000)</u>	0	- Tax rebate
Estimated Net Government Receipts	88,500	66,900	

Table 2 - Estimated change in net government receipts

Conclusion

Delivering a house at a price target of €250k is challenging and involves a number of assumptions around procurement costs and overheads being equivalent to the private sector, the specification (smaller) and the cost of site development. Further reductions could be achieved through reducing capital contributions payable to local authorities. There are a number of community schemes in the market built on a not for profit basis on public land, however, significant subsidy has been given to facilitate construction at this price level.

The exchequer receipts generated by constructing such houses are significant and could possible go towards funding of a scheme (using a government loan) given the likelihood of such homes not being provided on a for profit basis given private sector viability issues at this price level.