An Chomhairle Náisiúnta Eacnamaíoch agus Shóisialta
National Economic & Social Council

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

Background Paper

May 2015

An Oifig Náisiúnta um Fhorbairt Eacnamaíoch agus Shóisialta
National Economic & Social Development Office NESDO

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

Background Paper

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This background paper provides additional empirical and analytical material on the issues discussed in the main Council report on the private rental sector. The first section presents material on the returns to investment in the private rental sector. The second section provides further information on the Housing Assistance Payment (HAP). This payment is being introduced to allow people who are eligible for social housing, with a long-term housing need, to live in private rental accommodation. The final section discusses the international experience of measures used to promote rental accommodation, focusing on supports that are conditional on the level of rents charged.

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Abbreviations

AHBs
Approved Housing Bodies

BIM
Building Information Modelling

BTL
Buy-to-Let

CALF
Capital Advance Leasing Facility

CDC
Caisse dés Dépôts

CGT
Capital Gains Tax

CPI
Consumer Price Index

CSO
Central Statistics Office

DECLG
Department of the Environment, Community & Local Government

HAP
Housing Assistance Payment

HFA
Housing Finance Agency

IPD
Investment Property Databank

LPT
Local Property Tax

NAMA
National Asset Management Agency

NESC
National Economic & Social Council

NTMA
National Treasury Management Agency

P&A
Payment & Availability Agreement

PRS
Private Rental Sector

PRSI
Pay Related Social Insurance

PTRB
Private Residential Tenancies Board

RAS
Rental Accommodation Scheme

REITs
Real Estate Investment Trusts

RTA
Private Rental Tenancies Act, 2004

SHS
Social Housing Strategy

USC
Universal Social Charge

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The Council retain all responsibility for the information and views presented in this report.

1. Return on Investment in Rental Property

1.1 Return on Investment

Investment in rental property provides a potential return in two ways: first, the rental income return and second, capital appreciation. Estimates of total returns (i.e., income and capital appreciation) presented by DKM Economic Consultants *et al.* (2014a) show that in most years between 1980 and 2007 the annual return exceeded 10 per cent, while it was negative for the years 2008 to 2012 due to the collapse in house prices. Returns became positive again from 2013.

This section provides an overview of rental yields in Ireland, with comparative data. It looks at the returns that are now likely for new investors—both small-scale landlords and institutional investors—and for existing investors.

1.2 Rental yields—Ireland and International

The net rental yield is a measure of the rental element of the return. It is calculated by DKM as gross rents less 20 per cent (to take account of running costs) as a percentage of property prices. This is the yield for an investor without a mortgage. The net rental yield has been volatile; over the period since 1980 it has ranged from 2.7 to 8.6 per cent. The current average yield is estimated by DKM at 4.3 per cent. The highest yields were experienced in the early 1990s.

Yields vary across property sizes and areas. Net yields from Daft.ie are presented in Table 1[1]. There has been a substantial increase in yields from their low point in 2006. This is mainly due to the fall in house prices that occurred over this period. The national average gross yield as estimated by Daft.ie in the fourth quarter of 2014 was 4.7 per cent. Yields are considerably higher (and have grown by more since 2006) for the smaller property sizes (up to three bedrooms), with average yields in the region of 5.3 to 5.8 per cent and are often higher in Dublin (close to 6.0 per cent for one- and two-beds in Dublin).

[1] Daft.ie publishes gross rental yields. The Daft.ie figures have been converted into net yields by applying a 20-per-cent reduction.

Table 1: Average Net Rental Yields by Property Type

	1 Bed		2-Bed		3-Bed		4-Bed		5-Bed		Average	
	Q2 2006	Q4 2014	Q2 2006	Q4 2014	Q2 2006	Q4 2014	Q2 2006	Q4 2014	Q2 2006	Q4 2014	Q2 2006	Q4 2014
Dublin City Centre	2.7	6.1	3.0	6.1	2.7	6.7	–	–	–	–	2.8	6.2
North Dublin City	2.6	5.8	3.0	5.5	2.7	4.8	2.1	4.6	2.1	5.4	2.7	5.0
West Dublin	3.1	7.5	3.3	6.2	3.2	5.4	2.8	4.4	2.3	3.7	3.1	5.4
South-East Leinster	2.5	3.9	3.4	6.3	2.9	5.3	2.2	3.7	–	3.2	2.8	4.4
Connacht/Ulster	–	4.4	3.2	5.5	3.0	5.9	2.4	4.3	–	3.6	2.6	4.7
National Average	2.6	5.6	3.2	5.8	3.0	5.3	2.6	4.0	2.4	3.6	2.6	4.7

Source: Calculated from Daft.ie (2015a, 2006)

Estimates of yields internationally from the Investment Property Databank (IPD) database (as reported by Nowlan, 2014) are presented in Table 2 below. Comparable figures for Ireland are not available from this source. The IPD data are for institutional investors rather than individual buy-to-let (BTL) investors. Yields for the major regions shown have been close to 4.0 per cent over the past decade, with the exception of North America where yields are higher. The current rental yields as estimated by Daft.ie appear in most instances to be relatively high compared to other European countries. According to Nowlan, the initial income return that institutional investors are seeking in Irish residential property at present is at least 5 to 6 per cent, again a high return by international standards.

Total returns to investors also depend on capital appreciation. Over the decade to 2013, IPD data (as referred to by Nowlan, *op. cit*) show that total returns (rental yields plus capital appreciation) achieved in residential investment in most countries included in the IPD database exceeded the returns from commercial property. For example in the UK, the total return from residential property in this period was 10.5 per cent compared to around 7 per cent for commercial property.

