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PII Rental Sector Report

August 2021

The Importance of Growing the Rental Sector in Ireland



The Importance of Growing the Rental Sector in Ireland

Key Messages and Recommendations:

1 ↙

Using the **mid-growth population** scenario, an additional 272,154 households could be in the rental sector by 2051. This equates to an annual increase of over 9,000 rental homes a year. The government should not only establish a target delivery of overall homes on an annual basis, but it should also indicatively set out the various tenure sub-categories of homes that need to be delivered.

2 ↙

Stability and certainty of policy is important for all in the rental sector. Policy stability and certainty for the rental sector is an important element in maintaining supply and the ability to meet housing need based on the population growth figures. Government should set out a

strategy for the rental sector including a strategy for institutional funding. Government Policy should reflect the needs of the rental market in tandem with the home ownership market and recognise and encourage the segment of the market that needs and wants PRS homes as well as those in other sectors of the rental market.

3 ↙

RTB data show that there has been an **exodus of landlords** from the market. This trajectory must be reversed to ensure that good rental stock is available through smaller landlords in Regional Ireland beyond urban areas. Homes are needed across the full range of tenures to meet demand from across the full income distribution, both for home ownership and for rental. The retention and expansion of private investor remains a key necessity in terms of supply in the rental market for the next decade at least.

4 ↙

The announcement that rents will be linked to changes in the HICP could mean under renting will persist and landlords will continue to leave the market. Persistent changes to policy mean that this risk must be financed into any investment decisions. Failure to address the **issue of under-renting** will have a negative impact on a landlord's ability to continue to fund property maintenance and could result in a reduction in the quality of the rental housing stock.

5 ↙

Enforcement of RTB decisions should be increased to **ensure good landlords and good tenants are protected**. The RTB should be provided with the resources

and enhanced powers to enforce RTB decisions. The perception of a bias in favour of tenants as found in the RTB survey needs to be addressed.

6 ↙

There is too much debate about the real basis of cost of developing homes. The Government must establish an **index of real construction and development costs** to remove ambiguity and debate on the facts to enable debate focus on the solutions.

7 ↙

Local authorities be required to reflect government planning policy on '**Build to Rent**' housing developments.

Introduction

Ireland is a small open international economy. One of the most successful economic stories in Ireland has been the ability to attract foreign direct investment (FDI). This investment has delivered economic growth and jobs. Much of this new employment draws a young and international workforce to our urban centres, for whom renting, in purpose built rental accommodation, is the preferred form of housing tenure.

The Rental Market plays a significant role in the economy and in the overall property market and includes open-market rental, social rental and the forthcoming affordable cost rental sector. Rental properties, across all tenures, are a cornerstone of a functioning and stable housing system. The growing private rented sector of professional institutional landlords is a welcomed addition to the Irish market but is not and should not be the panacea. A blend of all tenures of rental housing, combined with a broad tenure of homes in ownership is required.

Estimates suggest that in the order of 35,000 new households will be formed each year. This excludes any pent-up demand or replacement of obsolete housing stock. More recent estimates suggest that housing need could have risen to 40,000 per annum. Homes will need to be supplied across the full range of tenures to meet demand from across the full income distribution, both for home ownership and for rental. This graph sets out how this housing need might be met – including demand supported by the Equity Loan scheme proposed by PII in June 2020 and announced as part of Budget 2021 and the Government’s recent announcement of Affordable Cost Rental. Based on these estimates, each year an additional 6,000 households will enter the private and affordable rental sector (excluding social housing). Population increase, which includes growth in student numbers and a continued inflow of immigrants, has contributed to the increasing demand for rental properties. In addition, macro-prudential rules since 2015 made it more difficult to access mortgages and resulted in lower outflows from the rental sector.

These population projections for 2051 indicate we could need over 1 million more homes for the next 30-year period. Census 2016 tells us that 469,671 households (including social renting), representing 27.7% of the total, live in the rental sector, the majority of which rent from private landlords. If this proportion remains constant, then using the mid-growth population

scenario an additional 272,154 households could be in the rental sector by 2051. This equates to an annual increase of over 9,000 rental homes a year. This demand will be met, in part, by new build such as city centre apartments and purpose-built student accommodation. An annual increase of 9,000 rental homes contrasts with the data below which shows an annual decline in the number of landlords and tenancies.

