

REPORT PREPARED FOR IPAV & IPOA, MAY 2022

THE IRISH PRIVATE RENTAL MARKET

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# EXECUTIVE SUMMARY

* From an economic, social and political perspective, housing is currently the greatest challenge facing Irish policymakers. The housing challenge is manifested in a lack of supply of owner-occupier and rental properties; prohibitively high house prices and rents; and a serious problem of homelessness.
* A properly functioning housing market is an essential ingredient of a properly functioning economy and society. The challenge for policymakers is to ensure that there is an adequate supply and availability of suitable housing for those who want to buy and for those who want to rent at costs that are affordable. This situation does not exist at the moment, so policymakers need to adjust the model to correct market failures.
* House prices are continuing to rise strongly, and this is creating significant affordability problems for aspiring house buyers. This is feeding into the rental market. The lack of adequate housing supply is a key part of the problem. Building activity collapsed after the great financial crash in 2008, but the supply of new dwelling units has been gradually increasing since 2014. Between 2011 and 2020, the average number of dwellings completed was 12,123. Ireland needs average annual completions of at least 35,000 to satisfy future demand.
* In 2006, Residential Investment Letting (RIL) accounted for 19.9 per cent of total mortgage lending at €7.9 billion. In 2021, investors accounted for just 1.4 per cent of the total market at €143 million. First-time buyers represent the most significant component of the overall market. This collapse in private investor participation in the market is symptomatic of the manner in which the private residential rental market has evolved in recent years.
* A properly functioning housing market requires an adequate supply of affordable properties to rent and to buy. The ongoing escalation in house prices poses a significant challenge to policy makers, but the rental market is in a state of crisis and is functioning in a sub-optimal manner. The increasing cost of rent and the lack of an adequate supply of rental properties encapsulate the problem and the challenge. Private landlords are exiting the market in significant numbers and this is exacerbating the rental crisis.
* It is clear from survey and research data from Amárach Research, Sherry FitzGerald, IPAV & IPOA that private non-institutional landlords are finding the current regulatory and taxation environment very challenging. This is causing an exit of private landlords from the market and is reducing the supply of rental property and putting upward pressure on rents at a time when significant increases are required to satisfy demand and create a functioning residential property market.

There are a number of issues forcing the exit of private landlords from the market:

* Rent pressure zones (RPZs) have prevented rents from rising and have also prevented rents from falling. Landlords have been forced to accept whatever rent they were charging pre-RPZ, even though there have been annual increases in rents but the lower the starting rent was, the lower the annual increase in monetary terms, so some landlords are falling more behind actual market rents all the time. RPZs have resulted in significant rent rigidities in the market and have contributed to the creation of an inefficient 2-tier market where the proper maintenance of rental quality is not economically justifiable.
* If properties that have not been allowed to charge or increase their rent to market rents in a RPZ are being sold to other investors, their capital market value is likely to be devalued if an acceptable rental yield is to be achievable from a prospective investor. This means that exiting landlords in RPZs are unable to sell to other landlords due to that rental yield issue for other landlords. They must gain vacant possession of their property and sell to a purchaser that is going to live in the property to gain the full market value of their property and so the supply of rental properties is diminishing all the time.
* The taxation treatment of private landlords compared to institutional landlords acts as a serious disincentive for private landlord participation in the market. Private landlords need to be treated fairly as they are a vital component of the rental property market.
* The regulatory and taxation environment facing private landlords is constantly changing. There is no certainty or continuity and this prevents private landlords from engaging in long-term financial planning and management.
* New properties coming to the rental stock even though they are in a RPZ are free to charge whatever rent the market will accept. In theory this is aimed at inducing new properties into the rental stock. However instead of doing that, it has encouraged landlords at the bottom of the market to leave as they cannot charge market rent, to be replaced by properties with much higher rents.

The net result of these factors is that private landlords are exiting the market and those seeking to rent properties are the ultimate losers. This is not good for society, the economy or the political system. There has to be a move away from policies that discriminate against private landlords and which give them little incentive to participate in the rental property market. If private landlords continue to exit the market, the situation is going to get worse.

# INTRODUCTION

# 

From an economic, social and political perspective, housing is currently the greatest challenge facing Irish policymakers. The housing challenge is manifested in a lack of supply of owner-occupier and rental properties; prohibitively high house prices and rents; and a serious problem of homelessness.

A properly functioning housing market is an essential ingredient of a properly functioning economy and society. The challenge for policymakers is to ensure that there is an adequate supply and availability of suitable housing for those who want to buy and for those who want to rent at costs that are affordable.

The inability to provide an adequate supply of suitable and affordable housing supply for those who want to rent or buy has very negative economic and social consequences. These consequences include:

* High and rising house prices take spending power out of the economy and force people to take on high and sometimes excessive levels of debt.
* High and rising rents take spending power out of the economy and render it very difficult for aspiring house buyers to build up a sufficient deposit.
* High and rising house prices and rents put upward pressure on wages and this undermines national competitiveness.
* The availability of an abundant supply of high-quality housing to rent or purchase at affordable prices is a key element of national competitiveness. With impending changes to Ireland’s corporation tax code, Ireland will have to increasingly compete for foreign direct investment on the basis of non-tax attributes. Housing will have to be seen as a key part of the overall offering. If there is a lack of affordable and high-quality housing to rent or to buy, it will consequently be much more difficult to attract FDI into an area or a country.
* The availability of an abundant supply of high-quality housing to rent or purchase at affordable prices is a necessary condition for labour mobility within a country and between countries. For Ireland, inward migration is an essential part of the economic model, and housing can act as a major impediment to such labour flows.

