Stabilising Rents, Boosting Supply

November, 2015

A Package to deliver Rent Certainty and Housing Supply

Introduction

This integrated housing package, agreed by Government, is a comprehensive set of measures to deal with the problems currently being observed in the Irish housing market. Since taking office, Government has been dealing with the fallout of the property collapse. Now, as the recovery takes hold, a new set of problems has arisen in the market that require Government action, particularly in relation to the private rental sector and in relation to the lack of supply of housing in areas where it is needed. The package also contains important measures which will help tackle the on-going issues in relation to the increasing numbers presenting as homeless, and help those most vulnerable to falling into homelessness to find accommodation.

The Government has already taken several measures to improve outcomes, such as launching a €3.8 billion Social Housing Strategy which will deliver 35,000 new social housing units and an additional 75,000 new social housing tenancies by 2020. Government has also introduced other measures to stimulate the supply of housing, such as the introduction of a Vacant Site Levy in 2019 and other measures provided for in the Urban Regeneration and Housing Act.

The measures set out below are an integrated and appropriate set of changes to the sector which are designed to give certainty to tenants in relation to their rent, to better protect tenants in their homes, provide clarity to both tenants and landlords as regards their rights and obligations, and to stimulate the supply of housing provision in areas where it is needed.

There is no doubt that these changes will be of substantial benefit to the 700,000 or so people now living in the private rented sector in Ireland. As the numbers renting have doubled from just over 10% of households to over 20% of households in less than a decade, these measures are an appropriate and timely set of policy changes which recognise the more important role which private renting now plays in the Irish property market.

Ultimately, the rapid increase in rents seen in recent years is being caused by a mismatch between levels of supply and demand for rental accommodation where it is needed. This package includes a considerable number of proposals to increase the number of housing units being delivered at affordable levels. When taken together with the on-going implementation of the Construction 2020 Strategy and the Social Housing Strategy, a comprehensive framework is in place to deliver more homes for those who need them.

1. Measures to Improve the Private Rented Sector

Approximately 1 in 5 Irish households, living in approximately 320,000 properties, is now renting their home in the private sector. One third of those households are in receipt of State rental support. This represents a doubling in size of the private rented sector between Census 2006 and Census 2011. Further analysis shows that the social rented sector in Ireland (i.e. rented from a local authority or Approved Housing Body), relative to most other EU countries, makes up a small percentage of housing tenure. Social housing in Ireland makes up 9% of households, as compared to 15% in France, 22% in Germany, 31% in the Netherlands and 20% in the UK. One of the effects of this is that there is a considerable reliance on the private rented sector for the provision of social housing in Ireland.

By any standard, this is a rapid change in the structure of Ireland's property market, which in the context of the on-going market conditions, and taken together with the lingering effects of the property collapse, strengthen the argument for measures to be taken to provide for a better functioning and more stable rental market. Rental levels have increased significantly since 2012, and are now increasing in Dublin by 9.2% per year, 10.1% per year in Wicklow, up to a high of 14.4% per year in Co. Meath, and by close to or greater than 10% per year in most other large urban centres across the State (Daft.ie Q2 2015 Report).

The most recent data from the PRTB shows that in the second quarter of 2015 rents were 7.1% higher nationally than in the same quarter of 2014. These annual rates of increase were driven mainly by the Dublin market. Annual growth in rents for the market outside Dublin was more subdued; in the 12 months to end of Q2, 2015, rents there were higher by 5.8%. The latest PRTB stats show that rents in Dublin were only 3.5% below where they were at their highest in 2007. They are likely to have closed the gap even further since then.

In terms of supply, with a projected residential unit completion in Dublin of 2,700 units for the year to end 2015, compared to a supply requirement of roughly 7,000-8,000 units per year, there is clearly a lack of delivery of sufficient supply, which is putting upward pressure on rents.

The average rent in Dublin is now €1,262 per month while the average monthly rent outside Dublin is €677. The average monthly rent nationally is €878. The issue of rapidly rising rents is particularly acute in Dublin but it is also an issue in other cities and, increasingly, in the commuter areas adjacent to Dublin as tenants who can no longer afford to rent in the city looks to the commuter counties for affordable accommodation.