Table 2: Net Residential Yield across Global Regions

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Pan-European	4.4	4.3	4.0	3.8	3.8	4.0	4.1	4.2	4.2	4.1
North America	5.9	5.6	5.4	4.9	4.7	5.8	6.0	5.4	5.2	5.0
Eurozone	4.2	4.1	3.8	3.6	3.5	3.7	4.0	4.2	4.2	4.2
Europe excluding UK	4.4	4.3	4.0	3.8	3.8	4.0	4.1	4.2	4.2	4.1
Nordic	4.6	4.3	4.0	3.9	4.1	4.4	4.2	4.2	4.4	4.4

Source: Nowlan (2014) based on IPD data.

While rental yields in Ireland now appear attractive, there are two issues to be considered. First, the returns presented do not take account of mortgage debt and second, many Irish landlords have purchased properties at earlier, higher prices. Each of these is now discussed.

1.3 New Investor—Mortgage Finance

For a new investor who uses a mortgage to buy a rental property, the larger share of rental income will be absorbed by debt repayments.

An example is presented in Table 3 of an investor in North Dublin City using a 70-per-cent mortgage (the maximum permitted by the new Central Bank guidelines) to buy a two-bed rental property; the mortgage term is 25 years. This yields a modest after-tax profit before capital repayments. When capital repayments are included, the annual cash-flow is negative; i.e., the initial rental income would not cover all of the mortgage repayments. This may still be a worthwhile long-term investment since the investor is accumulating equity over time, and rental income can be expected to increase. The larger part of the mortgage repayments is covered by rental income while there is also the prospect of some capital appreciation. After 25 years, the mortgage would be repaid. If asset prices were to rise by an average of 3 per cent annually, at that stage the investor would have an asset with a nominal value of almost €450,000.

Interest rates have a significant influence on the returns achieved by an investor using a mortgage. The average interest rate for first-time buyers in Ireland is higher than the average interest rate on new mortgages in the euro area. If BTL interest rates were two percentage points lower, then the cash flow on new investments would be positive. On the other hand, lower interest rates would also increase house prices and thus reduce rental yields.

Table 3: Example of Earnings and Costs on a Two-Bed Buy-to-Let Investment

	Variable Rate (4.4%)	3-year fixed rate (5.5%)	Variable rate (4.4 %) with full interest allowed
Purchase price	**€214,000**	**€214,000**	**€214,000**
70% mortgage	€149,800	€149,800	€149,800
Rental icome	€14,766	€14,766	€14,766
Costs			
Management + maintenance costs (20%)	€2,953	€2,953	€2,953
Interest	€6,591	€8,239	€6,591
Local property tax	€344	€344	€344
Total costs	€9,888	€11,536	€9,888
Profit (before capital repayments)	**€4,878**	**€3,230**	**€4,878**
Taxable profit	€6,869	€5,634	€4,878
Tax due (income tax, PRSI, USC)	€3,572	€2,929	€2,536
Profit after tax	**€1,306**	**€300**	**€2,341**
Total repayments	€9,890	€11,039	€9,659
Cash flow after repayments	**-€1,993**	**-€2,499**	**-€726**

Note: Based on rental yield of 6.9 per cent for a two-bed property in North Dublin City from Daft.ie (2015a). The purchase price of €214,000 is the asking price of a two-bed terraced house in North Dublin City from Daft.ie (2015b). Interest rates are the best offered on the website bonkers.ie on 9 February 2015. The variable interest rate of 4.4 per cent is offered by Ulster Bank and the fixed rate is the three-year rate from Permanent TSB. The repayments are based on a 25-year mortgage term. Tax rates depend on a person's total income, marital status and whether employed or self-employed. The example here is based on a combined income tax, PRSI and USC rate of 52 per cent. Landlords liable for the standard rate of tax would pay less tax on their rental income. Repayments have been calculated using the myhome.ie mortgage calculator.

1.4 Existing Investors

Many existing landlords have paid higher prices for their properties and hence have higher debts to service. The RedC survey (DKM Economic Consultants *et al*., 2014b)

found that 70 per cent of landlords had debt on their properties and, of these, 71 per cent reported that the rent did not cover the mortgage or loan repayment[2]. This data implies that rents do not cover mortgage payments for approximately half of landlords. Landlords were also affected by the fall in rents from 2007, while rents have increased substantially since 2012. In addition, returns to existing investors have been adversely affected by a series of tax changes introduced in recent years:

- The restriction of mortgage interest deductibility to 75 per cent;
- The introduction initially of the non-principal primary residence (NPPR) tax followed by the local property tax (LPT), neither of which was or is deductible in the computation of taxable profit; and
- The levying of the Universal Social Charge (USC) and PRSI on rents[3].

The introduction of a property tax and the treatment of rental income on a similar basis to other income for the purposes of PRSI and USC are consistent with principles of tax reform. However, the non-deductibility of all interest on mortgages, and the fact the LPT is not deductible, represent unusual tax treatments and can lead to situations in which there is a tax liability even though there is a loss (before capital repayments).

DKM Economic Consultants *et al.* (2014c) outline the returns for investors who bought with a 90-per-cent mortgage in 2000, 2004 and 2007. Those who purchased on a variable or tracker rate repayable mortgage in 2000, and have the property rented, were covering their costs and making a small profit after capital repayments (of €266 per annum when on a variable rate, and €3,100 on a tracker) in 2014. In addition, those who invested in 2000 had accumulated considerable equity: for example, in the case of the variable rate purchaser, equity had increased from €21,000 in 2000 to €246,300 in 2014, an almost twelvefold increase. However, all of those who bought in 2004 and 2007 are not covering their outgoings if they are making capital repayments. An investor who bought with a variable mortgage in 2007 would have outgoings of €12,942 higher per year than his/her rental income—and also have a tax liability on the rental income. An investor who bought in 2007 on a tracker mortgage and paying interest only would have a pre-tax rental profit of over €9,000. This is possible on account of the low tracker interest rates. Such an investor would, however, have negative equity.

