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## Recession and Renting: the Future of the Private Rented Sector in Ireland

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**Recession and Renting:  
the future of the private rented sector in Ireland**

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## Introduction

The private rented sector in Ireland has experienced a considerable resurgence in the first decade of the 21<sup>st</sup> century. Numbers renting in the sector have increased to levels not seen since the 1950s. This presents both challenges and opportunities for the sector and the state to harness future potential and to maximise its contribution to the general housing obligations and needs of the country. The future of this sector is therefore potentially fraught and fruitful, depending on how those involved in managing the sector respond to this renewed demand for private rented accommodation.

## The private rented sector in Ireland

Until the early 2000s, numbers renting in the private sector declined steadily as local authorities sold off their stock to tenants under various tenant purchase schemes, and as the state began wholesale support for the perceived social and economic benefits of home ownership. In the first half of the twentieth century, a combination of vested interests and external influences from engineering bodies to the Catholic church to Ebenezer Howard's 'Garden City Movement' all had a role to play in encouraging the development of home ownership as the of choice at the expense of the development of renting as a viable alternative tenure option. The latter half of the same century saw an increase in the use of financial and economic tools to promote home ownership, which also, conveniently, had a positive impact on the house-building and related construction industry. This led to a situation whereby in 2006 the construction sector, of which housing (mostly for home ownership) comprised the largest component, was accounting for over 25% of Ireland's GDP, employing nearly 20% of the national workforce and had an output of over 88,000 houses that year<sup>1</sup> many more than was needed (by 2012, this was down over 90% to 8,488 units<sup>2</sup>).

In the early 20<sup>th</sup> century, most of the Irish population rented in the private sector, which was similar to many European countries. In 1946, 42.7% of the population was accommodated in this sector; by 1991 this had dropped to under 8%.<sup>3</sup> An increase in state support for home ownership was one reason for this decline, but so too was the development of the social housing sector and the abolition of rent control from the 1960s to the 1980s.<sup>4</sup> The last national census of Ireland in 2011, however, shows a considerable change in the private rented sector, with both the scale and speed of this change being of some surprise.<sup>5</sup>

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<sup>1</sup> DKM Economic Consultants/Department of Environment, Heritage and Local Government (2007) *Construction Industry Review 2006 and Outlook 2007-2009*, DKM: Dublin

<sup>2</sup> Allied Irish Bank Global Treasury Economic Research (2013) *Housing Market Bulletin, June 2013*, AIB: Dublin

<sup>3</sup> Central Statistics Office [CSO](various years) *Census*, CSO: Dublin

<sup>4</sup> Galligan, Y (2005) 'The Private Rented Sector', in Norris, M and Redmond, D (eds) *Housing Contemporary Ireland: policy, society and shelter*, Institute of Public Administration: Dublin

<sup>5</sup> It is also worth noting that the notion of the private rented sector is not defined in Irish law despite being an increasing feature of Irish housing policy and of legislation. Norris (2011: 110) defines it thus: 'the term is commonly used in government policy statements and in popular usage to refer to furnished and unfurnished dwellings rented by private, for-profit landlords'.

In the intercensal period, 2006-2011, the number of households in the private rented sector increased from by 47% from 323,007 to 474,788 (in percentage terms, from 9.5% to 18.5% of all households). This in turn has brought the overall numbers of households renting their accommodation (social and private) to 29% and is commensurate with a drop in home ownership rates from 74.7% in 2006 to 69.7% in 2011, down from a peak of over 80% in the 1990s, and below the EU27 average of 73.5%.<sup>6</sup> Chart 1<sup>7</sup> below indicates Ireland's tenure position in 2011 in comparison to other EU countries, although it should be noted that extrapolations based on direct comparisons should be treated with caution due to the vast variation in historical, cultural and economic situations which have resulted in those tenure patterns.

