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IRELAND

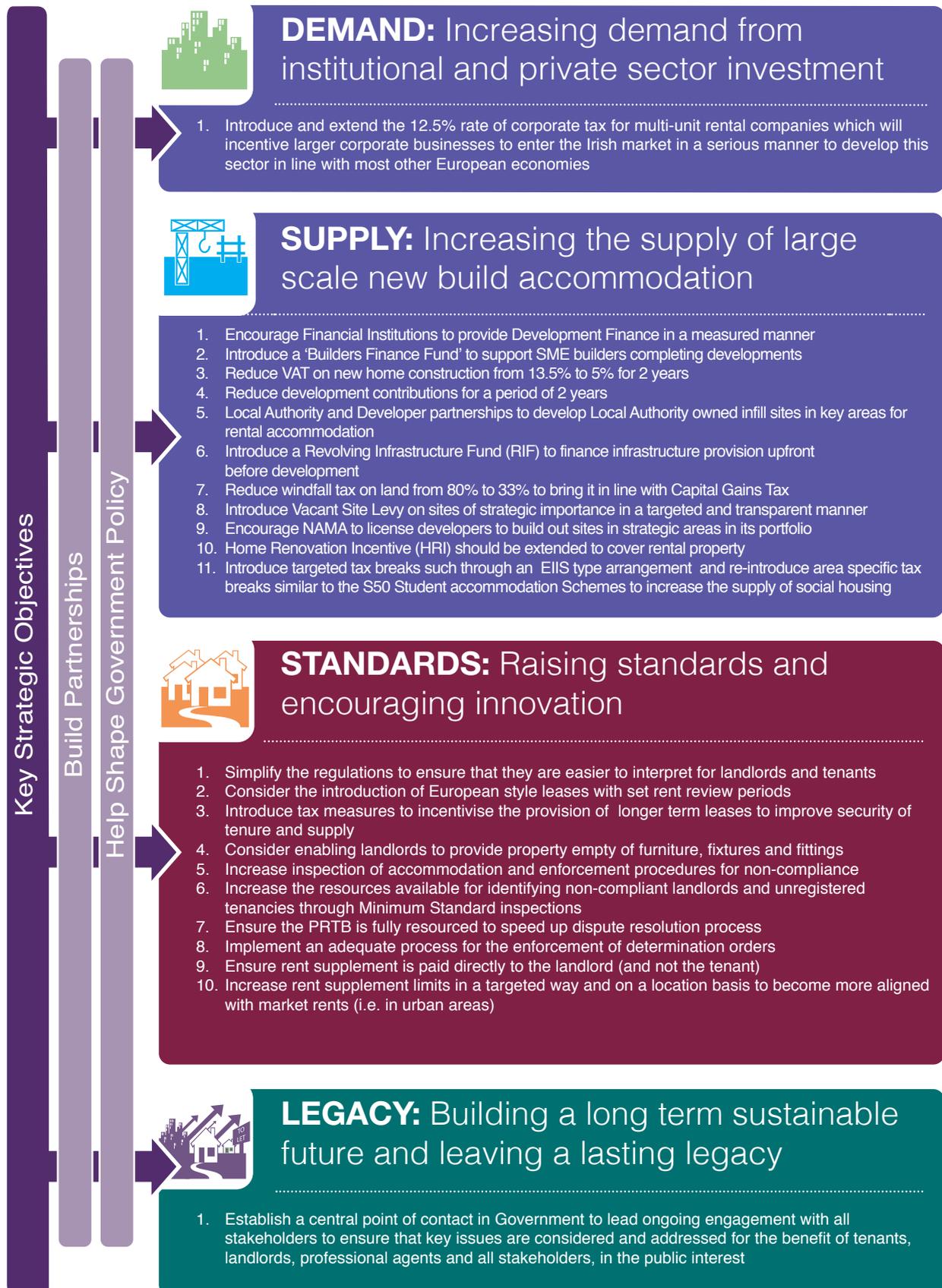
A New Model for the Private Rented Sector in Ireland