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[2] This survey was a sample taken from the PRTB tenancy registry. There is some uncertainty regarding the incidence of debt among landlords. At the end of 2014, there were 141,000 BTL mortgages in Ireland, while there were just over 300,000 tenancies registered with the PRTB. This implies that over 50 per cent of properties had no associated debt. However, this does not take account of unregistered tenancies. The inclusion of these would imply a higher share of debt-free properties. On the other hand, some people have rented out their family homes (with standard mortgages) without notifying their banks so these mortgages are not included in the BTL mortgage statistics. Finally, a third of landlords own more than one property, and so could have debt on one property but not on others. Hence the percentage of landlords with debt may exceed the percentage of properties with debt.

[3] Self-employed people have always been liable to PRSI on rental income but this was extended to PAYE taxpayers with rental income from 2014 unless their total non-PAYE income is less than €3,174.

Hence, in addition to the huge pressures facing tenants, there is also considerable financial pressure on some landlords. Landlords incurring losses are less likely to be good landlords as they may lack the money to properly maintain their properties. The RedC survey found that close to one-third (29 per cent) of landlords would like to sell their properties as soon as they can. Landlords who sell their properties at a loss are still liable for remaining debts. When property prices are rising, there is an incentive to continue to hold on to it (if feasible).

1.5 Viability of New Residential Development for Institutional Rental

Nowlan (2014) examines the viability of developing new residential property in the light of prevailing rent levels, and presents two scenarios. In the first scenario, the investment is undertaken by an experienced self-build developer (i.e. a combined developer and builder) who can design and build in volume. In addition, land is assumed to be available at a cost of €800,000 per acre, the Development Plan standards are benignly interpreted and there are no significant delays in planning. In these circumstances, Nowlan estimates that it would be possible to deliver a scheme of large two bedroom units (80 square meters) with a unit price of €208,000 including developer profits, levies and VAT (but not including Part V). In this scenario, a rent of just over €1,000 per month would enable the investor to achieve an initial net income return of 5 per cent. Such a rent is below current rents in Dublin.

In the second, less benign scenario, the development is undertaken on a one-off basis with a separate developer and builder. Land costs are considerably higher at €2,000,000 per acre and there is full adherence to all the Development Plan standards (including basement car parking etc.). In addition, planning permission takes the traditional two years to obtain. This development would require a much higher rent to be viable.

1.6 Conclusion

Rental yields now appear attractive for both individual and institutional cash buyers of residential property. For BTL investors now buying property with a mortgage, rental income would not be sufficient to cover all capital repayments. However, there is instead the attraction of acquiring equity in a property over time. Many existing BTL investors have bought property at higher prices and have been adversely affected by the property crash and a series of tax changes made in recent years.

The viability of the construction of new apartments for institutional rental in Dublin has been examined by Nowlan (2014) and Nowlan finds that such construction is potentially viable at current rental levels, ‘but only if efficient procurement practices are adopted, land is available at reasonably priced levels and there are no significant planning-related delays’ (*ibid.*: 4).

2. The Housing Assistance Payment (HAP)

The Housing Assistance Payment, or HAP, is a payment available for eligible households with a long-term housing need, to live in private rented accommodation.

The payment can be seen as an adaptation of earlier payments to those in private rented accommodation who cannot afford to pay the rent from their own resources. The first such payment was rent supplement, introduced in 1977 (Norris & Coates, 2010; DSFA, 2005), and administered by the Department of Social Protection. Eligible recipients included those who could originally afford their accommodation but no longer can due to a change in circumstances (such as unemployment), and those on the local authority housing list. A person working over 29 hours a week, or with a spouse/partner engaged in such employment, cannot, however, claim rent supplement.

In the late 1990s and early 2000s, as house prices rose leading to affordability problems, and a low number of local-authority owned dwellings were available, the number of people claiming rent supplement increased significantly, as did their duration on the scheme, and the cost of it. In 1994, there were 28,800 claimants and the cost was €56 million. But by 2004, there were 57,872 rent supplement recipients, and the scheme cost €354 million. There were also concerns that the conditions of the payment were a disincentive for recipients to seek full-time work.

The Government therefore introduced the Rental Accommodation Scheme (RAS) in 2004. Under this scheme, individuals who have been on long-term rent supplement, and who have been assessed as having a long-term housing need, can be housed in accommodation leased by the local authority housing division. This accommodation is leased from private and voluntary landlords, and tenants pay a differential rent related to their income. The scheme improved a number of the constraints of rent supplement:

- All RAS tenants could be employed full-time;
- The local authority leased the accommodation and paid the landlord directly. It was planned that the local authority's market power would facilitate better negotiation on rent than relying on tenants to try and negotiate this[4]; and
- The payment method was also more reliable for landlords.