**Chart 1: EU27 Population by Tenure Status – home ownership levels in Ireland (mortgaged and owned outright) in horizontal line**



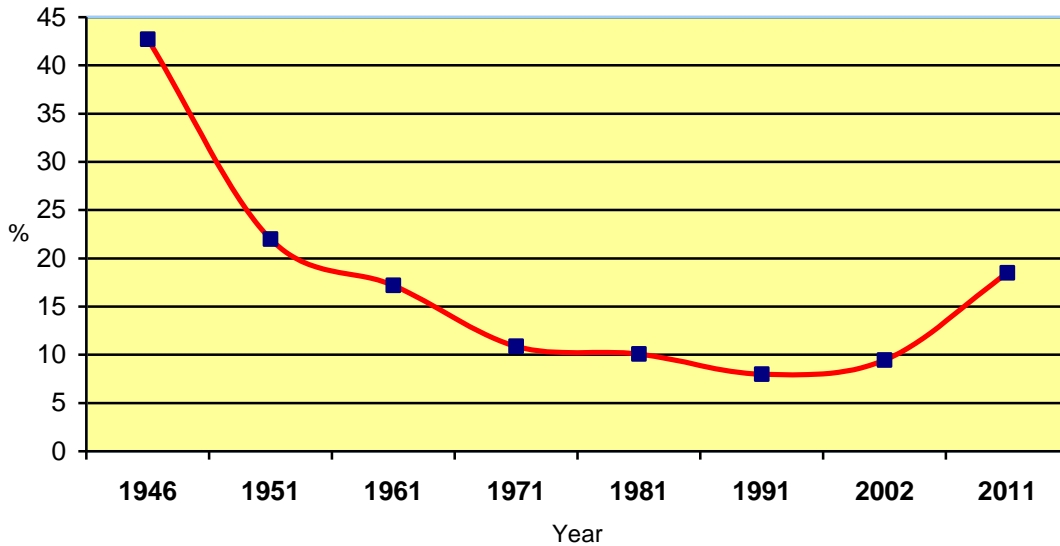
There are a number of specific reasons for this significant increase in the private rented sector numbers (some of which are more social than policy-driven), including: a restriction of entitlement to social housing; the use of the private rented sector by local authorities to house social tenants; difficulty in accessing credit to fund home purchase; a lack of suitable supply of housing in areas where there is demand; potential purchasers awaiting their perception of 'value for money' in house prices; an increase in overseas workers for whom renting is an inherently natural choice and also a practical option given the nature of their work circumstances; and personal choice in opting for renting over home ownership. Chart 2<sup>8</sup> below shows the decline and rise of the private rented sector since 1946.

<sup>6</sup> CSO (2011) *Census 2011*, CSO: Dublin

<sup>7</sup> EuroStat (2013) *Housing Statistics*, EuroStat: Brussels

<sup>8</sup> Author's representation of CSO figures, various years 1946 to 2011.

**Chart 2: % Households in the Private Rented Sector 1946- 2011**



Despite this uptake in renting in the private sector, the overall nature of the sector itself remains quite undeveloped, and in some respects unprofessional. The Irish private rented sector is dominated by ‘amateur’ landlords (those for whom being a landlord is not their main profession). In 2011, 74% of all landlords owned only one rented property, less than 1.25% of all landlords had ten or more properties, and just 38 landlords out of 183,551 – 0.02% – had more than 100 properties. With so many landlords having only one property, it is evident that for most being a landlord may be not their primary occupation, although their actual motivations for being a landlord remain unclear. The Private Rented Tenancies Board (PRTB) is a statutory body with which private landlords must register; by April 2011, six years after the creation of the PRTB, nearly 30% of all landlords had not registered.<sup>9</sup> Through better integration of various government databases, by 2013 the PRTB had improved the registration rate to c.84%. Professions and professionals in most industries tend to welcome regulation as it provides security, higher levels of service and education; amateurs, however, often see it as an unnecessary burden and expense, which may explain some of the reluctance to register with the PRTB on the part of landlords. The amateur nature of the market also means that landlords do not have the capacity to capitalise on economies of scale, and that they are quite frequently financially vulnerable to changes in interest rates on their serviceable loans, any refurbishment costs, service charges, more demanding tenants, and new and increased taxation measures. It is telling that currently, nearly one in three ‘buy-to-let’ mortgages are in arrears, with 28,421 (18.9%, worth €8.4b) of these in arrears of

