Public Consultation:

Rebuilding Ireland – Strategy for the Rental Sector

To: Mr Simon Coveney TD, Minister for Housing, Planning, Community & Local Government

A Submission on the Rental Strategy from the

Institute of Professional Auctioneers & Valuers (IPAV)

www.ipav.ie

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## Introduction:

The Institute of Professional Auctioneers & Valuers (IPAV) is the only representative body in Ireland which solely caters for the professional and educational requirements of auctioneers and valuers practising throughout Ireland. Established in 1971, it has over 1,100 members nationwide.

IPAV CEO Pat Davitt participated in the recent stakeholders' seminar on the Rental Strategy organised by the Department of Housing, Planning, Community & Local Government in the Morrison Hotel where he gave the views of the Institute.

IPAV also included a number of proposals on this critical issue in it pre-Budget 2017 submission to the Minister for Finance. It is IPAV's fundamental view that lack of supply for sale is the key issue causing difficulty in the rental area and urgent measures are needed to address this. IPAV regrets that Budget 2017 was a missed opportunity to provide a number of financial incentives to kick start this process. These include:

- A reduction in VAT on construction to 9 per cent for an initial two year period.
- More flexibility in the planning system to fast track the process of converting usage to family homes.
- The setting up of a builders finance scheme

## Buy-to-let Properties:

Recent studies have shown that the majority of landlords in Ireland own just one or two properties. IPAV has identified the real costs for landlords of owning a buy-to-let property.

A person who sets out to buy an additional property to rent is not an accidental landlord even though s/he may own just one rental property. If such a landlord purchases an investment property at age 40, saves for retirement at the age of 65, IPAV has calculated the return s/he receives after 25 years, all variants remaining equal:

**Summary:**

— Property prices €250,000

— Landlord's own Funds €80,000 plus stamp duty costs and fees €5,000 (€85,000)

— Mortgage of €170,000 over 25 years at 5% per annum. Principle & Interest.

— Mortgage cost of €11,925 made up of: Principle €3,505 & Interest €8,420

— Rent is €16,800 per annum (€1400 per month)

**Annual Expenses:**

Repairs / Maintenance of property at a standard industry cost of €1,000 per year tax deductible

Service fees / charge at a standard of €1,500 per year tax deductible

Insurance of the property contents €130 per year deductible for tax purposes

RTB registration €90 deductible for tax purposes

Management Agent's Fees of €1,900 per year tax deductible

Accountant's Fees €700 per year tax deductible

Property tax of €300 per year not allowed for tax purposes

**Total expenses €5,620 per year**

Interest in the first year is €8,420. Only 75% of this interest (€6,315) is currently tax allowable (although to change in Budget 2017 to 80%). When all the figures are calculated, the landlord needs to inject a further balance of €3,431 in order to keep the project running in year one.

As the landlord continues to service his mortgage throughout the term, with all relevant factors remaining the same, matters financially deteriorate for the landlord in year 25, with an interest of €316 and principle of €11,609. The balance he needs to inject to keep the project running in year 25 is €6,591. Therefore, over the 25 years he has injected a total of €117,906, plus his original €85,000 which adds up to €202,906. The property is worth €250,000, so if he sells the property he makes a profit after 25 years of €47,094.

It's easy to understand why landlords are not rushing to purchase properties but instead are rushing to exit the rental market altogether. The full workings of this example are detailed below in Table 1.

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## 25 Year Projection – Table1

| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Year 6 | Year 7 | Year 8 | Year 9 | Year 10 | Year 11 | Year 12 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Gross Rent Receivable** | 16,800 | 16,800 | 16,800 | 16,800 | 16,800 | 16,800 | 16,800 | 16,800 | 16,800 | 16,800 | 16,800 | 16,800 |
| Less Tax Deductible Expenses | | | | | | | | | | | | |
| Accountancy | (700) | (700) | (700) | (700) | (700) | (700) | (700) | (700) | (700) | (700) | (700) | (700) |
| Management Fees | (1,900) | (1,900) | (1,900) | (1,900) | (1,900) | (1,900) | (1,900) | (1,900) | (1,900) | (1,900) | (1,900) | (1,900) |
| Insurance | (130) | (130) | (130) | (130) | (130) | (130) | (130) | (130) | (130) | (130) | (130) | (130) |
| Service Fees | (1,500) | (1,500) | (1,500) | (1,500) | (1,500) | (1,500) | (1,500) | (1,500) | (1,500) | (1,500) | (1,500) | (1,500) |
| Repairs | (1,000) | (1,000) | (1,000) | (1,000) | (1,000) | (1,000) | (1,000) | (1,000) | (1,000) | (1,000) | (1,000) | (1,000) |
| PRTB | (90) | (90) | (90) | (90) | (90) | (90) | (90) | (90) | (90) | (90) | (90) | (90) |
| Mortgage interest (75% restriction) | (6,315) | (6,181) | (6,039) | (5,891) | (5,735) | (5,570) | (5,398) | (5,216) | (5,026) | (4,825) | (4,614) | (4,393) |
| Total Tax Deductible Expenses | (11,635) | (11,501) | (11,359) | (11,211) | (11,055) | (10,890) | (10,718) | (10,536) | (10,346) | (10,145) | (9,934) | (9,713) |
| **Taxable Rental Income** | 5,165 | 5,299 | 5,441 | 5,589 | 5,745 | 5,910 | 6,082 | 6,264 | 6,454 | 6,655 | 6,866 | 7,087 |
| Less Non Tax Deductible Expenses | | | | | | | | | | | | |
| Income Tax | (2,686) | (2,756) | (2,829) | (2,906) | (2,988) | (3,073) | (3,163) | (3,257) | (3,356) | (3,461) | (3,570) | (3,685) |
| Property Tax | (300) | (300) | (300) | (300) | (300) | (300) | (300) | (300) | (300) | (300) | (300) | (300) |
| Mortgage Interest 25% non-deductible element | (2,105) | (2,060) | (2,013) | (1,964) | (1,912) | (1,857) | (1,799) | (1,739) | (1,675) | (1,608) | (1,538) | (1,464) |
| Mortgage Repayments | (3,505) | (3,685) | (3,873) | (4,071) | (4,280) | (4,498) | (4,729) | (4,971) | (5,225) | (5,492) | (5,773) | (6,069) |
| Total Non Tax Deductible Expenses | (8,596) | (8,800) | (9,015) | (9,241) | (9,479) | (9,728) | (9,991) | (10,266) | (10,556) | (10,861) | (11,181) | (11,518) |
| **Net Cash Flow Loss** | **(3,431)** | **(3,501)** | **(3,575)** | **(3,652)** | **(3,733)** | **(3,819)** | **(3,908)** | **(4,003)** | **(4,102)** | **(4,206)** | **(4,316)** | **(4,431)** |
| **Total Mortgage Interest** | 8,420 | 8,241 | 8,053 | 7,854 | 7,646 | 7,427 | 7,197 | 6,955 | 6,701 | 6,433 | 6,152 | 5,857 |

| | Year 13 | Year 14 | Year 15 | Year 16 | Year | Year 18 | Year 19 | Year | Year 21 | Year 22 | Year 23 | Year 24 | Year 25 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Gross Rent Receivable** | 16,800 | 16,800 | 16,800 | 16,800 | 16,800 | 16,800 | 16,800 | 16,800 | 16,800 | 16,800 | 16,800 | 16,800 | 16,800 | 420,000 |
| Less Tax Deductible Expenses | | | | | | | | | | | | | | |
| Accountancy | (700) | (700) | (700) | (700) | (700) | (700) | (700) | (700) | (700) | (700) | (700) | (700) | (700) | (17,500) |
| Management Fees | (1,900) | (1,900) | (1,900) | (1,900) | (1,900) | (1,900) | (1,900) | (1,900) | (1,900) | (1,900) | (1,900 ) | (1,900) | (1,900) | (47,500) |
| Insurance | (130) | (130) | (130) | (130) | (130) | (130) | (130) | (130) | (130) | (130) | (130) | (130) | (130) | (3,250) |
| Service Fees | (1,500) | (1,500) | (1,500) | (1,500) | (1,500) | (1,500) | (1,500) | (1,500) | (1,500) | (1,500) | (1,500 ) | (1,500) | (1,500) | (37,500) |
| Repairs | (1,000) | (1,000) | (1,000) | (1,000) | (1,000) | (1,000) | (1,000) | (1,000) | (1,000) | (1,000) | (1,000 ) | (1,000) | (1,000) | (25,000) |
| PRTB | (90) | (90) | (90) | (90) | (90) | (90) | (90) | (90) | (90) | (90) | (90) | (90) | (90) | (2,250) |
| Mortgage interest (75% restriction) | (4,160) | (3,915) | (3,658) | (3,387) | (3,103) | (2,804) | (2,490) | (2,160) | (1,813) | (1,448) | (1,065 | (661) | (237) | (96,105) |
| Total Tax Deductible Expenses | (9,480) | (9,235) | (8,978) | (8,707) | (8,423) | (8,124) | (7,810) | (7,480) | (7,133) | (6,768) | (6,385 ) | (5,981) | (5,557) | (229,105) |
| **Taxable Rental Income** | 7,320 | 7,565 | 7,822 | 8,093 | 8,377 | 8,676 | 8,990 | 9,320 | 9,667 | 10,032 | 10,415 | 10,819 | 11,243 | 190,895 |
| Less Non Tax Deductible Expenses | | | | | | | | | | | | | | |
| Income Tax | (3,806) | (3,934) | (4,067) | (4,208) | (4,356) | (4,511) | (4,675) | (4,846) | (5,027) | (5,217) | (5,416 ) | (5,626) | (5,846) | (99,265) |
| Property Tax | (300) | (300) | (300) | (300) | (300) | (300) | (300) | (300) | (300) | (300) | (300) | (300) | (300) | (7,500) |
| Mortgage Interest 25% non-deductible element | (1,387) | (1,305) | (1,219) | (1,129) | (1,034) | (935) | (830) | (720) | (604) | (483) | (355) | (220) | (79) | (32,035) |
| Mortgage Repayments | (6,379) | (6,705) | (7,048) | (7,409) | (7,788) | (8,187) | (8,605) | (9,046) | (9,508) | (9,995) | (10,506 | (11,044) | (11,609) | (170,000) |
| Total Non Tax Deductible Expenses | (11,872) | (12,244) | (12,635) | (13,046) | (13,478) | (13,933) | (14,410) | (14,912) | (15,440) | (15,994) | (16,577 ) | (17,190) | (17,834) | (308,800) |
| **Net Cash Flow Loss** | **(4,552)** | **(4,679)** | **(4,813)** | **(4,954)** | **(5,102)** | **(5,257)** | **(5,420)** | **(5,592)** | **(5,773)** | **(5,962)** | **(6,162)** | **(6,371)** | **(6,591)** | **(117,906)** |
| **Total Mortgage Interest** | 5,547 | 5,220 | 4,877 | 4,517 | 4,138 | 3,739 | 3,320 | 2,880 | 2,417 | 1,931 | 1,419 | 882 | 316 | 128,140 |