It was originally planned that anyone on rent supplement for over 18 months would be transferred to RAS. A considerable number were transferred (almost 48,000

[4] Local authorities typically pay rent below the rent supplement levels that RAS is required to use, as RAS reduces landlord costs in a number of ways. For example, the landlord does not have to collect rents during a RAS tenancy, prompt rent payment is guaranteed, and under longer-term arrangements the landlord does not have to fill vacancies.

households between 2005 and the end of 2013[5]), but by the end of 2012, there were still 41,670 households receiving rent supplement for over 18 months (DSP, 2013a). This may be related to the growth in numbers on rent supplement during the economic downturn[6]. Some stakeholders, interviewed for this report, also noted that local authorities were finding it increasingly difficult to source accommodation for RAS in and near large urban areas, as landlords could easily find tenants willing to pay higher rents than those allowed under RAS (see below). Some local authorities also found that they were increasingly in arrears from tenants, as the local authority in a number of cases had contracted to pay the landlord rent for a particular period of time, and this had to be paid whether or not the tenant paid their differential rent to the local authority. This range of problems, and the fact that Government decided to move all long-term housing supports to local authorities, led to the introduction of the HAP.

2.1 The Rationale for HAP

In July 2013, the Minister for Housing and Planning announced the introduction of the HAP, to which those with a long-term housing need and eligible for social housing support will be transferred. Those on rent supplement long-term will be transferred to HAP, while those with a short-term housing need, due to e.g. a spell of unemployment, will remain on rent supplement, under the Department of Social Protection. Those on RAS will not be transferred to HAP. HAP will be administered by local authorities, with the result that all long-term housing support will be administered by them. It is planned that this will lead to greater consistency in the application of social housing policies, in relation to needs, allocations, rents and tenure.

As with rent supplement and RAS, HAP will use privately owned (as well as housing association-owned[7]) accommodation to provide social housing. It will differ from rent supplement, and be more similar to existing local authority housing and RAS, in that it will be possible to be in full-time employment and receive HAP. The tenant will pay a differential rent based on their household income to the local authority, with deduction at source for those in receipt of social welfare payments. In return, the local authority will pay a market-related rent to the landlord[8]. The amount of HAP paid will be withdrawn as the tenant's income from employment increases, until it reaches a level when the HAP payment is withdrawn altogether. However, it is planned that in this case the recipient could stay in their home by paying the market rent to the landlord. The HAP Implementation Strategy[9] in January 2014

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5 See http://www.kildarestreet.com/wrans/?id=2014-03-12a.43&s=rental+accommodation+scheme, downloaded 20 March 2014.

6 When RAS was introduced in 2004, there were 58,000 households claiming rent supplement, but this increased to a high point of 97,000 in 2010 (DSP, 2013b).

7 The majority of the accommodation is likely to be from the private rented sector, as AHBs are estimated to own approximately 27,000 dwellings, while over 70,000 are expected to be on HAP by 2020.

8 The rent limits applicable under rent supplement will also be used for HAP.

9 DECLG *et al.*, 2014. Supplied to NESC by the Department of Environment, Community & Local Government.

noted that approximately 34,000 of the 80,000 rent supplement recipients were also on the live register, and comprised 9 per cent of the total live register.

As with RAS, the local authority will inspect the property and ensure it meets certain standards[10]. A key difference from RAS is that the tenant will source the accommodation, not the local authority. If the rent limits under HAP are reduced, then it is the responsibility of the tenant to communicate this to the landlord and ask for a reduction in rent.[11] The tenancy relationship is also between tenant and landlord, not between tenant and local authority[12]. Those in receipt of HAP are considered to have had their housing needs met, and so will no longer be on the local authority's housing list. However, tenants can apply for transfer to other forms of social housing. Time spent on the housing list can be taken into account when the local authority considers the transfer application.

The table 4 summarises key administrative differences between rent supplement, RAS and HAP.

2.2 Experience of HAP to date

The new payment was piloted in Limerick from April to September 2014, during which time 120 rent supplement recipients were transferred to HAP. The transfer, which was voluntary on the part of both landlords and tenants, was found to require a great deal of administrative resources, with a number of meetings needed with landlord and tenant. The pilot also involved setting up a new shared services system for administering HAP (more detail below).

Since then, HAP has been rolled out to eight other counties[13], and is being rolled out nationwide in 2015. By the end of January 2015, there were 661 recipients of HAP, with just under half transferred from rent supplement and the remainder new applicants.

In Dublin City Council, the roll-out of HAP has been focused on those in the Homeless Unit, who are allowed to pay up to 20 per cent more than the usual rent limits (see below), in order to assist homeless people in finding accommodation.

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[10] See http://www.citizensinformation.ie/en/housing/renting_a_home/housing_assistance_payment.html, downloaded 7 January 2015.

[11] Housing (Miscellaneous Provisions) Act 2014, section 43, 2, c.

[12] See http://www.citizensinformation.ie/en/housing/renting_a_home/housing_assistance_payment.html, downloaded 7 January 2015.

[13] From 15 September 2014 in Cork County Council, and in Waterford City and County Councils. From 1 October 2014 in Kilkenny, Louth, Monaghan and South Dublin County Councils (CIB information on HAP).

