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We Need a More Professional Rental Market

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We need a more professional rental market

With a change in Government policy and problems accessing credit, many more people are now renting their homes. But small-scale landlords will not be able to fulfil future demand.

The last available figures from the Private Residential Tenancies Board show that in December 2010, Ireland had 145,021 landlords and 231,818 tenancies registered. This means that each registered landlord has an average of about 16 tenancies. The April 2011 census, however, shows 305,377 households renting from private landlords, meaning many landlords have not registered properly as required by law. This is a symptom of an unprofessional market.

When finance was readily available and most individuals and families wanted to buy their own home, having professional landlords wasn’t a pressing issue. But with a combination of changing Government policy to provide “equity of tenure” (for example, reducing support for home ownership), problems with accessing
credit, and a changing attitude towards ownership, many more people are now renting their homes.

The number of households and families renting has increased significantly from 2006 to 2011 as, despite poor security of tenure, the economic advantages of renting suit more people.

There is a problem looming however: Ireland just doesn't have an appropriate stock of accommodation - in type, quantity or location - to supply the future demand for rental accommodation, especially in the private-rented sector.

Although there are plenty of empty apartments lying around the country, many are in locations where people simply do not want to live. Standards of construction, size and sound insulation are also frequently off-putting issues, as are available facilities and haphazard property management.

Having amateur landlords is now also a problem. With an average of 1.6 properties, landlords are never going to achieve the responsiveness or economies of scale required in serious property management.

Ultimately, small-scale landlords and inappropriate buildings just won't be able to fulfil demand for longer-term rental needs.

So, who can fulfil this demand?

There is a role in the private rental market for professional and institutional landlords. These are companies and organisations with a track record and know-how that build, let and manage building stock specifically for long-term rental. They typically have thousands of tenants and are common in much of Europe and the US and increasingly so in the UK.

What they are interested in is long-term rental income and, more specifically, the security of this income. This means that they are interested in tenants who want to stay for decades rather than a year or two. In the investment world, value comes from security of long-term income and low risk of default. In other words, long leases with good tenants in
well-maintained buildings.
In New York city, yields on such
residential buildings, even with rent
control in some cases, are around 3 per
cent—much lower than the most
valuable of prime Irish commercial
property.
These residential investment
companies design and construct
buildings to suit a wide range of
tenants, from single people to families
to pensioners. They often have
dedicated laundry rooms and storage
spaces, and communal heating and
water supplies. There is frequently a
ground floor unit specifically for a
live-in “superintendent” who looks
after minor repairs, security and
maintenance issues.
Just as importantly, they manage
these buildings professionally, as
better maintenance means lower
running costs.
Of course, residential investment
companies have certain requirements.
The break-even point is about 30
residential units, including the
non-rent-producing one for the
superintendent, all under one roof.
Depending on the site, this may mean
buildings of higher density than we are
currently used to, but nowhere near
high-rise.
The main market for these
long-term rental buildings is in urban
areas, where Irish urban dwellers have
consistently expressed a preference for
suburban living, not artificial,
high-density locations such as the
Dublin docklands or Sandyford. People
tend to want to live near well-established
centres with existing facilities like
shops and pubs and schools, meaning
residential investors will need
permission to build in traditional
suburban locations.
Planners may therefore have to get
their heads around the idea of
buildings other than three-bed
semi-detached houses in established
areas such as Templeogue, Clontarf,
Blackrock and Ranelagh; indeed,
wherever there’s a demand. The idea
of having either high-density urban
living or low-density suburbia is going
to have to shift and merge.
In order to supply the market with
building stock which will have market
demand—and not lie empty—buildings
will have to suit both the investment
company in terms of size and the
occupier in terms of location and
function.
As Ireland is virgin territory, these
residential investment companies may well have to be encouraged to enter the residential rental market through flexible planning or other mechanisms.

However, with a government rightly planning to level the tenure playing field, though with not much choice for people to exercise their “equity of tenure” yet, there is a strong argument for professionalising the rental market to provide real options for accommodation seekers rather than paper-based policy options.

The building stock simply does not exist in the Irish market for long-term renting, nor does the type of landlord needed to deliver and run such developments. Issues of development, ownership and incentives are complex but not massively so. They do, however, require various departments and agencies talking to each other. The Departments of Finance and Environment, and local authorities all have a role to play in collectively creating a modern rental market if they are really serious about their own housing policy.

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