By stark comparison if that same investor instead purchased land with the same €250,000, entered a 5 year land lease, (we are aware that a tire system exists for those aged over 40 years) the rent is tax free and 100% of the interest is allowable. Fair treatment for all investors is needed if private residential landlords are to continue to provide rental accommodation into the future.

The private rented sector provides housing for a wide range of households, many of whom previously would have had their accommodation needs met by the owner-occupier or social housing sectors. More recently, as a result of legacy issues in the home ownership sector, the private rented sector is accommodating those households who have lost their homes. Others who rely on the private rented sector include students as well as individuals and households who choose to rent.

Figures produced in the 2015 PRTB report Future of the Private Rented Sector produced by DKM, give an indication of the profile of Ireland’s current tenant population. For example, the bulk of persons in the private rented sector are aged between 25 and 34 years. Of those individuals living in private rented accommodation, 61% were single, while 30% were married.

Traditionally, investors in the residential property market expected to get in return, a combination of capital appreciation and a rental yield, which is sufficient to cover the cost of their investments. However, for property investments leveraged through a mortgage, repayments can add significantly to total operating costs, particularly and more recently for investors switching to principal and interest repayments after ten years. The escalation in the number of buy-to-let arrears cases is also having a negative impact on tenants and is an issue which requires an immediate solution if the existing stock of properties is to be retained within the sector. A clearly worrying finding in the DKM report was that almost a third (29%) of landlords intended to sell their properties as soon as they could. This is particularly the case with more recent landlords, 36 % of whom intended to sell as soon as they could. In contrast with Mainland Europe, there is only one Irish institution offering a 10 year fixed mortgage in Ireland and none offer a 15, 20, 25 or longer term. Longer term fixed mortgages give landlords and first-time buyers the confidence to invest in property.

The *Rebuilding Ireland* plan sets out two countries as good practice models where a majority of people rent properties, Germany and Switzerland. Ireland, with a ratio of just over 68pc owner-occupier units to total residential units, indicates Irish consumers are not such ardent fans of the concept of home ownership as some would have us believe. Ahead of Ireland are countries like Italy (73.1pc), Portugal (74.9pc) and Spain (78.8pc). Closest to Ireland are the Netherlands (67pc), the UK (64.8pc) and France (65pc). Germany is further down the list with 52.5pc home ownership and Switzerland is at the very bottom at 44pc. As these Eurostat figures attest, seven in every ten in the EU-28 live in owner occupied dwellings.

The *Rebuilding Ireland* plan clearly implies that Germany and Switzerland have been better insulated against housing booms and busts based on their lower home-ownership figures. That is at best to underestimate the complexity of the issue which involves different mortgage lending methodologies for how properties are valued for mortgage purposes in these countries. Mortgage Lending Values have been used in Germany for the past 100 years and these values traditionally give a lower property value for mortgage purposes than the Market Value methodology used in Ireland or indeed Great Britain.