Table 4: Key Administrative Differences Between Rent Supplement, RAS and HAP

	Rent supplement	RAS	HAP
Managing organisation	Department of Social Protection	Local authority	Local authority
Who finds the accommodation?	Tenant	Local authority	Tenant
Tenancy relationship is between …	Tenant and landlord	Local authority, tenant and landlord	Tenant and landlord
Who pays rent to the landlord?	Tenant	Local authority	Local authority
How is the tenant's contribution paid, and to whom?	Department of Social Protection reduces RS paid to tenant by contribution amount	Tenant pays local authority	Payment to local authority will be deducted directly from tenant's social welfare/other payment
Does the tenant need to pay a deposit?	Yes, if the landlord requires one	No, the landlord cannot require a deposit as the local authority has entered into a contract with him/her	Yes, if the landlord requires one
Tax clearance certificate from landlord	Not required	Required	Required, to be received by local authority within 5 months of commencing payments
Requirements on standard of accommodation	No particular requirements	Certain standards required; are verified by local authority before payment commences	Certain standards required; verified by local authority within 8 months of payment commencing
Can recipients work full-time?	No	Yes	Yes
Security of tenure	Covered by Residential Tenancies Act, 2004	Covered by Residential Tenancies Act[14], but local authority finds alternative accommodation when lease ends	Covered by Residential Tenancies Act, 2004
Can the tenant be on local authority housing waiting list?	Yes, if eligible for long-term housing need.	Some local authorities allow RAS recipients to be on the housing list; some do not	No, but recipients can go onto the housing transfer list[15]

[14] Except in cases where RAS accommodation is leased from social housing bodies, who are not covered by the Residential Tenancies Act 2004 (although they shortly will be under new legislation).

[15] Those already living in a local authority home who wish to move to another area can usually apply to go on the transfer list for a transfer to another local authority property in the same housing authority area. The treatment of those on the transfer list varies by local authority. In some areas, every second available dwelling goes to a person on the transfer list, but in some areas hardly any dwellings go to those on the transfer list.

2.3 Benefits of HAP to Date

2.3.1 Administration

Administratively, HAP has a number of beneficial features. Some of these have been outlined in Table 4 above, such as payments directly to landlords, and requirements on standards and tax compliance. In addition, unlike RAS, which was administered separately by each local authority, a shared services centre has been developed in Limerick County Council. A breakdown of services provided by the local authority, and the shared service hub, are outlined in Table 5.

Table 5: Breakdown of Services Provided by Local Authority, and Shared Service Hub in the Administration of HAP

Process name	Responsibility
Application to HAP & movement from RS (Determine HAP eligibility)	LA
Movement within HAP	Hub
Transfer from other social housing support to HAP	LA
Landlord and accommodation set-up and commencement of tenancy	Hub
Landlord and accommodation compliance	LA
TCC (Tax Compliance Certificate) compliance	Hub
TCC renewal	Hub
Payments to landlord	Hub
Suspend or cease payments	Hub / LA

The shared services hub allows processes such as management of arrears to be handled in one standardised way, leading to more consistency in approach nation-wide. The Limerick hub also processes all payments to the landlord, sets up all direct deductions at source for those whose social welfare is paid into An Post[16], and applies for all recoupments from the Department of Social Protection. This provides An Post and the DSP with one body to deal with for finances, which is more efficient (both for them and HAP administrators). The use of shared services also means that

[16] This is done through the Household Budget Scheme, which pre-dated the establishment of HAP, but is now being used by HAP.

it is much simpler to access data on the national performance of the scheme. This was difficult to do with RAS.

Under the rules for rent supplement, a recipient who refuses two offers of social housing from a local authority within a 12-month period will have their rent supplement stopped, and it cannot be claimed again for 12 months[17]. This rule is monitored through engagement at local level between the staff of the local authorities and the Department of Social Protection. HAP will apply a similar rule, as those in receipt of this payment will be eligible to transfer to other social housing within the local authority, but if a prescribed number of reasonable offers are refused, then the local authority will no longer consider the transfer request, and the household will also forfeit some of its priority on the transfer list. The application of this rule is likely to be more effective than that related to rent supplement, due to the movement of HAP to the local authorities.

2.3.2 Eligibility

More people will be eligible for HAP than are currently eligible for rent supplement, as those on HAP will be able to work full-time, while those on rent supplement will not. The number eligible for HAP has been estimated by the Department of the Environment, Community & Local Government as approximately 19,000 more than the number eligible for rent supplement. As this will cover more households on low incomes, eligibility for HAP will assist some local income earners with their rental costs. A recent survey of 1,000 consumers showed that tenants with an income of less than €20,000 per year were paying 34 per cent of that income on rent, compared to 26 per cent for those on incomes over €60,000[18].

2.4 Issues to Address in HAP

2.4.1 Rent Limits

While HAP has many good innovations, as outlined above, it will rely on provision of accommodation by private landlords for rent supplement-level payments. Payments under rent supplement, RAS and HAP are all limited by the amount of rent allowed to be paid under the rent supplement limits. These limits vary by area and family composition. The current maximum monthly limits in Dublin (excepting the Fingal area) are outlined overleaf.

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17 See http://www.citizensinformation.ie/en/social_welfare/social_welfare_payments/supplementary_welfare_schemes/changes_to_rent_supplement.html, downloaded 1 April 2014. The person's place on the local authority housing list will also be suspended for 12 months.

18 *Private rented accommodation and social renting, October 2014*. Survey carried out for NABCO by I-Reach. Available from NABCO: www.nabco.ie.

Single person not sharing	Single person sharing	Couple not sharing	Couple sharing	Couple/OPF with 1 child	Couple/OPF with 2 children	Couple/OPF with 3 children
€520	€350	€750	€400	€950	€975	€1,000

From time to time, these limits are reviewed, and where the review lowers the amount of rent supplement that can be paid (as happened in many rural counties in the 2013 rent limit review), the tenant will be obliged to negotiate a decrease in rent with the landlord, as there is no direct relationship between the local authority and the landlord.