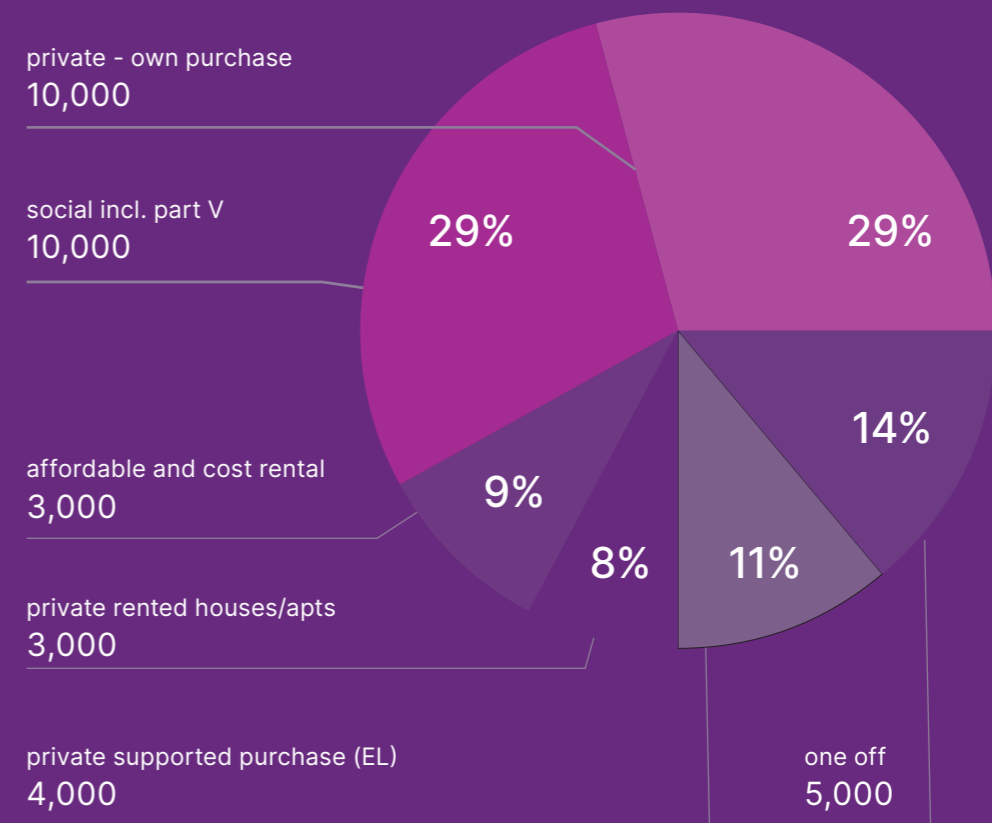
There has been a recognised shortage of rental units since late 2013. In response to the scarcity of rental properties and consequent increase in rents, Rent Pressure Zones were introduced in Ireland in 2016 and are due to be revisited by Government this year both arising from their legislative “expiry” and from “Plan for Government” commitments.

The recent Concluding Statement from the IMF (2021) identified “Reducing shortages in affordable housing requires a multi-pronged approach. The government’s effort in this regard is welcome but more needs to be done by (i) releasing more land for development; (ii) streamlining approval processes for permits and re-zoning; (iii) assessing incentives to build rental properties; and (iv) increasing supply, including of social housing.”

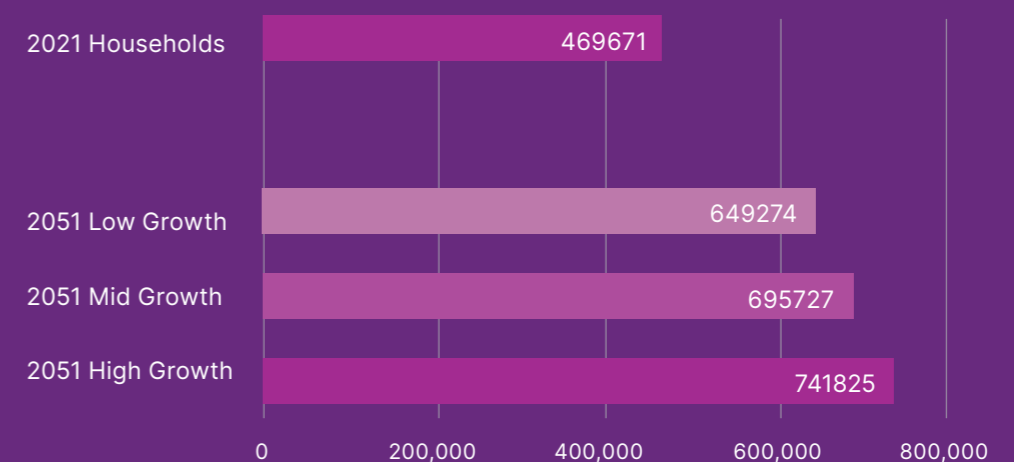
Many of the matters which require improvement and change are common to both the institutional and private landlords. There has been a general assumption that the exit of the private investor is tax driven and unquestionably that is a factor. But there seem to be many other factors playing a role. Amongst those are the regulatory obligations which can be highly problematic for the landlord owning one or two units, especially where there are other OMC complexities as well. There are the rent control regulations and the bureaucracy attached to those in terms of notice, calculations etc.

