

Who Wants to be a Landlord?

A Profile of Landlords in Dublin City

CLODAGH MEMERY

LIZ KERRINS

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FOREWORD

While we don't at this moment in time have accurate figures on the number of households currently living in the Private Rented Sector we do know that its place in providing housing in Ireland, particularly for those on the lowest rung of the socioeconomic ladder, has grown dramatically in the last decade. We do know that an estimated 130,000 households depend on being housed in the sector. We also know that 40,000 of those receive a rent supplement under the Supplementary Welfare Allowance (SWA) system. Thanks to Threshold being given the opportunity to conduct this research we also know that one third of all landlords surveyed said that they would not accept tenants on SWA. The current level of rent supplement is inadequate and results in rent supplement recipients being forced into the poorest quality accommodation. The unacceptable situation of these households is due to inadequate government policies over the years.

It is not possible to understand the workings of any part of the housing system without good quality research and we are very much obliged to the 1279 respondents of this survey for their cooperation. It is perhaps true to say that this is the most comprehensive study of its type yet undertaken on the attitudes and motivations of landlords and we hope that it will go some way towards informing public policy in relation to the sector. There is much to learn. It is in all our interests that the Private Rented Sector is properly managed, properly legislated for, and for those who live in it, properly resourced. While Threshold welcomes the legislative programme set in train by the proposals of the Commission on the Private Rented Sector, one of the key issues still outstanding is that of affordability. The newly established Private Residential Tenancies Board will be instrumental in determining market rents in the sector, but that is not relevant to someone who cannot afford to pay a market rent. The development of an adequate, employment neutral rent support system is necessary to protect the most vulnerable in the sector. This report contains much valuable data on the attitudes of landlords to rent increases but again, no matter how justified a rent increase is, it always depends on the tenants ability to pay. Again rent support can only benefit the interests of both landlord and tenant and lead to the better health of the sector.

Threshold would like to thank Clodagh Memery and Liz Kerrins for their hard work and enthusiasm in completing this report. We believe it will provide a rich source of data to anyone with an interest in the sector for some time to come. We would also like to thank the Irish Bankers Federation for their continuing financial support for Thresholds Housing Research Unit.

Aideen Hayden
Chair of Threshold



Working for Justice on
Housing and Homelessness

EXECUTIVE SUMMARY

1. INTRODUCTION

This report provides an insight into the attitudes and behaviour of landlords operating in Dublin city towards investment and operations within the private rented sector (PRS). The report focuses on the nature of investment and investors in the private rented sector in Dublin city so as to provide an understanding of these issues in order to develop policy recommendations to bring reform to the sector.

Due to the revitalisation of the private rented sector in the 1990s it is important to understand the economic motivations and behaviour of landlords, and their commitment to the sector. Between 1991 and 1997 the proportional size of the private rented sector in Ireland has grown from 8% to 11% and the sector is increasingly becoming a substantial provider of housing as house prices increase and the shortage of local authority rental and voluntary sector housing continues. Economic growth and the resulting demographic shifts have also contributed to demand for housing in the private rented sector. However structural difficulties within the sector still exist. These issues are examined in chapter 1, as is the impact of economic growth and European Monetary Union on government housing policy.

The main aim of this report is to investigate the economic beliefs, behaviour and motivations of landlords in the private rented sector. A greater understanding of landlords operating in the private rented sector facilitates development of a set of policy proposals that reflect the nature of the sector in Ireland.

More specific report objectives include: profile of landlords in Dublin city; investigation of decision making on rent levels; tenant profiles of these landlords; landlords' attitudes towards reform of the private rented sector; their motivations for entering and remaining in the sector; and the formulation of policy recommendations reflecting needs within the sector and also allowing for the development of good standard, secure accommodation.

The primary research is based on a postal survey of Dublin landlords, conducted in October and November 1999. The register of landlords of Dublin Corporation was used as the sampling frame, and with the assistance of Dublin Corporation the survey was posted from Civic Offices, Dublin; Threshold did not see the names on the register. 1279 completed surveys were received and the overall response rate was 29%.

This study follows on from an earlier survey of landlords in Cork City undertaken in 1996 by Joe Finnerty when working with Threshold's Cork office. Appendix B provides a summary of the Cork findings. The questionnaire was expanded, and up-dated for the Dublin study.

2. PROFILE OF LANDLORDS

96% of respondents to the survey are individuals acting as landlords with the remainder being largely classified as companies. The results reported in this summary focus on individual landlords only, unless otherwise indicated.

The findings of the Dublin survey reflect the expansion of the private rented sector in the 1990s. 30% of respondents first entered the private rented sector between 1990 and 1994 and a further 40% first invested in the PRS in the second half of the 1990s.

In terms of property holdings, the research has confirmed that small landlords dominate the private rented sector in Dublin. 61% of respondents have one rental property whilst 20% hold two. Only 13 respondents have over 10 properties. New investment in the private rented sector tends to come from new investors buying an investment property.

The age of landlords is quite diverse with one-third aged between 26 and 44, largely accounting for the newcomers to the PRS. 51% are aged between 45 and 64 and 13% are over 65.

There is little evidence of full-time landlords in this survey. 41% are engaged in full-time employment elsewhere and 30% are self-employed in non-landlord activities. The latter are an important group as earnings through their business activities is being invested in residential property, which probably offers tax advantages, as property offers a good tax shelter. Only 7% of respondents describe themselves as self-employed as a landlord.

3. PROPERTY HOLDINGS

The private rented sector is mixed in terms of property type. The recent expansion in the development of apartments has played a significant role in shaping the nature of property provision in the PRS. 50% of landlords own apartments, closely followed by 41% with houses. Bedsits and flats, which are found in older sub-divided properties (HMOs), are still prevalent in the PRS.

The landlords were classified by type of property portfolio owned as follows:

- 37% - apartments only
- 28% - houses only
- 16% - HMOs only
- 17% - mix of properties

Apartments

Apartments have driven the expansion of the PRS in the 1990s to some extent, but houses have also been a popular option. 60% of landlords with apartments are availing of Section 23 tax incentive. A landlord with an apartment is 3.5 times more likely to be availing of this tax relief than a landlord not holding apartments. This demonstrates the impact of Section 23 on apartment development and sale, particularly in the first half of the 1990s as a drive towards urban renewal.

44% of respondents with apartments have been landlords since 1995. 77% of landlords with apartments have been in operation since 1990. This finding demonstrates how the increasing presence of apartments in the built environment in Dublin has been a catalyst in generating investment interest in the private rented sector.

Houses in Multiple Occupation (HMOs)

The ownership of HMOs is concentrated within longer serving landlords. 48% of landlords in operation since before 1980 own HMOs only. Whilst HMOs are the common property holding

among older landlords, this does not mean that there is no investment by newer landlords in HMOs, but it is limited.

Houses

Houses are a popular form of investment by landlords. 35% of new entrants own houses for letting, with this figure dropping to 14% for the long established landlords. There is a growth in demand for houses in suburban areas both by young people who wish to share and also by single family households in need of accommodation.

4. MANAGEMENT OF PROPERTY

The letting of residential properties involves property management functions. Management functions are wide ranging: the selection of tenants, rent setting, deciding and/or undertaking repair and maintenance etc. This study reveals that two-thirds of landlords manage their properties solely by themselves, whilst 23% use letting agencies. Other options include using family, and employing people directly. This demonstrates how landlords in Dublin are operating on a small scale in a 'do-it-yourself' manner with regard to property management.

Landlords who do not manage their properties directly still keep certain management practices in their control; 85% delegate tenant selection but only 28% delegate the decision to issue a notice to quit. Only 56% delegate maintenance decisions to a third party, suggesting either they are undertaking the maintenance work themselves or are not recognising maintenance issues as part of the landlord service to tenants. Agents inform 46% of landlords of minor repairs before work is undertaken, which probably leads to delays for the tenant.

The fact that one in four landlords are using letting agencies raises the question of the standard of service that these letting agencies are providing to both the landlord and the tenant.

5. MOTIVATIONS AND ACTIONS OF LANDLORDS

Respondents were asked why they became a landlord. 56% state that it was for a secure investment and 49% state that the property was acting as a future pension for them. Rising house prices (17%) and rental streams (18%) were of less importance. Landlords' viewpoints change somewhat when asked why they remain within the PRS. Whilst the issue of secure investment is still a major factor in landlords' continuing participation in the PRS, rental income is very important (55%) as is increasing house prices (30%). This shifting of viewpoint demonstrates that landlords, once established in the PRS, soon see the advantages of rising rent levels and indeed asset value appreciation.

Section 23 tax incentives have also impacted on investors' decision to enter the PRS in the 1990s (29%), but accessing a secure investment option is a key issue.

Rent Levels

Landlords were questioned regarding their rent setting strategies. Initially rents are largely set on the basis of the going rate i.e. market driven (52%). Recent entrants to the private rented sector and those who are in employment have a greater tendency to adopt the more pragmatic manner of setting rents linked to mortgages and other costs. 45% of respondents increase rents yearly, which is in line with a lease structure. There is a link between landlords increasing rent

annually and having a similar tenant turnover rate. One reason for this may be that increases in rent are causing tenants to leave their accommodation and seek out alternatives.

One in five landlords opted for the response 'every time a tenant leaves'. Landlords taking a tenant's departure as the opportunity to increase rents may explain this response. Alternatively, landlords could be issuing a notice to quit to tenants, increasing rents and accepting a new tenant who will pay the higher rent. This finding demonstrates the flexibility available to landlords and the vulnerability of some tenants.

Of interest are the 30% of landlords who increase rents less often than every year. These landlords are more likely to have tenants that stay with them for a longer average duration than other landlords i.e. over two years. Stability for landlords in terms of tenant turnover may be preferable. On the other hand landlords may not be acting in a profit maximising manner and not realising potential rental returns.

The main factor influencing the rate of rent increase is local rent levels (68%) which demonstrates the influence of market factors on rent setting. Other important factors are upgrading (37%), cost of living (26%) and ending of a tenancy (23%). 13% of landlords accept the best offer made, which leads to a 'bidding' scenario for the prospective tenant. This exposes tenants to taking property at artificially raised rent levels in pressurised circumstances.

Return from Rents

77% of respondents state that rents received cover at least their costs. 20% state that rents are not cost covering. Of the landlords who state that 'rent covers costs', 69% believe that rents give an acceptable return. One in three landlords state that they do not need to increase rents to meet their investment expectations. 50% require rent increases with 32% of this group requiring increases above the 10% level.

6. TENANT PROFILES

The survey first asked to what type of households are landlords letting. The majority of landlords are letting to young single households and to people sharing accommodation. 25% of landlords are letting to young single people sharing, and 19% are letting to students on a sharing basis. These figures demonstrate that students and young single people are not the only type of tenants sharing accommodation in the PRS. Therefore there is evidence of sharing among older people and lone parents in order to make their rents more affordable.