The Irish rental market is currently not functioning in an effective and efficient manner. It is clear that Rent Pressure Zones (RPZs) are undermining the market and are not effective in achieving what they are intended to achieve.

RPZs were introduced in 2016. Inside of an RPZ, properties are rented at the current rent they were charging prior to its introduction. Hence some properties are rented at market rents and some are rented well below market rent - up to 70 per cent in some cases as the report and survey will show. Landlords are allowed to increase rent per year by a maximum of 2 per cent or inflation, whichever is the lowest. New properties that come into the RPZ and properties that are not rented for the previous 2 years are allowed to be rented at whatever rent the market will pay on the first time they are rented. Outside of these RPZs landlords can amend rent every 2 years.

The idea of new properties charging whatever rent the market will take was to encourage extra properties into the market to help increase supply. In theory, this could be a good idea, but in practice it has not worked. It is apparent from Residential Tenancies Board (RTB) data on the number of current leases and landlords that this has not happened. Many landlords are leaving the market especially at the lower rental end and these landlords are being replaced by landlords bringing a stock of new properties into the market at the higher rental end of the market as they are allowed to charge higher rents. The real losers are tenants at the lower end of the market

It is very difficult to see if any extra properties have been added to the market. If the RTB figures were up to date, which they are not, and if all leases cancelled on all properties sold by landlords as they are supposed to be, the actual number of tenancies and landlords would be considerably lower.

The term ‘accidental landlord’ has been ascribed to smaller landlords in general. However, if a landlord decides to invest in a single property, that person is a landlord and there is nothing accidental about it. The consensus seems to be that if landlords may have multiple properties, they are described as professional landlords, but the landlord with one property is no less professional than a larger one. It is important to acknowledge this point and to afford small landlords the same treatment and respect as larger ones.

Landlords selling are exiting the market for many reasons, but the primary cause is that they are not allowed to charge market rent for their properties. A consequence is that tenants that are renting properties way below market rent are being evicted from their home, and the landlord has to find an owner-occupier to purchase the property as the current rental yield will not convince an individual investor to purchase it.

It does not make sense that a landlord must keep a property empty for 2 years before they can charge market rent if they wish to re-rent it. Again, official data for the number of such properties are not available so policymakers do not understand the impact of not allowing a landlord to charge market rent.

A properly functioning housing market is an essential ingredient for economic success and social solidarity. Ireland does not have a properly functioning housing market at the moment.

This report provides an up-to-date analysis of where the Irish housing market is positioned at the moment and the challenges ahead, with a particular emphasis on the private rental market.

* Section 1 looks at the current situation relating to house prices and the mortgage market.
* Section 2 looks at the supply side of the housing market.
* Section 3 examines in some detail current trends in the private rental market. This analysis includes trends in rental levels and the availability of rental properties.
* Section 4 examines the structure of the rental market.
* Section 5 examines relevant market research to highlight the key issues, trends and challenges facing the rental market.
* Section 6 outlines the realities facing private landlords in the current market.

The overall aim of the report is to highlight the crisis in the Irish owner-occupier and rental markets, the various anomalies that exist in the market, and particularly to highlight the pressures on private landlords.

SECTION 1: ASSESSMENT OF THE IRISH HOUSING MARKET

**HOUSE PRICE TRENDS**

Irish house prices and house building activity declined sharply from 2008 onwards as the global financial crisis seriously impacted on the over-stretched Irish economy and financial system. Prices have rebounded strongly in recent years, but house building activity is still sub-optimal.

Average house prices recovered strongly between 2013 and 2018. They then moderated during 2019 as the Central Bank’s mortgage lending restrictions and the elevated level of prices created significant affordability pressures. However, house price inflation started to accelerate again later in 2020 and throughout 2021, despite the COVID-19 crisis. The rapid and damaging acceleration in prices has continued into 2022.

The strong recovery in house prices from 2013 onwards was driven by pent-up demand coming back into the market after the economic crash; supportive economic fundamentals, particularly the strong recovery in employment; a greater level of confidence about the future; and strong population growth. These factors combined to generate strong demand, which encountered a lack of supply following the collapse in house building activity. The net result was a significant recovery in prices.

**Figure 1: Residential Property Price Index**

Source: CSO

The latest residential property price data from the Central Statistics Office (CSO) show:

**NATIONAL MARKET**

* National average residential property prices declined by 55.1 per cent between the peak of the market in April 2007 and the low point of the market in March 2013.
* Between March 2013 and February 2022, prices increased by 117.2 per cent.
* Prices in February 2022 were 15.3 per cent higher than a year earlier.
* The national average residential property price index in February 2022 was 2.5 per cent lower than its highest level in May 2007.

**MARKET OUTSIDE OF DUBLIN**

* In the Rest of Ireland (excluding Dublin), average residential property prices declined by 56.6 per cent between the peak of the market in May 2007 and the low point of the market in May 2013.
* Between May 2013 and February 2022, prices increased by 121.3 per cent.
* Prices in February 2022 were 16.7 per cent higher than a year earlier.
* The national average residential property price index outside of Dublin in February 2022 was 3.9 per cent lower than the May 2007 peak.

**DUBLIN MARKET**

* In Dublin, average residential prices declined by 59.6 per cent between the peak of the market in February 2007 and the low point of the market in February 2012.
* Between February 2012 and February 2022 prices increased by 122.1 per cent.
* Prices in February 2022 were 13.5 per cent higher than a year earlier.
* The national average residential property price in Dublin in February 2022 was 10.3 per cent lower than the February 2007 peak.

