

Society of Chartered Surveyors Ireland

Rental Strategy

Submission to the Department of Housing, Planning,
Community and Local Government

November 2016



Four key themes have been identified to structure the Residential Rental Strategy

Security – bringing greater certainty to tenants and landlords.

Property investment in Ireland was a popular choice for many over the past decade however it is clear that volatility is an issue for most investors. There is a heightened demand with investors for an investment property that provides stable returns and can be easily managed. During the period of recession when rents were under downward pressure, government and financial institutions introduced measures that exacerbated distressed buy to let properties. Variable interest rates rose and government reduced taxation reliefs on landlords, introduced property tax and also withdrew rent relief from tenants. This has had a lasting effect on property investment in Ireland especially around small time investors. There is a dual approach to property taxation for rental properties when comparing the smaller investor with larger landlords.

There is no certainty for landlords or tenants and this is playing heavily on supply of rental properties. Investors will look at more easily managed and reliable returns for their investment and landlords are no longer enthusiastic about residential property investment. Ireland is now faced with rising rents and the difficulty is that the volatility in the sector is having unintended consequences to rental trends.

From a tenant perspective, there is clear mutual interests in having a stable rent projection that is trouble free and no need for regular landlord interaction.

The SCSi is of the view that there is not one measure that fits all situations in the residential rental sector. SCSi recommends that Government should introduce measures to incentivise landlords to offer properties on long term leases but to be cognisant that not all tenants will have the need to sign lengthy leases. There should be more options available to both landlords and tenants with regard to leasing options. For example, SCSi is concerned that some aspects of the Part 4 tenancy arrangements in legislation is flawed. There is an option for a landlord to issue a termination notice, without reason, on a tenant at the end of a Part 4 tenancy arrangement and this is a concern for tenants. SCSi believes that there is no need for this provision so long as the tenancy is performing and that covenants are being complied with and this should be removed from Part 4 tenancies.

There is a transient shift in perceptions in recent years of those in rented accommodation. Previously it was viewed as a short term measure mostly for younger generations until they were in a position financially and when they had families then to purchase their starter home. This mentality requires some maturity and a long term gradual move towards the continental approach of renting, we feel is a better fit for the vision of the rental sector in Ireland.

The SCSI is of the view that the residential rental sector is becoming very unattractive to both landlords and tenants as it can often be associated with problems and unquantifiable risks.

From a landlord's viewpoint, if a problem tenant is requested to leave, this can be very costly. The RTB is very effective in its mediation and dispute resolution service however, the RTB is not resourced to take cases to the courts and this is having a negative impact on those relying on the RTB service. The fact that the RTB lacks in this area of power can undermine the effectiveness of this agency. SCSI believes that this should be reviewed and more resources placed with RTB to take cases to the courts would be an injection of confidence into the sector.

SCSI understands the attempt by government to control rents when the rent freeze legislation was introduced. We understand that this is a temporary measure until such time as the supply of new homes comes to the market. SCSI is concerned that when rent reviews are taking place, that landlords are required to produce three comparable properties to demonstrate any rent review. The comparable properties have to be 'recent advertisements' and SCSI does not agree with this approach. We are of the view that the RTB Rent Index should be the authoritative source of rental data to use during rent reviews. Any unscrupulous landlords with multiple properties, could in theory, use their other three properties and advertise at inflated rents to demonstrate the 'market rent'. This requires further attention.

Of course, security in the rental sector also depends on the planning and design of residential units, particularly apartments. SCSI believes that if tenants were provided with the option to rent for longer periods of time in the comfort that they knew what the rent or review will be in the following years, coupled with a design that is compatible for growing families, this would be a combination of influences that will improve the attractiveness of rented accommodation as a tenure option.

Supply – maintaining existing levels of rental stock and promoting additional supply through encouraging new investment and bringing unused capacity to the market.

The supply of, particularly new builds, is the single biggest issue facing the housing sector in Ireland. We are all acutely aware of the problems facing the housing sector in producing new units for areas of highest demand, however, SCSI is of the view that a more long term approach is required to develop a more innovative strategy for urban living. We believe that government and supporting agencies needs to take a collaborative approach to promote the development of Build to Rent models in Ireland, particularly Dublin and other major urban centres. We believe that not only will this provide a better way of living, there will also be a significant demand for this type of accommodation. The design aspect of Build to Rent models is the critical pinch point and clever use of space for storage and apartment adaptability is an

important specification to allow this rental option to succeed. Build to Rent is a model that is widely used in the US and to a lesser extent in other countries including the UK. Build to Rent is an attractive proposition to the larger investors but understandably this is not a measure that fits all rented properties.

Short term lets are becoming an issue particularly in major urban centres. Landlords see opportunities elsewhere to ensure an adequate level of return on their investment and this requires close attention for government. SCSi is concerned that if the attractiveness of short term lets continues, this will have the effect of further increasing rents as supply becomes even tighter.

Standards – improving the quality and management of rental accommodation.

SCSi is concerned that there is a low level of inspections on rented properties. As the RTB is now a self-funded agency, part of the RTB registration fund goes towards local authorities for carrying out inspections. SCSi recommends that as the Residential Tenancies Act legislation is in place, additional resources should be provided to the RTB and / or LA's to increase inspection levels. There is a significant lack of awareness amongst landlords in relation to the minimum housing standards and one way to address this education deficit is to have all landlords sign a declaration that their properties are in compliance with the housing standards before renting/inspections take place. In this communication, their obligations can be clearly set out within. This will only be effective to those compliant landlords, however, SCSi is also concerned regarding the level of landlords that do not register the tenancy with the RTB. We believe that the identity of non-compliant landlords should be prioritised as this is often a leading indicator in high levels of disputes.

