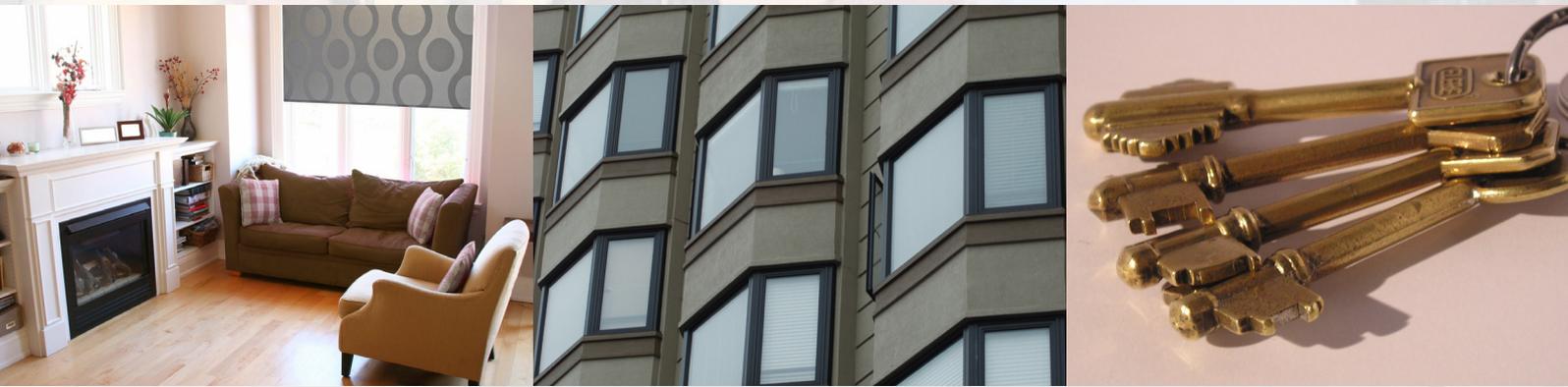


HOUSING, PLANNING, COMMUNITY AND LOCAL GOVERNMENT



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Policy Briefing Paper No. 2

REFORMING **PRIVATE RENTED SECTOR**



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NOVEMBER 2016

INTRODUCTION

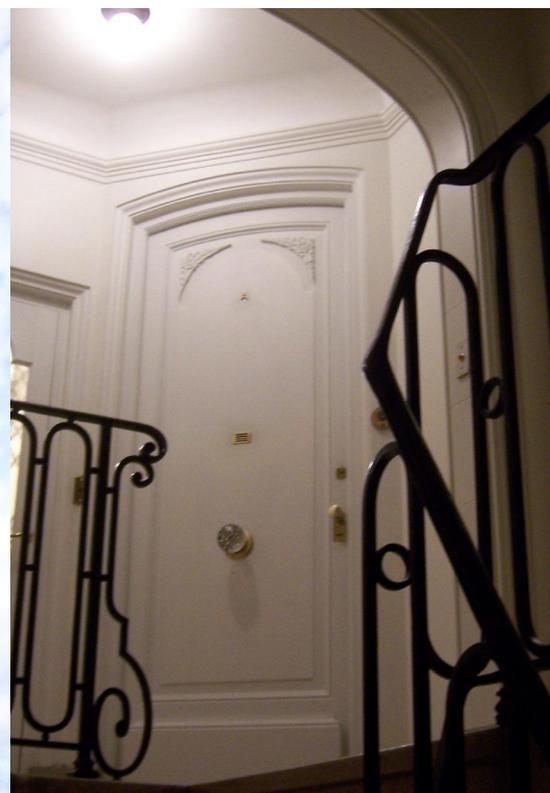
- Over 705,000 people live in 324,000 tenancies owned by 172,000 landlords.
- This has increased from 81,000 tenancies in 1991.
- From 1981 to 2011 the private rented sector as a percentage of total housing stock has risen from 8% to 19%.
- Despite this dramatic increase our private rented sector is still low by EU standards
- The last major Government review of the private rented sector was published in 2000.
- The Report of the Commission on the Private Rented Residential Sector led to a number of important changes including the Residential Tenancies Act and the creation of the Residential Tenancies Board.
- However many of the structural problems in the rental sector identified in the Report have not been resolved.
- A combination of Government inaction during both the boom and the recession has resulted in a rental sector that is dysfunctional.
- The poor regulation of the private rented sector has been bad for landlords and tenants
- Tenants do not have security of tenure preventing them from putting down roots and building sustainable communities.
- The absence of rent certainty creates rent peaks and troughs that hurt both tenants and landlords.
- Up to 55% of inspected properties in 2014 did not meet statutory standards meaning many people live in sub-standard accommodation.
- The rental market is fragmented with 65% of landlords owning just a single property and 82% owning two or less.
- Many of these are accidental landlords struggling with a mortgage and where the rent does not cover the cost of the mortgage.
- The remaining 19% of landlords are divided between small professional landlords with portfolios of less than 20 units and a very small number of large institutional landlords and Real Estate Investment Trusts.
- The tax treatment of residential landlords is disadvantageous when compared to non-residents who own Irish property through investment funds or REITs.
- Government policy failures in other areas of the housing system have put enormous pressure on a private rented sector ill-equipped to deal with such high demand.
- Lack of investment in social housing and an over reliance on state subsidised private accommodation for those with a social housing need has increased demand and pushed up rent prices.
- Almost 90,000 state subsidised tenancies are currently in place between Rent Supplement, Rental Accommodation Scheme, Housing Assistance Payment and the Government's Housing Action Plan intends to increase this to 140,000 by 2021.
- A lack of stand alone student accommodation has pushed up to 25,000 additional people into the private rented sector.
- Failure to address the high cost of producing private sector units has locked many would be first time buyers out of the market and forced them to remain in the private rented sector.
- Failure to act on the high number of vacant private properties in the state as identified by the 2011 and 2016 census has meant that in many high demand areas the underutilisation of existing stock has further distorted the relationship of supply and demand.
- None of these problems can be fixed overnight but we urgently need a long term plan for the private rented sector
- This requires a clear vision of where we want the sector to be in 20 years, and have timetabled actions in the short and medium term to get us there.
- Sinn Féin believes that such a plan, if it is to work must involve radical policy change to the failed approach of the past.