**MORTGAGE LENDING ACTIVITY**

The value of mortgages drawn down peaked at €39.9 billion in 2008 and then fell heavily to bottom out at just €2.46 billion in 2011. It has subsequently expanded on a gradual basis. In 2021, mortgage lending totalled €10.5 billion, which is the highest level since 2008.

**Figure 2: Value of Mortgages Drawn Down**

Source: BPFI

Table 1 shows the evolution of the mortgage market by borrower component between 2006 and 2021. In 2006, Residential Investment Letting (RIL) accounted for 19.9 per cent of total mortgage lending at €7.9 billion. In 2021, investors accounted for just 1.4 per cent of the total market at €143 million. First-time buyers represent the most significant component of the overall market.

**Table 1: Value of Mortgages Drawn Down by Component 2006 v 2021**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2006 |  | 2021 |  |
|  | €m | % | €m | % |
| First Time Buyer | 8,449 | 21.2% | 5,493 | 52.5% |
| Mover Purchase | 11,367 | 28.5% | 2,982 | 28.5% |
| RIL | 7,950 | 19.9% | 143 | 1.4% |
| Re-Mortgage/Switching | 6,067 | 15.2% | 1,615 | 15.4% |
| Top-Up | 6,039 | 15.2% | 234 | 2.2% |
| Total | 39,872 | 100.0% | 10,467 | 100.0% |

Source: BPFI

Figure 3 shows the collapse in Residential Investment Letting (RIL) since 2006. This collapse in private investor participation in the market is symptomatic of the manner in which the rental market has evolved in recent years.

**Figure 3: RIL Mortgage Drawdowns**

Source: BPFI

# SECTION 2: HOUSING SUPPLY

A key driver of the incessant upward pressure on house prices and rents is the imbalance between demand and supply in the housing market. Demand forces are very strong on the back of demographic developments and the ongoing increase in the household formation segment of the population. This is due to natural growth in population and inward migration. The demand pressures will be accentuated by the inflow of refugees from Ukraine. There has been some recovery in house building activity in recent years, but the supply of new dwellings is still way below what is required. Housing policy needs to address the myriad of issues limiting the supply of dwellings, if a properly functioning owner-occupier and rental market is to be achieved.

**RECENT TRENDS IN PLANNING PERMISSIONS**

The number of dwelling units granted planning permission peaked at 101,653 in 2004, but then collapsed from 2009 onwards to reach a low point of 6,250 units in 2012. There has subsequently been a recovery up to 2021, when 42,991 units were granted planning permission.

**Figure 4: Number of New Dwelling Units Granted Planning Permission**

Source: CSO

In 2021, apartments accounted for 61.1 per cent of the total number of units granted planning permission. The obvious risk is that there will be too much focus on apartments, which are mainly purchased by institutional investors, and this could result in excess

supply in this segment of the market.

**RECENT TRENDS IN DWELLING COMPLETIONS**

Building activity collapsed after the economic and financial crash in 2008, but the supply of new dwelling units has been gradually increasing since 2014. Between 2011 and 2020, the average number of dwellings completed was 12,123. Ireland needs average annual completions of at least 35,000 to satisfy future demand.

**Figure 5: New Dwelling Completions**

Source: CSO

Figure 6 shows the breakdown of new dwelling completions by type between 2011 and 2021. Between 2011 and 2021, Apartments accounted for 16 per cent of dwellings completed; Single Houses accounted for 33.6 per cent; and Scheme Houses accounted for 50.4 per cent of the total. In 2021, Apartments accounted for 25 per cent of total completions. Institution investors are the key investors in the Apartment market.

**Figure 6: New Dwelling Completions by Type**

Source: CSO

SECTION 3: RECENT TRENDS IN PRIVATE RENTS

A properly functioning housing market requires an adequate supply of affordable properties to rent and to buy. The ongoing escalation in house prices poses a significant challenge to policymakers, but the rental market is in a state of crisis and is functioning in a sub-optimal manner. The increasing cost of rent and the lack of an adequate supply of rental properties encapsulate the problem and the challenge.

The Residential Tenancies Board (RTB) and the Central statistics Office (CSO) are two important sources of rent price data in the Irish market.

**Residential Tenancies Board (RTB)**

The RTB index is based on the RTB’s national register of private tenancies and captures actual rents being paid for rented properties by those taking up new tenancies. Between the first quarter of 2008 and the first quarter of 2012, rents declined by 25 per cent. At that stage rents started to move upwards again and between the first quarter of 2012 and the fourth quarter of 2021, national average rents increased by 90.7 per cent. In the year to the final quarter of 2021 average rents increased by 9 per cent.

**Figure 7: Residential Tenancies Board National Rent Index for New Tenancies**

Source: Residential Tenancies Board

The latest data from the Residential Tenancies Board (RTB) show:

* National rents in Ireland grew by 9 per cent year-on-year in Q4 of 2021 – this growth rate is the highest since a rate of 9.3 per cent in Q4 2017.
* Year-on-year rent price inflation in Dublin stood at 8.9 per cent, and outside of the Greater Dublin Area at 12.1 per cent.
* The national standardised average rent stood at €1,415 in Q4 2021.
* In Q4 2021, the standardised average rent in Dublin stood at €1,972 per month, which was significantly higher than the rent levels outside Dublin, where the standardised average rent was €1,104.
* In Q4 2021, the standardised average rent in the GDA (excluding Dublin) stood at €1,393.
* The standardised average rent outside of the GDA in Q4 2021 was €1,059.