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Section 1: Introduction

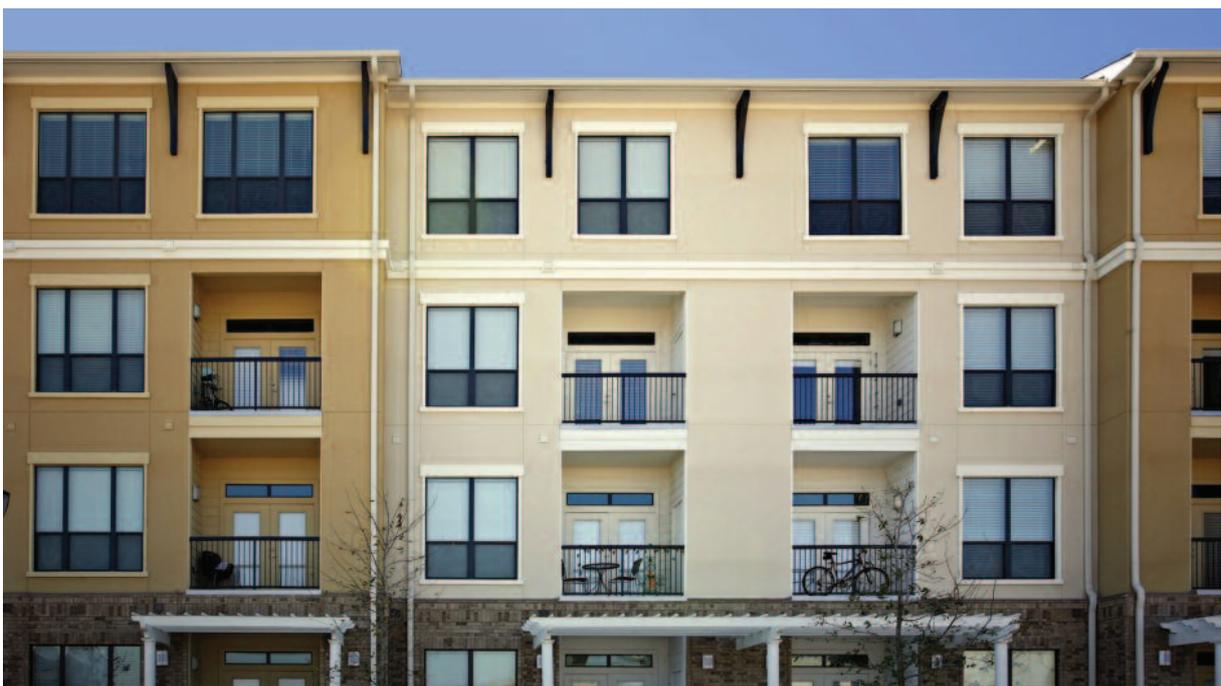
Section 1.1 The Importance of a Sustainable Private Rented Sector

According to the Government's Construction 2020 Strategy – A Strategy for a renewed Construction Sector, approximately 1 in 5 households in the country are now renting privately. This represents a structural shift towards renting in Ireland.

Evidence would suggest that this trend is likely to continue. According to a RED C Poll carried out on behalf

of the SCSi, 36% of renters 'strongly agree' that they are happy renting and could see themselves renting long-term. The results also suggest that there has been a slight increase in the number of people in the 24-34 age gap renting in 2013 compared to 2010. In light of these statistics it is not surprising that, according to Indecon, the private rented sector is expected to reach 353,702 private rented dwellings by 2021.

These statistics reinforce the importance of a properly functioning and sustainable private rental sector to the quality of life of our citizens and our economic competitiveness.