In a recent RTB survey (2021) landlords were asked to comment on the impact of increased regulation. This question was asked in an open-ended style thus allowing a more detailed and insightful response. The main comments made were negative - ‘too much unfavourable regulation against the landlord’ (38%) and ‘the amount of regulation is getting to be too much/pushing out smaller landlords’ (12%). In the qualitative research, landlords also expressed the opinion that there was too much regulation and that the regulation benefitted tenants more than landlords.

Housing by Tenure:



Projected Growth in Rental Sector Households:



RECOMMENDED ACTION:

The government should not only establish a target delivery of overall homes on an annual basis, but it should also indicatively set out the various sub-categories of homes that need to be delivered.

The Views of Tenants

In the recent RTB Tenants Research Report (July 2021) respondents were asked to rate their experience of renting their current property, of renting in their current neighbourhood and of living in the private rental sector in general. Overall, the tenant's experience of renting and living in the private rental sector was positive. More than three in four were 'positive/very positive' about renting their current property (79%) and renting in their current neighbourhood (83%).

Surveys carried out by the Housing Agency also show good levels of satisfaction amongst those living in the Rental sector.

Using the mid-growth population scenario an additional 272,154 households could be in the rental sector by 2051. This equates to an annual increase of over 9,000 rental homes a year.



79%

happy in rented property

83%

happy in rented neighbourhood

9,000

9,000 new rental households per year

"Rental sector could reach 742,000 households by 2051"

 **ACTION:** Government Policy must reflect the needs to the rental market in tandem with the home ownership market and recognize the segment of the population that needs and desires PRS homes.

Market Stability and Certainty of Policy

Despite the welcome increase in apartment supply there has been much negative comment about the role institutional investors play in the housing market. Institutional funds play a key role in financing apartment construction. CSO statistics show that 4,014 apartments were completed in 2020, a 14% increase on the previous year. These apartments provide much needed homes, particularly for those looking to rent.

An increase in supply needs to happen in the entire rented sector [social, affordable, and private] as well as for owner-occupiers.

The reality is that without institutional funding, the challenging nature of apartment development funding means most new apartments would not be built. These funds are providing accommodation into the Irish housing system by funding the building of much-needed rental apartments. If this funding is not available, then a consequence will be lower supply.

The SCSl (2021) analysis of development costs of a two-bedroom apartment show the cost of delivery can range from €356,000 to €619,000 depending on apartment type and location within the Greater Dublin Area. A recent report by EY and Cork Chamber of Commerce (2021) examined two case study developments in Cork City. Case study 1 presents the costs and valuation submitted by a developer for a 201-unit BTR development at Cork City Docklands. Case Study 2 presents the costs and valuations submitted for a 147-unit BTR development also situated at the Cork City Docklands. It found that, based on the overall cost of delivery and valuation based on expected rents for Case Study 1 exhibits a loss of 15% relative to its overall delivery costs and so is not considered viable. Similarly, Case Study 2 makes a loss of 18% relative to its cost of delivery and so is not considered viable.

The fact remains that the cost of delivery of apartment buildings remains a barrier to enable such homes to be delivered to individual homeowners or for that matter, small landlords. The significant shortage of supply across homes for ownership and for rental is the core problem

that must be addressed and the fundamental cost of delivery, particularly apartments remain challenging.