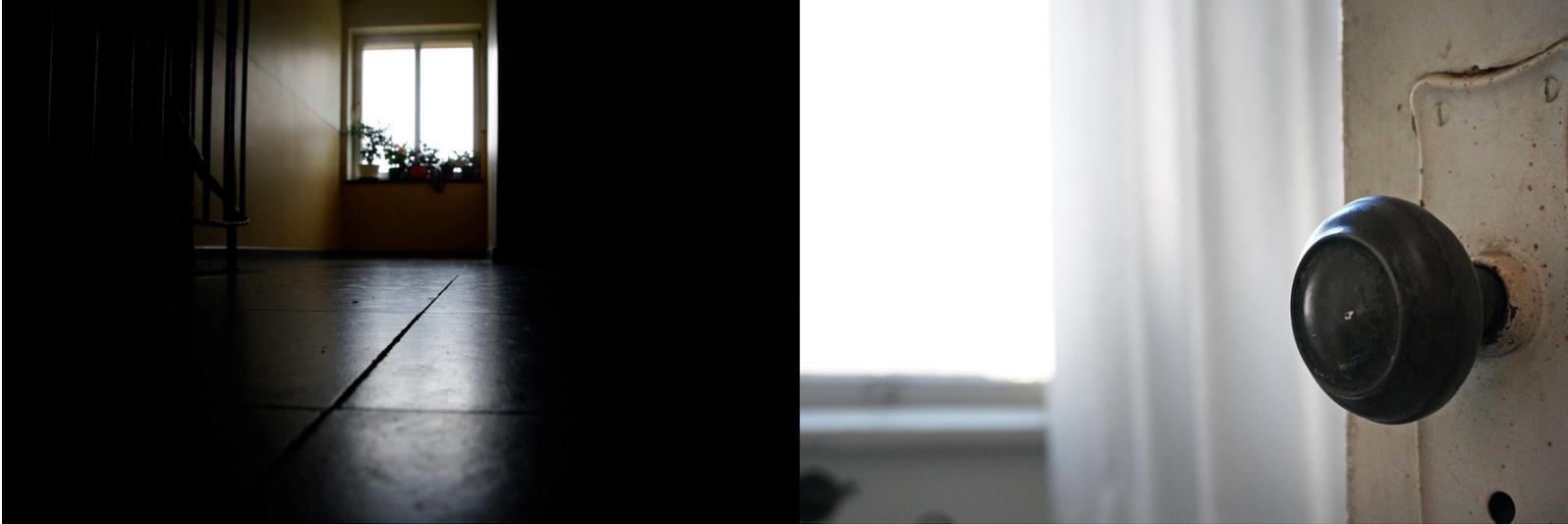
VISION

- A rented sector that is high quality, fair, stable, secure and sufficient in size to meet demand
- A rented sector that provides tenants with the security of tenure that they need –whether short or long term- with fair and certain rents
- A rented sector that provides high quality accommodation where all sections of society can live in comfort and security
- A rented sector that caters for the needs of all its tenants irrespective of social class, physical ability, age and ethnicity
- A rented sector that encourages high quality professional landlords who can secure a fair and reasonable return on their investment
- A rented sector that treats landlords in a fair and equal manor in all aspects of regulation and taxation
- A rented sector that is supported to ensure they highest possible standards in energy efficiency and environmental sustainability for both new properties and existing stock

SECURITY

- Rents:** Link rent reviews to a defined index such as the CPI to guarantee rent certainty to landlords and tenants
- Tenure:** Amend the Residential Tenancies Act to make tenancies of indefinite duration the norm without denying tenants the choice of shorter term tenancies where required
- Tenure:** Amend the Residential Tenancies Act to remove sale of property, own use, use of family member and change of use criteria for serving Notices to Quit
- Tenure:** Amend the Residential Tenancies Act to include receivers and and leaders in the definition of landlords for cases of repossessed buy-to-let properties
- Tenure:** Explore the possibility of requiring landlords to designate properties as ‘rental’ for defined and extended periods of time to ensure stability in rental sector stock and further enhance security of tenure
- Tax:** In advance of budget 2018 undertake a review of the tax treatment of residential landlords and explore the possibility of reforming the tax treatment of landlords to support the overall policy objectives of the rental strategy (*See Box 1*)





Box 1

TAX TREATMENT OF LANDLORDS - CRITERIA FOR REVIEW

- ▶ Residential Landlords receive 75% relief on mortgage interest
- ▶ Residential Landlords receive 100% mortgage interest relief when they participate in the HAP scheme
- ▶ Commercial landlords receive 100% relief on mortgage interest
- ▶ REIT landlords pay no income tax or capital gains tax and their non resident shareholders can reduce any tax liability they might have from dividends from the REIT through the numerous Double Tax treaties that Ireland has in place.
- ▶ The current Finance Bill proposes that non resident investors who hold Irish property in an investment fund (QIAIF or ICAV) for more than 5 years would not be liable to CGT on an uplift in the relevant property.
- ▶ The current Finance Bill also proposes that when a non resident investors hold Irish property in an investment fund (QIAIF & ICAV) that does not derive more than 25% of it's value from Irish property, then all rental income and gains from Irish property in the fund would be tax free for non resident investors.