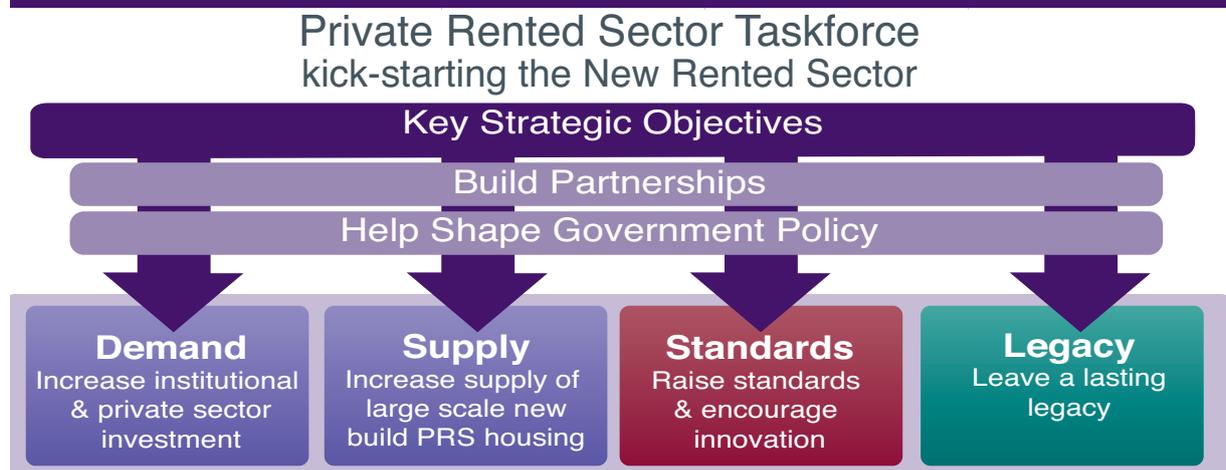


1.2 A Policy Framework for the Private Rented Sector

The SCSl, which works in partnership with RICS, the global professional body for surveyors, notes that the Department for Communities and Local Government in the UK recently established a Task Force for the Private Rented Sector in order to 'kick start the new Private Rented Sector', which developed an integrated

policy for the sector built on 4 pillars – increasing institutional investment, increasing the supply of large scale private rented sector housing, improving standards and encouraging innovation and finally, leaving a lasting legacy. The SCSl recommends that a similar policy framework and task force is established in Ireland. The following sections of the report will discuss each pillar in detail and will include recommendations as to how these pillars can be implemented in Ireland in order to create a properly functioning private rented sector.

» Figure 1: UK Policy Framework for the Private Rented Sector





Section 2: Demand

Increasing Institutional & Private Sector Investment

The availability of cheap money, and the thrust of government policy, resulted in a new class of non-professional landlords joining this sector. Typically these new class of landlords held one or two properties and were not intent in remaining in the sector for a long period of time, their investment strategy driven by the thought that prices would continue to increase and their return would be driven by capital appreciation, rather than income generation.

The collapse of the property market in 2008 has led to a crisis in the residential rental property market. The recent entrants who have paid significant prices for their properties are facing a difficult period.

- The interest free loans once enjoyed are now reverting to full repayment arrangements, in most cases creating a negative cash-flow for the individuals concerned
- Tax incentives are running out and for the first time many are now actually paying tax on the rental income they are receiving

In terms of the sector it means that re-investment in these properties is unlikely with cash strapped

landlords being unable or indeed unwilling to invest further money in an asset(s) that is financially ruinous for them. This will lead to a decline in the standard of property available in the market and as such there is now more than ever a need to encourage more professional investors to enter the market such as pension funds who take a long term investment horizon when becoming landlords.

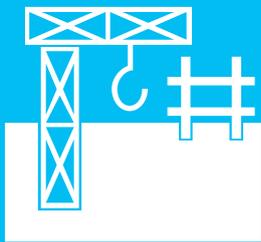
“The government needs to encourage long term professional investors into the market. The majority of landlords in the country own one or two units. For many of these investors this is their main asset outside the family home. This is not conducive to long term thinking”, Chartered Surveyor

The majority of demand for residential investment is coming from buy to let investors and some of the financial institutions have re-entered the residential investment market providing finance for investors. The extension of the Capital Gains Tax relief in Budget 2014 was a key driver of further investment in this sector. Further tax related incentives should be considered in order to encourage more institutional investment in the sector.



Recommendation

- Consideration should be given to introducing and extending the 12.5% rate of Corporate Tax for multi-unit rental companies, incentivising larger corporate businesses to enter the Irish market in a serious manner to develop this sector in line with most other European economies. Currently they are taxed at 25%



Section 3: Supply

Increasing the Supply of Large Scale New Build Housing

The key challenge affecting the private rental sector is the shortage of supply of rental accommodation compared to demand and this is causing rental price inflation.

According to the PRTB/ESRI index, in the second quarter of 2014, monthly rents were close to 19 per cent lower than their peak in late 2007, with Dublin rents down 12.7 per cent from peak. The SCSi believes it is important that the pace of rent inflation does not return to peak.

One of the main reasons for heightened demand is due to the lack of supply of property for sale in Dublin and other cities and the lack of construction of housing.