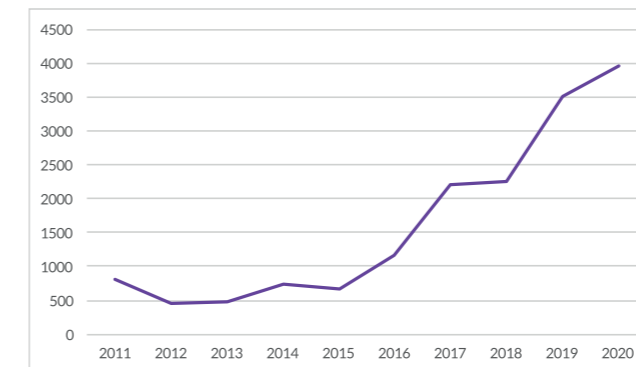
If we assume, based on the estimated need outlined at the beginning of the report, 9,000 apartments need to be built annually, then approximately €4.6bn of capital would be required annually. The construction costs and the capital requirement highlight the need for institutional investment in apartments. Given costs, apartment supply is not fundable in most locations for most earnings cohorts on a build-to-sell basis.

These apartment blocks are largely acquired by pension funds on a forward commit basis, which facilitates their construction. These apartments are then placed on the rental market. This is common in many European economies. Contrary to some common opinion, funds are not taking homes away from people. Without their investment and willingness to purchase them, very few apartments would be built at all. Housing is a long-run asset so while ownership may change the apartment remains in place. Knowing that there are institutional investors willing to buy the finished apartment block provides certainty which allows the development to take place.


A 2019 survey commissioned by the Housing Agency of those living in apartments found that apartment dwellers satisfaction levels with their apartment were high at 81%, with 56% being 'satisfied' and 25% being 'very satisfied' with their apartment. In addition, one fifth of apartment dwellers considering moving would prefer an apartment as their next home, while looking forward to future tenure choices, over a third of renters in apartments think they will always rent.

A recent report by IIP (2021) makes the points that the housing crisis will be solved primarily by a significant increase in the supply of units delivered by private developers across all tenures of both rental and for sale homes. In addition, the delivery of increased housing supply will require significant growth in international development capital, thus the reliance on the supply of capital from international providers.

New Apartment Completions



Policy stability and certainty for the rental sector is an essential element in maintaining supply and the ability to meet housing need based on the population growth figures set out above. The increase that we have seen in the supply of houses and apartments should not be taken for granted. At present, the risk factor for institutional investors is too high with policy changing too frequently. Policy uncertainty will result in a slowdown in development funding and a pause in supply growth. The establishing of the Housing Commission will be a welcome addition to help secure and determine longer term policy for housing and should encourage long term capital and development financing into the sector to enable supply to increase.

 **ACTION: Stability and certainty of policy is important for the rental sector. Government should set out a strategy for the rental sector including a strategy for institutional funding.**

There is too much debate about the real basis of cost of developing homes. The Government must establish an index of real construction and development costs to remove ambiguity and debate on the facts to enable debate focus on the solutions to higher cost.

Current and Future Composition of Landlords

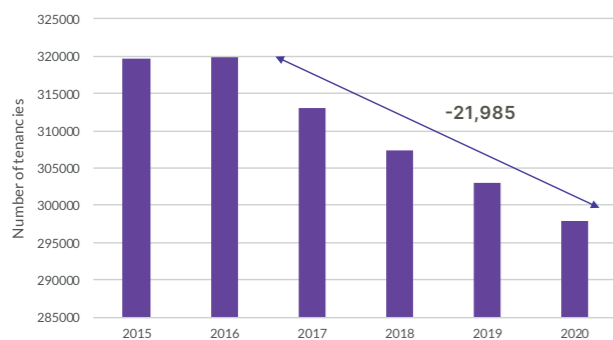
The pressure on supply eased somewhat with the arrival of Covid-19 and the resulting displacement of supply from Airbnb, exodus of office workers (either to their country of origin for non-nationals or to their parental or holiday homes for nationals), increased supply of Social Housing and from newly constructed supply mainly driven by PRS investors and to a lesser extent one off “mom and pop” landlords.

The easing of pressure is somewhat offset by the exodus by way of purchase of new purpose built or second-hand stock. In addition, increased supply of newly constructed PRS units, outside of the Greater Dublin Area is limited and is

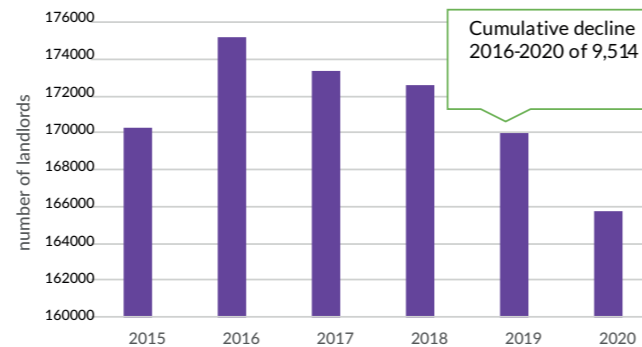
dependent on the “mom and pop” landlords buying single units in new housing schemes. At the end of 2020 there were some 297,837 private residential tenancies registered with the RTB, a decline of nearly 22,000 units since 2016 notwithstanding that the larger PRS operators probably added some 2,000 – 3,000 new to the market rental units over the period. (see graph: trend in tenancies registrations with RTB).