Housing affordability is measured by the proportion of household income that is spent on mortgage or rental payments. According to the *National Statement of Housing Supply and Demand 2014 and Outlook for 2015-2017*, published by the Housing Agency in July 2015, as a general guide a rent set at below 35% of net income is deemed to be a sustainable rent. Data from the *NESC Report on Homeownership and Rental in Ireland* indicates that while the amount of household income spent on housing has increased for all tenure types, this increase has been most pronounced in the private rented sector. The report *Rent Stability in the Private Rented Sector* – commissioned by the PRTB and carried out by DKM Economic Consultants – found that a single person on average earnings of €36,000, paying a (lower than average) monthly rent of €957 for a 1 bed apartment in Dublin, would be allocating 41% of net income to the cost of renting. On this basis, renting as a single person in the Dublin market is not generally affordable and has not been so for some time. For households earning below the average income there is clearly an affordability issue in the main cities, most notably Dublin, as competition from medium and high income households is squeezing them out of the market and there is an inadequate supply of housing at rents these lower income households can afford.

While the ultimate cause of the rapid increase in rents is the lack of supply of suitable accommodation, and while appropriate measures are also set out in this package to deal with the issue of supply, it will be some time yet before that supply comes on stream. As the supply of housing is very inelastic in the short run, measures in the rental market are required to deal with the situation currently being observed. A package of measures is set out below to deal with the twin issues of rapidly rising rents and insufficient supply of housing in the right areas. Measures are also proposed that will significantly improve the legal protections for tenants and to substantially increase tenant's awareness their rights.

Measures are also set out below which will directly help vulnerable families either already assessed as being homeless or at risk of homelessness to find accommodation.

The Government is determined to tackle these issues in a forthright and determined manner, and to take the action which is now required to deal with the problems in the Irish rental market.

1.1 Measures That Will Benefit Tenants

A package of legislative measures is being introduced to provide for greater rent certainty and also improved operation of the sector, including through the role of the Private Residential Tenancies Board, to the benefit of landlords and tenants alike. The following is a summary of the measures involved, which will be given effect through Committee Stage amendments to the Residential Tenancies (Amendment) (No. 2) Bill which has completed its passage through the Dáil and is awaiting Committee Stage in the Seanad. The aim is to have the legislation passed by both Houses of the Oireachtas as early as possible in the current session.

Extended Period for Rent Reviews

The primary measure proposed is to amend the Residential Tenancies Act so that from enactment of the necessary legislation, rent reviews for all tenancies will take place every 24 months rather than every 12 months as currently is the case, subject to a sunset clause which will revert the period to 12 months in 4 years' time. This will involve no change to the fundamental mechanism for determining rents under the legislation, which is by reference to market rent, yet will provide the tenant with a longer period of predictable rent.

Example 1: Deirdre and Anthony, a young couple with two children, renting a 3 bed house in Dublin, signed a lease in April 2014, at a rate of €1,200 per month. The landlord may increase the rent every 12 months, so in April 2015, the landlord increased the rent to €1,300 per month. Deirdre and Anthony are worried that the landlord will increase the rent again in April 2016. The landlord had planned on increasing the rent to €1,400 per month. With this change, the landlord cannot increase the rent until April 2017. Deirdre and Anthony's rent is frozen for 2016 at €1,300. Deirdre and Anthony save €1,200 in rent as a result.

Example 2: Rachel, a lone parent with one child renting a 2 bed apartment in Galway, signed a lease in December 2014, at a rate of €800 per month. Rachel is worried that the landlord will increase their rent in December 2015. The landlord planned on increasing the rent to €875 per month but, with the enactment of these measures, cannot increase the rent until December 2016. The rent is frozen until December 2016 at €800 per month. Rachel saves €900 in rent in 2016 as a result.

Example 3:

Michael and Stephen, a couple renting a 2 bed house in Cork, signed a lease in March 2015, at a rate of €900 per month. Michael and Stephen were worried that their landlord would increase the rent in March 2016 to €1,000 per month. Now, Michael and Stephen do not need to worry about a rent increase until March 2017.

Example 4: Larry and Mary, a couple living in Dublin, with their 3 children, rent their 3 bed house for €1300 per month. Their last rent review was in September 2013. Upon enactment, Larry and Mary's landlord can initiate a rent review at any time, as it is more than two years since their last rent review. However, once the other measures in relation to rent reviews outlined below are brought into effect, their next rent review will have to respect the new requirements involved.