There is no doubt that a fully functioning and efficient private rented sector is an essential component of the housing mix in any economy, including Ireland's. More recently, vulture funds have been gaining a significant foothold in the Irish market. Many of these, guided by the sole aim of making a quick profit are terminating tenancies seeking vacant possession to sell.

## IPAV Proposes:

- The treatment of residential property lettings as a normal business for tax purposes in the same manner as the commercial property sector with 100% interest allowable for tax purposes.

- Home owners who operate the Rent-A-Room scheme be allowed up to €12,000 rental (and in budget 2017 increased to €14,000) income tax free per annum. A similar amount should be allowed to all residential landlords to encourage them to stay in the business or to expand. This expansion would encourage and could come from housing stock that is already built and not being utilised at the moment.

- Providing a level playing field in taxation for private landlords as for vulture funds. Recent media reports on the low level of tax paid by these funds is a cause for great worry and serious investigation. (Legislation is promised in this area in the Finance Bill).

- The exclusion of USC or at least a large percentage of it from rents.

- Tax incentives for landlords who agree to long-term tenancies of 5, 7, 10 and 15 years, greater than currently provided for in the so-called Part 4 tenancies under the Residential Tenancies Act 2004. Such allowances already apply in the Agriculture sector on long term farm leases and give badly needed tax incentives.

- Tax incentives by way of Capital Gain Tax Relief for private landlords who sell properties with the tenants *in situ.*

- Long term fixed mortgages made available to landlords at rates like Germany of under 2% for 20 years.

- A legally binding Code of Conduct should be developed by which all tenants are obliged to sign and adhere to when entering a lease agreement which confirms their responsibilities to the landlord.

- Once a determination order has been issued to a tenant by the RTB, a set timeframe procedure needs to be put in place that will facilitate the landlord's legal right without having to go to court to remove an unpaid tenant from the property.

## Social Housing:

Social housing is regarded as a support for people who need housing but cannot afford to rent or buy their own homes. The two main providers of social housing in Ireland are the local authorities who are by far the largest provider and the voluntary and co-operative housing sector who have a much smaller housing stock.

It is clear that there is a serious problem with the whole social housing situation. Existing schemes are clearly not effective enough to sort out the immediate crisis and achieve the government's objective of creating a more sustainable housing system and promoting greater social solidarity.

The number of people on the local authority housing list and the trend in the list is suggestive of market failure that warrants more proactive government intervention. At the moment there are thousands of owners of non-primary residence housing who became landlords during the property boom and are not interested in being landlords or are not fulfilling their responsibilities fully as landlords.

IPAV is proposing a scheme called Rent-To-Buy Social Housing Scheme (RTBSHS).

We propose that Local Authorities would purchase property at open market value from private owners on a Rent-To-Buy Scheme; The Local Authority and the property owner would agree a selling price; the Local Authority would agree to pay the seller the equivalent of a mortgage, principal and interest on a monthly basis over a period of time to be agreed with the seller.

Over the same term as the mortgage agreement the Local Authority and the owner would both sign a rental agreement at market rent, minus 10%, with a CPI built in over the term. The rent would be paid monthly to the owner.

The seller of the property would be given full tax relief on the money received for rental purposes, along the lines of the forestry tax allowance. This would provide an incentive for the owner of the property to engage in the transaction and hence keep the property in the rental stock.

The advantages of such a scheme are that it would increase the supply of social housing and reduce the waiting list; the Local Authorities would own the property at the end of the agreed term with the seller; reluctant and non-compliant landlords would be able to effectively exit the market and there would not be negative cash flow implications for the Local Authority, in the sense that they would not have to come up with the purchase price in the beginning. It would also help to get some of the many vacant houses back into occupancy and it would provide in many cases an immediate solution.

With the property market still in a recovery stage this is the ideal time for the Local Authorities to embark on such a scheme.

## Transport:

Due to the shortage of housing within the central area of Dublin, a key objective of the forthcoming Rental Strategy should be to encourage as many people as possible to live in the outer regions of the Greater Dublin Area (GDA). The GDA comprises Fingal, Dún Laoghaire, Counties Kildare, Meath and Wicklow, along with Dublin City itself. Between 2006 and 2011 the population of the GDA grew by 9%, from 1.66 million to 1.8 million. Adding to this, Census 2016 shows the population change varied widely across the country ranging from a high of over 8% in Fingal to a low of -1.5 per cent in Donegal and among the fastest growing counties were the four administrative areas of Dublin, along with the commuter belt counties of Meath, Kildare and Laois. A continued shortage of houses, and out of reach prices for would-be Dublin home buyers, places the GDA and commuter towns as the obvious next best location to purchase. Providing quick, sustainable and efficient transport access to places of work, education and social activities, and to encourage others to follow suit should be a key Government objective.