

**Presentation to the Joint Committee on Housing, Planning,  
Community and Local Government - 21 February 2017**

***Strategy for the Rental Sector***

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**Introduction and Context**

I would like to thank the Chairperson and the members of the Committee for the invitation to attend today to discuss the Strategy for the Rental Sector. Accompanying me are my colleagues, Earnán O'Cléirigh, Principal Officer, and Catherine Higgins & Paula O'Reilly, Assistant Principal Officers in the Rental Market & AHB Regulation Unit in the Department.

Rosalind Carroll, Director, and Padraig McGoldrick, Assistant Director, from the Residential Tenancies Board, together with David Silke, Director of Research & Corporate Affairs, from the Housing Agency are also here.

The rental sector in Ireland has doubled in size over the course of the last 20 years. Population growth, economic recovery and challenges in the home ownership market are all driving increased demand for rented housing at present. The changing nature of work also contributes to the growth in demand in the rental sector. Firms increasingly need more mobile workforces, and changing location and employer has become a more common feature of people's careers. There is an increasing need and a growing demand for the more flexible housing solutions that only the rental sector can offer.

To date, the rental market in Ireland has not responded well to this increased demand. The levels of new investment and the numbers of new rental units coming onto the market are low and, in many parts of the country, particularly urban areas of high population density, demand for rental accommodation far outstrips supply. In these areas, rents have been spiraling upwards and people, including many ordinary working families, are finding it more and more difficult to find accommodation they can afford. This situation is unsustainable, causing uncertainty and hardship for many, contributing to homelessness and threatening our economic recovery by undermining competitiveness, driving up wage demands and making

Ireland a less attractive investment destination. This is the context for the Government's decision, first signaled last July in *Rebuilding Ireland*, to develop and publish a strategy for the rental sector.

## **Strategy for the Rental Sector**

The Strategy for the Rental Sector, launched on the 13<sup>th</sup> of December 2016, recognises the critical importance of developing the rental sector in the context of the Government's objectives for the housing sector overall, as set out in *Rebuilding Ireland*. Our vision for the rental sector is for a sector that delivers long-term, affordable and high quality accommodation solutions to meet the differing needs of a diverse range of tenants and that provides a stable, predictable investment environment for landlords and accommodation providers.

The Strategy for the Rental Sector sets out a realistic targeted plan for working towards that vision and for dealing with the immediate challenges facing us. It is designed to provide for a balanced package of reforms addressing the needs of both landlords and tenants. It is structured around 4 key themes - Security; Supply; Standards and Services – and sets out 29 actions for implementation.

An integral part of the development of the Rental Strategy was the stakeholder consultation event which took place on 20<sup>th</sup> of October 2016 attracting over 100 attendees. In addition, a public consultation process, with an open call for submissions, attracted 498 replies from a wide range of stakeholders.

### **Rent Pressure Zones**

One of the most significant actions provided for in the Strategy - and subsequently enacted by the Planning and Development (Housing) and Residential Tenancies Act 2016 - was the introduction of a system of rent predictability based on the concept of rent pressure zones, to moderate the rate of rent increases in those areas of the country where rents are highest and rising quickly.

Rent pressure zones are defined as areas where rent increases have been at 7% or more in four of the last six quarters and where the rent levels are already above the national average. Once an area is designated a rent pressure zone, rent increases are capped at 4% per annum for the next three years.

The rationale for the rent predictability measure is set out clearly in the Strategy. It notes that rapidly increasing rental inflation is the most significant challenge facing the rental sector at present and that, ultimately, the solution is to be found in increasing the supply of rental properties. However, as there is an inevitable time-lag associated with additional supply coming on-stream, there is a need for a targeted, time-bound and transparent policy response to the issue of rising rents.

The rent predictability measure is targeted in that it recognizes that the same pressures do not apply equally in all parts of the country. It also takes account of legitimate concerns that rent regulation can discourage investment in supply. It allows exemptions for new rental properties and for those which have been substantially refurbished, thus ensuring a predictable and fair return on investment for landlords. The measure is also time-bound, providing that rents can be capped in an area for a period of 3 years only, to allow for additional supply to come on-stream.

Rent pressure zones were introduced with immediate effect last December across the four Dublin Local Authority areas and in Cork City. On the 26<sup>th</sup>

of January, the Minister made an order designating a further 12 Local Electoral Areas as rent pressure zones in parts of counties Cork, Galway, Kildare, Meath and Wicklow. Altogether, some 55% of tenancies nationally are now located in rent pressure zones.

The practical effect of these measures is that the 178,000 households who currently rent their homes in these areas now know exactly what maximum rent they will have to pay over the next three years. It also means that the rents they will have to pay will be lower than they would have been if market rents had continued to apply.