<sup>9</sup> Private Rented Tenancies Board (various years) *Annual Reports*, PRTB: Dublin

more than three months, and 7,754 (5.2%, worth €2.5b) in arrears for more than two years.<sup>10</sup>

The private rented sector is therefore currently in an interesting position of seeing significantly increased levels of demand for various reasons, but its ability to accommodate and adapt to this demand (in quantity and quality of accommodation), and the demands of the requirements of increased professionalism on a landlord class seemingly reluctant for regulation, may mean that these apparent opportunities will be missed. There will be a 'development lag' in the provision of suitable accommodation in the private rented sector, but by then will it be too late, and will the sector have advanced but only to find a willing audience or market that has moved on?; or will Ireland's private rented sector develop along lines more commonly seen in countries where renting has traditionally been a more acceptable form of tenure?<sup>11</sup>

### **The future**

A confluence of different but related events have caused changes in Irish society, some of which is being played out in how and where people live, and are evident in the changing nature of tenure choices. Although Ireland is currently undergoing a period of economic and social flux, it would be risky to assume that things will return to the policies, practices, cultures and returns of previous times. Indeed, in a period of upheaval it is always useful to question whether it is even desirable to return to such values. Assessing (not predicting) in a heuristic sense the future is always challenging as the future is inherently volatile, but given this, it is interesting to note that the most surprising aspect of the future will be how distinctly familiar it will be. Typically, therefore, any study of the future relies greatly on 'present evidence',<sup>12</sup> which usually involves current internal changes, cultural, social and economic; broader international changes which have impact across countries; practice elsewhere; and demographic change. Some studies encapsulate multi-dimensional themes for analysing the future along the lines of the PESTEL (political, economic, social, technological, environmental and legal),<sup>13</sup> or its variant, the STEEP framework. For the purposes of this paper, analysis of the future of the private rented sector based on present evidence will be divided into three (inter-related) sections of general issues, macro- and micro-issues, all of which are inherently, if not explicitly, influenced by elements of the PESTEL/STEEP methodologies.

### *General*

Despite the speed of the increase in numbers renting from 2006, there will be a slow but steady move in the private rented sector from short-term tenants to those

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<sup>10</sup> Central Bank of Ireland (2013) *Residential Mortgage Arrears and Repossessions Statistics: Q4 2012*, Central Bank: Dublin

<sup>11</sup> For more detailed background to the private rented sector in Ireland, see Norris (2011), Kenna (2011) and Galligan (2005) in the bibliography.

<sup>12</sup> Staley, DJ (2007) *History and Future: using historical thinking to imagine the future*, Lexington Books: Maryland, p.47

<sup>13</sup> First developed by Francis Aguilar, professor of management at Harvard Business School. See: Aguilar, F (1967) *Scanning the Business Environment*, MacMillan & Co.: New York

whose preference is to rent for longer periods. There are several reasons for this. Firstly, social housing need is increasingly being supplied by the private rented sector. As local authorities move further from first-hand delivery of facilities and more towards managing contracts for delivery from third parties, then this will more frequently be the case, leading ultimately to a situation where local authorities finally lose the skills needed to provide the delivery of facilities (e.g. designing houses), and total reliance on the private sector. Secondly, it is evident that greater numbers of people are making renting a 'lifestyle choice', meaning that they could become home-owners should they wish to, but for various reasons, that have deliberately chosen to rent rather than purchase their accommodation. This is borne out in Central Statistics Office figures showing increases in numbers renting, and in research uncovering reasons for choosing to rent.<sup>14</sup> What is interesting about this group is that they span a broad age range and include many family units, some of whom have chosen to rent in order to live in an area in which they could not afford to purchase, and some of whom have decided not to risk their savings on the risk that is house purchase. Thirdly, with the Irish government increasingly encouraging foreign direct investment (FDI) and multi-national companies taking advantage of Ireland's relatively low corporation tax rate on profits (12.5%,<sup>15</sup> compared to Spain's 30%, for example) cities such as Dublin are seeing an influx of FDI workers from abroad. These workers, who are in the main a 'creative class' of knowledge workers, due to the nature of their work contracts and their own national and cultural norms, often have no choice but to rent and also prefer to rent.<sup>16</sup> Should the Irish state continue to rely on FDI, and especially knowledge industries for economic recovery, then the private rented sector should remain in demand for accommodation.

