HBFI Review – Public Consultation
Shareholding and Financial Advisory Division
Department of Finance
Block 1
Miesian Plaza
50 – 58 Lower Baggot Street
Dublin
D02 XW14

30th January 2025

Dear Sir/Madam,

RE HBFI Public Consultation – Funding Availability for Residential Development from Sources excl. HBFI

The Irish Home Builders' Association (IHBA), a constituent of the Construction Industry Federation (CIF), welcomes the opportunity to provide a response to this consultation, which seeks to assess the amount of funding made available for the purpose of residential development in the State from sources other than Home Building Finance Ireland (HBFI).

The availability of funding for residential development is essential if we are to meet the increased annual housing targets set by Government. To formulate a response to the consultation, we have engaged with our IHBA members who have direct experience in seeking funding from a range of sources to deliver residential projects.

We have responded to the questions posed within the consultation (submission enclosed), but the core themes within our submission are as follows:

- Access to finance needs to be provided for all business types, especially SME homebuilders.
- A key barrier to accessing finance for residential development is the uncertainty associated with obtaining planning permission. Funding for zoned land therefore needs to be considered, with suitable measures in place to support this.
- Project viability (particularly for apartment delivery) is a huge challenge.
- Encouraging and incentivising international investors back into the funding landscape.
- Considering competitive funding rates.
- Generally, IHBA members reported they had had good interactions with HBFI when considering them for funding.

We look forward to hearing from you in response to our submission in due course.

Yours faithfully,

Conor O'Connell
Director – Housing, Planning & Development Services

Home Building Finance Ireland (HBFI) Public Consultation – IHBA Response

We have responded to the questions set out in the consultation below.

Overall Availability of Funding for Residential Development

1. What is your overall experience of accessing finance for residential development? Please comment on your experience across sectors/regions, and across all elements of the capital stack (senior debt / mezzanine / unitranche / equity).

   - Access to finance is clearly a core aspect of delivering residential development. Whilst the State has invested significantly to enable increased housing commencements, this level of State investment will not be sustainable in the long term. The majority of funding for residential development going forward will need to come from private sources. Therefore, it is important that access to this funding is readily available. In the current market, access to finance was found to be mixed amongst IHBA members. Pillar banks, like Bank of Ireland and AIB, as well as alternative providers such as Activate Capital, along with HBFI, were referenced as the main, accessible providers. Working capital (development finance), mezzanine and other similar variants is reported as being easy to source, but too expensive, meaning that the financial risk associated with this option renders projects unviable.
   - Company size/business type seems to dictate the experience members have had in accessing the range of finance providers (i.e. smaller vs larger scale housebuilding companies). This shows the need for a range of accessible funding types to support different business models.
   - We would therefore support the recommendation shared by the Banking Payments Federation Ireland (BPFI), in Autumn 2024, which called for the introduction of a credit guarantee scheme for SME builders to advance finance to homebuilders who have viable projects, but insufficient equity. This would permit banks to provide funding to a wider client base without putting credit underwriting standards at risk.
   - We would also encourage the Department to review the UK Government's 2024 budgetary announcement, which included the development of an "Enable Build" scheme, which will provide dedicated funding to smaller homebuilders/companies for housing developments. The scheme aims to encourage participating banks to boost their financing of UK SME housebuilders by addressing the high capital requirements linked to such financing. The program offers guarantees on portfolios of development finance

instruments in exchange for a fee, which will be determined commercially on a case-by-case basis. This is something which we believe could be successfully replicated here.

2. Do you believe that there is currently an adequate level of residential development funding (both debt and equity) available in the market)?

- IHBA members raised concerns about the availability of residential development funding; they felt the market was lacking readily available funding at all levels across project lifecycles.
- Furthermore, many members advised that delays to obtaining planning permission, often exacerbated by An Bord Pleanála (ABP), have caused major challenges to obtaining funding for residential developments.
- Again, IHBA members referred to finance availability for purchasing zoned land (without planning permission) being a problem. This is because of the concern and uncertainty associated with the planning system in Ireland, and the difficulty in obtaining planning permission. It is essential that this is addressed to ensure there is an adequate pipeline of land available for future housing developments. One suggestion to overcome this challenge is whether lenders could consider providing gearing at a lower level (e.g. max. 40% of a site's value). As an industry, we recommend that a new funding source that will finance sites that don't have planning by way of a state backed equity investment/warranty or senior debt subject to planning.
- It is important to recognise the scale of the challenge to deliver the increased housing targets for builders currently operating in this market. The Central Bank of Ireland (CBI) delivered an analysis of the funding required to deliver 52,000 homes per annum (prior to the increased targets confirmed at the end of 2024). To deliver around 52,000 units annually, it is essential to secure debt and equity financing of a sufficient scale on a sustainable basis. The CBI's analysis indicated that an additional €6.5bn to €7bn in development finance would be needed beyond current levels to fund the extra 20,000 units each year. This additional finance requirement includes both debt and equity funding from the State, banks, and non-bank financial intermediaries. This suggests that while key financing sources may have the capacity to provide the necessary funds, the construction sector may face challenges in accessing this financing due to the factors outlined earlier. This is especially relevant regarding the sector's ability to attract external equity capital. These challenges need to be considered urgently.