23% of landlords are letting to households with children underlining the high use by families of the private rented sector. This figure could be higher when letting to asylum seekers and refugees is taken into account. Landlords letting to families tend to be more established (over 10 years in private rented sector) compared to the less experienced landlords. This finding indicates potential difficulties for families trying to access accommodation in the PRS, if new landlords are tending not to take families as tenants. This difficulty is compounded by a concentration of some new investors in apartments, which are not necessarily suitable for young children.

The lettings profile of landlords at time of survey were

- 89% let to employed people
- 1% let to sick/disabled
- 20% let to students
- 5% let to tenants on training schemes
- 13 % let to unemployed
- 4% let to refugees
- 2% let to asylum seekers

Landlords report that the two most important features of a preferred tenant are that they are employed and have references; 60% state that it is easy to get their preferred tenant type and 30% that it is neither easy nor difficult. This shows how people who are employed will be chosen over other potential tenants.

Rent Supplement

53% of landlords state that they would accept tenants claiming rent supplement, but only 18% of landlords in the survey actual had tenants claiming this payment. 32% have a policy of not accepting these tenants and the remainder do not know their position. Apartment owners are more likely than other landlords to refuse rent supplement whilst HMO owners are more likely to accept it. Of those landlords refusing rent supplement, 49% perceive that claimants of rent supplement have social problems. Claimants are singled out as a particular tenant-type, unwilling to care for the property that they have rented and/or more likely to 'upset neighbours'. This demonstrates prejudice against tenants claiming rent supplement by up to one third of landlords and confirms how it is very difficult for such claimants to access appropriate accommodation and exercise choice.

7. REGULATIONS AND REFORM

Fixed term tenancies are the most common tenancies in this research as 80% of surveyed landlords use them, with 10% of landlords reporting the use of periodic tenancies and 9% using both types. There was relatively low level of knowledge of landlords, regarding minimum standards (61%) and notice to quit conditions (68%) which is of concern for tenants. This means that there are landlords in operation who are ignorant of their responsibilities towards tenants.

A series of options for reform of the private rented sector was put forward in the survey:

Support by landlords for these reforms in the PRS is:

- | | |
|--------------------------------------|-----|
| • rent increases linked to inflation | 35% |
| • extend the notice to quit period | 15% |
| • establish a housing court | 34% |
| • easier repossession | 57% |
| • removal of registration fee | 49% |
| • regulator for the PRS | 41% |

One in three landlords support a system of rent indexing whereby increases in rents could be linked to inflation. This type of reform would have considerable benefits to tenants currently exposed to frequent and substantial rent increases. Also linked to this is the support for a regulator for the private rented sector. Of those favouring a housing court, 65% are also in favour of easier repossession. A housing court would in theory provide a dedicated court to speed up the resolution of disputes between tenants and landlords.

There is little appetite among landlords for extending the notice to quit (NTQ) period. This is probably due to the great flexibility that the current 28 days NTQ offers landlords at present, and also may be due to the high use of lease agreements by the landlords surveyed. An increased NTQ period aligned with effective dispute resolution mechanisms might prove to be a more attractive combination to landlords, who currently may have to wait up to a year to remove a tenant that is overholding through the courts. On the other hand a tenant would have more rights, and greater access to an effective system to resolve landlord-tenant disputes and thereby exercise their rights without fear of recrimination by the landlord concerned.

8. COMPANY LANDLORDS

Four percent of survey respondents described themselves as organisations/companies, accounting for 47 responses. The profile of these company landlords is as follows:

- 85% are private companies;
- 40% have residential letting as their core business with 48% holding general property as core; and
- 47% are operating as residential landlords for over 10 years.

Property Holdings

38% of company landlords hold over 10 properties and 2 organisations report holdings of over 20 properties. In contrast with individual landlords of whom only 18% hold a mixed property portfolio, 46% of company landlords have a mixture of property types in their portfolios. Apartments dominate the holdings of these landlords. The perception that only small landlords have houses in multiple occupation (HMOs) is not borne out by this research, as some company landlords are owners of HMOs. While companies may account proportionally for a small number of housing providers in the private rented sector, they tend to hold a larger number of properties than individual landlords and therefore can still be relatively important suppliers in their own right.

Rent Setting

As with the individual landlords, company landlords set their rent levels at 'the going rate'. However, company landlords tend to use rental yields and solicitors more in determining rent setting. Compared to individual landlords there is a lower use of factors such as mortgage and associated costs when calculating rent levels. The frequency of rent adjustments is overall in line with that of individual landlords but only 33% of company landlords believe that rents give an acceptable return on investment. They also tend to require larger rent increases than individual landlords.

Tenant Profile

Company landlords tend to let to young single people sharing accommodation, and overwhelmingly favour letting to those in employment. However they do have a higher propensity to let to people sharing, those in middle age and sharing, couples with children, the elderly and asylum seekers/refugees. This may reflect the greater mixed portfolio and direct letting with health boards in the case of asylum seekers. The small numbers of company landlords included in this study also influences these findings. In terms of preferred tenant type, company landlords clearly favour employed tenants. As this is also the case with individual landlords, the overall picture of letting practices in the private rented sector raises the question

of access to the sector for unemployed tenants, particularly with children. Whilst 90% of company respondents are aware of the rent supplement, only half of respondents are willing to accept rent supplement tenants. Company landlords unwilling to let to such tenants cite the social problems of these tenants as the reason behind their decision, mirroring the position of individual landlords.

Company landlords largely use fixed term tenancy and tenancy duration is similar to the individual landlords.

Motivations and Attitudes

Company landlords state that they entered the private rented sector because property is considered to be a secure investment, particularly in terms of a pension. This may reflect the small business nature of some of these landlords. Rental income is not as strong a motive as expected; however, when company landlords are asked why they remain in the private rented sector, rental income becomes a key issue, alongside rising house prices. In terms of their investment plans for the future, thirty-two respondents say that their portfolios will remain the same while nine respondents will increase their investment.

Similar to individual landlords, company landlords display similar attitudes towards tax and related issues. Familiarity with regulations in the private rented sector at the time of the research are low and in line with results from individual landlords. Therefore there is a sizeable lack of awareness amongst respondents regarding notice to quit and minimum standards, which creates a doubt on the professionalism and service provision of some of these landlords.

Assessing attitudes towards possible changes in the regulatory environment in the private rented sector did unearth some interesting differences between company and individual landlords. A higher response for easier repossession (not linked with a housing court) and lower support for removal of the registration fee is shown by company landlords compared with individual landlords. Little support by company landlords for rent increases linked with inflation is exhibited.

RECOMMENDATIONS

1. The Government to adopt the vision of the private rented sector's role as set out in the report of the Commission on the Private Rented Residential Sector. But then go further by:
 - a) making a clear statement on the importance of the role of the private rented sector in the overall housing system;
 - b) clearly indicating that the Government wishes to see the expansion of the private rented sector; and
 - c) indicating how supply in the private rented sector will be encouraged.

TACKLING SPECULATION IN THE HOUSING MARKET

2. A single set of stamp duty rates to be applied across all residential property transactions, whether new-build or existing stock, and across all types of purchasers whether investors or homeowners.

TAXATION AND FINANCIAL INCENTIVES ISSUES

3. Business status for landlords of residential property be awarded to companies/individuals that are solely operating a property letting service and in the case of individuals are not actively earning income elsewhere. Business status requires proof that the landlord is abiding by regulations.
4. Interest payments on money borrowed is allowable for tax purposes where landlords have business status, limited per property to prevent distortion in the wider housing market. However it would also apply to any landlord who provides affordable, secure accommodation for tenants on S.W.A. rent supplement.
5. Access to Section 23 tax incentives already designated, to be dependent on investors demonstrating compliance with the regulations governing the private rented sector.
6. The claw-back period for Section 23 and other financial packages, which may be developed for the private rented sector, to be increased from 10 to 20 years. This would be in line with the clawback period under the affordable housing scheme in Section V of the *Planning and Development Act, 2000*.
7. The DoELG and the Dept of Finance, to jointly commission an evaluation of the impact and cost of Section 23 tax incentives in order to establish its applicability to the current housing market for both investors and homeowners.
8. To undertake a systematic evaluation of the attitudes of institutional investors towards investing in Irish residential property, whether on a debt or equity funding basis. This evaluation should clarify the reasons for lack of institutional investment and importantly establish what is required in order to attract institutional investment in residential property: e.g. tax vehicles, property portfolios, investment returns, legislative structure etc¹.
9. Investigate potential models and interest in the development of public-private-partnerships in relation to low-cost rental housing.

TENANT – LANDLORD RELATIONSHIP

10. The establishment of a Rental Deposit Scheme, for deposits paid to landlords by tenants, in order to develop an equitable, fast and efficient system of dealing with disputes in relation to deposits. These deposits would be safeguarded for both tenants and landlords.
11. The probationary period for tenants, proposed by the Government to be reduced to three months.
12. The right to occupy proposed by the Government to be increased from four to seven years.

¹ Threshold will be undertaking a study into institutional investment in the private rented sector.

13. This right to occupy to be removed from the tenant under the following circumstances:
 - a) the landlord wants to sell/ substantially renovate/ change the use of the dwelling concerned;
 - b) the landlord wants the dwelling for their own occupation or for occupation by a family member;
 - c) the tenant is in rent arrears for a period of 28 days, with no resolution of this situation;
 - d) the tenant fails to abide by the conditions of the tenancy as laid down in a model tenancy agreement (set down in legislation); and
 - e) a re-assessment can be made by the landlord of the appropriateness of the living accommodation if the household has grown and a decision arrived at as to whether the accommodation is now suitable for this family.
14. The minimum notice to quit issued by landlords, for all periodic tenancies, to be increased from the current 28 days notice-to-quit to 56 days. This minimum period to extend up to a ceiling of 6 months notice-to-quit where periodic tenants have been resident for five years or more.
15. The extended notice-to-quit periods as set out in the Government's recommendations, not to be removed from tenants following the expiry of their 'right to occupy' period, presuming that the tenant concerned remains in the same dwelling.
16. The maximum notice to surrender (for a tenant to give the landlord) to be 28 days for those on periodic tenancies regardless of their length of occupancy. For tenants with leases normal lease obligations apply.

ISSUES OF RENTS SETTING AND RENT SUPPLEMENT/RENT ASSISTANCE

17. Initial rent levels to be set by agreement between the landlord and the prospective tenant. Thereafter, increases in rent should take place on an annual basis based on a rent indexation system. This system would allow for increases in rent based on inflation levels, and could be administered through the proposed Residential Tenancies Board. All landlords would be entitled to raise their rent by this amount and seek additional increases where substantial renovations have occurred. On expiration of the right to occupy period, the rent level can be freely negotiated be it with the existing tenant if it is agreeable that s/he remains or with a new tenant.
18. The development of a rent support system by government that is employment neutral and is sufficient to allow recipients access to decent, affordable accommodation.
19. The new tax incentive (2001) for sub-divided properties with at least three units, to be monitored and evaluated in terms of uptake by landlords, any increases in availability of accommodation for rent supplement claimants, improvement in quality of accommodation etc.