Other Measures to Improve the Rights of Tenants:

In addition to the primary measure set out above, the Government will substantially improve the rights of tenants in the private rental sector, through the following measures:

Longer Notice of New Rent

The current requirement for a landlord to give their tenant a minimum of 28 days' notice of new rent is to be extended to a minimum of 90 days, giving tenants a longer period to find new accommodation, if necessary.

Form of Notification of New Rent to Tenant

In future, a landlord, when notifying a tenant of new rent, will have to provide the notification in a particular format, which will include providing information to the tenant in relation to the dispute resolution procedures that a tenant can pursue through the PRTB, where necessary, and specifying supporting information that will need to accompany the notice, including information in relation to the rents of 3 other similar dwellings in the area.

Notification of Rent Increases to the PRTB

In addition to notifying the PRTB of an increase in rent within 1 month, as is currently required, landlords will be required to also provide additional supporting documentation, including a signed statement by the tenant that they have been made aware of their rights and supporting documentation in relation to market rent for 3 similar dwellings in the area.

Longer notice period for tenancy terminations

Building on the current legislative position, whereby the period of notice of tenancy termination increases according to the length of the tenancy, up to a maximum of 112 days notice for tenancies of 4 years or more, further graduated increases in the notice period are to be introduced, up to a maximum of 224 days for tenancies of 8 years or more, as follows:

5 years or more but less than 6 years	140 days
6 years or more but less than 7 years	168 days
7 years or more but less than 8 years	196 days
8 or more years	224 days

Strengthen protections for tenancy terminations

In order to guard against unscrupulous landlords evicting tenants by falsely declaring that the property is needed for a family member, or that it is going to be sold etc., measures are being put in place to better protect tenants from such behaviour. These measures involve:

i) a landlord having to explain in a written statement to the tenant why a property might no longer be suitable to their accommodation needs having regard to the number of bed and the size and composition of the household;

ii) a landlord having to make a statutory declaration as to their intention to sell a property;

iii) a landlord having to make a statutory declaration that the property is needed for his or her occupation or that of a family member.

Confirmation of tenancy – additional information to landlords and tenants

While the PRTB currently sends an acknowledgement of a tenancy registration to the landlord, in future, both landlords and tenants will be notified of tenancy registration and the notice will also advise both parties of their rights and obligations and of the dispute resolution procedures that are available through the PRTB.

Sharing information with Revenue Commissioners

In order to support further compliance in the sector, the notification from the PRTB to the landlord and tenant confirming a tenancy registration will also state that the PRTB routinely discloses information to the Revenue Commissioners.

Deposit Protection Scheme

Under this scheme, landlords will lodge tenancy deposits with the PRTB at the same time as they are registering their tenancy. The PRTB will hold these deposits for the duration of the tenancy.

If the landlord agrees, the deposit will be repaid to the tenant at the end of the tenancy. Where there is no agreement between the landlord and tenant on how the deposit is to be repaid, the parties may apply to the PRTB for dispute resolution.

1.2 Measures That Will Benefit Landlords

Measures are being introduced to make it easier for landlords to deal with tenants who engage in anti-social behaviour, or those who refuse to pay their rent.

Enforcement of PRTB Determination Orders

Landlords have consistently called for more and faster enforcement by the PRTB in order to deal primarily with cases of rent arrears and anti-social behaviour. The relevant legislation will be amended so that PRTB Determination Orders can be enforced in the District Court rather than the Circuit Court, reducing costs and case processing times.

Validity of Notices of Termination

The legislation will also be amended to address an issue of key concern to landlords regarding Notices of Termination so that, where there is a dispute between a landlord and a tenant, a minor error in the Notice of Termination does not have the effect of invalidating the notice and causing a dispute resolution case to fall.

1.3 Measures That Will Help Tenants in Need of Support

Tax Incentive for Landlords who take HAP/RAS/RS Tenants

A tax relief scheme will be introduced to incentivise landlords to rent their properties to tenants in receipt of social housing supports such as rent supplement payable by the Department of Social Protection and the Housing Assistance Payment (HAP), payable by certain local authorities.