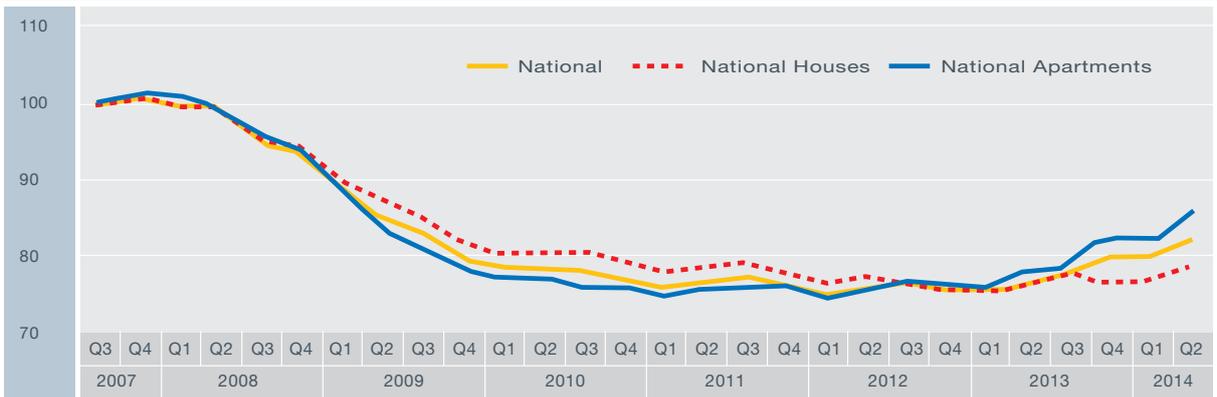
The SCSi recently launched its **Housing Supply Capacity in Dublin's Urban Settlements 2014 -18** report which found that there is a minimum housing requirement of 35,433 units in Dublin during the period

2014-2018, which equates to approximately 7000 per year. However, there is only a total of granted (extant) planning permissions for 26,580 units, resulting in a shortfall of a minimum of 8,853 units. This means that there is a 25% shortfall of planning permissions to meet the minimum housing requirement in Dublin.

3.1 Supply of New Rental Accommodation

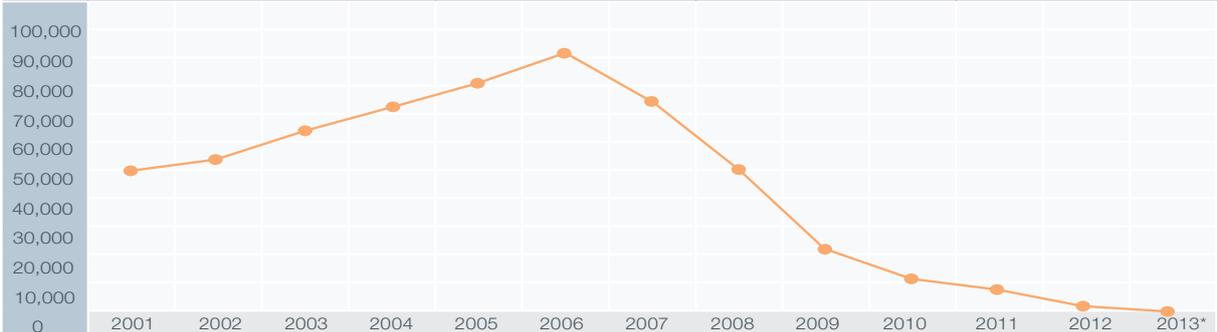
In August 2014, the SCSi launched its **Delivering Houses: A Ten Step Strategy to Addressing the Housing Supply Shortage** report which outlined a ten step strategy for increasing the supply of housing. The ten steps are as follows:

» Graph 1: The PRTB Rent Index - National



Source: The PRTB Rent Index - National

» Graph 2: Housing Completions



Source: Department of Environment, Community & Local Government



Recommendation

- Introduce a 'Builders Finance Fund' to support SME builders completing developments
- Reduce development contributions for a period of 2 years
- Streamline the planning process to speed up decisions and reduce delays
- Reduce VAT on new home construction from 13.5% to 5% for 2 years
- Reduce windfall tax on land from 80% to 33% to bring it in line with Capital Gains Tax
- Introduce a Vacant Site Levy on sites of strategic importance in a targeted and transparent manner
- Encourage NAMA to license developers to build out sites in strategic areas in its portfolio
- Introduce a Local Property Tax exemption for people 'trading- down' to smaller units to increase the availability of second hand homes
- Introduce a Revolving Infrastructure Fund (RIF) to finance infrastructure provision upfront before development
- Greater action is needed in order to reduce the number of mortgages in arrears, particularly in the 'Buy to Let' sector