The issue for the future is that the change in tenure duration from short- to long-term may be retarded by an inability of the private rented sector to supply the demand not just with the quality of accommodation required but also with the quality. This raises the issue of housing stock and whether the private rented sector can build what it needs to, and where it needs to. In a country economically hamstrung by an over-reliance on property and its anticipated returns, government is naturally reluctant to encourage the development of more domestic accommodation especially given the c.290,000<sup>17</sup> empty houses around the country. The following graph<sup>18</sup> illustrates the collapse of the Irish property market in

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<sup>14</sup> See Society of Chartered Surveyors Ireland (2012) *Trends in Tenure Mix in the Irish Property Market*, SCSi: Dublin

<sup>15</sup> Department of Finance (2013) *Ireland's Corporation Tax Strategy and FDI*, Government Publications Office: Dublin

<sup>16</sup> Research by Lawton et al (2013: 11) highlights the diversity of residential preferences amongst those working in 'creative class' occupations, but points specifically to the continued importance of 'classic' location factors. These include the role of dwelling costs, distance and journey time to work, and the quality of transport infrastructure as important conditions for selecting a residential location.

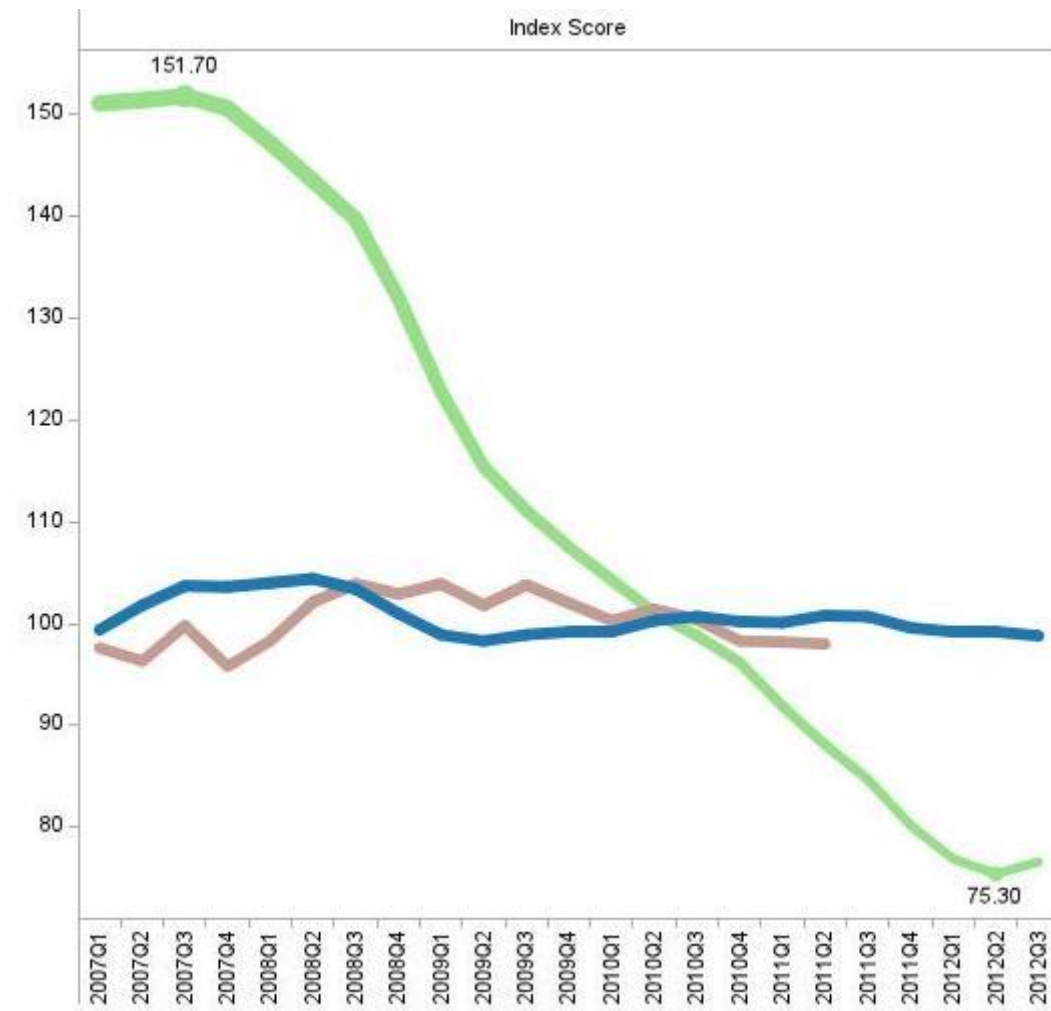
<sup>17</sup> CSO (2011) *Census 2011*, CSO: Dublin. Much of this housing surplus is located in areas in which there is, and there will be no foreseeable, demand for housing.

