



An Chomhairle Náisiúnta Eacnamaíoch agus Shóisialta
National Economic & Social Council

Ireland's Rental Sector: Pathways to Secure Occupancy and Affordable Supply

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The Policy Context

This report is NESC's contribution to Government development of a new national policy for the private rental sector, including issues such as investment, standards and regulation, as indicated in *Construction 2020* and the *Social Housing Strategy*.

The report welcomes and builds on three key recent advances in government housing policy. First, government policy recognises that one-quarter to one-third of the population will find it increasingly difficult to achieve homeownership. Second, Government has made it clear that the goals of housing policy will be affordability, sustainability and inclusion. Third, the Government's social housing strategy represents a significant policy advance.

Understanding Ireland's Rental Sector

The analysis builds on two NESC reports published in 2014: *Social Housing at the Crossroads: Possibilities for Investment, Provision and Homeownership or Rental: Which Road is Ireland On?* The analysis reflects the recognition in those reports that supply is a key determinant of the availability and affordability of rental housing. An effective overall approach to housing policy requires a mutually supportive combination of finance, direct public influence on supply and a cost and regulatory regime.

Nationally, about 305,000 households (around 19 per cent) are renting from a private landlord, although the percentage of households renting is considerably higher in Galway (40 per cent), Dublin (34 per cent) and Cork (29 per cent).

Ireland's rental sector has some notable characteristics. Census 2011, the most recent year for which we have this data, shows that almost half of all households renting, 129,000, were headed by a foreign national. A high proportion of households in the rental sector, approximately 102,000, are in receipt of rent supplement and other housing payments. Among landlords there is a preponderance of small-scale individual investors and a high share of encumbered buy-to-let mortgages. With growing housing demand and very little new supply in recent years, there are some severe pressures in the rental sector in Dublin and

other cities. This is evident in increasing rents, pressures on government to increase rent supplement rates and, for a small proportion of low-income households who cannot meet rising rents, economic evictions leading to homelessness. The limited supply and high cost of rental housing is now a threat to Ireland's competitiveness and job creation.

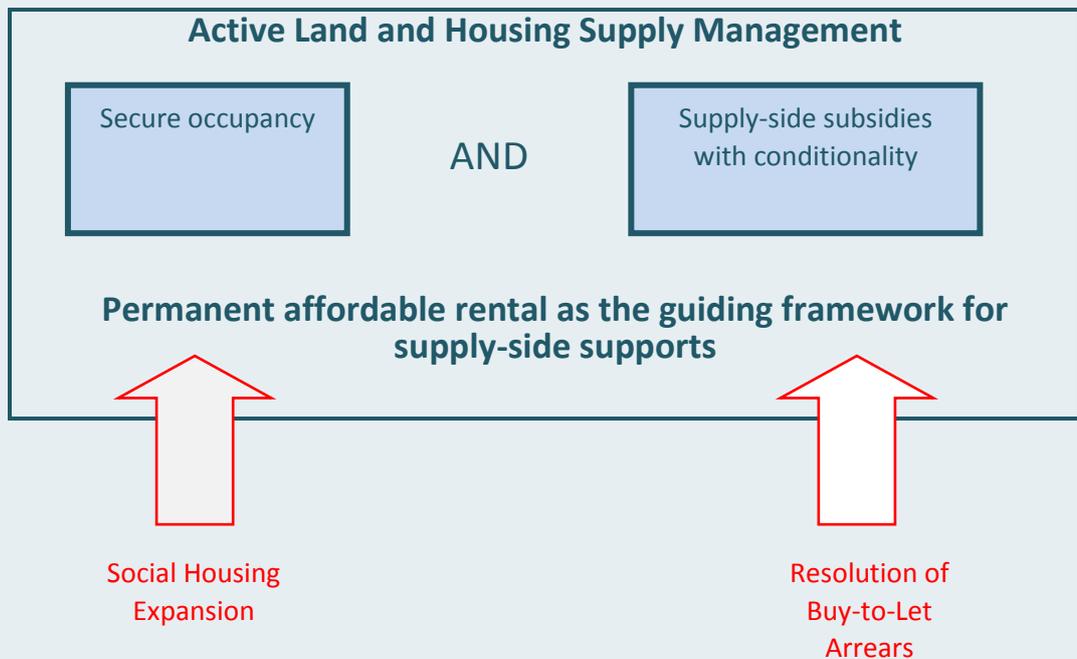
A Vision and Strategy for Ireland's Rental Sector

The report sets out a vision and strategic reform agenda for the rental sector.

This requires breaking free of the current dualist debate on the private rental sector, in which some argue for rent control and others counter with the need to create better incentives to keep existing landlords in the sector and encourage developers and investors to resume construction and supply. Neither approach, on its own, will be effective. We need policies that *both* provide tenants with more secure occupancy *and* create supply-side supports to increase the availability of affordable rental housing.