**Central Statistics Office (CSO)**

The CSO’s private rent index is based on a sample survey of letting agents. It shows that between April 2008 and December 2010, average private sector rents declined by 25.7 per cent. The market bottomed out at the end of 2010, and between December 2010 and April 2022, average rents have increased by 92.8 per cent. There was some modest softening in the market at the beginning of the COVID-19 pandemic, but the upward pressure resumed subsequently. In April 2022, there was a year-on-year increase of 9.3 per cent.

**Figure 8: CSO Average Private Rent Index**

Source: CSO

**Daft.ie**

The latest data on rents from Daft.ie[[1]](#footnote-1) show that a serious undersupply of rental accommodation is continuing to put significant upward pressure on rents. Rent prices nationally increased by 11.7 per cent in the first quarter of 2022, which is the highest year-on-year increase since late 2016.

In the first quarter of 2022, the average rent nationally stood at €1,567 per month, with the average rent in Dublin standing at €2,089, which is 10 per cent higher than a year earlier. The rent increases were also substantial across other cities with a year-on-year jump of 10.8 per cent recorded in Cork, 13.8 per cent in Galway City, 15.5 per cent in Limerick City and 16.2 per cent in Waterford City.

The number of rental properties on Daft.ie at the beginning of May 2022 at just 851 homes, was the lowest since the series commenced in January 2006. In Dublin, 462 rental properties were available, which is the lowest level of availability since the series commenced in 2006.

The sharp increase in rents around the country reflects a worsening of the unprecedented scarcity of rental homes. The Daft.ie report stated that ‘*As ever, in a rental market dogged by chronic and worsening shortage of homes, the only real solution is to increase the number of homes. With more pressure from certain quarters to stop new rental homes being built, policymakers must hold their nerve*.’

**All three rental indices show somewhat different magnitudes of change, but the market direction is similar in both. The lack of adequate supply has pushed rental costs up, and the only viable solution is to increase supply of rental properties.**

# SECTION 4: THE RENTAL MARKET IN IRELAND

The foregoing analysis shows clearly the pressures in the housing market. The high level of house prices and the cost and availability of rental properties are arguably the most pressing economic, social and political challenges facing Irish policymakers.

A properly functioning housing market is an essential ingredient for a properly functioning society and economy. Within the overall housing context, a properly functioning rental market is essential. The rental market is not functioning as it should, a fact that is demonstrated by a chronic lack of rental supply and escalating rents.

**REGISTRATION OF TENANCIES**

With effect from 4th April 2022, annual registration was introduced for the rental sector. A landlord is obliged to apply to the Residential Tenancies Board (RTB) to register a tenancy, or a licence in Student Specific Accommodation, within one month of its commencement date and every year after this on the anniversary of the date that the tenancy began. This applies for as long as the tenancy / SSA licence exists. This will apply to new and existing tenancies.

The RTB remit does not apply in a number of specific cases. These include:

* Tenancies in local authority housing or under shared ownership lease arrangements.
* Holiday letting agreements.
* The Rent a Room scheme, where the landlord and the tenant share the same self-contained property.
* If a tenant lives with the spouse, civil partner, parent or child of the landlord and there is no written letting agreement in place.
* If the property is a short-term let.

A rented dwelling may also be exempted where that dwelling may, in certain situations, be purchased by the tenant to take ownership of; or where a tenant may apply for a new tenancy on the ending of an earlier tenancy, if they can show long occupation or they have spent money on improvements of the property.

**TRENDS IN LANDLORD NUMBERS**

Data from the RTB show the trend in the number of registered private landlords and tenancies in the market. Both measures have been trending downwards in recent years.

Between the final quarter of 2017 and the final quarter of 2020, the number of tenancies registered with the RTB declined from 313,002 to 297,837, a decline of 4.8 per cent.

**Figure 9: Number of Private Tenancies Registered (Quarterly Q4 2017-Q4 2020)**

Source: RTB

Figure 10 shows the number of registrations at end-year between 2005 and 2020. There was strong growth in registrations from 2005 to 2016. Registrations peaked at 319,822 in 2016 and declined at an average annual rate of 1.75 per cent to reach 297,837 by the end of 2020.

**Figure 10:** **Number of Private Tenancies Registered (Year-End)**

The number of landlords associated with registered private tenancies has also been declining steadily in recent years. The number of landlords has declined by 7,939 from a high of 173,675 in the first quarter of 2019 to 165,736 in the final quarter of 2020, a decline of 4.6 per cent.

**Figure 11: Number of Landlords Associated with Private Tenancies**

Source: RTB

# SECTION 5: RELEVANT MARKET RESEARCH

There is a considerable body of recent research that provides a very strong perspective on the current views and actions of private investors in the residential investment market. It provides a clear view on why the number of landlords and tenancies are declining.

In a survey[[2]](#footnote-2)conducted for the **RTB by Amárach Research** in July 2021, some very strong messages emerged on the views of tenants and landlords in relation to the rental market.

The research suggested that tenants are generally content with their existing rental arrangements, both in terms of amenities and relations with their landlords. 79 per cent of respondents answered that their renting experience has been positive or very positive. The key issues raised by tenants included the lack of choice and availability in the rental market; the high percentage of income taken up by rents; the high level of rents makes it very difficult to build up a deposit to buy a house within the confines of the central bank mortgage lending regulations; and the importance of income supports for tenants on lower incomes.

It is clear from the tenant research that there is a significant level of satisfaction, but the lack of supply of rental properties and the consequent high rental costs pose a significant challenge.