- ▶ Residential landlords pay income tax and USC on income net of costs and tax reliefs at their regular income tax level
- ▶ Landlords who are self employed and PAYE workers also pay 4% PRSI
- ▶ 70% of residential landlords have outstanding debt on their properties
- ▶ 71% of landlords can not meet their mortgage payments from their rent receipts
- ▶ The cost of Mortgage Interest Relief to the taxpayer was €577m in 2012
- ▶ Ending mortgage interest relief would put many landlords out of business
- ▶ Currently the state gets very little in return given the scale of this tax expenditure
- ▶ There is a need for Government to urgently review the full tax treatment of all classes of landlords
- ▶ The purpose of the review should be to redesign the tax treatment of landlords so that is fair and allows good quality professional landlords to make a reasonable return on their investment
- ▶ Any such redesign should also have as its key aim the underpinning of the overall objectives of the private rental sector strategy including incentivising increased professionalisation, security of tenure, rent certainty and high quality standards.
- ▶ It should also consider the phasing out of mortgage interest relief with the objective of easing accidental landlords out of the market who do not wish to professionalise while at the same time maintaining the overall level of stock in the private rented sector

SUPPLY

- End the policy objective of placing up to 100,000 social housing tenancies permanently in the private rented sector subsidised by HAP and RAS.
- Increase the supply of social housing to free up private rental units currently subsidised by the state via RS, RAS & HAP.
- Increase the supply of dedicated student housing provided by Universities and funded via the Housing Finance Agency to further reduce demand on the private rented sector.
- Develop a more ambitious programme for bringing a larger number of vacant private housing stock as identified by census 2016 into use, including in the private rented sector. This programme should build on the Housing Agency acquisition programme, The Repair and Lease Scheme, The Buy and Renew Scheme and the Living City Initiative expansion announced in Budget 2017. It should also consider additional measures as identified in the Housing Agency Report presented to the Dáil Housing and Homeless Committee including a vacant home tax.
- Develop an ambitious cost rental scheme led by Local Authorities and Approved Housing Bodies as part of the Governments mixed tenure plan to increase the supply of affordable rental properties while increasing the rent revenue to social housing providers to maintain existing and new stock.
- Instruct the Housing Agency and the National Competitiveness Council to undertake an annual audit of the all-in-cost of house and apartment construction including comparisons with comparable OECD counties and make policy recommendations to Government on how best to reduce the cost of providing private sector units. The first such study should be completed within three months of launching the rental strategy.