Following consultation with our chartered property managers, it is evident from their response that most disputes arise in relation to fixtures and fittings, particularly white goods. If Ireland's vision is to move towards a longer term rental tenure, government should strongly consider simplifying the approach taken in relation to the provision of furnishings. A tenancy is more likely to be a smoother process if the tenant was to supply their own white goods and furniture. The SCSi is not advocating a shift from fully furnished to unfurnished properties, however we suggest that there should be more options available for landlords and tenants.

It is argued that there are inadequacies in relation to landlord and tenant awareness of rights and obligations. There can often be unreasonably high expectation among tenants when problems are encountered with the rented property, some of which can often be outside of the landlord's control. Some of the feedback we received from agents is that there can be often reoccurring issues from tenants. Landlords can often be accused of supply properties that are damp and contains mould growth, however in most of these cases there is often excessive condensation in units as a result of drying clothes in the property/ vents blocked up. This can very easily lead to disputes which is entirely avoidable if tenants are made more aware of their obligations. An investment of raising awareness with tenants should also be considered.

Services – broadening and strengthening the role and powers of the Residential Tenancies Board (RTB) to more effectively provide key services to tenants and landlords.

As previously mentioned, the RTB is a very professional, efficient and important service provider in the rental sector. However, one of its biggest challenges is that it is not adequately resourced. The RTB lacks in the enforcement of rogue landlords / tenants. This needs to be addressed as a matter of urgency so that the image of landlords can be improved and that landlord and tenants feel confident that their interests and rights will be protected.

We must remember that an investor in any property including residential is interested in making a reasonable return on that investment without the burden of micro management. A tenant is interested in having options and also the comfort that if they embark on a long lease, they will be able to budget for rent commitments in the coming years. At the moment, the rental sector is perceived by landlords as too much hassle and lacks in return and there is a significant concern that as properties move back into an equity neutral position, there may well be a cohort that will exit the market and reinvest their capital in other forms of investments.

Vision for the residential rental sector

- **What role should the rented sector play in the overall housing system in Ireland?**
- **How do we make the rented sector an attractive long term tenure of choice for households?**
- **How do we ensure the rented sector can provide secure and stable returns for landlords?**
- **What role can cost- and affordable rental models play in the long term development of the rented sector?**

Regulation is a key pillar to ensure consistency of approach and standards in any industry or service provision. There is a danger that over regulation will stave off investment and artificially effect a sector in such a way that it no longer performs as effectively as it should. The SCSi is supportive of most measures introduced in legislation however there should be more options available to both parties in the rental agreement, as previously discussed.

It is difficult to discuss the rented sector in isolation of housing supply. The catalyst for the distain within the rental sector is mainly due to rising rents, which is as a result of lack of supply and an increase in demand. The reason for the housing supply issue is as vast and complex as the granular issues facing the residential rented sector. If successive governments are to ensure that there is a stable housing sector in Ireland, both owner occupied and rented properties, there should a dedicated task force put in place to collect all the available data from various agencies and collaborate more fluidly with various departments so that blockages/ issues can be identified and addressed in advance. The availability of reliable up to date data is the pinch point for accurate decision making and until such time as to when provisions are set up to tackle the complex array of issues and track their progress, it can be difficult to plan for the future.

Stability in the rental sector, predictability for tenants and landlords and rent affordability in pressure areas:

- **What approach to rent regulation would be appropriate for the Irish rental market?**

SCSi would not recommend rent regulation as a long term strategy to address rent predictability for landlords/tenants. There is a concern that this would become an issue with investors and would cap the level of investment in the sector. Investment in property is no different to any other business whereby a reasonable return is

sought for the level of risk taken. SCSi would advocate that landlords are incentivised to provide longer term leases to tenants by way of some form of concession and that this is increased on a sliding scale where the tenancy terms are longer and provisions to support tenants are catered for will attract high levels of relief. The rented sector should be an agile service provision with options for all parties.

- **What measures could be used to balance potential negative impacts on supply arising from measures to provide greater predictability around rents?**

We believe landlords are in favour of more predictability surrounding rents. In the past decade, rents were under downward pressure and landlords had to supplement more of the mortgage repayments on these assets to a greater extent.

One of the significant issues facing investors, particularly amateur landlords/ smaller investors, is that the net yield after all taxes, property charges, finance, service charges, maintenance etc. can be too low when compared with the management workload and risk. None of the above can be off set against rental income which is another issue and if this was addressed then there would be more of an opportunity to include predictability on rents.

Perhaps another suggestion would be to offer additional concessions on the above expenses incurred by landlords where longer term and more predicable rents are offered to tenants.

How do we effectively protect deposits?

Much of the disputes relating to the withholding of deposits are due to the poor condition a property is returned to a landlord or in relation to the maintenance and condition of the white goods. Ireland is too small of a country to implement a scheme of retention deposit or bond in an effective manner as there is not enough scale to meet the financial cost of implementing a deposit retention system. There are significant risks with progressing the implementation of such a scheme that it will not work efficiently and tenants will be subjected to significant delays in the return of deposits. There are periods of high demand e.g. student accommodation, whereby the deposit returns will be at a peak.

The RTB have the controls and mechanisms in place to tackle this issue but lack in the enforcement aspect and this should be addressed so that rogue landlords/tenants can be dealt with. Unfortunately, SCSi is concerned that there is still a high number of non-compliant landlords in operation which lack the fear of reprisal.