As noted, the number of small landlords leaving the market is significant and growing. This trajectory must be reversed to ensure that good rental stock is available through smaller landlords in Regional Ireland beyond Dublin and Cork.

Trend in Tenancies registrations with RTB



Trend in Landlord registrations with RTB



Note: Increase between 2015 and 2016 reflects in part the inclusion of AHBs

Private and Approved Housing Body Tenancy Registration Activity 2016-2019*

	2016	2017	2018	2019
AHB Tenancies	5,550	26,445	29,542	32,662
Private rented tenancies	319,822	313,002	307,348	303,023
Total tenancies	325,372	339,447	336,890	335,685

Source: RTB Tenancy Management System. *Active tenancies registered with the RTB at end of the year.

The new “cost rental” pilot will certainly initially be filled, in the main, from large scale purchases within new housing estate units currently under construction and originally destined for sale to the private market. However, the initial immediate scale of this will be modest – probably no more than 300 units. The full-scale cost rental model should be rolled out across the country and enable the AHB sector to cater to households on incomes above the social housing threshold.

Data from the RTB Annual Report (2019) show that at the end of 2019 90% of registered tenancies were in the private rented sector. (see above table: Private and approved housing body tenancy registration activity 2016-19).

During the 2016 – 2020 period the decline in the number of Landlords (as distinct from Tenancies) registered has reduced by over 9,500. Failure to address this shortfall may result in reduced foreign direct investment due to the inability of companies to house their workforce in an affordable manner. (see graph: trend in landlord registrations with RTB).

Notwithstanding the increase in PRS units stemming from Institutional Investors, the retention and expansion of smaller private landlords remains a key necessity in terms of supply in this market for the next decade at least. When the rental stock in Ireland is examined as a whole, the majority of landlords (96%) associated with RTB registered tenancies at the end of 2019 were individuals, and the remaining minority (4%) were companies.

The number of landlords associated with a single or multiple tenancy November 2020

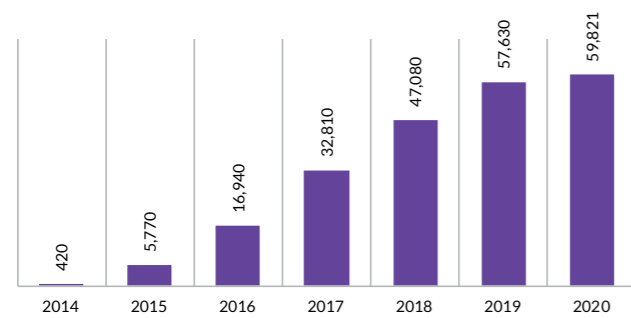
No of	Total Landlords	% of
1	116,797	70.15%
2	27,329	16.41%
3	9,407	5.65%
4	4,386	2.63%
5	2,336	1.40%
6	1,519	0.91%
7	985	0.59%
8	738	0.44%
9	504	0.30%
10 - 20	1,789	1.07%
20+	706	0.42%
Totals:	166,496	100.0%

Source: Residential Tenancies Board

Given the importance of the small-scale landlord in rental property supply there is a need to examine what incentives/measures could be put in place to maintain the existing supply and attract more supply to the rental sector.

Number of Households in HAP

Demand for homes in the private rented sector has also been driven by an increasing use of the PRS to meet the demand for units for HAP tenants. By Q4 2020 there were close to 60,000 active HAP tenancies at a cost of €435.9 million. This is an unsustainable and growing figure that needs to be reversed through the provision of more social housing through LA / AHB ownership and through the provision of affordable cost rental with AHBs.



Source: 2014-2019 CSO, 2020 Gov.ie: Active HAP Tenancies, Q4 2020

 **The retention and expansion of private investor remains a key necessity in terms of supply in the rental market for the next decade at least.**

The Role of the RTB

The establishment of the RTB has been a welcome development for the sector. However, its operation has given rise to some issues. From the landlord perspective it often appears to be solely to protect the tenant, with an over reliance on technicalities and some inconsistencies between case officers. The impact of these issues on the rental sector is compounded by the fact that engagement with the RTB procedures is a slow process when time is critical.