STANDARDS & SERVICES

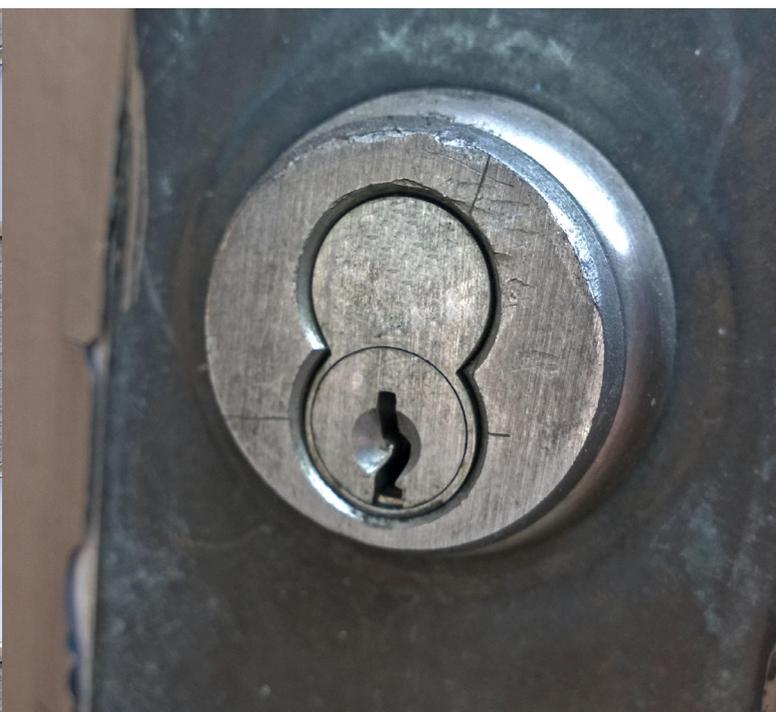
- In consultation with the City and County Managers Association develop a single framework for Local Authority inspection of private rental properties
- Increase resources to Local Authorities to enable them to increase the number and frequency of inspections
- Develop Department of Housing minimum standards for the number and frequency of Local Authority inspections of private rental properties and provide incentives to Local Authorities to exceed these minimum standards



- Increase the resourcing of the Residential Tenancies Board and its tribunals to reduce the length of time that mediation and arbitration of landlord-tenant disputes takes place
- Introduce a deposit retention scheme located within the PRTB. To ensure that payment of deposits to landlords or tenants is not delayed, require landlords and tenants to engage the RTB on deposit return in advance of the ending of a tenancy so that any disputes can be resolved before the expiry of a tenancy and the deposit can be returned to the landlord or tenant on the date the tenancy ends.
- In consultation with landlords and their representatives organisations and the RTA develop a minimum standard training qualification for landlords to assist the professionalisation of the sector. Develop the programme on a trial opt in basis and after a phased period make accreditation from such training mandatory for all landlords and letting agents.
- Instruct the Housing Agency and the Residential Tenancy Board to produce a research report on how best to assist landlords to meet the highest possible standards of energy efficiency and environmental sustainability in new and existing housing stock with recommendations for supports to achieve those policy objectives in Budget 2018

CONCLUSION

- Minister Simon Coveney has a unique opportunity to design a strategy that will for the first time in the history of the state put the private rental sector on the right track
- The strategy must be short, focused, ambitious and based on a clear vision for a stable and secure private rental sector that works for landlords and tenants
- The strategy must be based on a radical change of policy direction abandoning the failed assumptions and prescriptions of the past
- The Minister must avoid being led by building industry interests on the false premise that increasing unit supply is the sole or priority requirement in delivering stability in the sector
- The strategy must seek to balance the interests of tenants, landlords and investors (both public and private) to ensure a properly regulated and functioning rental sector that provides high quality, stable and secure accommodation at prices people can afford.





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