In relation to landlords, the survey distinguished between Small Landlords (1-2 properties), Medium Landlords (3-20 properties, but can be up to 99) and Large Landlords (100 or more) properties.

In relation to small landlords:

* 40 per cent of small landlords feel that regulations have made the sector more professional.
* Just 14 per cent would recommend becoming a landlord to a friend or family member.
* 49 per cent would not recommend becoming a landlord to a friend or family member.
* 48 per cent say that their experience of being a landlord has been positive or very positive.
* 19 per cent say that their experience of being a landlord has been negative or very negative.
* 44 per cent of landlords say that their pre-tax income is the same or less than their property-related costs, including mortgage repayments, maintenance costs and agent fees.

In relation to medium-sized landlords:

* 31 per cent say their pre-tax rental income is the same or less than property costs.
* 53 per cent see their rental properties as a long-term investment for capital growth, and 78 per cent see them as a long-term investment for rental income.
* 44 per cent no longer have a mortgage on their properties.
* 38 per cent think it is likely or very likely that they will sell any properties within 5 years.

In relation to RPZs and regulations, ‘*landlords tend to focus on more than just maximising rental income, which means that they believe that RPZ regulation does not take sufficient account of the multiplicity of reasons as to why tenants are there and the nature of existing landlord tenant relationships (which can be quite long term)*.’

In the interviews some landlords stated that they intend to exit the rental market, even though their property rental businesses are currently profitable. The reasons given for exiting include increased regulation and the fact that they believe regulation is balanced more in favour of tenants; the difficulty in making a reasonable return after tax, particularly as many costs are no longer tax deductible; the difficulty of maintaining older pre-1963 buildings to an acceptable standard; and life stage decisions.

In relation to large landlords:

* The interviews were conducted with individuals speaking on behalf of organisations rather than individual landlords or property owners. Most of the organisations are relatively new to the market.
* Some believe that the RPZ rules put a floor underneath the rental market during the pandemic.
* Organisations are by their nature comfortable dealing with the regulatory environment, but they believe that it is driving smaller landlords from the market and ‘*in a sense, this is part of the opportunity that they are seeking to capitalise on*.’
* The regulatory environment around buy to let mortgages is also driving smaller private landlords from the market.
* The large organisations plan to build their portfolios in Ireland but see potential challenges if investment returns decline; if alternative investments generate higher return; and if regulatory changes in relation to bulk buying of properties are introduced.

One key conclusion from the Amárach research is that smaller landlords are more likely to exit the market than larger landlords, as the business model is seen to be more challenging for smaller operators.

Research from **Sherry FitzGerald** (October 2021) suggests that the exodus of small investors from the Irish rental sector has reduced the number of available tenancies by nearly 22,000 between 2016 and 2020. The research suggests that traditional buy-to-let investors are exiting the market at a rate of almost two to one and that this is aggravating the supply shortfall, which is pushing up rents.

A survey conducted by IPAV and IPOA in January 2022[[3]](#footnote-3) had 892 respondents and provided some very interesting and stark insights on the Irish private rental market at the moment.

* 48.6 per cent of landlord respondents are aged over 60 years.
* 70 per cent are self-employed.
* 70 per cent own less than 5 properties.
* 59 per cent of landlords have debt associated with property ownership.
* 44 per cent of respondents invest in residential property for pension purposes. 62 per cent do not have a pension scheme that forms part of their employment terms and conditions.
* For just over 50 per cent of respondents, the rental properties are the sole pension source, apart from the state pension.
* 96 per cent of respondents believe that government policy and the introduction of rent controls are not balanced and equitable.
* 94 per cent of respondents believe that recent Government policy and changes in regulations in the sector have impacted negatively on their attitude to continuing as a landlord in the residential rental sector.
* 91 per cent of respondents believe that they or their landlord clients will not continue to invest in residential investment property.

In relation to future investment, Figure 12 summarises the main reasons why landlords will not invest further in residential investment property.

**Figure 12: Reasons why Landlords will not Invest Further in Residential Investment Property**

Source: IPAV/IPOA Survey

* 92 per cent of respondents have not purchased a property in a RPZ over past 12 months.
* 57.4 per cent of respondents say that they or their landlord clients have indicated a plan to sell their rented properties in RPZs.
* 52 per cent of respondents say that they or their clients will offload up to 25 per cent of their residential investment portfolio over the next 24 months. 16 per cent suggest an offload in excess of 90 per cent of portfolio.
* 81 per cent of respondents believe that the Government’s treatment of private equity funds is not fair when compared to non-institutional residential property investors.
* 49 per cent of respondents suggest that rental income covers all financial outgoings such as mortgage repayments, taxes and expenses. 39 per cent suggest that rental income is not sufficient.
* 58 per cent of respondents suggest that tax is their biggest outlay, with 27 per cent suggesting the mortgage repayment.
* 42 per cent of respondents suggest that the tax bill is larger than their annual mortgage repayment.
* 90 per cent of respondents believe it is unfair that private equity funds pay no tax on rental income.

Figure 13 considers for those landlords who were not charging market rents when the RPZ was introduced and are now precluded from exceeding increases beyond 2 per cent per annum, the extent to which their rents are behind newly introduced housing stock that can apply the full market rent.

* 24.4 per cent of respondents suggest that rents are up to 25 per cent behind the full market rent.
* 50 per cent of respondents suggest that rents are between 26 per cent and 49 per cent behind the full market rent.