<sup>18</sup> Graph courtesy of the All-Ireland Research Observatory. See: [www.airo.ie](http://www.airo.ie)

comparison to Greece, which is undergoing a very severe recession, and the EU27 average.

**Chart 3: Irish property price index, Q1 2007, Q3 2012:**

Ireland   
Greece   
EU27 



It is likely however, that some stimulus will be provided to aid the development of the private rented sector into a beneficial arm of the national economy (stimuli have been provided before, but mainly to drive investment rather than to actively promote renting as a viable long-term alternative tenure). The slow but steady arrival of non-Irish property developers and investors to the market seeking opportunities in the construction and management of long-term rental units will also encourage the government to provide assistance, although this may not necessarily take the form of direct financial assistance (facilitating planning permissions, for example).

The changing nature of renters themselves from what might be termed previously as somewhat socially marginalised (students, unemployed, immigrants and so forth),



to a class of renters who are middle class, educated, and theoretically potential home owners, is also slowly transforming the private rented sector as tenants become increasingly demanding and more client-like in their expectations. In turn, it is likely that these tenants should, through their market power and the development of a professional landlord class through company structures, be able to improve standards of accommodation on offer.

Finally, although Ireland's housing policy is currently a mere three page document of principle rather than action,<sup>19</sup> in line with a more holistic approach evident throughout some government departments, it is expected that housing policy will develop into a more comprehensive document with the private rented sector as a key element of this policy in order to mitigate against further potential negative equity and economic immobility, for example. Housing policy will increasingly be informed through greater evidence (most likely from the national Housing Agency) and formed through greater interaction with other government departments and policies such as finance, environment, social protection and transport. In this way the private rented sector should have a clearer pathway for its development rather than total reliance on market forces. It is also likely that policy (either for housing or for state finance) will contain a target for an economically ideal home-ownership rate, towards which overall housing policy may be directed. This will naturally have an impact on the private rented sector and its development along lines more consistent with countries with higher rental rates.

#### *Macro issues*

Issues under this and the following heading emanate from the more general issues discussed above.

Since 2000, the provision of social housing has relied heavily on being a spin-off from residential development through a requirement for developers to provide social housing as part of their overall scheme, and as residential development has dried up, so too has the delivery of social housing. The demand for social housing though, has increased for the same reasons residential development has stopped. There are now just under 100,000 households waiting for public housing in Ireland<sup>20</sup>. Between 2007 and 2011, however, state expenditure on social housing decreased by over 90%,<sup>21</sup> and the state has moved from a policy of construction to one of leasing from the private rented sector to house those in need. It is unlikely that the state will return to building accommodation and so the use of the private rented sector will continue, although as the private sector is not obliged to take public tenants, they may need considerably more incentivisation to do so. As in other countries who have greater experience of this, it is also likely that this policy of third party

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<sup>19</sup> See: Department of Environment, Community and Local Government (2011) *Housing Policy Statement*, Government Publications Office: Dublin

<sup>20</sup> Department of the Environment, Community and Local Government (2011) *Housing Needs Assessment*, Government Publications Office: Dublin

<sup>21</sup> MacManus, D (2013) *Irish Council for Social Housing - Opinion*, [www.thejournal.ie/readme/social-housing-ireland-high-demand-788183-Feb2013/](http://www.thejournal.ie/readme/social-housing-ireland-high-demand-788183-Feb2013/), accessed May 3<sup>rd</sup>

provision will prove more expensive than predicted, will be more challenging to manage than estimated, and will also highlight a lack of skills in both housing delivery (design and construction) and tenant relationship and asset management at local authority level.