3.2 Rental Accommodation Construction

The preceding recommendations have pertained to increasing the supply of housing which will include stock to rent and some of which may be bought for investment purposes and which will contribute to increasing the supply of rental accommodation. The Delivering Houses: A Ten Step Strategy to Addressing the Housing Supply Shortage report also recommended the introduction of a Build to Rent Fund. The SCSl believes that the introduction of a Build to Rent Scheme in Ireland, similar to that in the UK, would directly support the provision of rental accommodation.

The economic model to build private rental accommodation is different to that of building homes for sale. The price of land is a key factor in the viability of developing rented accommodation, in particular because the demand for rental accommodation is high in urban areas and city centres close to employment and transport links. This is also where land prices are at a premium. This has been recognised in the UK by the introduction of the 'Build to Rent' scheme aimed at increasing the supply of private rented accommodation.

UK Case Study: Build to Rent

Demand for rented properties in London is expected to increase in the future as the city's population is expected to increase to over nine million by 2021, meaning 800,000 homes are required to meet both existing and future demand. As a result, The Build to Rent Fund was launched by government to increase the supply of private housing and to provide new opportunities for institutional investment. The scheme was created to cut risk for developers looking to invest in homes constructed for the private rental market. The initiative reduces the up-front risk for developers by the government sharing the risk or providing bridge finance to allow schemes to be built, managed and let. Once the scheme is fully let, the developer will sell on its interest or re-finance and repay the loan or equity. The investment can be used to cover development costs such as land, construction or management costs. Any properties that form part of the programme will need to remain as private rented accommodation at least until the scheme is refinanced and the investment is repaid. The amount available under the Build to Rent Fund was initially set at £200m, but was increased to £1bn in the 2013 Budget. So far 45 projects have been announced. These projects are expected to help fund the construction of up to 10,000 new private rented homes. A quarter of the projects are in London and the 45 projects will be built by a mixture of developers, regeneration specialists and housing associations.

The Build-to-Rent Fund in the UK has generated huge interest with £1bn to allocate and almost £3bn bid for, in two rounds closing in February and October 2013. Thus far, two relatively small schemes have gained funds – £15m to Crest Nicholson in Southampton and £7.9m to Cabot Square Capital. The expectation is that more announcements are imminent.

The successful Home Renovation Incentive could also be extended to non-principal private residencies to encourage landlords to bring vacant or dilapidated property back into the market.

Targeted tax incentives to increase the stock of social housing, perhaps through an EIS type arrangement should be considered. Tax breaks, similar in nature to those available through the EIS schemes, could be made available to individuals. Government would

contract with development companies to build the housing stock with the funds introduced through the tax scheme reducing the capital investment required by government in relation to this stock. It also means that one does not end up with another set of non-professional landlords as the stock remains in state hands. This would obviously also impact on employment in the construction sector, reducing the cost of social welfare to the State.

Area specific tax breaks could be re-introduced for social housing provision with stringent provisions attached to the availability of these reliefs, similar to those attached to the S50 Student Accommodation Schemes. These provisions would not only cover specific requirements relating to the quality of the property but also in relation to lease terms/types etc.



Recommendation

- The SCSi recommends that the Irish government introduces a Build to Rent fund to increase the provision of property in the private rented sector.
- The Build to Rent Fund could be tied in to building rental accommodation on vacant sites and infill sites in strategic areas where demand is at present.
- Extend the Home Renovation Incentive to non-principal private residencies to encourage landlords to bring vacant or dilapidated property back into the market.
- Target tax incentives and area specific tax breaks should be considered to increase the stock of social housing.



Section 4: Standards

Raising Standards and Encouraging Innovation

4.1 Regulations Governing the Private rented Sector

4.1.1 Residential Tenancies Act

The legislation which governs the private rented sector is the Residential Tenancies Act (RTA). This legislation includes the requirement for all landlords and residential tenancies to be registered with the Private Residential Tenancies Board (PRTB).