With the significant rent increases in Dublin and a number of other large urban areas over the past two years, there are many reports that it is difficult for people to find accommodation within the rent supplement limits. The NABCO survey found that 22 per cent of tenants had difficulties finding their most recent accommodation, with this figure at 32 per cent for those on an income of less than €20,000 per year. And the RedC survey (DKM Economic Consultants *et al*., 2014b) found that 69 per cent of unemployed tenants (who are likely to be on rent supplement) found it difficult to find a suitable property, compared to 22 per cent of those in full-time employment. Local authorities in these areas have also found it difficult to rent properties under RAS for these limits. There are reports of rent supplement recipients paying landlords 'top-ups' above these limits, although this is prohibited.

It is likely that difficulties accessing property is a problem that will also affect HAP, and may limit its growth. The Government has recently decided not to raise rent limits under rent supplement. However, there is some contradiction between the reliance on the private rented sector to meet social housing needs and the rent limits that are set by Government for that sector—within an overall private rental sector where rent limits are instead set by the market.

Other possibilities for supply of HAP accommodation include supports for builders or developers to build accommodation let at affordable rents for a particular period of time. Various examples were outlined in NESC's 2014 report on social housing. Currently, the capital advance leasing facility (CALF) and P&A schemes provide such supports to AHBs who let accommodation at differential rent levels but these schemes are quite small-scale and consideration is being given to expanding them, by opening them up to private-sector investors.

2.4.2 Security of Tenure

Tenants who procure accommodation under HAP have the protection of the Residential Tenancies Act (RTA), like other tenants in private rental accommodation. As outlined in the main report, this allows for annual rent reviews, and several reasons for ending a tenancy, including sale of the property. A recent survey

showed 12 per cent of tenants had to leave their property as it was being sold (I-Reach, op. cit.). The provision for annual rent reviews also can mean the end of the tenancy if the rent paid is below the going market rate for such properties, a problem that besets a number of those limited by rent supplement level rents. The same research showed that 15 per cent of renters who had changed accommodation in the past year had done so because the rent was too high. Overall, therefore, HAP provides less security than a tenant would have in local authority accommodation. While, in theory, tenancies are short-term in local authority-owned accommodation, tenants are rarely evicted in practice. HAP also provides less security of accommodation than RAS did. Under RAS, if the landlord decides to no longer rent to the tenant, the local authority must find the tenant alternative accommodation, but this is not required under HAP. The flip side of this is, of course, greater choice of accommodation on the part of the tenant. HAP limits moves by tenants to once every two years (although under the RTA landlords can end the tenancy at any time if they wish to sell, etc.). Chapter 5 of the main report, *Ireland's Rental Sector: Pathways to Secure Occupancy and Affordable Supply*, contains some suggestions on ways in which security of tenure could be increased, or the effects of insecure tenancies mitigated.

2.4.3 Cost

Another issue in relation to HAP is the long-term cost of the scheme. Currently, some of those who transferred from rent supplement to HAP (typically couples and families) are paying slightly more in differential rent than they did as a contribution under rent supplement. On the other hand, some of those who transferred (usually single people and lone parents) are paying less in differential rent than they did as a contribution under rent supplement. However, in the long term, as outlined above, it is likely that more people will be eligible to receive HAP than are currently eligible to receive rent supplement, as HAP allows recipients to be employed full-time. The increased number of people eligible to claim the payment may be offset by less reliance on other forms of social welfare, such as Jobseeker's Allowance. It remains to be seen how these factors balance out in terms of cost. Although those on RAS and living in local authority-owned accommodation can also work full-time, not many do. NESC analysis of SILC (Survey for Income and Living Conditions) data shows that only 25 per cent of those renting from a local authority were employed in 2012. Therefore supports to assist those on low incomes into the labour force (e.g. training, education and childcare) may be helpful in containing the cost of HAP and in maximising the benefit of the provision allowing full-time work.

2.4.4 Direct Deduction

As outlined above, some local authorities administering RAS were increasingly in arrears from tenants, as the local authority in a number of cases had contracted to pay the landlord rent for a particular period of time, and this had to be paid whether or not the tenant paid their differential rent to the local authority. To address this problem, the legislation introducing HAP allows for the differential rent payment to be deducted from the tenant's social welfare payment or other income source. However, this section of the legislation has not yet commenced and is expected to be difficult to commence. There are a number of problems. First of all, the amounts to be deducted will change depending on the person's job status,

household composition, etc. Secondly, there is no computer system to work out these deductions (they are currently being worked out manually, and checked for changes on a monthly basis). Thirdly, there is no computer system to link Department of Social Protection live data to local authority systems. The Local Government Management Agency (LGMA) and the Department of Social Protection are working to develop an IT system that will overcome these difficulties. Getting this done as soon as possible is also important to allay landlord concerns. Currently, when the tenant goes into arrears paying their differential rent to the local authority, the HAP payment to the landlord is stopped (following a period of notice, which includes time for the tenant to organise to start paying the arrears). Although no HAP payment has to date been stopped for this reason, ensuring that it will not occur is important, as it will provide an incentive for landlords to take part in the scheme.

Later it is planned to establish a similar computer system between the local authorities and the Revenue Commissioners, to work out differential rent deductions for HAP recipients in employment.

2.4.5 Targets

As outlined above, if private rental accommodation for the rents set proves difficult to source, it may be hard for HAP to meet the high targets. Within six years, 70,000 people are expected to have transferred to HAP, but this would be more than transferred to RAS over the last 10 years.

2.4.6 Other Limits of the Residential Tenancies Act (RTA)

The RTA does not envisage a situation where there are more parties involved in the tenancy relationship than the landlord and the tenant. However, under RAS there was a three-way relationship between the landlord, tenant and local authority, which gave rise to some problems, as outlined above. Under HAP, the relationship is to be solely between the landlord and tenant but the fact that the local authority pays the rent does introduce a third party. What would happen, for example, if there was a dispute between a tenant and a landlord, such as a landlord not repairing something they are required to repair? Does the local authority continue to pay the rent in this case? Some local authorities are concerned that they may once again get drawn into a three-way relationship with the landlord and tenant. In some cases the relationship is four-way, as the local authority is paying HAP to an estate agent on behalf of the landlord, or to a receiver.