20. Local Authorities in co-operation with the Health Boards develop a database of landlords willing to take both rent supplement and rent assistance (when this scheme is in place) tenants. The database should be up-dated regularly for availability and for the recruitment of more landlords. This service could be contracted out to a third party.

STUDENT HOUSING

21. Provision of financial assistance to educational institutions for the direct provision of student accommodation on a non-profit basis in relation to rents charged. Third level institutions would adopt a long-term perspective on student housing.
22. The option of a non-profit housing trust to supply dedicated student accommodation for all pursuing full-time education to be explored.

IMPROVING MANAGEMENT AND PROFESSIONALISM WITHIN THE PRIVATE RENTED SECTOR

23. A licence to be required for the management and ownership of HMOs. The conditions of this licence sets down specific fire and safety conditions and management standards for HMOs. Local authorities to award these licences following inspection of the properties and the establishment that the landlord is a fit person to hold a HMO licence.
24. Linked to the HMO licence, the local authorities to offer support in improving management of HMOs through training programmes. Existing landlords could apply for grant assistance, up to a sum to be defined, to up-grade their properties linked to provision of accommodation to low-income tenants including students.
25. General regulation for controlling and supervising letting agencies to be enacted. All letting agencies to be licensed and bonded in the same manner as estate agents.
26. Letting agencies to charge a fee only if and when suitable accommodation is found for the client who has been previously made aware of the cost involved.
27. On registration of properties all landlords to receive an information pack on the obligations of landlords and tenants. In addition the pack to contain information on best management practices, whether undertaken directly by the landlord and/or through management and letting agencies.
28. Local authorities to provide a series of seminars for landlords in order to keep them informed on developments within the private rented sector. In addition a regular newsletter to be sent to all landlords to assist them in their operation.

Policy and Practice – Placing the Private Rented Sector in Context

1.1 INTRODUCTION

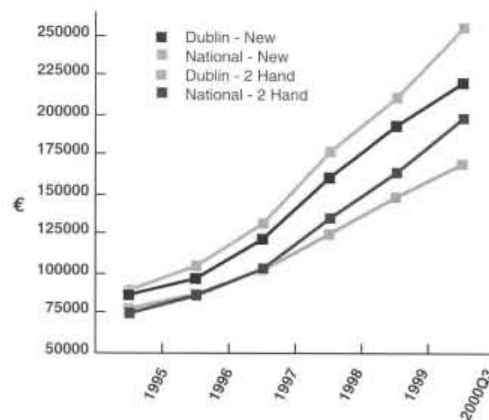
The private rented sector in Ireland has expanded during the 1990s, particularly in Dublin and other large urban centres. Who is leading this expansion in the provision of private lettings? Why are individuals purchasing residential properties to let out? Are these landlords the same type of landlord that has traditionally been associated with the private rented sector of the 1970s and 1980s, or is there a new breed of landlords spurred on by the Celtic Tiger economy? What are landlords' intentions regarding their residential investments in the Irish housing boom that began in 1996 and continues into 2001? What are the views of these landlords on tenants, and what type of attitudes are landlords bringing to the private rented sector in Ireland?

There is an array of unanswered questions regarding landlords in Ireland. In light of the re-emergence of the private rented sector in Ireland it is very important to understand the economic behaviour and motivations of landlords and their commitments to the sector. The private rented sector has become a substantial provider of housing for a variety of reasons. Rapid increases in house prices (Figure 1.1), particularly in the latter half of the 1990s and insufficient investment and subsequent shortages in local authority and voluntary sector housing, have brought more households into the private rented sector. House price increases are discussed in section 1.6. This growth in demand for the private rented sector has also been augmented by the numbers of new people arriving into Irish cities to work, be it return emigrants, non-nationals, asylum seekers, etc.

Landlords' attitudes and actions are reflected in the shaping of the private rented sector and the differing abilities of tenants to access the sector. Over 130,000 households across Ireland are now largely dependent on individual landlords for their accommodation needs. In addition the methods used by landlords in determining rent levels and rent increases have a much wider impact beyond the properties in question, and influence the interest of new and existing investors in either new or further investment in the private rented sector. This has a knock-on impact into house prices and has brought competition between investors and homeowners, typically first time buyers, for a limited supply of housing.

Figure 1.1

House Price Trends 1995 - 2000 (Average House Prices)



Source: Housing Statistics Bulletin, September
Quarter 2000 €1 = IR£0.787564

This study attempts to address these questions regarding individual investment in the private rented sector based on a survey of landlords holding residential properties in the Dublin area. The methodology is detailed in section 1.3 below. It is only

through understanding the nature of investment and investors in the private rented sector that new housing policy can be developed to successfully bring the required reform of the sector; reform that is needed to resolve the inherent difficulties for tenants in the private rented sector (Section 1.4.3).

This chapter sets out the aims and objectives of the study and the methodology used. The private rented sector is then examined in terms of its revival in the 1990s, the legislative system, and the difficulties inherent in the sector. Irish housing in a European context is then explored, particularly with regard to membership of EMU. Finally the economic growth in Ireland is examined in relation to government housing policy and the consequences of these policies on the housing system, particularly in relation to the private rented sector.

1.2 AIMS AND OBJECTIVES OF THE STUDY

The main aim of the study is to investigate the economic beliefs, behaviour and motivations of landlords in the private rented sector. In undertaking this study the secondary aim is to establish a greater understanding of landlords operating in the private rented sector and by doing so establish sets of policy proposals which reflect the nature of the private rented sector in Ireland.

The more specific objectives of the study are as follows:

- to profile the landlords that are supplying property in Dublin city and the type of property which is forming the bulk of this supply;
- to assess the manner in which landlords make judgements regarding rent levels and rent increases;
- to establish the type of tenants that landlords are currently letting to and their attitudes towards various tenant groups such as claimants of rent supplement allowance, families, students etc.;
- to explore landlords' attitudes in relation to possible reform of the private rented sector in terms of the tenant-landlord relationship;
- to investigate the motivations of landlords in terms of entering and remaining in the private rented sector and the manner in which financial treatment of landlords and investment considerations affect these choices and their subsequent behaviour; and
- to establish a set of policy recommendations in terms of the private rented sector which reflects the needs within the sector and will allow the further development of a supply of good standard, secure accommodation.

1.3 THEORY AND METHODOLOGY

The only manner in which to meet the aims and objectives of this study was through contact with landlords, regarding their properties, tenant structure and preferences and personal attitudes towards investment and development of the private rented sector in the face of government interventions into the housing market. This required primary research, and in order to develop a detailed picture of landlords a quantitative approach was required. The first difficulty in adopting such an approach was the establishment of a sample frame. In 1996, Threshold Cork had received agreement from Cork Corporation to post out surveys to the landlords registered with the local authority. Registration of landlords had only been introduced in that year through the Housing (Miscellaneous

Provisions) Act 1992 (see section 1.4.4) and out of 280 registered landlords, 83 responses were received. Details of this survey are contained in Appendix A. This methodology acted as a pilot basis for the Dublin landlord survey.

In order to conduct a sizeable survey of landlords, agreement was reached with Dublin Corporation to access their database of registered landlords. This report considers the findings of a postal survey of landlords with property in Dublin city, which was conducted between October 1999 and November 1999. The sample frame was provided by Dublin Corporation, and consisted of the 4,555 registered landlords on their database. Threshold had no access to these names and addresses, keeping within the regulations regarding registration, which does not allow public access to the names and addresses of registered landlords. All surveys were posted directly from Civic Offices with a covering letter from Dublin Corporation explaining the research being undertaken, requesting support from landlords and indicating that Threshold was leading the research. All returned questionnaires were posted to Threshold so respondents were aware that the organisation was receiving their replies.

Due to the inability to access the names and address of the landlords concerned, the sensitivity of the research and the involvement of Threshold, it was decided that sample boosting was not appropriate. In order to do this, registration numbers on each questionnaire would have been required, which if noticed by respondents might have reduced the response initially. Therefore it was not possible to identify where the responses had come from and hence not possible to conduct a second

mail-shot to boost response. For the same reasons taking the approach of offering a prize as an incentive for landlords to return their questionnaire, was not feasible.

It was decided not to question landlords about the actual rent level being charged due to:

- an unwillingness by landlords to reveal rent levels might have led to a lower response rate;
- requesting rent levels on a postal survey is difficult to administer, taking into account the varying numbers of properties held by respondents. This makes the survey cumbersome for people to complete, which can lead to poor information and/or a lower response rate; and
- the existence of alternative sources for rent levels.

In total, 1279 completed questionnaires were received. A further 30 replies were received from people who either no longer had property in Dublin City or who objected to completing the questionnaire. Overall the response rate was 29%. This is a good response for a postal questionnaire with no boosting mechanisms available.

There is sampling bias because the sampling frame consists of those landlords who registered with Dublin Corporation and are therefore suspected of being largely compliant with regulations. In chapter 2, it is shown that the profile of landlords that emerged from the research appears to be largely in line with the general understanding of the private rented sector. The older, long-established landlords were identified in this study. In terms of the expansion in the sector in the 1990s, new landlords also were found in the sample

achieved, attracted by a booming housing market with capital appreciation and rising rents (see Sections 2.2, 2.3, 4.2). This profile of landlords resulting from this study appears to be in line with the known growth and development of the private rented sector, alongside the traditional landlords associated with the sector. Therefore the registration database provided a mix of landlord types, which reflects the development of the private rented sector.

The actual number of questionnaires analysed in this study (1279) provides a rich data source to allow a greater understanding of the motivations, activities and expectations of private landlords who are the suppliers of private rental housing in Dublin. Irish housing studies are under-developed and tend to rely on secondary sources for analysis and consultation with government officials and professionals, rather than discovering directly from either the users or investors in housing as to what their experiences and needs actually are. Housing policy needs to be based on primary research and not dependent totally on secondary evidence. It is only through primary research that policy makers can actually learn on first hand terms how households and individuals are interacting with the housing system, the type of

decisions and choices that households make under varying social and economic conditions, housing hardships that may be endured etc. Policy makers can then begin to understand the conditions that are required to reach a sustainable and more equitable housing system. This landlord study begins to fill one small corner of the large deficit of primary research into the Irish housing system.