Under the act all tenancies must be registered with the PRTB within one month of the commencement of the tenancy. Part of the PRTB's remit is to resolve disputes, on behalf of the tenant or the landlord, which can include refunds of deposits, termination of tenancies, breaches of obligations and determination of market rent.

4.2 Security of Tenure

The SCSI commissioned an independent research company Red C Research to conduct a survey of the private rental market which included feedback from landlords and tenants. 61% of tenants agreed that a longer lease would be beneficial and provide them with more security of tenure.

Broadly speaking, feedback from Chartered Surveyors suggest that there is generally adequate security of tenure afforded to tenants and landlords under the RTA, however opportunities to provide additional levels of security of tenure by way of longer leases should be considered.



Recommendation

- SCSI members reported that the RTA legislation can be very onerous and complex and the regulations governing the private rented sector can be difficult to interpret for landlords and tenants and a move to simplify the regulations would be welcomed.



***“A longer tenancy cycle of 10 years could be introduced in addition to the current 4 year cycle with options to be agreed between landlord and tenant,”
Chartered Surveyor***

This consideration is even more pertinent given the increases in market rents which are actually reducing the security of tenure for tenants as they may no longer be able to afford market rents for a particular property in a particular area. The current pace of increases, from a relatively low base, is impacting affordability and is likely to have social consequences.

When security of tenure is compared with other European countries, for example in the Netherlands, where the security of tenure is high, private tenants tend to stay for an average of 11 to 13 years¹. This is in contrast to the private rental market in Ireland, where the average private rental agreement tends to last for approximately 18 months, according to Chartered Surveyors.

“Introduce rent reviews during the long lease period which can go up or down as this would benefit everybody,” Chartered Surveyor

There may be various options open to policy makers to encourage longer leases, thus providing tenants with more security of tenure. For example, the Irish agricultural sector enjoys a taxation benefit for any landowners that lease out their land for more than 7 years. A similar model could be introduced for the private residential sector but this will need to be applied in a measured way to ensure that any default on rental agreements such as non-payment of rent can be speedily rectified. This may help increase supply and encourage more investment in the sector from landlords and provide tenants with additional security of tenure.

“Where landlords are willing to offer long leases i.e. over three years on fixed term rents with rent reviews say every three years they should be rewarded by way of enhanced tax credits such as being able to offset 100% of interest costs instead of 75%”, Chartered Surveyor



Recommendation

- Review opportunities to introduce more long-term leases as per European norms with set rent review periods
- Introduce taxation treatment for longer term leases to improve security of tenure and supply

4.3 Rental Accommodation Minimum Standards

Overall, the feedback from SCSi members is that the minimum standards legislation, as set out in the Housing Regulations Act 2008, has been effective in improving the standard of rental accommodation throughout the country.

“Standards of accommodation have improved over the last 10 years. A lot of these improvements are not down to the Act itself but are a result of improved building standards that have been implemented. For example, properties are better constructed with newer properties benefitting from excellent BER ratings which helps reduce day to day costs for tenants”, Chartered Surveyor

Members surveyed did suggest that the standards relating to multi-unit buildings in relation to an emergency evacuation plan etc. should be the responsibility of the management company which owns the common areas.

Members also suggested that some of the minimum standards such as an over the counter freezer are too prescriptive and in certain cases, have caused rents to increase as the costs have to be borne by the landlord.

Another consideration is that tenants renting in Ireland enjoy a far higher level of contents and fixtures that is traditionally available in Europe but due to minimum standards legislation, there is no opportunity to provide an empty rental unit, perhaps at a lower rent (due to lower costs of furnishing the property) which is very different to European norms.

“The legislation currently outlaws unfurnished property - but the concept is good”, Chartered Surveyor

4.3.1 Non Compliance with Minimum Standards

The Landlord Registration Charge was originally introduced by local authorities to fund the inspection of private rented housing to ensure that the landlord complied with minimum standards. Under the RTA, the responsibility for collecting this charge was assumed by the PRTB who would pass the proceeds to the local authorities. With the recent introduction of the Local Property Tax (LPT), which was introduced to fund local authorities, any monies generated by the PRTB should be ring-fenced for PRTB initiatives and the LPT should be used to inspect private rented housing.