3. Are there any particular areas or segments of the market in which funding is less readily available?

- As outlined above, the funding landscape has been detrimentally impacted by the planning system in Ireland, with this uncertainty limiting funding options for projects.

- Funding for apartments was regularly referenced as a challenge due to the higher level of financing required and associated viability issues. This is particularly challenging in apartment delivery, where units cannot be developed in phases. While the many schemes introduced to aid apartment delivery are very welcome there has not been the provision of multi annual funding for some of them in particular Cost Rental Schemes for Approved Housing Bodies. This disruption to the funding of Cost Rental Equity Loan (CREL) is delaying the commencement of projects on site and therefore multi annual funding must be provided across a range of schemes. Delays only increase costs and inhibit the sector from securing more scale, productivity and efficiency.
- Whilst we have seen the introduction of special measures to help support apartment delivery (e.g., the Secure Tenancy Affordable Rental (STAR) scheme, Croi Conaithe etc), these have not been as successful in galvanising apartment development. Ideally STAR would be more readily available and accessible. Whilst acquisition funding is clearly outside of the scope of HBFI, as a wider industry challenge, the delays in closing sales have a serious implication on housing output and the market. The IHBA has made a separate submission recommending improvements to the STAR scheme, with a review since taking place. We do still reiterate our concerns regarding the cost rental term initially proposed being too onerous to attract investors who are needed to kickstart such schemes. The exit of international investment from the market has clearly also had an impact on apartment scheme delivery - the 2024 completion figures for apartments were down 24.1% compared to 2023. The above schemes are all State funded, again highlighting the reliance on State finance for apartment delivery which is resultant from the void left by international investors and Real Estate Investment Trusts (REITs).
- The delivery of smaller schemes, as mentioned previously, is also a challenge from a funding perspective.

4. What challenges in the housing market do you believe have the most impact on access to finance?

- The industry is primarily concerned about the impact the planning system and associated uncertainty resulting in equity funders reconsidering sites without planning. Funders may have been comfortable with taking some risk over a site without planning permission previously, however, the sheer length of time that it takes to navigate the planning process has meant funders no longer consider these projects as an option and choose to deploy their capital elsewhere. This then impacts the wider funding landscape, resulting in higher prices on the limited number of sites available with planning permission.
- The financial cost of carrying a site through the planning process can take years, a scenario which could potentially bankrupt SME builders. Whilst larger companies may be able to carry some of these risks with their projects, they still pose challenges to them. Furthermore, it means sites of c.<100 units, typically suitable for smaller scale builders,

may not be developed, as they are too small for larger scale operators but financially unviable for smaller scale homebuilders. Often with these projects, the SME builder can secure a loan up a percentage cost of the project but would then be expected to bridge the remaining cost using their own finance or other funding sources. The limited equity available to smaller builders also prevents them from being able to scale up, by committing to more than one site at a time. This is problematic from a growth perspective, as well as meaning the housing market is somewhat dependent on the larger scale companies to deliver big proportions of housing. This will need to change if we are to meet the increased housing targets set by Government.

- An essential factor in meeting the increase in housing commencements must be ensuring confidence from investors that a development site can progress from planning permission to approval, to completion and to sale/let.
- The above point also relates to the limited supply of zoned land available, which is a further challenge. We need to have an ambitious portfolio of land nationally that is zoned for development purposes, so that increased housing targets can be met, but also to instil investor confidence in the development market in Ireland. We appreciate that this may be somewhat outside of the scope of this consultation, but it highlights the range of factors that impact the availability of finance for residential development.
- Brownfield/infill sites also pose challenges, as these are costly to develop, often due to the remedial works associated with them. Again, competitive financing and a fully functioning funding landscape is needed to support this, as housing delivery on these sites will be an important component in solving the housing emergency.
- In addition to the above, access to land was also cited as a challenge, along with unrealistic planning conditions (resulting in projects being unviable), governmental policy changes and problems with Part V.

5. Do you ever come up against debt limits when accessing finance from your current funder?

- Some IHBA members advised that they often face lower debt limits, with funders often preferring larger facilities (these are usually more profitable to the provider).
- Other members referred to a change in loan pricing, which in one case was +2% higher than the existing cost of funds, resulting in a material change in finance costs.

6. Do you experience any challenges in accessing equity funding? If so, please provide some information on the most significant challenges you currently face.

- The core issue lies in the housing market's ability to generate enough viable housing projects at the necessary scale. Unfortunately for most housebuilders it has been challenging to build up enough equity that could be redeployed to their project pipeline due to difficult trading conditions over the last number of years. The viability problem has severely impacted on cashflow and profitability of housebuilding enterprises limiting the ability to secure sufficient equity to purchase land. Bridging the gap between housing affordability and the construction sector's ability to deliver sufficient housing in a sustainable way is a key priority for public policy, with growing economic consequences both currently and in the future if it is not addressed.