3. Incentives for Rental Accommodation in Other Countries

This section discusses the experiences of a number of countries in providing incentives to promote rental accommodation. In most cases, the incentives are conditional on the level of rents charged. The policy instruments used in the Vancouver region of Canada are also discussed: these illustrate measures adopted by local governments in relation to the rental sector.

In addition to incentives such as those described in this section, the general tax treatment of rental income is also an influence on the attractiveness of investing in rental accommodation, as emphasised by DKM Economic Consultants (DKM Economic Consultants *et al.*, 2014a). The unusual tax treatment of rental income in Ireland was noted in the main report. In addition to allowing deduction of all interest for tax purposes, some countries also include other features favouring rental income in their tax systems. A number of countries provide an allowance for depreciation of property while in some cases rental income losses can be offset against other rental income.

3.1 Intermediate Rental in France

In France, most social housing is funded by the Caisse dés Dépôt (CDC), which provide low-interest loans. The CDC obtains its funds from a special type of bank account, known as 'Livret A' accounts. These accounts offer ordinary savers tax-free interest and are state guaranteed[19]. These funds are lent by the CDC at a modest mark-up to providers of social and intermediate rental[20] housing on terms of up to 50 years. This arrangement ensures a stable source of low-cost finance for social housing, and is not part of government debt. The loans for intermediate rental[21] are available both to social and private landlords with the larger share (80 per cent) of the loans being taken up by social landlords. Dwellings financed by these loans qualify for a lower rate of VAT and exemption from land and property taxes. Rents are restricted for the term of the loans and there are income eligibility limits for tenants. For social landlords, the restrictions on rents continue after the loan has been repaid, thus ensuring long-term affordability (Haffner *et al.*, 2009; Oxley *et al.*, 2010).

In addition to low-interest loans, France has used a series of tax incentive schemes to encourage the provision of rental accommodation. In some of these schemes there have been maximum rent levels: 'In general one could say that the take-up of schemes with significant restrictions was considerably less than the take-up of (tax)

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19 From a saver's perspective, these accounts are similar to the tax-free accounts offered by An Post, which offers both taxable and tax-free accounts.

20 Intermediate rental housing is rental housing for people with incomes somewhat higher than the income limit for social housing.

21 The loans for social rental are only available to social landlords.

incentives without or with few restrictions even though the former incentives are generally much more generous' (Hoekstra, 2013: 9).

3.2 Cost Rental in Austria

Austria does not have a separate 'affordable rental' sector but rent levels in its social housing sector generally are set at moderate levels that are below market rents but higher than rents in social housing in Ireland. The main providers are limited profit housing associations. Social housing in Austria operates on a cost rent basis. An interesting feature of Austria's social housing is that the cost rent principle is applied at the level of individual housing developments: each development is expected to cover its cost net of subsidies that are provided. With a combination of some public support and strong cost control, it has been possible to develop new rental accommodation at affordable rents. Support is provided in the form of low-interest public loans that cover on average 35 per cent of costs, and tax relief is also provided on savings that are used to fund housing bonds for social housing. Housing providers contribute some of the initial finance in the form of their own equity while tenants are also required to make a contribution to the capital costs. An example of a housing development in Vienna presented by CECODHAS (2013) received total subsidies with a net present value of around 13 per cent of total costs, while the initial rent charged was 50 to 60 per cent of market rent.

The ability to achieve affordable rents on new housing developments without relying on cross-subsidisation from other developments suggests potential learning for Ireland from Austria's experience. One difference, however, with Ireland is that the associations in Austria are in a better position to contribute their own equity to new developments; on average this represents 14 per cent of the cost of new developments (*ibid.*).

3.3 Germany

Germany has significant regional variation in supports for rental accommodation. Rents are regulated by central government, as is rent allowance. In the regions, loans or grants are often available: these which are for social housing but allow the property to pass into the private rental sector (PRS) after a period of time (e.g., 10–20 years)—although any social housing tenants cannot be evicted when the property returns to the PRS. Other incentives available include non-repayable grants, loans at favourable rates, and reduced price sites. Eligible tenants in these properties must have low incomes, or be from a particular group (e.g., older, with special needs). There are also a range of tax incentives—e.g., writing off depreciation, renovations and losses against tax. Capital gains tax is also not charged on properties held over 10 years. This applies to owner-occupied property too, but has the benefit of incentivising residential landlords to hold their property over the long term (DKM Economic Consultants *et al.*, 2014a).

3.4 Build to Rent in the UK

The Build to Rent fund was established in the UK in 2012. It provides equity finance to investors for purpose-built private rented housing. It is not targeted at low-

income groups. Take-up has been low, and critics say that it does not link with developers' business models (*ibid.*).

3.5 US Low-Income Housing Tax Credit

The US low-income housing tax credit provides an incentive in the form of a refundable tax credit for the development of affordable rental accommodation. Tax credits are provided on condition that the rent is limited for a fixed period. Rents are fixed at 30 per cent of either 50 or 60 per cent area of median income, depending on whether the housing is aimed at very low- or low-income groups. However, individual households may spend a higher share of their income on rent (Lawson *et al.*, 2010). There has been a large-scale response to this programme. It was introduced in 1986 and by 2009 had provided 1.7 million units of accommodation (Oxley *et al.*, 2010). The question has been raised as to what extent this subsidised accommodation has displaced accommodation that might otherwise have been built. This is a complex question and there is conflicting evidence on it.