**Figure 13: Impact of RPZ on Market Rents**

Source: IPAV/IPOA Survey

* 80 per cent of respondents suggest that the standard of rental properties in RPZs has declined since the introduction of rent controls, due to some landlords not being able to charge market rent.
* 81 per cent of respondents suggest that the value of residential property located in RPZs that are not charging market rents has declined.
* 95 per cent of respondents suggest that RPZs have created a two-tier rental market.
* 93.4 per cent of respondents suggest that property investors are leaving the residential investment property market due to not being able to charge market rent in RPZs.
* 87 per cent of respondents suggest that RPZs are unconstitutional or are an illegal interference in property rights.
* 91 per cent of respondents suggest that Government should remove rent controls in order to encourage investment in residential property for non-institutional landlords as a solution to the housing crisis.
* 86 per cent of respondents would support a legal challenge to the RPZ legislation in order to ensure market rents can be charged on properties.

Surveys by their nature can be subjective, but it is clear from survey and research data from Amárach Research, Sherry FitzGerald, IPAV & IPOA that private non-institutional landlords are finding the current regulatory and taxation environment very challenging. This is causing an exit of private landlords from the market and is reducing the supply of rental property at a time when significant increases are required to satisfy demand and create a functioning residential property market.

# SECTION 6: ISSUES FOR PRIVATE LANDLORDS

Private landlords are decreasing in numerical terms as thousands exit the market. The various surveys quoted in this report highlight the views of private landlords and give a clear indication why many such landlords are voting with their feet and are exiting the market.

The key issues of concern for private landlords include Rent Pressure Zones, the different treatment of institutional landlords in relation to taxation, and the frequent changes to taxation and the regulatory environment.

**RENT PRESSURE ZONES (RPZs)**

Rent Pressure Zones (RPZs) were introduced in Ireland in 2016, but RPZs commenced in different areas on different dates. The initial legislation meant that rents could not be increased by more than 4 per cent per annum. In 2021, the RPZ legislation was amended and the new legislation extends all current Rent Pressure Zones out until 31 December 2024.

For an area to be designated a Rent Pressure Zone, the following criteria is used:

* The standardised average rent in the previous quarter must be above the appropriate reference standardised average rent in the quarter.
* The annual rate of rent inflation in the area must have been 7 per cent or more in four of the last six quarters.

Rent Pressure Zones are located in parts of the country where rents are highest and rising, and where households have the greatest difficulty finding affordable accommodation. They are intended to moderate the rise in rents in these areas and create a stable and sustainable rental market that allows landlords and tenants to plan financially for their future.

The amended legislation means that a Rent Pressure Zone (RPZ) is a designated area where rents cannot be increased by more than general inflation, as recorded by the Harmonised Index of Consumer Prices (HICP). Any rent increase in a RPZ cannot exceed general inflation, as recorded by the HICP and the rent previously set, cannot increase by more than 2 per cent per year pro rata, where HICP inflation is higher. This applies to new and existing tenancies (unless an exemption is being applied).

In March 2022, the annual increase in the HICP in Ireland was running at 6.9 per cent and averaged 3.7 per cent in the period from March 2021 to March 2022. This represents a real decline in rent in an environment where landlord costs are rising strongly.

Following the designation of a Rent Pressure Zone, all existing tenancies at the relevant date of designation are still covered by the 24 month rent certainty laws. Therefore, a landlord must wait 24 months from the tenancy commencing or 24 months from the service of the last rent review notice before serving a further rent review.

In order for a rent review to be valid, landlords must give tenants at least 90 days’ notice and use the prescribed ’[Notice of Rent Review Form](https://www.rtb.ie/images/uploads/forms/Schedule_1_Notice_of_New_Rent_RTB_(Revised_Dec_2021)_Final.pdf) to serve it on the tenant. The rent being sought should not be more than local market rents for similar properties.

After an initial rent review, the landlord will be entitled to review the rent every 12 months. Irrespective of the calculation made, there is no obligation on a landlord to increase the current rent amount and there is no legal obstacle to a rent reduction.

It is very clear that RPZs have not solved the rental crisis and indeed there is clear evidence that the law of unintended consequences has been intended and that the legislation has been counter-productive and ineffective in many ways.

* Rents have continued to increase strongly at a national level since RPZs were introduced. This is suggestive of the fact that RPZs are seeking to tackle the symptoms of the rental crisis rather than the cause. The main cause of the rental crisis is the lack of adequate supply of rental properties, a fact that is being exacerbated by the ongoing exodus of private landlords from the rental market. Institutional landlords are active in the rental market, but by their very nature they tend to be concentrated in certain areas.
* RPZs have not succeeded in preventing rents from rising strongly, but they have also resulted in downward rigidity in rents. During the period of the great financial crash, private rents fell sharply by 25.7 per cent between March 2008 and December 2010. This is how the market should work, because as unemployment increases, the demand for rental properties would be expected to fall and rents to adjust downwards. However, when the Covid-19 pandemic hit private rents fell by just 3.6 per cent between February and June 2020 and then started to rise again. This occurred despite a sharp increase in real unemployment and growth in remote working. Landlords were justifiably reluctant to cut rents as this would have negative rental income implications in the longer-term in an RPZ. Such flawed interference in the market prevents price adjusting as demand and supply dynamics shift. In effect, there has been a ‘downward nominal rigidity in rents.’ RPZs provide an incentive for landlords to maintain empty rental properties rather than cut rents.
* RPZs do not take into account the level the rent was set at or the indebtedness of the landlord.
* In other jurisdictions where rent controls apply, they refer to the life of the tenancy as this gives the tenant certainty about rent costs during the life of the tenancy and income certainty for landlords. It is a flawed policy to link rent controls across tenancies as this fails to reflect what is happening in the rental market. A tenant in Ireland is legally entitled to a 6-year tenancy in any event.
* Where landlords are subject to rent controls, this takes no account of the costs involved in maintaining rental properties and hence there is a financial inability to maintain properties. Rent controls restrict incomes without restricting costs, so there is no incentive to invest in the upgrade or modernising of rental properties.
* RPZs contain no mechanism to bring low rents up to sustainable levels and so they unfairly penalise landlords who kept their rents low for some particular reason.
* If new building stock is introduced to the rental market, a different rental level can be achieved when compared with pre-existing rental stock that is subject to rent controls. This helps create a 2-tier market, which guarantees market failure and the exit of private landlords from the market.
* If properties in a RPZ are being sold to other investors, their capital value is likely to be devalued if an acceptable rental yield is to be possible for a prospective investor. This means that exiting landlords in RPZs are reluctant to sell to other landlords, and so the supply of rental properties is diminished.