1.4 PRIVATE RENTED SECTOR IN IRELAND – THE 1990s REVIVAL

From 1946 to the early 1990s the private rented sector was characterised by a steady reduction in the absolute and relative number of households renting privately. This decline of the private rented sector mirrored social changes and housing policy, reflected also in the UK. The movement in Ireland and the UK post-1945 was towards home ownership and local authority housing provision and away from private landlord provision of rental housing. The expansion of home ownership was more vigorously followed during this period in Ireland, with further expansion occurring between 1970 and 1990 (Murphy, 1995).

According to the Report of the Commission on the Private Rented

Table 1.1

Households in the Private Rented Sector

Year	No. of Households	% of all Households
1946	173,000	26.1
1961	116,300	17.2
1971	96,900	13.3
1981	90,300	10.1
1991	81,400	8
1997*	131,600	11

Source: *Labour Force Survey DoELG (2000)

Residential Sector (DoELG, 2000), the decline of the private rented sector up to the early 1990s, was due to factors such as the effect of rent control on investment, particularly where landlords were competing with local authority and owner occupation; a decline in the supply of large dwellings for conversion to Houses in Multiple Occupation (HMO); the sale of newly built apartment blocks to owner occupiers; and HMOs being reconverted for owner occupation (p.7). However, McCashin (2000) places the reasons for the decline of the private rented sector clearly at the foot of the policy makers, stating that the sector's degeneration was a direct result of the policy neglect relative to other housing tenures.

1.4.1 THE EXPANSION OF THE PRIVATE RENTED SECTOR IN THE 1990s

Table 1.1 shows the real growth in the private rented sector in the 1990s, indicating that the sector may now be housing more households than the local authority sector. This is a feature that has occurred by chance and not through a specific housing policy desire on behalf of successive governments.

The report of the Commission on the Private Rented Residential Sector is sparse in its analysis of the reasons for the increase in the size of the private rented sector, which has occurred in the 1990s. Nonetheless the report concludes that the increase is due to the Section 23 tax incentive schemes and the ability of investors to avail of rising rental incomes and gain from asset appreciation (p.8).

Government held information on Section 23 up-take is not available for analysis. *In addition homeowners have purchased and can purchase homes with Section 23*

tax incentives. How many of these homeowners are now letting out the properties that were purchased initially for home ownership? Particularly important in assessing any tax incentive and its continuation is the issue of dead-weight. Whilst a tax incentive may be required at a point in time to encourage investment and renewal, over time as conditions improve, the tax incentive may no longer be required to attract investment.

McCashin believes that Section 23 tax incentives have contributed to the modernisation of the private rented stock, but due to absence of data on the levels of take-up of Section 23, the actual impact is impossible to quantify. Whilst modern stock may have been added to the private rented sector in the 1990s, overall decline continued as older properties were taken out of the private rented sector and therefore structural decline continued (2000:17).

This study of landlords in Dublin City examines the motivations of landlords when investing in the private rented sector. Section 23 incentives play a role in this assessment of landlords' economic motivations. Analysis of responses and commentary in relation to the tax incentives are to be found in sections 4.2.2, 4.6.1, 5.5, and 6.4.4.

1.4.2 DEMAND IN THE PRIVATE RENTED SECTOR IN THE 1990s

Discussion on the expansion of the private rented sector has so far focused on supply issues and investment by landlords. The success of the private rented sector from an investment viewpoint is dependent on the demand for rental accommodation. This demand has been outstripping supply and *causing rents to increase accordingly*, making the private rented sector a further

attractive investment option. Economic growth and increased employment opportunities have encouraged higher levels of new household formation, creating smaller household sizes (ESRI, 1999). Some of this increased demand is a function of the 'baby boom' of the late 1970s and the overall effect is one of increased demand for a home in the private rented sector. Another demographic shift has been the reversal in emigration as more people return to and enter the country, detailed in Table 1.3. Their first port of call is the private rented sector, where accommodation can be accessed relatively cheaply and quickly. Dublin is the central point for immigration due to the proliferation of IT and financial services and call centres and this has led to increased demand for private rented accommodation in the city. Due to the rapid increases in house prices since 1995, many working households are priced out of home ownership and are reliant on the private rented sector to provide a home. The private rented sector is no longer largely transient and the new 'reluctant renters' find themselves in the sector in the medium term. The student population has also expanded rapidly to an estimated 135,000 with 50% of these students living away from home, many of these in the private rented sector¹.

Demand for private renting also comes through the scarcity of social housing provision. Past policy decisions such as tenant purchase schemes have left local authority housing stock decimated, and ongoing sales to tenant purchasers against the low level of new build have left the authorities with a shortage of units.

Households on benefits receive a rent supplement under the Supplementary Welfare Allowance system². There are 40,000 households across Ireland at any one time in receipt of the rent supplement whilst living in the private rented sector (Social Welfare Report, 1999).

The numbers of homeless in Ireland, as recorded by the DoELG's Assessment of Housing Needs³, reached over 5,000 persons, with organisations such as Simon placing these figures at nearer to 10,000 across the country⁴. Local authorities and health boards, particularly in the Dublin region, are using dwellings within the private rented sector as emergency accommodation to house homeless people. This has placed further demands on the private rented sector and some landlords are willing to transfer their properties into emergency accommodation due to the higher bed numbers possible, and therefore the greater income generated through the health board payments.

1.4.3 DIFFICULTIES IN THE PRIVATE RENTED SECTOR

The current structure of the private rented sector creates a range of difficulties largely relating to the position of tenants. Due to the largely unregulated nature of the Irish private rented sector, the greatest difficulties fall in relation to tenants' limited rights. The legislative framework in which the private rented sector operates is described in Box A and section 1.4.4 below.

The nature of the problems within the private rented sector, from a tenant perspective, were identified by Threshold (1999) as follows:

1 USI, op. cit. DoELG, 2000

2 For further information on rent supplement, refer to Memery and Kerrins (forthcoming) report on the operation of the rent supplement system.

3 Housing Statistics Bulletin, September 1999, DoELG

4 Simon Newsletter, January-March 2000

- the Irish private rented sector, particularly in cities such as Dublin, is characterised by frequent and substantial increases in rent;
- the limited security of tenure means that tenants move frequently;
- tenants can be nervous of exercising their limited rights in fear of receiving a retaliatory notice to quit from the landlord on the back of making a complaint;
- the absence of dispute resolution mechanisms operated through official third party mediators means that neither landlords or tenants have a forum to resolve disputes without resorting to more lengthy court proceedings which are often unnecessary or impractical for the tenant;
- discrimination by some landlords towards tenants on rent supplement, means that it can be very difficult for rent supplement beneficiaries to access accommodation;
- rent supplement is capped and therefore it is very difficult to access decent accommodation based on the 'reasonable' rent levels set by each health board;
- there is a shortage of accommodation for families in the private rented sector due to tendency for students and young adults to share family homes and therefore pay higher rents for the property;
- frequent moves within the private rented sector causes disruption to children and their schooling;
- poor conditions of accommodation, which sometimes fall below legal minimum standards;
- discrimination against asylum seekers and ethnic minorities by some landlords; and

- some landlords exploit vulnerable tenant groups, e.g. asylum seekers, those in need of psychiatric care, etc.

From a landlord's perspective, difficulties in the private rented sector are seen in terms of taxation classification, changes to tax treatment following Bacon (1998, 2000), anti-social tenants, and an inherent fear by landlords of losing control of their properties. As reforms in the private rented sector are due to be introduced by the government, an environment of uncertainty for investors and would-be investors exists, until it is clear how these reforms will be introduced.

1.4.4 LEGISLATIVE ENVIRONMENT AND THE PRIVATE RENTED SECTOR IN IRELAND

The deregulated private rented sector in Ireland (approximately 90-95% of all PRS tenancies) is currently governed by the Housing (Miscellaneous Provisions) Act 1992. In addition there are approximately 10,000 formerly controlled tenancies, known as decontrolled tenancies, still remaining across the country which are governed by the Private Rented Dwellings Act 1982. Decontrolled tenancies and their inheritance are described in detail in the Report of the Commission on the Private Rented Residential Sector (pp 9-10; 48-52). In addition this report also provides a description of the legislative and constitutional framework within which the private rented sector in Ireland operates. Appendix B provides brief legislative description of the decontrolled private rented sector.

In January 1991, the government and social partners began a new partnership agreement, the Programme for Economic and Social Progress (PESP). It was proposed in the PESP that certain additional

safeguards for tenants in relation to rent books, standards of accommodation and letting agreements be introduced. The PESP also stated that cognisance must be taken of the need to avoid an adverse effect on supply or investment due to regulatory changes.

The importance of the private rented sector in housing provision was subsequently recognised. As a result the 1992, Housing (Miscellaneous Provisions) Act was introduced and the resulting measures were introduced over a staggered period and collectively became known as the 'Charter for Rented Housing'. The relevant provisions of this Charter are explained in Box A.

These provisions for the private rented sector are very minimal in terms of regulation, but at the same time they have been resisted by many landlords, particularly with regard to registering their rental property interests. In addition there has been a low level of enforcement by local authorities in this regard, partly due to lack of resources, partly due to low priority within local authorities but also through the discovery by some landlords of a loophole in the legislation in relation to temporary convenience lettings.

Previously if queried by local authority officials regarding the non-registration of rental property, some landlords claimed their lettings were temporary conveniences and therefore exempt from registration. A challenge to this legislation was made in the case of *Ennis Urban District Council - v - Tierney et al* (8th May 1998), which focused on the issue of proving the temporary convenience issue and also penalties for failure to pay registration fee⁵. For a period of time this case left the question of

registration unresolved. Consequently the temporary convenience loophole was tied up in January 2000 and these lettings must be registered. Due to the manipulation by landlords of the legislation, genuine temporary convenience lettings must be registered. On the other hand the low level of enforcement in many local authorities means that it may take time before a landlord is asked to register any of their properties and in the meantime will continue to avoid registration.

Due to the high level of private renting in Dublin, there has been a more concerted effort in Dublin Corporation to identify properties being let in the private rented sector and make contact with landlords.

There are two main types of tenancies within the deregulated private rented sector. Most tenants in the Irish private rented sector enter into fixed term or periodic tenancies.

Fixed term tenancies are created for a specific time period ie years, months, weeks etc. The most common time period is one year, although leases for shorter periods are not unusual. These agreements can provide security of tenure for the tenant during this period. The agreements are binding in nature and the tenancy is not subject to termination by notices to quit or surrender, and generally can only be ended in cases of breach of contract. The rent specified in the lease is held at that rate for the duration of the contract unless a rent review clause is part of the agreement. Upon the expiry of the fixed term, the parties to the contract can agree to a new contract, end the contract or enter into a periodic tenancy. There is no compulsion on the landlord to offer the lease for renewal.