Professionalisation of the private rented sector is an issue which will be ever more evident as needing to be addressed. An increasingly demanding tenant market, coupled with increasing demand from the public housing list, will put demands on landlords which in many cases they will not be able to meet. Public and private tenants in the private rented sector will have expectations that will be potentially financially costly to landlords to meet (better standards of finish, furniture, management and maintenance for example). Given the amateur nature of the landlord class in Ireland, and the financially precarious position of many as evidenced by the numbers of mortgages in arrears (see above), this additional pressure will force or encourage many to leave the private rented sector. Conversely, it will also encourage a more professional landlord class to enter the market, which has the experience and the capacity to achieve the economies of scale necessary to manage multiple rented units. The professionalism and professionalisation of those managing social tenants in the private rented sector will also become an issue, with it no longer being sufficient to see 'housing' in the public sector as merely a role for an administrator or an engineer, as is often currently the case. Greater professionalism of the sector will also lead to greater innovative and imaginative uses of the sector, including open access to public housing and various funding initiatives for the development of the private rented market. It will also see the development of new forms of tenure including much longer leases than are currently the norm (usually one year at a time) and condominium models, and even the development of shell units which can be completed at the tenant's expense, thus encouraging long-term commitment to the rental property.

In line with the government's adoption of a policy of 'equity across tenures'<sup>22</sup> it is also likely that the legislation governing the private rented sector will change to better balance the rights and obligations of both landlords and tenants, which is presently seen as being more favourable to landlords than tenants, thus discouraging potential renters. The absence of meaningful security of tenure is the largest concern to current and potential renters.<sup>23</sup> Under current legislation, for example, landlords in the private rented sector in Ireland can remove tenants from their property for several reasons, including the following: "The landlord requires the dwelling or the property containing the dwelling for his or her own occupation or for occupation by a member of his or her family."<sup>24</sup> This type of rationale for termination of a lease will need to be countered in order to give greater security of

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<sup>22</sup> From the *Housing Policy Statement* (2011): "Our vision for the future of the housing sector in Ireland is based on choice, fairness, equity across tenures and on delivering quality outcomes for the resources invested."

<sup>23</sup> See: Society of Chartered Surveyors Ireland (2012) *Trends in Tenure Mix in the Irish Property Market*, SCSi: Dublin

<sup>24</sup> Section 34 (b) (4) Grounds for termination: *Residential Tenancies Act 2004*

tenure to tenants and also to encourage the development of the sector. It is also redolent of a market constituted of amateur landlords who tend to see their property as more a personal possession than an investment vehicle. Professional investors regard long-term occupation and its associated income stream as a valuable part of the asset, not as a liability. The involvement of landlords who are pure investors and tenants who are more demanding of their landlords should see this form of termination rationale removed from the statute books.<sup>25</sup>

### *Micro Issues*

Following the clarification of some of the wider general and macro issues which will happen in the private rented sector of the future, the micro issues are relatively straightforward to identify, and can be categorised as follows:

- Who will rent, and why?

An increasingly broad segment of the population will rent in the private sector. The majority of those currently renting would be happy to rent long-term, and this majority would increase should aspects of security of tenure and quality of accommodation improve. It is very likely in ten years that numbers in the private rented sector will settle at c.15% of the population, down from the current 18.5%, but still a considerable increase on the previous fifty years. The type of renter will also be widened from the traditional renters to include far more families and people who would otherwise have no problem accessing credit to fund a house purchase if they chose to do so. It will also include those who have made a choice of being able to access services and facilities through renting (theatre, public transport, city centre and so forth) which would otherwise be unavailable to them if they purchased a home somewhere affordable to them, perhaps 5-15kms outside the city itself. In many instances, this means choosing renting in central locations (or close to) rather than purchasing in more distant suburbia. The private rented sector will absorb public housing tenants in greater numbers as a result of local authorities distancing themselves from the delivery of housing units. Also in more central urban locations, and along public transport lines, the private rented sector will contain considerable numbers of well-educated, high-earning workers for large foreign companies in places such as Dublin and Cork, who are in Ireland for a finite period and who do not wish or need to purchase a home. The development of long-term renting options by professional investment companies will see a small number of 'early adopters' partaking in what is in Ireland essentially an experimental tenure form.