As I said earlier, the new rent predictability measure is targeted and time-bound. It is also transparent. The process whereby an area is designated a rent pressure zone is set out clearly in the Act. Firstly, the Housing Agency, following consultation with the relevant local authority, makes a proposal to the Minister that an area should be considered as a rent pressure zone. Following receipt of such a proposal, the Minister requests the Residential Tenancies Board to conduct an assessment of the area to establish whether or not it meets the criteria for designation. The RTB must report back to the Minister within two weeks. Where the RTB reports

that an area meets the criteria for a rent pressure zone, the Minister makes an order to designate the area. If the area does not meet the criteria, no order can be made – and the Minister has no discretion in this matter.

Members of the Committee may have some questions as to why some areas were designated as rent pressure zones and others were not and my colleagues and I will be happy to provide clarification on the process and the methodology involved. It is important to bear in mind however that the rental market is very dynamic and constantly changing in response to fluctuations in supply and demand. The Housing Agency will continue to monitor the rental market as each new quarter provides further data on rent levels across the country. The Agency may recommend further areas for designation as rent pressure zones in the coming months. I can assure members of the Committee that where, following the procedures set out in the legislation, it is found that additional areas meet the criteria, they will be designated as rent pressure zones.

## **Security**

Security for both landlords and tenants is essential if the rental sector is to be both an attractive option for tenants and a safe and viable investment

choice for investors. Tenants who are renting need to have the certainty that, as long as they pay their rent and meet their obligations, they will be able to stay in the property they are renting. Equally, landlords and investors - from the individual wishing to secure an income into the future, to the institutional investor looking to build a balanced investment portfolio - must have confidence in the long term value of their investment and the income they derive from it.

The Strategy contains measures to enhance the security of both landlords and tenants. The intention is to move towards a situation where longer term tenancies are the norm. In order to encourage this, the Strategy includes measures to allow unfurnished lettings where a landlord is willing to agree to a minimum lease term of 10 years. And, as a first step towards tenancies of indefinite duration, the Residential Tenancies Act was amended in December to move “Part 4” tenancies from 4 to 6 year tenancy cycles.

Landlords also need a degree of security, for example in situations where large rent arrears accumulate while a dispute is being dealt with. The development of new fast track procedures for terminating tenancies where



rent is not being paid, including provisions for emergency applications to the District Court to enforce orders for possession, will address that concern. In addition, changes in the procedures for enforcement of RTB orders will be introduced which will allow more enforcement cases to be taken. Enforcement cases will be heard in the District Court and the RTB will provide guidance and training for parties who wish to take enforcement cases to court themselves.

The recent Tyrrelstown amendment will improve security for tenants by preventing the termination of multiple tenancies in a single development when an investor wishes to sell up. We will also look at options for securing tenants' rights when their homes are placed in receivership. A working group has been established, chaired by myself and involving the Departments of Justice & Equality; Jobs, Enterprise & Innovation and Finance, together with the Attorney General's Office, to examine how the obligations of landlords might transfer to receivers in these cases.

## **Supply**

Ultimately, the solution for many of the current challenges in the rental sector lies in increasing supply. The Strategy contains a number of specific

measures to encourage and accelerate new supply, to keep existing rental units in the market and to bring vacant units back into use.

As part of the wider actions under *Rebuilding Ireland* to increase housing supply, twenty-two Major Urban Housing Delivery Sites (MUHDS) have been identified nationally with the potential to deliver a significant step change in the scale of the supply of new homes including, in particular, the supply of homes for rent. Several of these sites are moving towards purpose designed and built rental developments at significant scale. For example, Cherrywood SDZ in Dun Laoghaire/Rathdown is at an advanced stage in the design of its town centre with planning applications for over 1,000 rental units scheduled to be lodged for planning permission next month.

The Department is also developing a comprehensive database of publicly owned lands in key development areas with a view to identifying suitable development lands and formulating mixed-tenure housing projects. This site ownership information is being assembled through direct engagement with local authorities, state agencies, semi-state companies and other Government departments. The sites are being digitally mapped and an

assessment of land suitable for housing will be made with relevant stakeholders once the database is assembled. Engagement has also taken place with the relevant local authorities in respect of kick-starting supply of rental units on publicly-owned land in key rent pressure zones, with a view to bringing these lands to market on a competitive tendering basis as soon as possible.

The Strategy for the Rental Sector identified that the pressures on rental accommodation in some areas could be relieved through an increased and accelerated supply of student-specific accommodation. There is now a significant pipeline of student accommodation projects in place. These schemes are anticipated to deliver c.8,500 bed spaces to the stock of student housing nationally by 2019. Delivery of increased student accommodation is being supported through a number of specific measures including the fast tracking of planning applications for student accommodation developments directly to An Bord Pleanála, which was included in the Planning and Development (Housing) and Residential Tenancies Act, 2016. This legislation also provides for Higher Education Institutes to borrow from the Housing Finance Agency for the purposes of financing student accommodation provision.