? The scheme will operate on the basis of providing a 100% interest deduction for landlords as an expense against rental income (increased from the current 75% limit applicable to residential lettings), where they commit to providing accommodation for those in receipt of the above payments. The accommodation would need to be available for a minimum period of 3 years and the tenancy would have to be registered with the Private Residential Tenancies Board (PRTB)[1].

? The increase in the deduction (from 75% to 100%) would be provided to the landlord on a retrospective basis after the three year period has ended and where necessary certification is provided to confirm that the terms of the scheme were met.

The legislation to provide for this change will be brought forward by the Minister for Finance at report stage of the Finance Bill, 2015.

Increasing the homeless HAP Pilot limits by 50%

The maximum rent limits applying to properties that can be accessed by people assessed as being homeless in Dublin are being increased to 50% over rent supplement limits. This means that a homeless family in need of a 3 bed in Dublin will now be able to find accommodation to the value of €1,500 per month.

Example: A family with 3 children is assessed as being homeless and placed in emergency accommodation. They are in need of a 3 bed home, which has a regular rent supplement limit of €1,000 per month in Dublin. Before this package, the homeless family could only access private rented accommodation to the value of €1,200 per month (€1,000 rent supplement limit + 20% under Homeless HAP uplift). Now the family can rent accommodation up to the value of €1,500 per month and the landlord can gain the additional tax incentive, laid out above, if they are eligible. This increases substantially the number of properties available to be accessed by homeless families.

Affordable Rental

Affordable rental schemes operate on the premise that a provider of housing receives some form of subsidy or concession from the State for the provision of dedicated rental accommodation in return for which the rent charged is pitched below market rent – typically 70-80% of the market rent. The overall objective of an affordable rental programme would be to provide long-term affordable residential accommodation for low to moderate income key-worker households in urban areas of high demand. A model for an affordable rental pilot project will be developed and launched in early 2016.

[1] Entitlement to the 75% deduction for interest paid on borrowed money employed in the purchase, improvement or repair of a rented residential property is already conditional on compliance with the PRTB registration requirements of the Residential Tenancies Act 2004.

2. Measures to Support Increased Housing Supply

A major contributing factor to the current rental crisis is the lack of sufficient construction activity in the Dublin and Cork regions, causing a lack of sufficient supply and putting pressure on rental levels. Action is required to increase the number of new homes under construction in Dublin and Cork, particularly in relation to units which are required at below certain price points.

In addition, a range of factors arising from the housing downturn are holding back the activation of existing planning permissions at the more affordable price levels urgently required, notwithstanding the progress made by the Government under the Urban Regeneration and Housing Act 2015 in reducing costs arising from Part V obligations and by local authorities in reducing their development contributions

While the policy, funding and legislative measures being taken by Government and local authorities under Construction 2020, such as the Vacant Site Levy which takes effect in 2019, will begin to have wider effects in reducing costs and improving affordability in the housing market from 2018 onwards, a more immediate initiative is required to encourage supply in the interim.

In particular, the Government has noted the analysis undertaken by the Dublin Housing Supply and Co-ordination Task Force (DHTF) and other local authorities, which confirms that there are a significant number of houses and apartments for which planning permission has already been granted in Dublin and Cork, where the issue is most acute, but on which construction activity is not occurring.

Latest figures show that for the first 9 months of 2015, Dublin house completions were at 2,057 units; down 14% on first 9 months 2014 (projected end-year output of some 2,700 units, as compared to a projected supply requirement of approximately 7,000-8,000 units). In addition, much of the new housing supply coming on stream is costing in excess of €300,000 which is a price level that is beyond the reach of new house purchasers.

Therefore, the Government has decided to bring forward supply related measures designed to enhance the viability of construction, in the locations of greatest need and at price points people can afford.

In addition to the primary measure of a targeted development contribution in Dublin and Cork for housing delivered at certain price points, a number of other measures to stimulate facilitate the provision of housing supply are set out below.

These measures include changes to planning guidelines on apartment standards, support by ISIF for the delivery of housing-enabling infrastructure, measures to maximise the potential of Strategic Development Zones (SDZs) and measures by NAMA to finance the delivery of 20,000 residential units by 2020.

Taken together, these provisions are designed to speed up the delivery of housing supply, which will help alleviate the situation in the rental market and increase the number of affordable homes.

2.1 Targeted Development Contribution Rebate

To enhance supply at prices people can afford a once-off initiative will be put in place to kick-start increased supply of new housing construction at more affordable prices under €300,000 in Dublin and €250,000 in Cork.