- Where will the private rented sector be?

For various reasons, including the lack of an acceptable private rented sector or any high density alternative, the Irish urban population has consistently expressed a preference for family homes in established suburbia. The reasons for this are not simple, but 'the results of research show that individuals prefer residential locations with a combination of shorter commuting time, lower transport costs, lower density

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<sup>25</sup> It should also be noted that there are issues which need to be addressed to benefit the landlords including a more efficient eviction process when needed.

and higher quality schools.’<sup>26</sup> The private rented sector will thrive in cities and in the early 21<sup>st</sup> century, particularly in suburbia where there are family homes in which to raise children, and nearby to where one or both sets of parents reside, and the demographics of family formation in Ireland indicates significant potential household formation and thus continuing housing demand.<sup>27</sup> The changing nature of the workforce and the norm of having both parents working alongside an underdeveloped state childcare system often involves recruiting family members as *de facto* child carers, meaning that living nearby is often a requirement. Families will therefore continue to be raised in suburbia, but more frequently in rented rather than owned accommodation.

**Chart 4: EU 27 and Ireland Population by Housing Type**

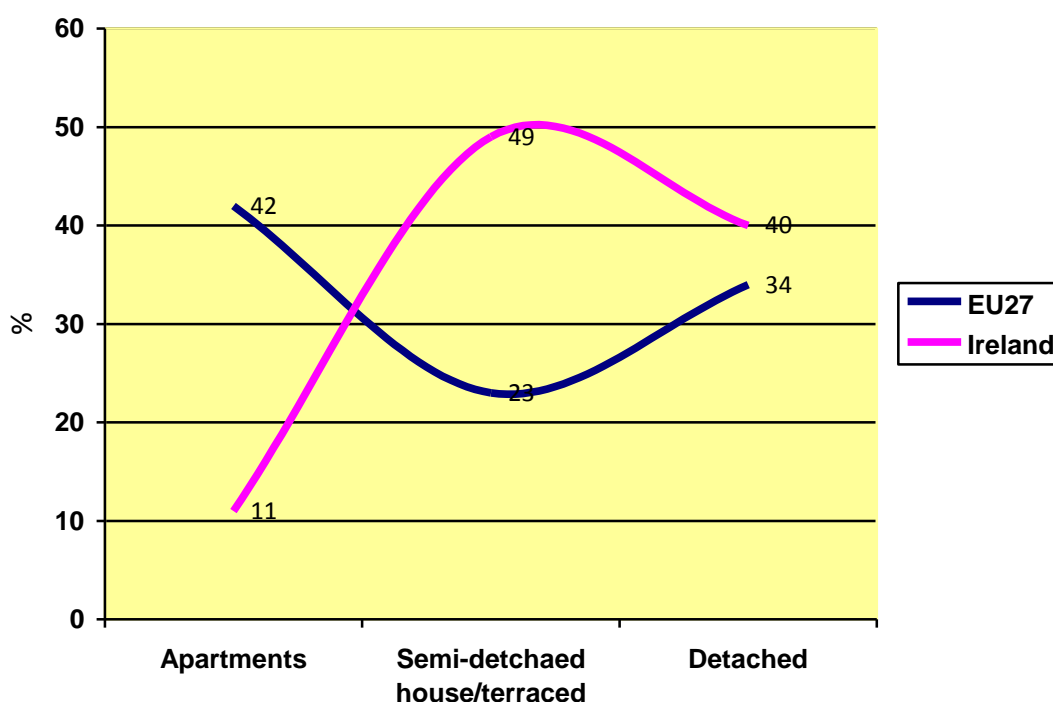


Chart 4,<sup>28</sup> above, shows the preference for houses rather than apartments as a housing type of choice. Despite the increase in numbers renting in the private sector renting (traditionally the preserve of flats and apartments), there is no reason for this preference to change given the changing nature and demographic profile of those renting.