The incentive is available to both commercial developers and non-profit organisations. There is a requirement that at least 10 per cent of the tax credits are reserved for non-profits. According to Schwartz and Meléndez (2008), these organisations accounted for more than 20 per cent of all tax credit properties.

One of the concerns with this programme is what happens after the period during which rent is controlled. In the initial legislation, the requirement was to maintain affordability for a period of 15 years. In 1990, this was raised to an additional 15 years. There are, however, opt-outs. The original investors can and normally do sell at around 15 years; by that stage they have received all of the tax incentives. They are first required to offer non-profit organisations or public agencies the right to buy the property at a regulated price (below market price). If no buyer can be found who is willing to maintain the affordability conditions, the property can be sold at market price. States often offer new tax credits or other incentives to properties at risk of losing their affordability status. Tax credits do not cover all of the costs and so many properties have received additional subsidies that have longer compliance periods.

Another concern of this programme is its cost. As noted above, the incentive is provided in the form of a refundable tax credit. These credits are generally sold to raise the initial capital for development. However, they are sold at a discount. Initially, this was very high at over 50 per cent, while there are also transaction costs involved in selling the tax credits so that only around 40 per cent of the value of the tax credits was made available to the housing developers. This has improved over time. By 2006, the average discount had fallen to 10 per cent or less (*ibid.*).

While it has significant limitations, the US low-income tax credit programme is of interest in showing the possibility of mobilising the development of an affordable rental sector at scale. Of course, the supply response depends on other factors beyond the incentive itself.

3.6 National Rental Affordability Scheme in Australia

The Australian National Rental Affordability Scheme (NRAS) was introduced in 2008. It provides an incentive for the provision of new rental accommodation in which the rent is, at most, 80 per cent of the market rent for a 10-year period. It is supplemented with other supports such as capital grants by various levels of governments, and donations by charities and churches.

The NRAS is available to both private investors and non-profit organisations; the former are offered tax credits while the latter can avail of cash grants. The initial response to the scheme was dominated by the non-profit sector: 'It is clear that NRAS has encouraged the formation of a new non-profit sector that engages in the provision of both lower-income and middle-income rental housing and that new "hybrid" organisations have evolved' (Gibb *et al.*, 2013: 24). The scheme was subsequently adjusted to try and attract more private institutional investment. Yates (2013) reports that 55 per cent of the incentives were allocated to non-profit providers.

A number of housing analysts view the scheme as having broadly positive effects. Gibb *et al*. see it as an important housing policy innovation and conclude as follows: 'In broad terms NRAS appears to have been a generally well-constructed scheme with effective outcomes, though no hard evaluation has yet been published. There has been substantial take-up of the scheme' (Gibb *et al.*, 2013: 25). One concern with the NRAS is the relatively short period during which rents are regulated. Yates (2013) argues that the NRAS and other related reforms have not created sustainable affordable housing. The Australian government has announced that the next phase of the scheme will not be proceeding, on the grounds that the scheme has not met its initial targets.

3.7 Affordable Housing Measures in Metropolitan Vancouver

A study on the effectiveness of measures used to promote affordable housing in the metropolitan Vancouver region was produced by the regional oversight body (Metro Vancouver Regional Housing, 2012). This report covers all types of affordable housing including affordable rental. Its focus is on policy measures used by local governments. The principal tools used are planning and regulatory measures. The most common regulatory measures used to encourage dedicated rental housing are: (i) allowing greater density in areas appropriate for affordable housing; (ii) permitting 'secondary suites'[22] for rent; (iii) providing 'density bonuses' (provision of a public benefit by the developer in exchange for development at a higher density than normally allowed).

In addition, inclusionary zoning (requiring some share of housing developments to take some form of affordable housing) is considered by Vancouver planners to be suited to the creation of 'low end' market rent and other market rental housing.

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[22] An additional dwelling on a property that normally accommodates only one dwelling, e.g. a granny flat, basement flat, over-garage flat, or guesthouse.

Ireland's Part V is an example of inclusionary zoning. In the past, Part V in Ireland was used as a way of achieving affordable housing for purchase as well as social housing. The affordable housing scheme has now been abolished. An issue to consider is whether Part V could be used as a way of achieving affordable rental housing in addition to social housing.

Density bonusing is used to achieve a range of public benefits including but not limited to affordable housing of different types. Inclusionary zoning is commonly combined with density bonusing. This could mean that in exchange for higher density, a developer would allocate a share of a housing development as affordable housing. In addition, when land is rezoned to a higher value use, the rezoning may be conditional on the provision of affordable housing.

Secondary suites have become an accepted form of affordable rental housing in Vancouver. It is a way of achieving higher density in family housing areas. This is also a significant source of rental housing in Germany; 26 per cent of rented dwellings in Germany are houses where the owner lives in one part and the tenant in another (Kemp & Kofner, 2010). This form of rental housing exists in Ireland but there is scope to promote its expansion.

To boost the production of dedicated rental housing, the City of Vancouver adopted a Short-Term Incentives for Rental programme in 2009. Under this programme, developers of rental housing could benefit from reduced or waived fees, reductions in the requirements for parking in a development, increased density, and reduced unit sizes (however, the very smallest size was still three square meters larger than the minimum requirements in Dublin) and expedited processing in relation to planning. The output of rental housing increased following the adoption of this programme. This programme was for a fixed time period (2.5 years). Lessons from it have informed a new, longer-term programme adopted in 2012 to encourage rental housing.

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