**TAXATION**

The taxation of private landlords is very onerous and as a significant disincentive for participation in the private rental market.

* Up to 52 per cent of the rental income is paid back to the Exchequer in PAYE, PRSI and USC.
* The Local Property Tax (LPT) payment is not a tax-deductible expense, despite the fact that it is a legitimate expense involved in supplying a rental property to the market.
* Rental income is not treated as reckonable income for pension purposes.
* Landlords are allowed limited deductions for expenses incurred in the operation of their business. For example, the acquisition of knowledge to deal with the increasing burden of complicated regulatory changes is not a tax-allowable expense. Landlords should have the same ability to avail of tax deductions as other trading businesses.
* If furniture is bought for a rental property, tax relief is obtained over a number of years, but there is no USC relief.
* Building energy improvements should be allowable as a double expense and offset fully in the year that it is carried out. This would improve energy standards for tenants, but would also be consistent with Ireland’s climate change commitments.

In contrast, institutional landlords make significant profits in the Irish market, but pay no tax. The dividends paid to shareholders are subject to tax, but as many investors are non-resident, there is no return to the Exchequer.

Institutional landlords are an important component of the Irish private rental market, but private landlords need to be treated equally with the institutional landlords, as they are also a very important element of the overall rental market. Many private landlords are exiting the market and this is exacerbating the housing crisis.

Appendix 1 provides a worked example of the difficulties facing a private landlord in current market circumstances. The tax treatment needs to change to make situation sustainable.

**THE LACK OF CONSISTENCY AND CONTINUTY IN THE RENTAL MARKET**

For private landlords, the legislation and regulation relating to the rental market is continually changing. There is no continuity and certainty, and the complex nature of the legislation and the ongoing changes to that legislation act as a major problem of adoption and comprehension for small private landlords.

The following shows a chronological picture of the various changes to regulation and legislation that private landlords have had to endure since 2008.

**2008**

* Housing (Standards for Rented Houses) Regulations, 2008 S.I. No 534 of 2008.
* Increased Standards included requirements for white goods, forced closureof bedsits without integrated bathrooms.

**2009**

* Building Energy Rating Certificate Required.
* Mortgage Interest deduction limited to 75 per cent (this was later changed to 100 per cent).
* Local Government Charges Act 2009.
* NPPR annual charge €200 per unit unreasonable penalties up to €7,230 per unit.
* Rent Supplement reduced.
* CGT increased from 20 per cent to 33 per cent (64 per cent increase).

**2010**

* Rent supplement Reduced.
* Increase in RTB Registration Fees from €70 to €90.

**2011**

* Universal Service Charge introduced increasing tax rate by up to 11 per cent.

**2012**

* Introduction of additional surcharge of up to 5 per cent on Property Based Legacy Tax reliefs.
* Local Government (Household Charge) Act 2011 (Not allowable as an expense) NPPR with extortionate penalties.
* Household Charge introduced €100.
* Rent supplements reduced.

**2013**

* Local Property Tax Introduced (Not allowable as an expense) NPPR still had to be paid.

**2014**

* Employee PRSI of 4 per cent to be charged on rental income.
* Penalties for non-payment of €1000 NPPR frozen.

**2015**

* 24 months restriction for rent variation.
* Notices made needlessly complex, 3 comparable properties, statement, timeline increased from 28 days to 90 days.
* Increased timelines for notices of terminations, more complex items added, statutory declarations required on some.

**2016**

* Equal Status Act discriminatory on Housing Assistance grounds.
* Rent Control introduced for 3-year period – emergency period – no account taken of level of rent.
* New owners of rental properties limited to previous rent plus RPZ regardless of level previously set.
* Tenants right of occupation increased from 4 years to 6 years.
* Restriction on selling on 10 units.

**2017**

* Withdrawal of the right to terminate in first six months of further Part 4.
* Housing Standards updated and obligations increased.

**2018**

* Increased number of Rent Pressure Zones.

**2019**

* RPZs extended for 2 more years (nothing to address unsustainable rent).
* Increased timelines for terminations on landlords.
* Introduction of unworkable substantial refurbishment definition.
* New Termination obligations and procedures.
* Investigation and Sanction Power.
* Student specific accommodation registration requirements.
* Change for rules for Rent Pressure Criteria 27 new RPZ’s.

**2021**

* RPZ’s extended for further 3 years.
* RPZ criteria changed to HICP in July.
* RPZ rental increase criteria limited to 2 per cent or HICP whichever is the lower in December.
* Deposit Limited to one month’s rent but service of notice of termination for rent arrears takes two months.
* Changes were made to the rent review form, and it is now 12 pages in length.