5 See Ryall, A. for further details on this case and related issues (1999:58-89)

BOX A

1992 HOUSING (MISCELLANEOUS PROVISIONS) ACT – MEASURES RELATING TO THE PRIVATE RENTED SECTOR

Section 16 provides for a minimum notice to quit in writing of 28 days, an increase on the previous one weeks verbal notice for weekly tenancies (introduced September 1992).

Section 17 requires landlords, for the first time, to provide their tenants with a rent book giving a receipt for rent and deposit sums paid, details of terms of tenancy and a statement of the rights and responsibilities of both parties. Enforcement of this section is down to local authorities (introduced September 1993).

Section 18 provides for minimum standards in private rented accommodation with enforcement lying with local authorities (introduced September 1993). These standards require a landlord to:

- ensure good structural repair i.e. wall, roof, stairs, ceilings etc
- provide a sink with cold and hot water facilities
- provide toilet, bath or shower facilities
- provide adequate means of heating, installing cooking equipment and food storage
- maintain gas and electricity supply in good repair and safe order
- provide proper ventilation and lighting
- maintain common cooking, food storage, lighting and heating facilities
- maintain common sinks, toilets, bath/shower, and other common areas
- provide a secure handrail for any common stairway

Section 19 abolished the common law remedy of distress whereby landlords could seize tenants' goods in lieu of rent owed (introduced September 1992).

Under Section 20, regulations were made requiring landlord to register with local authorities units of accommodation within their portfolios of private rented accommodation (introduced May 1996).

Local authorities levy a registration charge of £40 in respect of each unit of accommodation.

Temporary convenience lettings were exempt from registration until January 2000, when Minister Molloy 'repealed' this part of the 1992 Act. In addition resident landlords, holiday lettings and voluntary housing organisations do not have to register their property.

Landlords of houses, apartments, flats, maisonettes etc but not mobile homes or caravans let for rent are bound by the terms of the 1992 Act. Where licence agreements exist, exemption is also available e.g. hostels; B and Bs; university accommodation.

Periodic Tenancies are, depending on the timing of the rent day, generally monthly or weekly in nature. Periodic tenancies provide little security of tenure for tenants in that they can be terminated by a twenty-eight day, no fault notice to quit as set down by the 1992 Housing (Miscellaneous

Provisions) Act. Landlords are only required to give a one-week notice of a rent increase in a weekly tenancy or a one-month notice if the tenancy is monthly. There is no restriction on the size of the increase in the rent charged.

If a tenant has continual occupancy of a property for twenty years or over, they may be able to seek a 35-year lease – long occupation equity lease under the Landlord and Tenant (Amendment) Act, 1980 (Part II). In practice due to the lack of security of tenure in the private rented sector, the ability of a tenant to reach the point of being in a position to claim a 35-year lease is minimal. Appendix B provides a more detailed explanation of long occupation equity lease.

1.5 THE IRISH HOUSING SYSTEM IN A EUROPEAN CONTEXT

In a European context, the most outstanding feature of the Irish housing system is the extremely high level of home ownership, accounting for approximately 80% of households according to the 1991 Census and again in the 1997 Labour Force Survey. The role of home ownership in the Irish housing system is the key to understanding the nature of the remaining rental stock in comparison to rental systems elsewhere in Europe.

Due to the greater tenure diversity across Northern Europe, the rental sectors are more developed and more regulated than in Ireland or indeed Southern Europe. There tends to be greater security of tenure within the private rented sectors in these countries, largely related to rent review and rent indexation structures. An important aspect to the operation of the private rented sector in countries such as the Netherlands, Germany and France is the existence of social letting/cost-rental housing, which provides in many cases competition to the private rented sector.

With the extensive expansion of home ownership in Ireland between 1970 and 1990, from 60% to 80% of households, rental housing, be it in the private rented sector or through local authority provision, was perceived as an inferior tenure. Attractive tax breaks for homeowners and tenant purchase schemes for local authority tenants assisted in the expansion of home ownership, and as a result little attention was paid to the residualised rental sectors, which remained much reduced in size. Consequently the private rented sector was ignored in policy terms.

Table 1.2

Owner Occupation in the EU (%)

Austria	53	1998
Belgium	65	1996
Denmark	53	1996
Finland	61	1997
France	54	1996
Germany	40	1998
Greece	75	1991
Ireland	80	1991
Italy	75	1991
Luxembourg	72	1995
Netherlands	50	1997
Portugal	66	1991
Spain	78	1991
Sweden	61	1995
United Kingdom	67	1996

Source: OECD Country Reports and Hyposat 1987-97, *op cit* in Ball (1999)

In Northern European countries, rental housing has maintained an important role in housing provision, and therefore has been developed through support from the government typically in the form of production and personal housing subsidies. None the less home ownership levels are now increasing in countries such as the

Netherlands. This growth in home ownership in the Netherlands is linked to economic growth, generous tax reliefs, house price rises, and new government initiatives to encourage more lower income families into home ownership and the beginning of sales by some housing associations (Ball, 1999:55-62).

MacLennan (1998:392), whilst recognising the many variations within private rental housing in Europe and North America, identifies several cross-national commonalities, when the private rented sector is contrasted with other tenures. In brief these commonalities are that private rented units tend to be concentrated in urban areas, typically in older neighbourhoods close to the city centre; the private rented sector is associated with high density, multi-unit structures (this reflects the tendency in Dublin for larger old properties to be sub-divided for letting); units tend to be smaller when compared to the owner-occupied sector and the private rented sector tends to have poorer statistics for dwelling amenities and conditions.

All of these five features can be found in the Irish private rented sector, but the growth of the sector in the 1990s has brought new properties into private rentals. In addition the growth of employment centres on the western outskirts of Dublin has increased the demand for suburban lettings located adjacent to employment. The emergence of the private rented sector in suburban locations is bringing changes to the housing systems in these areas, through increased demands from investors alongside strong rental growth. The property profiles of landlords are discussed in sections 2.4, 2.5 and 2.6 of this report.

1.5.1 EMU AND HOUSING MARKETS

From a European perspective there has been little debate on the impact of EMU on housing economics and housing finance. Stephens (2000) comments how housing has largely been ignored by economists in relation to EMU, whilst housing academics have also not shown much interest in this issue. Ireland's entry into EMU generated little debate in Ireland regarding the impact of the loss of monetary control on house prices and the development of the Irish mortgage market. Memery (forthcoming) comments on the impact of Ireland's entry into EMU at a time of a booming housing market.

In terms of the housing market, the timing for entry into EMU was far from optimum, cheaper mortgages further fuelled borrowing levels and brought renewed enthusiasm for housing investment.

Interest rates in Ireland were reduced by 1.25% between October and December 1998 in order to meet the necessary interest rate for the launch of the Euro. This was undertaken at a time of rapid house price increases (Figure 1.1) and reflects the concerns expressed by Stephens (1998) in relation to the impact of UK membership of EMU on the housing market. These concerns were due to the high levels of home ownership in the UK, interest rates being above other European countries such as Germany and the dominance of variable rate mortgages.

Interest rate levels and trends within EMU may not sit well for all the Eurozone members at any one time, which is an argument often used against the

introduction of the Euro. In this regard Ball (1999:6) queries whether it is right to use housing markets such as the Irish 'overheated housing market' and its need for a different interest rate in comparison to the German market, as a means of criticising the Eurozone macroeconomic strategies. He argues that interest rate setting does not make a good policy for steering housing markets. This is because housing cycles tend not to be in synch with macroeconomic cycles and are generally longer and vary in scale when compared to national income cycles. According to Ball (1999:8) housing demand is fuelled not only by short-term economic growth, but is 'affected by longer-term trends in household formation, migration and other demographic factors; by household spending and financial asset acquisition behaviour; cultural factors; institutional arrangements in housing provision; and by varying supply response'. This statement is very relevant in the Irish context whereby changing demographics and increased wealth contributed strongly to the house price increases. Ball concludes by stating that there is a need for governments to seriously consider housing market behaviour in order to develop appropriate fiscal policy. This should be seen as positive opportunity, rather than as governments being denied the ability to change interest rates to control housing market movements.

MacLennan (1998:404) emphasises the importance of fiscal policy for countries within EMU, stating that such policies 'will assume a new salience as monetary policy control will pass upwards to the European level'. He also perceives that the private rented sector will become more important due to the need for increased labour mobility and housing flexibility, as regional balances within the Eurozone emerge.

He states:

***The sector
(private rented)
that most of Europe has
neglected for the last 50 years
may have the flexibility
features which the new
economic order requires.***

This labour mobility issue is partly driving the growth of the private rented sector in Ireland as immigrant labour is required to fill vacancies and maintain economic growth. Cities such as Dublin act also as a migration draw for people in other areas of Ireland. The private rented sector provides the necessary flexible housing to accommodate new people into the country. The private rented sector may be losing such flexibility in Dublin and other cities, due to the high rent levels and large rent increases.

It is early days in the life of EMU and it is difficult to assess the impact that EMU will have on housing markets, particularly where governments do not look at their fiscal options and examine other forces which will affect demand and supply issues within the housing markets. In the Irish context the substantial reduction in interest rates on entry to EMU did contribute to cheaper mortgages and therefore higher house prices. Section 1.6 discusses the Irish government's failure to date to develop appropriate fiscal policy for the housing market.

Overall though the prospect of interest rate stability in the Eurozone, away from the huge surges in interest-rates experienced in the early 1990s, would have benefits in the future for the Irish housing market and provide stability for home owners in terms of mortgage repayments.

1.6 THE CELTIC TIGER PHENOMENON, HOUSING POLICY AND CONSEQUENCES

In order to put into context the nature of the private rented sector in Ireland and the analysis of the survey of landlords, which forms the basis of this report, it is necessary to examine recent Irish housing policy in the face of economic growth. Memery (forthcoming) traces the emergence of the Celtic Tiger economy in Ireland alongside the subsequent housing crisis in affordability and access to accommodation emerging from lack of planning for increased housing demand linked to economic success.

The development of the Celtic Tiger can be traced back to 1987 and marks the strategy taken by the incoming Fianna Fail government to tackle the deep recession through a combination of fiscal austerity and the development of social partnership to create the conditions for economic revival and growth. Essentially the

development of social partnership was based on national wage agreements and taxation policies, but expanded into a wider social inclusion agenda as the economic conditions grew more favourable by 1997⁶.

The IDA played a substantial role in the emergence of the Celtic Tiger through attracting new Foreign Direct Investment (FDI) into Ireland, particularly in the financial and IT services. The strong economic growth in the USA has fed down through to the Irish economy due to the work undertaken to attract large-scale American investment into Ireland. The availability of a trained and educated workforce, the position of Ireland as an access route to European markets, favourable corporate taxation policies and a national wage agreement structure made Ireland an attractive location for FDI. As the number of jobs created grew, the emigrant Irish workforce, largely living in the UK, were in a position to return to Ireland and participate in the new economy.