¹ Towards a sustainable private rented sector, published by LSE London

**“Tougher penalties for non-compliance is required”,
Chartered Surveyor**

A greater emphasis on enforcement of the RTA needs to be implemented urgently to tackle unregistered landlords. In 2012, there were 19,616 local authority inspections carried out to tackle noncompliance in the private residential sector. This represents approximately 6.43% of the total private residential households in the country.

Recent figures published by the Department of the Environment, Community and Local Government reveal that there were 17,849 inspections carried out by local authorities in relation to accommodation minimum standards. **Of these, 58% did not meet the minimum requirements. Legal action was initiated on 11 cases.**

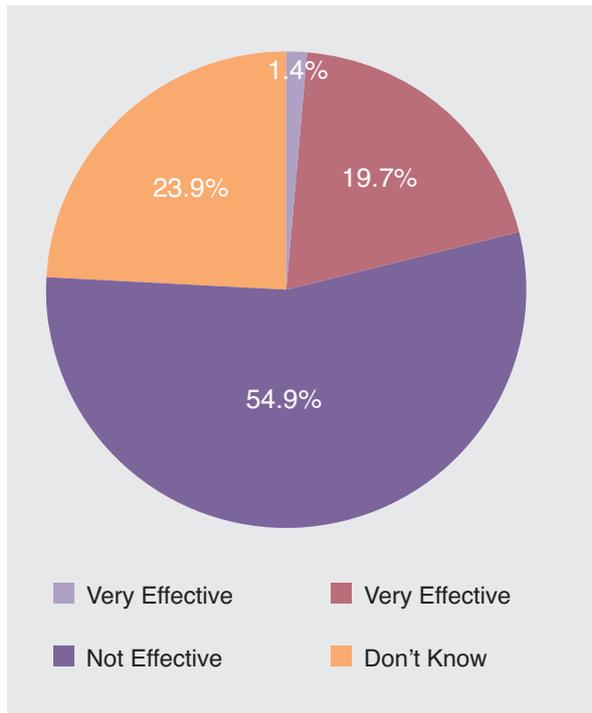


Recommendation

- OMC’s should have responsibility for certain minimum standards measures for multi-unit developments
- There needs to be more inspection of accommodation and enforcement procedures for non-compliance
- Consider enabling landlords to provide property empty of furniture and fixtures and fittings
- More resources should be dedicated to identifying non-compliant landlords and unregistered tenancies through minimum standard inspections
- Greater focus needed on tracking down unregistered landlords. We understand the PRTB is working with Revenue Commissioners in terms of cross checking registered landlords paying property tax

4.4 Dispute Resolution

» Graph 3: The PRTB provides a tenancy dispute resolution mechanism. In your experience, how effective is it for resolving disputes?



In terms of the dispute resolution process, 54% of respondents to the survey believe the **process** is ineffective in resolving disputes in terms of

- The length of time involved in a dispute resolution process
- The lack of enforcement in relation to enforcing determination orders

Table 1: Enforcement of Standards for Private Rented Accommodation

| | Standards | | | Rent Books | | | | |
|--|---------------------|-------------------------|---|---|------------------------|--|----------------|------------------------|
| County Councils (incl Borough & Town Councils) | Dwellings inspected | Inspections carried out | Dwellings inspected not meeting regulatory requirements | Dwellings where notices were served on landlords for improvements to be carried out | Legal action initiated | Dwellings inspected where no rent book | Notices served | Legal action initiated |
| Totals | 17,849 | 21,223 | 10,502 | 2,862 | 11 | 992 | 73 | 1 |

Source: DECLG

According to Chartered Surveyors, there are many possible reasons for this:

- Many landlords believe that the dispute resolution process and the associated appeals process are too long
- The process involved in getting a hearing takes too long - option to appeal and determination orders not being issued within 21 days as specified
- Disputes regarding security deposits could be focussed on mediation rather than arbitration to speed it up
- It is also felt that where landlords were successful in taking a case against a tenant, the decision was not properly enforced
- It is felt that the PRTB lack the capacity to enforce their decisions due to the legislation

***“I find the PRTB good at dealing with this issue but they do not have the resources to enforce through the courts non-compliant landlords and tenants”,
Chartered Surveyor***



Recommendation

- Ensuring the PRTB is fully resourced to speed up dispute the resolution process
- Implement an adequate process for the enforcement of determination orders
- There have been comments that the online registration system used by the PRTB needs to be improved, made more user friendly and that it should facilitate the easy changing of tenancy information if tenants details change. Furthermore, the €90 registration fee should be lower for online registration than for the paper-based registration which requires more PRTB resources to process

4.5 Rental Supports

The State currently has rental support schemes for tenants renting in the private sector who cannot afford to pay their rent – Rent Supplement, Rental Accommodation

Scheme (RAS) and the recently introduced Housing Assistance Payment (HAP).