The initiative will provide for the following;

- Accelerate delivery of up to 7000 more affordable homes in Dublin (the 4 local authority areas) and Cork (city and contiguous suburbs), where there is a significant mismatch between predicted demand and the current market response in terms of supply;
- Establish an Exchequer funded Infrastructure Fund to meet the cost of the rebates so that the local authority would not be at the loss of development contributions revenue which they require to deliver local infrastructure investment programmes on roads and services and parks and amenities for newly developing or regenerating areas;
- Rebates will apply to developments where a project plan is submitted to the relevant local authority indicating that the development is -
    - for more than 50 units commenced after the announcement of this package, and completed and sold in 2016 and 2017;
    - units, within appropriate floor areas, will be priced under €300,000 in Dublin and €250,000 in Cork.
- Once homes are sold in line with the agreed project plan and price points, a rebate would be payable from the Infrastructure Fund in 2017 and 2018 to developers subject to meeting agreed price points and delivery targets and quality assurance, tax compliance and limits on construction costs as a proportion of the sale price.

The initiative comes on top of reductions of 26% in development contributions in the Dublin area, legislative changes to allow this reduction to be applied to existing planning permissions, reductions in Part V obligations (estimated at c. €10,000 per unit) and proposed changes to the apartment planning conditions in Dublin City (which will lead to an estimated average cost reduction of €20,000 per unit).

Arrangements will be finalised over the coming weeks with the relevant local authorities with a view to the scheme being launched before year end, at which stage full details of the application process will be published. Provision will be made within the scheme to cover any developments which commence from 11 November 2015, and will otherwise meet the qualifying criteria, within the initiative.

2.2 Planning Guidelines on Apartment Standards

There are very few apartment schemes being developed at present in the key urban areas and good quality apartment development has a key role to play in meeting housing needs while avoiding urban sprawl.

Therefore, the Minister will use his powers under the Planning and Development Acts to issue guidelines on apartment standards which will set a consistent national approach and ensure that planning authorities do not seek requirements above the national standards. These new guidelines, to be published by early December, will build on the floor areas set in 2007, following detailed research and deal with specific issues such as number of lifts per number of apartments, car parking provision, provision of dual aspect apartments (apartments with windows facing on more than one side) that are not specifically addressed in the current guidelines. The approach will also allow for variation in relation to meet the needs of certain categories of dwellings – housing for older people, students and to allow for some level of studio apartments in managed “build to let” developments.

The focus of the changes will be on ensuring a consistent approach that enhances practical aspects to viability for investment in apartment development generally rather than a reduction of standards.

2.3 Supporting Infrastructure Delivery

As part of the cross Governmental action to deliver sustainable housing supply in the future, the Ireland Strategic Investment Fund (ISIF) will support the delivery of housing-related enabling infrastructure in large scale priority development areas. This support is in order to kick start the development process, provided such financing can be done on the basis of appropriate risk and a commercial return for the risks taken. Proposals will be assessed on a project by project basis.

2.4 Strategic Development Zones

In line with Action 24 of the Government’s Construction 2020 strategy, review of the existing arrangements for Strategic Development Zones (SDZs) has been undertaken with input from stakeholders. Following on from this, it is proposed to introduce new legislative provisions which would allow An Bord Pleanála to approve alterations to SDZ planning schemes without the proposer having to start the process again. In particular, the aim will be to facilitate changes to some site configuration or phasing, where there was no change to the overall objective of the scheme.

2.5 Supply of Units through NAMA

The Minister for Finance has already indicated in Budget 2016, that in line with the NAMA Act, he asked the NAMA Board to review the residential sites under its control and to estimate what it could deliver on a commercial basis, in terms of residential units, over the next five years consistent with NAMA’s mandate to deliver the best financial return to the taxpayer. In response, NAMA is aiming to fund the delivery of 20,000 residential units before the end of 2020. This initiative is designed to maximise the return that NAMA can generate on behalf of taxpayers from funding the development sites under its control. NAMA is currently carrying out a detailed, site-by-site, bottom-up review of the residential sites controlled by its debtors and receivers and estimates that 90% of these units will be in the Greater Dublin area. About 75% of these units will be houses, mainly starter homes.