Table 1.3

Demographic and Employment Levels 1990 – 1999

Year	Population (000s)	Employment (000s)	Net Emigration (000s)
1990	3506	1160	23
1991	3526	1156	2
1992	3555	1165	-7
1993	3574	1183	0
1994	3586	1221	5
1995	3601	1282	2
1996	3626	1329	-8
1997	3661	1380	-15
1998	3708	1495	-23
1999	3748	1591	-20

Source: Statistics from ESRI and Central Statistics Office, *Irish Times*, 16/05/00

6 O'Donnell and Thomas (1998) describe the emergence and development of social partnership between government, employers, trade unions, farmers and from 1997, the community and voluntary sector.

Economic growth in Ireland has continued at unprecedented levels, averaging 8% per annum between 1994 and 1999 (Central Bank of Ireland), bringing with it more households, higher incomes and greater levels of consumer spending. Figure 1.1 demonstrates the rapid increase in house prices that took place in 1997 and which continue into 2000.

Whilst a series of policies and actions were taken to transform the Irish economy, little attention was paid to the consequences of economic growth on demographics and the need for a range of housing provision to be developed. In addition the baby boom in Ireland was later than that of Europe, and the 1990s saw these 'baby boomers' come of age and form households. To exacerbate these factors further, the majority of the employment growth has occurred in the greater Dublin area, creating strain on the surrounding infrastructure in terms of housing and transport. Ball (1999:49) reports how between 1994 and 1998, the Dublin region only recorded a 14% growth in new house completions, compared to a national average of 58% and consequently long distance commuting has grown from a 25km radius in the early 1970s to an 80km radius into previously rural towns. This movement has had an impact on the transport needs of commuters, and road building and public transport developments have not matched this type of development leading to congested transport infrastructure.

Alongside these developments local authority housing had suffered from disinvestment in the 1980s and further felt the pinch during the tightening of the public finances in 1987 as the government continued to promote home ownership and private housing investment. Local authority

housing was contracting and becoming further residualised through the concentration of benefit-dependent households in poor standard housing. The government approach at this time was the re-adoption of Section 23 tax incentives to attract private landlords and homeowners into urban areas as a means of urban renewal, rather than including local authority housing and other social housing providers in a strategic manner.

In his examination of Irish housing policy McAllister (1996) concludes that the 1980s and 1990s brought significant changes in housing policy. He identifies these changes as the predisposition of Irish housing policy to home ownership being further expanded through the introduction of shared ownership to extend home ownership to more marginal groups, but also identifies the considerable reductions that were made on the level of mortgage interest tax relief from marginal to basic tax rate. He states that the dominance of home ownership during this period was further reinforced by the large-scale sale of local authority housing through tenant purchase, leading to further residualisation of the local authority housing stock. At the same time, funds for council housing were predominantly directed towards rehabilitation rather than new build.

It was not until housing and house prices began to emerge as a political issue through pressure from the media and the public that full attention by Government was turned to housing matters. This resulted in the commissioning of what was to become the first of three Bacon reports in 1998. The government only saw the housing problem in terms of home ownership and these three reports focus on home ownership and the impact that investors have on demand

for housing and subsequently house prices. The one-tenure approach taken in the three Bacon reports means that the resulting government policies following on from each report have been flawed. The policies adopted fail to understand housing economics, homeowner's behaviour and the role of housing as a durable good. Bacon and the government failed to understand that affordability is not improved through designing populist housing finance policies largely through stamp duty reductions. All these measures tend to do is increase the flow of money into an over-heating market. Memery (forthcoming) states

Bacon did not examine owner-occupiers' mortgage interest tax relief or the case for a property tax in any of these reports. The neglect of such issues may appear to be extraordinary in an economic assessment of house prices. But it is predictable when the political and economic context is taken into consideration, i.e. the political power of home owners, and the government's budget surplus.

In the Bacon reports investors in the private rented sector have been perceived more as a problem in the housing market rather than legitimate providers of rental accommodation for a range of households across the country. Prior to April 1998, investors may have had a very favourable taxation treatment for entering the private rented sector when compared to homeowners, as the government had been very content to see investors enter inner-city areas in particular and play a vital role in urban regeneration. By the late 1990s however, the economic climate had changed

considerably and investors were perceived as preventing first time buyers entering the housing market.

In the three Bacon reports, it is the investors that have taken quite a lot of the brunt of the 'blame' for rising house prices. For example, Action on Housing, which followed the Bacon (2000) report, introduced a 9% stamp duty on property purchase, whilst home owners continued to experience further decreases in stamp duty levels. The people who lose out in this arrangement are the tenants. Memery (forthcoming) discusses in detail the government's approach to the housing crisis of affordability and access between 1997 and 2000.

Outside of the Bacon reports the government outlined its plan for social and affordable housing within the National Development Plan 2000 - 2006. The stated budget for the housing element of the NDP is €7.6bn and broadly consists of the following targets:

1. multi-annual programmes to deliver 35,500 local authority housing units across the seven years;
2. an increase in voluntary housing sector output to a point whereby 2006 the sector is producing 4,000 units per annum;
3. to deliver 1,000 units per year under a new affordable home ownership scheme;
4. 1,000 households per year accessing accommodation under the shared ownership programme with the local authorities;
5. 'Remedial Work Schemes' and area based regeneration to restore the physical fabric of local authority estates;

6. Integrated hostel accommodation for the homeless through the Integrated Homeless Strategy; and
7. Resources released to address the accommodation needs of travellers.

In order to assist in achieving these targets for social and affordable housing, Section V of the Housing and Planning Act, 2000 allows for local authorities to purchase up to 20% of private house-builders land or housing units at an effective cost price. Local authorities must have appropriate housing strategies in place and it will take some years for new social and affordable housing to emerge through this route.

Overall the Irish government firmly focuses on home ownership as it is by far the *mass* tenure in Irish housing. By 1999 social housing achieved more government focus, but will remain for the foreseeable future as a tenure occupied by families largely dependent on state benefits and therefore the most vulnerable families will continue to concentrate in local authority housing.

Overall the housing crisis of affordability can damage economic growth, cause great social hardship and exacerbate inequality. The government's responses have sustained the housing market boom, rather than increased affordability and dampened house price increases. Memery (forthcoming) states:

The house price boom now threatens to undermine the success of the Celtic Tiger.

By encouraging inflationary wage claims and deterring immigration, high and rising house prices would normally provoke a response from the monetary authorities. But this will not happen within EMU, and the Irish government has failed to use fiscal instruments, such as property taxation or reducing mortgage interest tax relief.

The approach to Irish housing policy by the government continues to operate in a segmented manner, particularly where the interaction of home ownership and the demands of the private rented sector, from both tenants and investors' perspective, are concerned. Further segregation of housing policy occurs due to the operation by the health boards of the rent supplement and mortgage interest supplement schemes, although parts of this provision are being transferred to the local authorities. Consequently there is an array of committees now in place discussing various aspects of housing related policy and actions, largely in isolation from each other. Some of these committees have been formed through the social partnership agreements, others tend to be interdepartmental committees.

The following is a list of some of the housing related committees in place in 2001.

- Housing Forum – led by the Department of the Environment and Local Government, with membership based on the social partners and local government representatives;
- Planning Group on Rent Assistance – led by the Department of the Environment and Local Government, with an inter-departmental membership;
- SWA Review Group – led by the Department of Social, Community and Family Affairs, with an inter-departmental membership;
- National Anti-Poverty Strategy Working Group on Housing – led by the Department of the Environment and Local Government, with membership based on the social partners and local government representatives

1.7 REPORT STRUCTURE

The chapters following in this report are structured as follows:

- Chapter 2:** A profile of landlords, their property holdings and strategies towards rent setting;
- Chapter 3:** Examination of the dynamics of the tenant-landlord relationship, which looks at the type and nature of tenants that landlords are letting to and attitudes towards issues such as rent supplement;
- Chapter 4:** Exploration of the motivations of landlords to invest in the private rented sector, their economic behaviour and attitudes towards financial systems and regulation within the sector;
- Chapter 5:** A profile of so-called 'company landlords' in Dublin i.e. those landlords who did not describe themselves as individuals and an analysis of their motivations and participation in the private rented sector; and
- Chapter 6:** Concluding chapter, which develops possible solutions for the building of a better private rented sector in Ireland, and pays particular attention to the issue of speculation and investment. The recommendations contained in this chapter are expressed in the context of the statement released by the DoELG (January 2001), which detailed the measures to be adopted within the private rented sector following on from the Report of the Commission on the Private Rented Residential Sector.

Landlords – Profile, Property and Rent Setting

2.1 INTRODUCTION

This chapter firstly reports the personal characteristics of landlords and then goes on to examine the type of property that these landlords are holding. The chapter particularly focuses on the relationship between length of time that a landlord has been in the private rented sector against the type of property portfolio that they hold. Changes in the general housing market, the increased numbers of apartment developments in Dublin city and the arrival of Section 23 incentives have all played their part in influencing the type of investment that landlords have made in the private rented sector. The issue of property management is then discussed in an attempt to ascertain landlords' commitment to this area. Finally a detailed examination is made

of the rent setting strategies of landlords and their attitudes towards returns from rents achieved and future rent increases.

2.2 PERSONAL CHARACTERISTICS

Table 2.1 reports the age, employment status and place of residency of the respondents.

2.2.1 AGE

Half of the landlords surveyed are between 46 and 64 years of age, with numbers falling away for those aged over 65. The 26 – 44 age group is important, accounting for over one-third of respondents. Clearly from the age profile, landlords are largely people of working age, with sources of income allowing for residential investment. The younger landlords of the 26 – 44 age group, possibly bought their first home before the

Table 2.1

Personal Characteristics of Landlords (%) n= 1,231

<u>Age</u>	1.	18 – 25	<1
	2.	26 – 44	35
	3.	45 – 64	51
	4.	65 and over	13
	Total		100%
<u>Employment Status</u>	1.	employed full-time	41
	2.	employed part-time	5
	3.	self-employed in non-landlord business	30
	4.	retired	16
	5.	self-employed as landlord	6
	6.	other	2
	Total		100%
<u>Residency</u>	1.	Dublin	71
	2.	Rest of the Republic of Ireland	24
	3.	Northern Ireland	<1
	4.	Great Britain	1
	5.	Rest of Europe	2
	6.	Outside Europe	1
	Total		100%

housing market boom began in 1996 and are now enjoying low interest rates and low mortgages i.e. financially stable. The purchasing of property by this age group also represents the additional investment money available in the Irish economy, due to increased wages and economic growth.

2.2.2 EMPLOYMENT STATUS

41% of landlords are employed on a full-time basis and a further 30% self-employed in non-landlord occupation. This clearly demonstrates that the vast majority of landlords are investing in property as an addition to their main income. The surveys returned also indicated cases where retail and office outlets include a flat above, which is then rented out for residential purposes i.e. it is a by-product of the business premises.

