

Housebuilding in Ireland – Maximising Opportunities and Reducing Risk


BOARD DISCUSSION

Spotlight on Pyrite Issues and Remediation

Up to 20,000 homeowners have made claims for pyrite-related damage.

The cost of pyrite repairs is EUR50,000- EUR70,000 per single dwelling unit.

The Government has pledged EUR10 million to help affected homeowners.

1,498 pyrite remediation applications received, but just 553 completed.

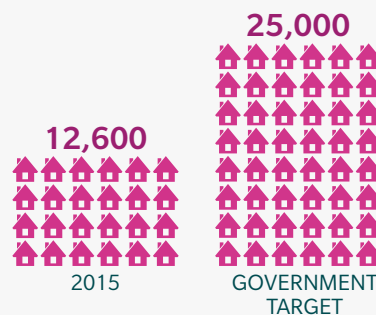
Housebuilding in Ireland is on the rise again, in part due to the extension of the Government's housing and homelessness plan, and its help-to-buy scheme for first-time buyers. While this is great news for the construction industry, great care must be taken to ensure there is no repeat of the significant problems in terms of the safety and quality of housing built, as witnessed in the late 1990s and early 2000s.

RESIDENTIAL CONSTRUCTION IN IRELAND IS ON THE RISE

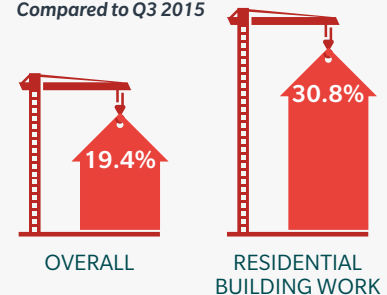
Construction in Ireland experienced a year-on-year increase of 19.4% in the third quarter of 2016, largely due to a 30.8% increase in residential building work¹.

FIGURE 1 Opportunities for Growth

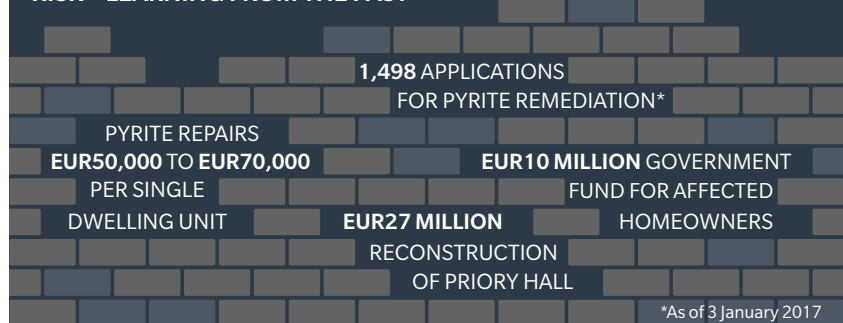
HOUSES BUILT PER ANNUM



BUILDING AND CONSTRUCTION OUTPUT Q3 2016 Compared to Q3 2015



RISK – LEARNING FROM THE PAST



POTENTIAL BENEFITS OF MANAGING RISK



“While the Regulations and the Construction Industry Register Ireland will greatly reduce incidents of serious building failures, they will not eliminate them entirely.”

Yet despite this welcome upturn, residential building projects are not at the level required, and there is an urgent need to increase construction activity. Mr. Simon Coveney T.D., Minister for Housing, Planning, Community and Local Government, has advised that slightly more than 12,600 newly built housing units were completed in Ireland in 2015². Yet the government’s Rebuilding Ireland initiative aims to deliver an average of 25,000 new homes per year by 2021.

This target is a welcome opportunity for developers, builders, and all construction stakeholders in Ireland, both for the business it will generate and also the ability to begin to repair the damage to consumer confidence caused by pyrite issues (SEE BOX OUT) and other high-profile quality and safety failings experienced by many since the turn of the century.

BUILDING CONTROL AMENDMENT REGULATIONS (BCAR)

Lessons have been learned. In order to prevent a reoccurrence of the issues that arose from defective materials such as pyrite, breaches of health and safety regulations, poor workmanship, and contractor insolvency – all of which have been the subject of recent high-profile actions in Ireland – the Government enacted The Building Control Amendment Regulations (“The Regulations”) in March 2014. The implementation of the Regulations is certainly to be welcomed, as they provide additional protection for consumers by improving controls and demanding greater accountability and traceability of the construction industry.