Rent Supplement is an income support scheme paid by the Department of Social Protection. Payments are made to tenants and these payments are passed on to their landlords. Tenants qualify if their only income is from social welfare and in certain limited cases where they have income from work. The Rental Accommodation Scheme (RAS) is an initiative by the government to cater for the accommodation needs of certain persons in receipt of rent supplement.

A number of the difficulties with rent supplement arise from the way in which the payment is designed. The rules explicitly prevent the majority of rent supplement recipients from taking up a full-time job. If a tenant works 30 or more hours a week, he or she is automatically barred from receiving rent supplement. This affects over 50,000 people and effectively means most of these tenants are better off on welfare.

A number of the difficulties also arise from the way in which the payment is administered. In about 80% of cases, current rent supplement payments are made to tenants instead of landlords, so there is no direct relationship between the payee and the ultimate recipient. This system facilitates social welfare fraud where payments can sometimes go missing and never reach the landlord, or where deposits are never returned.

***“A good first step would be to pay the rent supplement payment directly to the landlord,”
Chartered Surveyor***

The system also facilitates illegal top-up payments where the landlord insists on an extra cash amount in excess of the rent supplement limit. In addition, this system means that there is very poor regulation of anti-social activity where despite paying the rent, the State has no direct contact with the landlord and no responsibility for the behaviour of the tenant. In some cases, rent supplement is paid even when housing standards are very poor and because leases typically run from year to year, security of tenure is poor.

It should be noted that some of these difficulties will be rectified via the introduction of HAP and for this it is welcome. HAP will provide a new framework for the provision of rental assistance, and will, in as much as it can, facilitate the removal of existing barriers to

employment by allowing HAP recipients to remain in the scheme if they gain full-time employment. Under the new scheme applicants will source their own accommodation within the private rented market (as currently happens with rent supplement) but the tenancy agreement will be between the HAP recipient and the private landlord. The local authority will pay the new assistance payment on the tenant's behalf directly to the landlord. The tenant will pay a rental contribution to the local authority based on the differential rent scheme for the relevant local authority.

While this submission acknowledges the positive features of HAP, the level of rent supplement should be reviewed in the context of increasing market rents in a targeted manner. According to Threshold, 50% of people coming to Threshold in receipt of rent supplement are paying top ups and this situation is untenable.



Recommendation

- Rent supplement should be paid directly to the landlord (and not the tenant)
- Rent supplement limits should be reviewed and potentially increased in a targeted way and on a location basis to become more aligned with market rents (i.e. in urban areas) if the social housing sector is going to continue to rely on the private rental market





Section 5:

Building a Long Term Sustainable Future and a Lasting Legacy

The SCSI believes that a new integrated policy is needed for the private rental sector and that this policy should be underpinned by the following pillars as outlined in this report.

1. Increasing demand from institutional and private sector investment
2. Increasing supply of large scale new build rental accommodation
3. Raising standards and encouraging innovation, particularly in the design of property and also the product mix
4. Building a long term sustainable future and leaving a lasting legacy

In order to building a lasting and sustainable legacy the SCSI recommends a central point of contact in government to lead ongoing engagement with all stakeholders to ensure that key issues are considered and addressed for the benefit of tenants, landlords, professional agents and all stakeholders, in the public interest.



Recommendation

- Establishing a central point of contact in government to lead ongoing engagement with all stakeholders to ensure that key issues are considered and addressed for the benefits of tenants, landlords, professional agents and all stakeholders in the public interest



The SCSI would like to acknowledge the contributions of the Properties & Facilities Management Professional Group, Cluid Housing Association and Baker Tilly Ryan Glennon.

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Society of Chartered Surveyors Ireland
38 Merrion Square,
Dublin 2, Ireland
Tel: 01 644 5500
codonovan@scsi.ie
www.scsi.ie



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