- The cost of a variety of funding types and conditions were cited as a common challenge by IHBA members, as well as funding land without planning permission. As an industry, we encourage HBFI to use their expertise to provide an additional source of equity funding to the sector.

7. What impact, if any, have recent global challenges had on your experience of accessing finance for residential development (e.g. macro-economic environment, inflation, Russia's invasion of Ukraine)?

- In broad terms, any events that destabilise the macro-economic environment result in challenges where decisions are made over long-term horizons. Resulting inflationary increases therefore have pressurised project viability and funding.
- The exit of international equity has also had a significant impact on the supply of finance and for yield-based projects (e.g. apartments).
- Global conflicts were referenced as having an impact on project costs, through rising inflation resulting in increased construction materials and supply costs. One member highlighted an example whereby this was overcome in one affordable housing project through the AHB agreeing to pay an additional amount under the contract, enabling the project to be delivered. We continue to recommend that contracts operating in this space should have a mechanism built into them allowing for cost increases (or changes) that couldn't have been forecast at the contract signing stage. This would provide greater certainty for project funding and reflects the challenging market that the industry operates within.

8. What impact, if any, has the changing interest rate environment had on your experience of accessing finance for residential development?

- Responses varied depending on the business type, but some IHBA members advised that interest rates have posed challenges in accessing finance for residential development (this is also covered somewhat in the above points). This has had a subsequent impact on the profitability of projects which commenced 2/3 yrs ago, and continues to pose viability problems when members are seeking funding for new developments. This has meant that developers have found it challenging to demonstrate a project will meet the required equity/debt metrics.
- More recently, some builders have reported that as interest rates are falling, there has been an increase in appetite for funding residential developments. Despite the differing

stances, it is important to recognise that an increased cost of housing only adds to the cost of the home for the final purchaser.

Home Building Finance Ireland (HBFI)

9. What impact do you believe HBFI has had on the market for residential development finance since its establishment in early 2019?

- Generally, IHBA members have provided positive feedback regarding the impact that HBFI has had on residential development finance. They also recognised the benefit that having an additional competitor has had to the funding landscape. However, members regularly cited concerns relating to the following themes:
  - Project size requirements – members believe more could be done to provide financing for all types of development, with the strict limits currently imposed by HBFI needing to be relaxed.
  - Preference for apartment projects – whilst apartment delivery is an important part of housing supply, it should not be the sole focus. Funding for such projects is notoriously challenging, especially Build to Sell projects, which cannot be phased (due to the nature of apartment construction). Similarly, smaller scale apartment projects (<100 units) also pose further viability challenges. We therefore advocate for an approach to be taken by HBFI which supports all types of residential development. It is vital that funding for mixed tenure (affordable, private and social) remains.
  - Cost of Funding: HBFI's pricing was listed as more costly than competitors, once additional fees and the total cost of financing was calculated. This needs to be reviewed so that HBFI remain competitive.
- The IHBA believe that HBFI is having a positive impact on senior debt availability, but there is plenty of opportunity for it to have a bigger impact.

10. Have you applied to HBFI for funding for a residential development project? If so:

a) What was your experience and would you recommend HBFI?

- IHBA members broadly provided positive feedback regarding experiences they'd had in dealing with HBFI.

b) How does the HBFI application process compare to other lenders in the market?

- Members cited slowness, bureaucracy and expense as key comparative themes. Some stated that these issues were the reasons they sought financing elsewhere.

11. How do you feel about the range of products currently being offered by HBFI? Are there any particular areas of the market in which you believe HBFI could focus more?

- IHBA members advised that smaller projects would be a useful space for HBFI to expand in (i.e. <5 units).
- Another suggestion was associated with financing sites without planning. This could be achieved via debenture stakes (redeemable equity), or a warranty to underwrite a loan from a conventional provider. Alternatively, to the above, “bullet loans” could be provided where the interest rolls up and is only repayable when permission is granted. Whilst it was noted that under this approach, HBFI would be taking some of the planning risk associated with the development, this is vital for developments to “kick start”. Our members believe this could unlock smaller sites which would easily help in meeting the increased housing targets set by Government.
- We have also referenced suggested policy measures which we believe could help facilitate increased housing delivery, through an improved funding landscape.

12. Please provide some information on your role in residential development (developer/lender/contractor), the residential categories you have been involved in (e.g. apartment development/housing/social/senior living/student accommodation).

- IHBA members represent all types of housebuilding businesses, from PLCs to small scale, independent housebuilders. They support and deliver housing of all kinds, including apartments, housing (as well as social/affordable), senior living and student accommodation. We therefore believe the responses included in this submission represent the diverse challenges that the industry faces in finance associated with residential development.

13. Please provide any additional comments which you consider relevant to the Minister’s review of HBFI.

- If the industry is to meet the Government’s increased housing targets (50,500/yr 2025 – 2030, and 60,000/yr thereafter), it is essential that there is a competitive, accessible and suitable financing landscape to help fund all types of housing. HBFI has been undoubtedly useful in unlocking housing developments that otherwise would not be viable, however, the submission shows there are still serious challenges in accessing funding which must be addressed.