**2022**

* Annual registration Introduced €40 per annum.
* Late registration penalties - €10 per month no end amount – unfair and disproportionate.
* Indefinite tenancies commence June – tenants can remain unless selling/or need for a member of family or substantial refurbishment.

The foregoing provides detail of the rapidly changing tax and regulatory environment facing private landlords. This creates huge uncertainty for private landlords and militates against any semblance of long-term financial planning and management. The net result is that private landlords are exiting the market and those seeking to rent properties are the ultimate losers.

# CONCLUSIONS

It is clear that Ireland has a significant housing and rental crisis. This is manifested in a significant shortage of housing for owner-occupier and rental purposes. House prices and rents are continuing to escalate at a rapid pace and this is creating serious social, economic and political difficulties.

For Ireland to remain competitive in general, but particularly against a background of significant external competitive challenge for mobile foreign direct investment, it is essential that there is a ready availability of affordable and suitable accommodation for owner-occupier and rental purposes. This is not the situation at the moment.

While institutional landlords are still very active in the rental market, there is an ongoing significant trend reduction in the number of private landlords in the market. This is a particular problem for rental markets where institutional landlords are not active.

It is clear from anecdotal and survey data why private landlords are exiting the market. The factors include:

* Rent Pressure Zones have not succeeded in controlling rents and have had the unintended consequence of preventing rents from falling and reducing the supply of rental properties in the market.
* The taxation treatment of private landlords compared to institutional landlords acts as a serious disincentive for private landlord participation in the market. Private landlords need to be treated fairly as they are a vital component of the rental property market.
* The regulatory and taxation environment facing private landlords is constantly changing. There is no certainty or continuity and this prevents private landlords from engaging in long-term financial planning and management.

The net result of these factors is that private landlords are exiting the market and those seeking to rent properties are the ultimate losers. This is not good for society, the economy or the political system. There has to be a move away from policies that discriminate against private landlords and which give them little incentive to participate in the rental property market.

If private landlords continue to exit the market, the situation is going to get worse. It is essential that changes are introduced to entice smaller private landlords back into the market. Such changes could include amendments to the RPZs, or their abolition; fairer tax treatment for private landlords; the RTB should become more balanced in its treatment of landlords, as there is a strong perception amongst private landlords that the RTB is heavily biased towards tenants and against landlords; and it is totally unacceptable that while landlords are facing increasingly higher costs, they are experiencing real declines in rents due to the current high rate of inflation.

The most effective way to address the rental market and achieve rent moderation is to encourage more private landlords into the market. The incentives to stay in the market or to enter the market are not particularly compelling at the moment.

# APPENDIX 1: EXAMPLE OF RENTAL TAX ACCOUNT

***Assume Investor purchased property for €285,000 and borrows €200,000 at 4.5%pa over 20 years***

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Cash flow | |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
| Rental Income | |  |  |  | 18,000 |  |  |  |
| *Less outgoings* | |  |  |  |  |  |  |  |
| Capital repayments | |  |  | (6,313) |  |  |  |  |
| Interest repayments | |  |  | (8,870) |  |  |  |  |
| Local Property tax | |  |  | (405) |  |  |  |  |
| RTB registration | |  |  | (90) |  |  |  |  |
| Repairs and Maint | |  |  | (450) |  |  |  |  |
| Insurance |  |  |  | (450) |  |  |  |  |
| Service charges | |  |  | (1,200) |  |  |  |  |
| Accountants | |  |  | (500) |  |  |  |  |
| Gardening |  |  |  | (520) |  |  |  |  |
| Letting fee |  |  |  | (900) |  |  |  |  |
| Management fee | |  |  | (900) |  |  |  |  |
| Income tax charge | |  |  | (4,370) |  |  |  |  |
| USC - 7% |  |  |  | (461) |  |  |  |  |
| PRSI - 4% |  |  |  | (263) |  |  |  |  |
|  |  |  |  |  | (23,958) |  |  |  |
| Net Shortfall | |  |  |  | **(5,958)** |  |  |  |
|  |  |  |  |  |  |  |  |  |
| Taxation |  |  |  |  |  |  |  |  |
| Rental Income | |  |  |  | 18,000 |  |  |  |
| *Less tax-deductible items* | | |  |  |  |  |  |  |
| Interest repayments | | |  | (8,870) |  |  |  |  |
| RTB registration | |  |  | (90) |  |  |  |  |
| Repairs and Maint | |  |  | (450) |  |  |  |  |
| Insurance |  |  |  | (450) |  |  |  |  |
| Service charges | |  |  | (1,200) |  |  |  |  |
| Accountants | |  |  | (250) |  |  |  |  |
| Gardening |  |  |  | (520) |  |  |  |  |
| Letting fee |  |  |  | (900) |  |  |  |  |
| Management fee | |  |  | (900) |  |  |  |  |
|  |  |  |  |  | (13,630) |  |  |  |
| Profit for tax purposes | |  |  |  | 4,370 |  |  |  |
| Income tax |  |  |  |  | 1,748 |  |  |  |
| USC |  |  |  |  | 461 |  |  |  |
| PRSI |  |  |  |  | 263 |  |  |  |
| Total |  |  |  |  | **1,898** |  |  |  |

Source: IPOA

1. The Daft.ie Rental Price Report Q1 2022, 12th May 2022. [↑](#footnote-ref-1)
2. RTB Survey of Landlords, Tenants and Letting Agents, Amárach Research, July 2021 [↑](#footnote-ref-2)
3. IPAV/IPOA Market Insights Survey, January 2022. [↑](#footnote-ref-3)