The Strategy also focusses on the potential of vacant stock to be returned to the rental market. In consultation with the Housing Agency, which is currently developing a National Vacant Housing Re-Use Strategy, the Department has commenced an engagement with the Department of Health regarding the financial assessment of rental income under the “Fair Deal” scheme, to explore whether it could be amended to encourage more rental of properties where the owner is in long-term residential care.

The tax/fiscal treatment of landlords and accommodation providers is also being addressed. In Budget 2017 a phased restoration of the deductibility of mortgage interest relief for landlords - from 75% to 100% by 2021 - was announced. In line with the Strategy, a working group led by the Department of Finance has now been established to examine the tax treatment of landlords and put forward appropriate options for amendments to such tax treatment, considering the role landlords play in a properly functioning rental market. This group has already commenced its work and will report mid-year.

## **Standards**

The Strategy for the Rental Sector recognizes that the quality of rental accommodation is critical to the success and sustainability of the residential rental sector and its attractiveness as a long-term accommodation option for households. It sets out a number of important actions to ensure the safety and quality of rented accommodation, by bringing rental standards up to date and strengthening the processes for inspection and compliance.

A review of the standards regulations to bring them into line with modern requirements has now been completed and new regulations were signed by the Minister in January. The new standards requirements - focussing on tenant safety and including new measures covering heating appliances, carbon monoxide and window safety - will take effect on the 1<sup>st</sup> of July 2017.

Local Authorities are responsible for the inspection of private rented accommodation and for ensuring compliance with the standards. Increasing the numbers of inspections and strengthening the enforcement of standards is critical if the rental sector is to provide quality, safe and sustainable accommodation for tenants.

A report by the National Oversight and Audit Commission (NOAC) on the inspection of private rented accommodation by local authorities during 2014 indicates overall low rates of inspection of the private rental stock, low rates of compliance and a lack of consistency in approach to implementation of the regulations across local authorities. It found that less than 10% of registered tenancies were inspected each year, with rates in some local authority areas considerably lower.

On foot of the new regulations, the Department is developing guidelines for local authorities to carry out their regulatory functions. These will help address some of the findings of the NOAC report and facilitate a standardisation of approaches and procedures for inspection and enforcement both within and across local authorities. The guidelines will be developed in consultation with inspection staff and managers and will be issued in Q2 2017.

In order to increase the numbers of properties inspected by local authorities, specific ring-fenced funding for inspection and compliance activity will be identified from 2018 onwards and annual targets for both

inspection and compliance will be agreed with local authorities. The objective set out in the Strategy is to increase inspection numbers incrementally each year so that, by 2021, 25% of all rental properties are inspected annually.

We will also work with the local government sector to develop a shared services model for inspection and enforcement of the rental accommodation standards regulations. This will deliver a more consistent, transparent and predictable approach to the inspection and enforcement process, benefiting landlords and tenants alike, and allowing for more efficient and effective use of available resources.

## **Services**

The Residential Tenancies Board (RTB) is a key provider of services for both tenants and landlords. It plays an invaluable role in monitoring the rental market, in providing accessible information for all stakeholders on their rights and obligations and in providing a fair and impartial mechanism for landlords and tenants to resolve disputes. The Strategy for the Rental Sector contains significant measures to further develop the role of the RTB

and to strengthen its capacity and efficiency so as to more effectively provide its services.

The Department is working with the RTB to reduce the time taken to resolve disputes by improving the efficiency of its tribunals and appeals processes. The Planning and Development (Housing) and Residential Tenancies Act 2016 provided for a number of changes in this regard, which are set out in the Strategy.

The RTB's one-stop shop, which will be operational by mid-year, will be an on-line portal for tenants and landlords, providing timely, accessible and impartial information on the rights and responsibilities of all actors in the rental sector. It is hoped this will lead to a better understanding of the overall regulatory framework and of the role of the RTB.

The RTB will also offer a voluntary landlord accreditation scheme. The objective is to disseminate best practice in residential rental provision, helping landlords develop a comprehensive understanding of the rights and obligations of both landlords and tenants.



Finally and importantly, the Strategy recognises that there have been significant changes and additions to the functions of the RTB in recent years and that the measures in the Strategy will entail even more. It commits to reviewing the current funding arrangements to ensure that the RTB is adequately and sustainably resourced to carry out its functions effectively and efficiently.

## **Conclusion**

I would like to thank the Committee again for giving the Department this opportunity to present the Strategy for the Rental Sector. Given the number and range of actions and commitments contained in the Strategy, my presentation has of necessity been a summary, but I look forward to discussing aspects of it in more detail with the Committee.

In closing, I would like to assure the Committee that the Department is fully committed to prioritising and delivering on all of the actions contained in the Strategy. We will be working closely with the RTB and the Housing Agency, as well as with other Government departments, local authorities, agencies and bodies to ensure that it is successfully implemented and that

our vision for a viable, sustainable sector which meets the country's rental accommodation needs is realised.

My colleagues and I will be happy to respond to any questions or comments the Committee may have.

Go raibh míle maith agaibh.