But these two policy approaches can only be made consistent when both are placed within a wider strategic and policy frame and supported by other policy approaches, illustrated in the figure below.

Enhancing the Role of the Rental Sector in Ireland: The Necessary Elements



First, it is necessary to mobilise public authority, assets and capabilities, in NAMA and other bodies, to focus on and lead housing supply, land management, infrastructure and housing affordability—an argument that is set out in more detail in a separate forthcoming NESC report.

Second, we need a coherent programme of conditional supply-side supports to increase the availability of affordable rental housing for intermediate households. As far as possible, these should be integrated with Government’s goals and criteria for investment in social housing. In designing these, Government must strike a balance between desirable conditionality (concerning rents, tenure, allocation, management, quality and energy efficiency), on the one hand, and achieving new investment and delivery, on the other. We propose that the guiding framework should be movement towards a unitary rental system with permanent, affordable, cost-based, mixed-income rental. This suggests that in setting goals and criteria to assess investment and development proposals, a relatively high priority should be given to creating accommodation, and securing assets, that will underpin *permanent* provision of social and affordable housing.

This wider strategic framework needs to be supported by two additional policies. The first is vigorous delivery of the *Social Housing Strategy*. The second is action to address the problem of encumbered buy-to-let properties.

Pathways to Affordable Secure Rental Housing

This vision and analysis provides the basis for a strategic approach on five interrelated fronts.

Secure Occupancy

In international housing analysis and policy, the concept of secure occupancy is used, rather than traditional forms of rent control. In a number of the most successful market economies there are well-established, balanced forms of rental sector regulation that create secure occupancy. Drawing on these examples, we identify four elements of a secure occupancy model for Ireland:

- Introduce a system of rent regulation to provide greater certainty for tenants and landlords through a mechanism for disciplined market-sensitive rent adjustment;
- Change the existing system of four-year leases to a regime in which leases are effectively indefinite;
- Remove sale of the property as a reason for vacant possession; and
- Improve the existing dispute resolution procedures.

We emphasise that these provisions are proposed as part of an overall reform package that includes more favourable tax treatment of rental income and measures to enhance the supply of affordable rental accommodation.

Measures to Increase the Supply of Permanent Affordable Rental Housing

The second key policy requirement is supply-side incentives and supports to increase the supply of permanent affordable rental housing available to low-income and intermediate households. Intermediate households are those that struggle in the private rental sector and the market for homeownership, but may not be eligible for social housing or, even if they are eligible, are unlikely to be allocated any, given its scarcity.

Instruments that can be used to encourage the provision of affordable rental accommodation include low-cost loans, access to state land on favourable terms, tax incentives and loan guarantees. If state land is used for affordable housing, land ownership should be retained with a state body or a voluntary organisation with a long-term commitment to providing affordable housing.

Affordable rental accommodation could be provided by both voluntary housing bodies or by the private sector. In either case, the approach would involve the provision of a moderate level of subsidy in exchange for affordable rents.

In the context of secure occupancy, the appropriate tax treatment of rental income is to have full relief of landlords' interest payments. The best strategic approach is to have a simple regime for taxation of rental income, that provides clearer and better incentives for long-term investment in provision of good quality rental homes. More favourable tax treatment should be considered for landlords with tenants in receipt of rent supplement or Housing Assistance Payment (HAP).

More Active Housing Supply and Land Management

To address the imbalance between the demand and supply of rental housing, and of housing in general in Dublin and other cities, there is a need for a more active public role in driving housing supply, leading the revival of development, managing land and the provision of urban infrastructure. This will be the focus of a separate Council report to be published in the near future.

Vigorous Delivery of the Social Housing Strategy

The comprehensive strategic approach to the rental sector set out here depends on vigorous delivery of the *Social Housing Strategy*. A large share of occupancy in the private rental sector consists of unmet social housing need and some of the problems in the sector reflect this. In order to move towards a larger, more stable, private rental sector it is necessary, over the coming decade, to drive back up the share of social housing provision by local authorities and Approved Housing Bodies (AHBs).

Managing the Transition of Encumbered Buy-to-Let Mortgages

A strategic approach to increase the scale, stability and affordability of the rental market must include measures to address the issue of encumbered buy-to-let mortgages, as is noted in the *Social Housing Strategy*. Although not examined in detail in this report, there would seem to be scope for a larger share of these properties to be acquired for social housing, through purchase or lease. In devising a programme to manage the transition of encumbered buy-to-let properties, a relevant factor is the low cost of long-term government debt.

Such a Strategy Will be More than the Sum of its Parts

The elements of this integrated strategy—indefinite tenure, market-sensitive rent regulation, supply-side subsidies, tax reform, active housing supply and land management and resolution of encumbered buy-to-let mortgages—would be mutually supportive. Each helps to create the conditions in which others are feasible and can be most effective.