6% of respondents state that they are self-employed and residential letting is their core business. This accounts for 72 respondents and represents a core of landlords who appear to be operating residential letting businesses. But when this group is examined further, 49% hold only one property.

2.3 TIME OF ENTRY INTO THE PRIVATE RENTED SECTOR IN IRELAND

There is evidence of the real growth in the private rented sector in the 1990s, as detailed in chapter 1. The survey findings demonstrate this resurgence of interest in investment in residential property between 1995 and 1999 with 40% of respondents becoming residential landlords during this period. One fifth of this group have been landlords for less than two years.

Figure 2.1 profiles the length of time that the respondents have been landlords.

70% of respondents invested in the private rented sector in the 1990s, which is in line with the considerable growth in supply in the sector in the 1990s. 57% of the landlords of the 1990s first entered the private rented sector between 1995 and 1999, demonstrating the sector's investment strength by the end of the 1990s.

2.4 LANDLORDS AND PROPERTY HOLDINGS

It is a widely held belief that private landlords in the Irish housing system hold very few properties. This is supported by the registration data. In Dublin City¹ the 4,555 registered landlords hold 9,998

Figure 2.1
Length of Time a Landlord
n=1,167

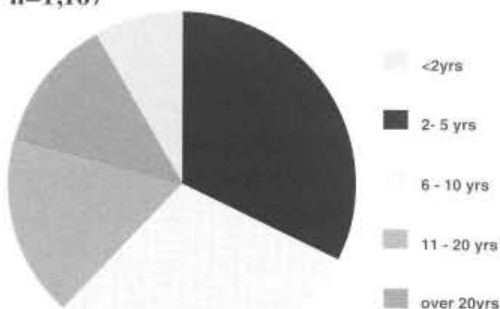
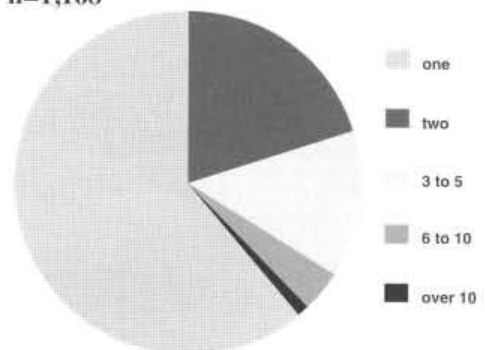


Figure 2.2
Number of Properties Held by Landlords
n=1,168



1. Housing Statistics Bulletin, September Quarter 1999.

dwelling units i.e. 2.2 dwellings per landlord. Across Ireland the average number of dwellings per registered landlord is 1.7 units².

This survey upholds the understanding that private landlords typically hold a small number of properties. 61% of respondents hold one property and a further 20% hold two. Only 1% hold over ten properties demonstrating the lack of substantial investors in the system. Obviously this 1%, which is about 13 respondents, represents significant providers of accommodation in their own right. Figure 2.2 illustrates the breakdown of number of properties held by respondents.

2.4.1 RELATIONSHIP BETWEEN LENGTH OF TIME A LANDLORD AND NUMBER OF PROPERTIES HELD

Table 2.2 sets out the numbers of properties respondents hold, against the length of time the respondents have been involved in the sector. Statistical tests show that there is a dependent relationship between these two variables. For example, a landlord that first entered the private rented sector since 1995 is more likely to have only one property compared to other landlords. Landlords with 11 to 20 years experience (entering the private rented sector in the 1980s) have a different property profile to others, with a greater tendency towards a higher number of properties.

Table 2.2

Property Holdings against Duration as Landlord (%) n=1,138

	one	two	3 – 5	over 5	Total (%)	Base
1998/99	84*	11*	4*	1	100	94
1995-97	69*	16*	13	2*	100	362
1990-1994	58	24	14	4	100	339
1980s	41*	26	21*	12*	100	199
pre-1980s	53	23	19	5	100	144
Base	686	236	164	52	100	1138

p value<1%

Pearson=89.603

Table 2.3

Property Holdings against Employed and Self-Employed Landlords (%) n=1,161

No. of Properties	Employed full-time	Employed part-time	Self-employed in non-landlord occupation	Retired	self-employed as a landlord
One	66*	67	49*	68*	49
Two	19	19	22	22	23
3 to 5	12	8	22*	6*	20
Over Five	3*	6	7*	4	8
Total (%)	100	100	100	100	100
Base	488	64	356	182	71

*=significant at *p*<1%

Pearson=53.882

2. *ibid*

These findings provide some pointers to say that the longer a landlord is in the sector, the greater the tendency to acquire additional property and expand their investment in the sector. Investors who entered the market in the 1980s (11 – 20 year group) have been the most expansionary in their investment in Dublin. Due to the revival of the private rented sector in the 1990s and the surge in house prices from the mid-90s, it can be extrapolated that this increase in investment probably took place at some stage in the 1990s.

Following statistical tests, it is more likely that self-employed landlords, operating in a non-property business, will have the larger property portfolios, than the landlord who is employed on a full-time basis. Therefore we can point to the former group as having the potential for significant provision of rented properties. Table 2.3 reports these findings. Due to the overall profile of the survey, one and two property landlords dominate the figures.

2.5 PROPERTY TYPE AND PORTFOLIO

Houses and apartments dominate the type of properties that landlords are investing in. Figure 2.3 illustrates the range of property

held by respondents. 50% of respondents own at least one apartment, closely followed by 41% owning houses that are not split into separate flats. These houses may be rented out on a sharing basis among adults or to a single household. Sub-divided properties refer to houses, which have been split into flats or bedsits. These properties are known as Houses in Multiple Occupation (HMO). 28% of landlords are owners of at least one HMO and therefore HMOs remain an important part of the private rented sector in Dublin, even though there is anecdotal evidence from estate agents of HMOs being converted back into single homes for home owners. The 'other' category largely consists of retail and commercial premises, which have a self-contained flat or apartment attached.

The data gathered on the type of properties that landlords are holding, demonstrates that much of the growth of the private rented sector in the 1990s has been delivered through purpose built apartments. The type of holdings of each landlord was examined further in terms of the 'mix' of property types held. Considering that 61% hold only one property, there is little mix of property types, but examination of landlords' behaviour and motivation based upon

Figure 2.3

Type of Property (n=1,200)

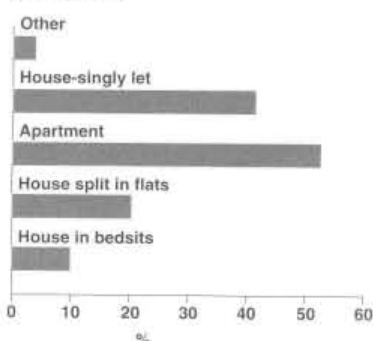
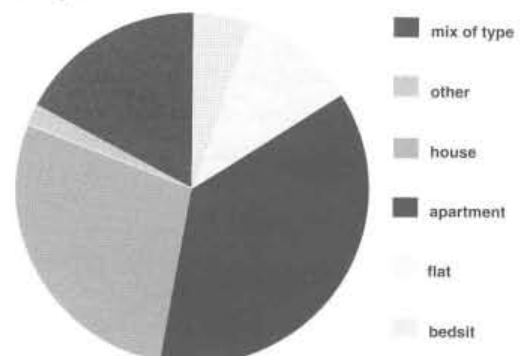


Figure 2.4

Type of Property Portfolio of Landlords n=1,202



property portfolios and therefore type of properties held, has brought very interesting results, which are discussed in chapter 5. Figure 2.4 illustrates the property portfolios of respondents.

2.5.1 NUMBER OF PROPERTIES

The number of properties held by landlords was compared to the type of property portfolios and Table 2.4 illustrates these results. It is clear that there is considerable variation between the nature of property holdings and the number of properties held by landlords. Apartments dominate the holdings of landlords with one property only. The results demonstrate statistically that the more properties that a landlord holds the greater tendency for the landlord

to have a mixed property portfolio. This can be a result of a conscious decision by investors to mix their portfolios in order to have investment spread over a range of properties. Where apartments are included in this portfolio, Section 23 incentives may have played their role in allowing landlords to offset the rental income from existing investment properties, in other words, Section 23 properties were bought in order to gain access to a tax shelter.

So far the results have examined the number of properties held by landlords by banded categories. This was a deliberate strategy in order to maximise methodological response to this question. Although the returns from landlords were

Table 2.4

Property Portfolio against Number of Properties n=1,161

	Apartments Only	Houses Only	HMOs Only	Mix of Property	Base
One	43	36	21	n/a	700
Two	35	21	11	33	241
3 to 5	29	14	7	50	166
6 to 10	18	2	4	76	45
over 10	22	0	0	78	9
Base	446	329	182	204	1161
Total	38%	28 %	16 %	18%	100%

Table 2.5

Number of Properties Accounted for in Study³ n=1,154

	Number of properties (A)	% of properties Estimate (A)	Number of Properties (B)	% of properties Estimate (B)
Bedsits	124	6	137	6
Flats	368	18	410	18
Apartments	859	42	1004	43
Houses	635	31	698	30
Other	28	1	28	1
Not Allocated	45	2	45	2
Total	2059	100%	2322	100%

3. These figures have been calculated to allow for missing values through using the bands under which number of properties was answered. Figures A have treated the missing values as a single number whilst figure B has reduced the number of missing values, through additional manipulation of the data. Calculations were complicated due to the fact that 18% of the sample owned more than one type of property.

received blind, there may have still been reluctance for respondents to reveal all the properties that they own. Respondents were then asked a question regarding the type of property that they owned and the number of these units against each property type. This offered a second chance for the researchers to capture the actual number of properties owned. Respondents did not always complete the number of properties. Table 2.5 contains two sets of figures. The 'A' figures treat missing units as one property whilst the 'B' values are slightly more developed, extrapolating numbers for the missing units from the dataset.

From a total of 2059 properties, using a single entry for missing values, it can be stated that each landlord in the survey holds approximately 1.7 properties and using the higher estimation of 2322, the average holding is 1.9 properties. Estimate B is still somewhat on the low side, as the extrapolations were based on the lower figures from the banded categories. From the DoELG statistics in 1998 the average property holdings for all registered landlords across Ireland is 1.7 and 2.2 in Dublin City.

There is an additional step, which can be taken for bedsits and flats which generates further estimates of dwellings held by landlords, particularly in relation to the

figures held by the local authorities. When registering HMOs, it is necessary to register each separate flat or bedsit in a property. Therefore the 137 estimated properties set in bedsits can be increased by a factor of 6, typical number of bedsits in a HMO, giving a figure of 822 bedsits. In the same way the 410 properties set in flats can be increased by a factor of 4 to give 1640 flats. This gives a total of 4,237 properties represented by this study. Therefore the average holdings per landlord in terms of dwelling unit now increases to 3.3. Dwelling units provided through bedsits and flats now outstrip those provided in apartments and houses.

