

2014-02-09

## Ireland's Residential Rental Market Needs a Massive Shake-up

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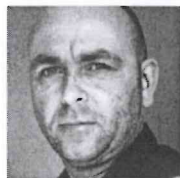
### Recommended Citation

Sirr, L. and Dunne, T. (2014, February 11) Ireland's rental market in need of a massive shake-up. The Journal.ie. Retrieved from <http://www.thejournal.ie/>. doi:10.21427/nb54-ap77

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## Column: Ireland's residential rental market needs a massive shake-up

Pension funds investing in residential property could make a significant contribution to supplying a constrained market with much needed accommodation, write Lorcan Sirr and Tom Dunne.



Lorcan Sirr and  
Tom Dunne

THE IRISH PRIVATE rental market is a vastly amateur one: about three-quarters of all landlords have just one property, so for most it's not their main profession. There is nothing unusual about this across the world: in France, for example, this figure is closer to 95 per cent, in Belgium it is about 86 per cent, and 75 per cent in the USA.

What is different in many other countries, however, is the nature of the landlord and tenant relationship, with better security of tenure than is available in Ireland, and long-term renting being more common.

Numbers renting in the private rented sector have soared since 2006, and currently about one in five households rent their homes. In Galway, this is about one in three. The nature of the tenants has changed, too, with many people who could afford to purchase their properties making a considered decision to rent instead.

### The private rented sector is changing

That means the private rented sector is no longer for the unemployed, separated fathers, the socially marginalised and students. It now accommodates families, accountants, academics, lawyers and various other professions, often highly paid, who might traditionally have bought their homes. Times are changing.

There is, however, a growing tension in recent years between the increasing numbers of people who want or have to rent and the physical and legislative infrastructure on offer to them. Several surveys in the last 18 months (the SCSI's, for example) have indicated that more than half of all current renters would like to rent long-term, but are wary of this due to the poor security of tenure on offer here.

The opportunity to rent long-term is a positive one for both the individuals involved and the national economy as a whole: the over-encouragement of home ownership is damaging in terms of labour mobility and the absorption of resources that could be spent or invested elsewhere, for example, either in a business as an aspiring entrepreneur, or indeed in higher levels of qualification. You get the picture. It is also a positive for landlords (although many of them find this idea challenging), for as a property person, a long-term secure rental stream with minimal tenancy interruption is an ideal investment. These are the principles of property investment.

### Dedicated, long-term rental

What Ireland is lacking, therefore, is a dedicated, long-term rental market. There are several ways of remedying this problem. The first and most obvious is to amend the Residential Tenancies Act 2004 and beef-up security of tenure for tenants. Increased security of tenure will lead to more consistent rental streams as long-term renters are

also much more likely to take better care of the property, being there for the long haul.

The other method is by creating a new type of landlord. Although we are quite similar to some private rental markets, what many others have are different types of landlords: state-owned bodies, professional residential investors, co-operatives and even church bodies all get involved. Such landlords are not as concerned with increasing capital values as they do not intend to sell their investments. This is a very different investment motivation to the majority of amateur landlords.

So, who would make a good landlord? In many countries pension funds invest heavily in residential property for long-term rental (wanting the same tenant for as long as possible). Swiss pension funds invest in residential property partly because they have to, and partly because they believe it is not as dependent on business cycles as commercial property. Both German and Swiss pension funds invest 20-30 per cent of their reserves in this type of property.

### **Pension funds**

Pension funds are in the business of replacing their members' salaries after retirement and should be in a position to do this from the income from their invested capital. Residential rental income should suit this.

A tenant's rent typically amounts to around 25 per cent of this. Very broadly, incomes tend to follow rents and vice versa, so over time the rental yield from residential investment, which is related to incomes, should provide a stable pension income.

So, why do UK and Irish pension funds shy away from such investments, typically only investing about 5 per cent in property and virtually all of that commercial? And how could they be encouraged to create the much-needed long-term rental property class?

The explanation for this is in the regulations surrounding the creation and management of pension funds. It should be possible to incentivise these funds to invest in residential property to provide the kind of accommodation that tenants now require for long-term occupancy. Other countries make pension funds invest like this, but we shy away from that here.

### **Tax relief**

To attract pension fund interest, the government could give additional tax relief over and above the relief now given to pension fund contributions invested, for example, in a residential Real Estate Investment Trust. Such an additional relief would encourage pension funds to invest in multi-family accommodation for long term rental, with rent certainty for the funds and security of tenure for long-term tenants. The detail is complex but not insurmountable.

Another upside is that it means our pensions are invested in Ireland and support the economy and housing stock, in contrast to the propensity of pension funds to invest on the world stock and bond markets. These investments would also provide much needed accommodation, which amateur landlords can't now provide easily given the structure of the market.

Pension funds investing in residential property could make a significant contribution to supplying a constrained market with much needed accommodation and, in doing so,



assist with housing supply, affordability and satisfaction. If we don't assist the private rented market in the near future, then it will implode.

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**Column: The private rented sector is heating up dramatically – yet fails to meet basic needs (<http://www.thejournal.ie/readme/the-private-rented-sector-is-heating-up-dramatically-%e2%80%93-yet-fails-to-meet-basic-needs-1291279-Jan2014/>)**

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