

# Why are private landlords selling despite record rents?



## Pat Davitt Opinion

### Statistics on monthly payments skewed and Rent Pressure Zones can dampen prices

**I**n a recent radio discussion, the average rent in Dublin was quoted as €2,000 per month. When I attempted to explain that this is not the average rent being charged, I was challenged with the latest Daft.ie and RTB (Residential Tenancies Board) figures.

Of course neither of these reports captures the average of rentals being charged in the market but rather those of new rentals in the preceding three months. In the case of Daft.ie, it is asking prices in the period while the RTB tracks actual new rental agreements.

The RTB has informed the Institute of Professional Auctioneers and Valuers that it is not yet in a position to publish the average rentals of all types of property, despite the fact that all lease agreements must be registered with the organisation.

I would anticipate that when or if the information becomes available, we will find the average rent for a one-bedroom apartment will be closer to €1,500 with many tenants paying well below this figure.

Private landlords are leaving the market, despite record high rents. Four years ago, the institute picked up on this change and, to test its veracity, we undertook a small survey of members. We found such landlords were indeed leaving the market in sizeable numbers. We were berated in certain quarters for the warning.

It is now accepted, and documented in RTB reports, that 6,824 private landlords left the market between 2018 and 2020, bringing numbers down to 165,736.

Other organisations have documented in budget submissions and elsewhere how poor an investment proposition it is now to invest in residential property, given that one pays over 50 per cent of rental income in tax and with capital gains of 33 per cent on the sale of such property. Commercial property investment is treated much more favourably by comparison, with some very attractive tax breaks.

Exacerbating the issue is the unequal treatment between private landlords within Rent Pressure Zones. Where properties are on a first rental and in cases where properties have not been rented for a two-year period, landlords are free to charge market rent – or in other words, the rent the market will bear. Other private landlords in the same areas are confined by the RPZ legislation to minimal increases.

Those worst-hit, ironically, are those who didn't rush, as many did, to increase their rents to market level before the RPZ rules took effect in December 2015.

What is not often understood is how this differential impacts the value of one's property when selling on. A tenanted property rented at 50 per cent of market rent, will achieve only 50 per cent of the market value of that property as an investment property.

This forces affected landlords to end tenancies and gain vacant possession so that they can achieve market value by selling the property to an owner-occupier. The tenant has to find another property at much higher rent or face becoming homeless, adding to the problems for the State.

Private landlords would be willing to sell tenanted properties if they could get market value. Other investors would buy them, just like in several other countries, were it not for the unfair restriction imposed via the current RPZ legislation. An example I came across recently was an owner of a one-bedroom apartment close to Dublin city centre. The current market rent would be €2,000 a month but the property is currently rented for €1,100, €900 less than market rent or a whopping €10,800 per year less. Over the six years since the RPZs were introduced that would amount to something of the order of €50,000, given rents over that period.

#### Trauma and disruption

This landlord very much regrets having to evict his tenant for whom the apartment has been home for 12 years but feels he has little choice. Had some kind of equalisation programme been introduced for such landlords, even over a period, they would be enabled to put their properties on the market and sell them tenanted to another investor, saving a lot of trauma and unnecessary disruption for everyone involved.

This issue is the major reason for private landlords leaving the market. And it could prompt a constitutional challenge with all that that could potentially entail for the State. Internationally, while rent controls have been found to have some beneficial effects, it would appear that they have had serious negative consequences. Introduced in Germany in 2015, they have been found to have no persistent effect on rental prices but resulted in a reduction in housing quality. In Ireland, much of housing policy change in recent years has, unfortunately, been initiated in response to political argument often by those who shout loudest. It frequently lacks real market intelligence. Putting it mildly, it has been piecemeal.

The Minister for Housing recently set up a Commission on Housing. I would respectfully suggest it should thoroughly examine the issue of rent controls, even if no arm of the State can yet tell us, more than six years after their introduction, what the average residential rent currently is in Ireland.

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