Enforcement of RTB decisions must be increased to ensure good landlords and good tenants are protected, as this, in parallel with taxation levels, are the biggest barriers for small landlords.

These perceptions are reflected in landlord responses in qualitative interviews undertaken as part of a survey by the RTB (2019). Landlords expressed frustration with what they saw as a legislative system designed to favour tenants. Concerns such as lack of enforcement, bias in favour of tenants, and the predicted length of the dispute resolution process appear to be driving cynicism around the Dispute Resolution Services. There are also the costs and enforcement challenges of the legal system when it comes to recovery of arrears and or possession.

ACTION:

- Improve efficiency of RTB to make enforcement of RTB decisions more timely.
- Provide the RTB with the resources and enhanced powers to enforce RTB decisions.
- The perception of a bias in favour of tenants as found in the RTB survey needs to be addressed.

Rent Pressure Zones and the Landlord / Tenant Relationships

The Rent Pressure Zones RPZ's have played a role in stabilising the rental market. However, their introduction has had unintended consequences. The regulations froze increases to rents at 4% per annum. This severely punished the landlords who had taken a very benign approach to their rent and not increased it for years. In effect this means that, in the case of under-renting, the landlord is subsidising the tenant. "Under-renting" landlords incur the same costs as landlords whose rents are set at the market rate. The inability of landlords to address under-renting when tenants change may well be a factor preventing downward movement in rents as it sets a new cap. In addition, it may also be reducing mobility within the rental sector as tenants benefiting from under-renting will be reluctant to move. Under-renting may result in a fall in the quality of the rental stock as these landlords may not have the resources to invest in maintaining the property beyond a minimum level. A recent report by the Nova Scotia Affordable Housing Commission (2021) recommended that short-term rent control measures be discontinued as planned.

The RTB have published survey results titled "Landlord and Tenant Experiences of Rent Pressure Zone measures" (June 2019). Through the research, strong frustrations are evident amongst landlords concerning (RPZs) and the associated restrictions. This frustration was apparent in the qualitative interviews; many landlords complained about being stuck in a situation where they are charging below-market rent due to having offered favourable rents in the past, and some lament their inability to get the full value from their property. Further evidence of this frustration can be seen in the quantitative results, where the majority (55%) believe that RPZ restrictions are unfair.

The announcement that rents will be linked to changes in the HICP could mean under-renting will persist and landlords will continue to leave the market. In addition, persistent changes to policy means that this risk must be priced into any investment decisions.

The introduction of a limit to rent increases discourages investment and capital expenditure as there is no ability to achieve rent which would reflect this investment. Analysis of rent controls introduced in Berlin show that these have not had a positive impact (Berlin's Rent Controls Are Proving to Be a Disaster – Bloomberg March 2, 2021). While rents fell in Berlin's regulated apartments they rose even faster in the unregulated apartments. Berlin's rent controls have also impacted on supply, with almost no regulated apartments available anymore. The data confirm what's been observed in other cities such as San Francisco or Cambridge, Massachusetts. The caps represent a windfall to one group of tenants: those who already live-in regulated apartments. Simultaneously, they hurt all other groups — especially young people and those coming from other cities — by all but shutting them out of the market.

Furthermore, rent controls significantly discourage investment, which would be detrimental to increasing supply of housing in general. Rent control can also lead to decay of the rental housing stock; landlords may not invest in maintenance because they can't recoup this investment by raising rents. (Downs 1988, Sims 2007).



"While some see rent control as an anti-poverty safeguard against displacement, gentrification, and economic evictions, we need to carefully consider all its potential effects,"

"Opponents are concerned rent control can suffocate supply and divert investment away from residential rental units, leading to deterioration. When rental rates do not keep pace with the cost of maintenance, building operations, and renovations, this disincentivizes housing providers to preserve existing affordable units."

Nova Scotia Affordable Housing Commission (2021) Charting a new course for affordable housing in Nova Scotia.

It is the view of PII, failure to address the issue of under-renting will have a negative impact on a landlord's ability to continue to fund property maintenance and result in a reduction in the quality of the rental housing stock.

Planning System

It is important that local authorities are required to reflect government planning policy on 'Build to Rent' housing developments, as set out in the Apartment Guidelines 2020. We have recently seen some local authorities seeking to classify BTR as a separate land use class from residential and put in place restrictive policies on BTR development in their new draft development plans, directly contrary to national policy. Such restriction could undermine the achievement of critical government initiatives to increase the supply of rental accommodation.



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P11 Sectors