PYRITE ISSUES AND SUBSEQUENT LITIGATION

In 2010, news broke that up to 20,000 homeowners in Ireland had made claims for pyrite-related damage, such as cracked floors and walls.

Many, however, found their home warranty/latent defects insurance (LDI) policies contained exclusions for pyrite. The typical cost to remove the pyrite and repair the damage per single dwelling unit is in the range of EUR50,000 to EUR70,000.

A considerable amount of litigation followed against a range of parties, which in some cases eventually resulted in banks writing off mortgage debts and the Government pledging a EUR10 million-fund to help affected homeowners through its Pyrite Resolution Board (PRB).

As of 3 January 2017, the PRB had received 1,498 applications for the remediation of dwellings with significant pyrite damage. Of these, 553 had remediation completed – so, for many, the problems continue³.

The Construction Industry Register Ireland (CIRI) has been another positive development in this regard. CIRI is a voluntary register for all members of the construction and building industry, covering 39 disciplines in all. Registrants must apply to the register on an annual basis and demonstrate high standards by passing a stringent vetting process, which, in turn, raises industry standards and provides peace of mind to those consumers employing registered contractors.

THE IMPORTANCE OF HOME WARRANTY/LATENT DEFECTS INSURANCE (LDI)

The Regulations and CIRI have given the insurance industry increased confidence at a time when house building is set to take-off once again. As a result, it has developed superior LDI products for the Irish residential construction sector to protect consumers against the problems experienced following the last housing boom, among other risks. The products vary, but today, for example, it is now possible to purchase cover that does not exclude pyrite and which has significant higher sums insured available (some as much as EUR1 million per single “own-door” unit), to name just a few enhancements.

Nevertheless, while The Regulations and CIRI will greatly reduce incidents of serious building failures, they will not eliminate them entirely.

A recent analysis of claims reported to BLP Insurance revealed that, in the UK – where similar building control legislation is already in place – 66% of latent defect claims (by value) are still caused by poor workmanship⁴. The vast majority of these occur in the waterproofing envelope of the building, allowing the ingress of water through

windows, doors, roofs, and wall claddings.

There is therefore the need for a greater use of LDI products in Ireland in order to protect all stakeholders, including consumers, developers, lenders, and authorities. Importantly, this will improve consumer confidence by providing a form of redress should a claim need to be made, which will, in turn, support construction growth in the country. It will also protect builders against timely and costly litigation, and enable developers and builders to enhance their proposition and thereby achieve a competitive advantage when selling on the properties.

The cost of LDI (excluding VAT) – typically a one-off cost amounting to approximately 1% of the total construction value of a scheme for a 10-year policy – will be borne by construction companies and not the consumer. The onus is therefore on the Government and the insurance industry to communicate the value this level of protection will give to stakeholders. The resulting renewed consumer confidence will support the economy as a whole. The Government could even consider making LDI a requirement for residential new builds, as is currently the case in the UK, Australia, Canada, France, and many other countries around the world, for the greater good.

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CONCLUSION

After several years of subdued supply, Ireland is embarking on a welcome and necessary upturn in home building. Recent building control systems are to be welcomed and will greatly reduce the incidence of serious building failures; however, they will not eliminate them entirely. LDI is therefore essential to support the latest uplift in construction projects, in order to build confidence in the Irish construction sector and safeguard homeowners and construction companies against time- and cost-intensive litigation in the event that something goes wrong.

The Government should now work together with the insurance industry to communicate the value of LDI to residential construction companies, so that lessons are learned from the past and necessary steps taken to protect all stakeholders into the future.

CONTACTS

For more information, contact the colleagues below or visit our website at:
www.marsh.com/ie/home.html.

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¹ Central Statistics Office, "Production in Building and Construction Index Quarter 3", 2016, available at <http://www.cso.ie/en/releasesandpublications/er/pbci/productioninbuildingandconstructionindexquarter32016/>, accessed on 3 January 2017.

² Address to The Irish Times Property Forum, 1 September 2016, available at <http://www.housing.gov.ie/housing/home-ownership/minister-coveney-address-irish-times-property-forum>, accessed on 3 January 2017.

³ Pyrite Resolution Board application statistics, available at <http://www.pyriteboard.ie/Application-Statistics.aspx>, accessed on 3 January 2017.

⁴ Information provided to Marsh by BLP Insurance.

The information contained herein is based on sources we believe reliable and should be understood to be general risk management and insurance information only. The information is not intended to be taken as advice with respect to any individual situation and cannot be relied upon as such.

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