<sup>26</sup> See: Kim, J H F and Pagliara, et al. (2005) ‘The Intention to Move and Residential Location Choice Behaviour’, in *Urban Studies* 42 (9), 1621-1636.

<sup>27</sup> Allied Irish Bank Global Treasury Economic Research (2013) *Housing Market Bulletin, June 2013*, AIB: Dublin

<sup>28</sup> Chart derived from EuroStat figures. See: Eurostat (2013) *Distribution of Population by Housing Type*, EuroStat: Brussels

- From whom will they rent?

Almost three-quarters of all landlords in Ireland have just one property. Another quarter own between two and ten properties, indicating that in the main landlordism is a small-time enterprise. Between 2009 and 2011, however, the number of landlords with 100+ properties increased by 46% signalling the beginnings of a shift in portfolio size to something more akin to a pure investment company. Table 1, below, shows the numbers of landlords in Ireland based on payment of a €200 annual tax on non-principle private homes.<sup>29</sup>

**Table 1: Numbers of landlords and properties in Ireland, 2009-2011**

	2011	2010	2009
No of Properties	No of Payers	No of Payers	No of Payers
1	135,971	136,088	134,974
2-10	45,397	46,080	46,698
11-20	1,453	1,517	1,536
21-30	373	363	364
31-40	135	144	141
41-50	67	62	58
51-100	117	116	113
101-200	36	29	25
201-300	1	1	0
301-400	0	0	0
>400	1	1	1
	183,551	184,401	183,910
No of Properties	339,431	332,289	301,835

For the immediate future the private rented sector will continue to be dominated by the small landlord. Pressures from a variety of sources including debt restructuring, increased taxation and regulation will encourage some to leave the market, and a recalibration of housing policy towards 'equity across tenures' and the development of the private rented sector will also encourage others to enter the market as landlords, at a larger scale.<sup>30</sup> Although the small scale landlord will continue to be the main provider of rented accommodation in the market, the level of competence, compliance with regulations, quality of accommodation and conditions of the lease agreement will improve. Ireland is a long way from a private rental market like those found in the New York or Berlin but the cultural shift in renting is bottom up and takes time to find its way from those wanting to rent to those providing the accommodation. Ultimately, therefore, most people will continue to rent from small landlords, but there will be slowly increasing numbers finding themselves renting

<sup>29</sup> Table 1 based on CSO 2009-2011 figures and the table is courtesy of [www.namawinelake.wordpress.com](http://www.namawinelake.wordpress.com)

<sup>30</sup> An issue in the Irish private rented market which challenges the entry of large-scale professional landlords is the availability of suitable housing stock to make ready for renting. Large blocks of units where the landlord could obtain the freehold on all dwellings are rare, and these are the very type of housing supply which large-scale investment landlords prefer due to the ease of management which they afford.

from large residential investment companies, and others findings (or re-finding) tenure systems such as the building co-operative model, which is already active in Ireland but at a small scale.<sup>31</sup>

## **Conclusions**

There are new rationales for renting in this recession which have partly led to a reviving of the private rented sector, and coupled with the government's policy of promoting 'equity across tenure' (itself a significant shift), it is likely that possibly half of the additional renting cohort since 2006 will remain in this market. The arms' length approach of local authorities towards the provision of public housing and reliance on the private rented market will also sustain the sector into the future, although this is a potentially fraught long-term policy approach. The change in the Irish private rental sector has come faster than any significant responses are possible, however, meaning that unless the sector manages to mature, professionalise, and respond to demand within the next decade it will merely manage to grow rather than develop. There are challenges ahead for the deliverers of private rented accommodation, in both policy and practice, and resistance or inability to change will ultimately mean removal from the market. The private rented sector is at an exciting time in its development. It is imperative that the state and providers of accommodation facilitates its development into a mature, financially sound, functioning, viable tenure of choice which will have a positive social and economical benefit to the country. Ireland may finally be about to break the Victorian system of governance of the private rented sector, but it needs to be replaced with something suitable for the 21<sup>st</sup> century.

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<sup>31</sup> NABCO, the National Association of Building Co-operatives was founded in 1973, and has supported the provision of c.5,000 homes across Ireland through various tenure mechanisms.

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