2.6 PROPERTY INVESTMENT STRATEGIES

When examining the property investment of landlords there is a relationship between the type of portfolio that landlords hold and the time of his/her entry into the private rented sector. Table 2.6 sets out the details of this relation.

Apartments followed by houses (non-divided) dominate the nature of investment made by landlords who first entered the Irish rental sector in the 1990s, with the importance of apartments increasing in the second half of the 1990s. There is a statistical relationship between entry into the private rented sector since 1995 and the

Table 2.6

Property Portfolio against Duration as Landlord n= 1,150

Year	Apartments Only	Houses Only	Flats and bedsits Only	Mixture of Property	Total %
1995-99	48	35	7	10	40
1990-94	40	29	13	18	30
1980-1989	35	23	14	28	18
before 1980	12	14	48	26	12
Total %	39	29	15	17	100 %

Significant at the $p < 1\%$

Pearson=212.351

holding of apartments only. There is a strong relationship between entry into the sector since 1995 and a tendency to own houses. At the other end of the scale there is a very strong relationship between landlords operating in the private rented sector since the pre-1980s and holding flats and bedsits only in their property portfolio.

An interesting set of landlords is the holders of mixed portfolios who first invested in the private rented sector in the 1980s. Over time these landlords have a greater tendency to invest in a mixture of property than any of the other categories. These landlords typically have Section 23 properties in their portfolio. This finding reflects the tendency for this group to be the most expansionary of landlords in the survey.

2.6.1 INVESTMENT IN APARTMENTS

The growth of apartment developments in Dublin has been arguably largely linked to the development of various formats of financial incentives in what are known as Section 23 incentives. These incentives had initially been conceived of in terms of commercial investment primarily, but the shift to residential development came due to the downturn in commercial property in the early 1990s. The growth of the apartments in Dublin city centre has been substantial, reversing the depopulation of the inner urban areas, and turning many inner city areas into vibrant places to live and work in (McGreal, 1995). However, the policy also generated urban geography and displacement pressures, with negative implications for indigenous communities (KPMG, 1996; MacLaren and Murphy, 1997; Drudy and Punch, 2001).

The growth of apartment building in the 1990s has not been confined to the city centre, but in recent years has spread out into more suburban areas, demonstrating the increased appetite by both investors and homeowners for apartments in the face of spiralling house prices.

The key results that this survey has revealed in relation to investment in apartments in the 1990s are as follows:

- 50% of respondents own at least one apartment;
- 37% have invested in apartments only;
- 75% of landlords with apartments first entered into the private rented sector in the 1990s;
- 44% of respondents with apartments have been first operating as a landlord since 1995 at the earliest; and
- of the landlords operating since 1990, 43% have invested only in apartments.

60% of landlords with apartments are availing of Section 23 tax incentives at the time the survey was undertaken. On further examination, it can be statistically estimated that a landlord with an apartment is 3.5 times more likely to be availing of this tax relief than a landlord without an apartment⁴.

As Table 2.6 illustrates, houses appear to be a popular investment choice for many landlords. 35% of new entrants own houses only, which is interesting considering the manner in which tax incentives have largely encouraged apartments. This demonstrates the strength of investment in apartments and the confidence in investing in the private rented sector, even in the absence of tax incentives. Only 18% of respondents investing in houses only are in receipt of Section 23 tax incentive.

4. Using the relative risk ratio it was calculated that the risk ratio for those owning an apartment and receiving section 23/27 tax relief was 3.448. This means that it can be estimated that an apartment owner is 3.448 more times as likely as a non-apartment owner to have section 23/27 tax relief.

It is clear from this analysis that apartments have led the growth of the private rented sector in Dublin in the 1990s, but houses as investment choices run a close second place. Section 23 tax incentives made apartments attractive for both new and existing landlords, the latter benefiting in particular from additional tax shelter. Section 23 is an extremely attractive package in its own right and encouraged new investment, but the level of interest by landlords in houses demonstrates that the private rented sector is not being driven by tax incentives only, but by the attraction of residential property investment and the security and income this brings in a relatively low and falling interest rate environment.

2.6.2 BEDSITS AND FLATS – HOUSES IN MULTIPLE OCCUPANCY

There has been a trend towards the conversion of sub-divided properties back into single-family homes. This is possibly due to the demand for central locations in Dublin in the older suburbs and the additional money available within the housing system to purchase and refurbish these properties. Consequently there is a tendency for commentators on the housing system to presume that bedsits and flats are disappearing, but sub-divided properties are still prevalent in the sector.

15% of respondents have invested only in flats and bedsits, whilst overall 9% have bedsits in their property portfolios and 19% own houses divided into flats. Overall 24% of landlords have a stake in a HMO, which represents a considerable market sector of the private rented sector.

The ownership of HMOs is concentrated with the longer serving landlords. 48% of landlords who have been operating as

landlords since before 1980, own only HMOs. Overall 37% of landlords with bedsits have been operating as landlords since before 1980, as have 33% of landlords holding flats. Whilst HMOs are largely the property choice of long established landlords (Table 2.6), this does not mean to say that some newer entrants to the market do not have HMOs, (Table 2.6) but investment from new entrants is limited. This could be due to a range of factors as follows:

- high costs associated with repair and maintenance;
- lack of tax incentives attached to these properties;
- HMOs are perceived as accommodating low income tenants;
- management of these properties is more complex; and
- strong property market for HMOs from high income earners for conversion into a single family home may make new investment in HMOs very expensive.

There is a concern regarding the management of HMOs and assurance that HMOs continue to meet at least minimum standards. As there is a tendency for elderly landlords to own HMOs, there is a question about their ability to adequately maintain these properties or to finance major repairs. This is particularly crucial if the rental income from the HMOs is being used as a pension source.

2.7 MANAGEMENT OF PROPERTY

Property management is an essential function in delivering a housing and accommodation service. Efficient and effective property management structures are essential to ensure a smooth running of the property service and generate a good tenant-landlord relationship. In terms of

social housing, there are more defined property management structures, which also include the management of the external environment and community development (Fahey, 1999), although many of these estate management practices on local authority estates are still evolving.

This type of wider property management role does not exist in the private rented sector and community development initiatives are absent, which means that some tenants are immediately put at a disadvantage when living in the private rented sector.

In the private rented sector various management duties can be identified:

- selection of tenants
- rent setting
- collecting rent
- inspecting premises
- deciding on notice to quit
- regular maintenance
- identifying repairs
- carrying out of repairs
- engaging of repair and maintenance staff
- direct liaison with tenants – resolution of difficulties.

Respondents were asked a series of questions relating to the management of their properties. Figure 2.5 illustrates the responses, which reveal that landlords (65%) tend to be the sole managers of their property in the private rented sector. This reflects the very DIY nature of landlords and reflects the previous finding that 61% of landlords surveyed own only one property.

23% of landlords report the use of letting agencies. The respondents were asked which management duties are delegated. Figure 2.6 shows the breakdown of the type of duties delegated.

Whilst a landlord may state that they do not manage the properties directly, there still appears to be certain management practices which they keep control of themselves. Noticeable results from these replies are that landlords will delegate tenant selection, but only 30% delegate the decision to issue a notice to quit to a tenant. There is a 50:50 split in terms of landlords keeping the rent setting and rent collection in their own control, or allowing their agent to do this work for them.

Figure 2.5
Management Structures
n=1,147

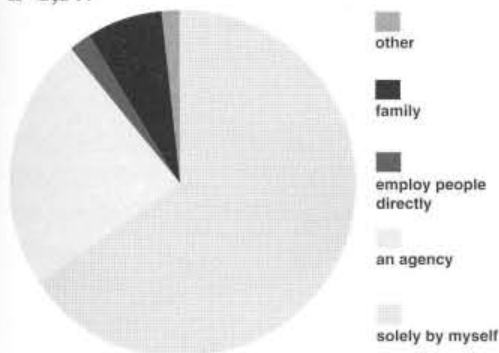
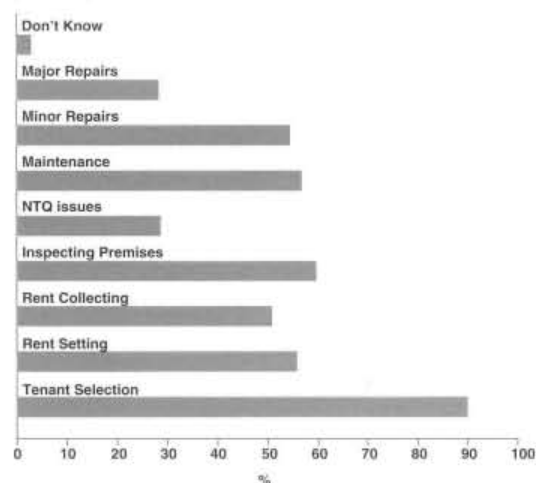


Figure 2.6
Delegated Management Tasks
(n=385)



There are interesting findings in relation to repair and maintenance issues. The landlords represented in Figure 2.6 state that they do not manage their own properties directly but only 56% of them delegate maintenance to a third party. On further consideration there are a series of reasons for this response, which can be put forward.

Respondents either:

- do not recognise maintenance as a property management issue for a third party;
- undertake the work themselves;
- are not concerned with conditions in their properties; and/or
- have not considered repair and maintenance issues for their properties.

54% of landlords allow the third party (i.e. agency) to make the decision with regard to minor repairs required in properties. The fact that the remaining 46% of landlords have to be involved in a decision over minor repairs could be a factor in causing delays for the tenant concerned. The agent will have to inspect the reported problem, send

a report to the landlord, await a decision by the landlord, and finally organise the repair work to be undertaken. This is not an efficient manner to operate a residential letting service. Only 28% of landlords allow the management agency to make the decision regarding a major repair due to the higher sums involved, and the possibility that the property will have to be vacated in order for such work to take place.

Comment

Landlords need to have in place repair and maintenance systems, whether provided directly or through a management party, in order to deliver a quality service to the tenant and to protect their property and maintain rental streams. Lack of attention to repair and maintenance issues can cause properties to breach minimum standards, particularly where older sub-divided properties are concerned. A slow response to repair and maintenance issues can not only cause damage to properties, but can also cause an unnecessary deterioration of the tenant – landlord relationship.

Table 2.7

Rents per Month in Dublin by Type of Accommodation and Location Classification

	Good Location			Average Location		
	1997	1998	%	1997	1998	%
Type of Property	£	£	Change	£	£	Change
Older 1-bed flat	415	480	15.7	380	425	11.8
Modern 1-bed apt.	510	570	11.8	470	500	6.4
Older 2-bed flat	630	690	9.5	530	600	13.2
Modern 2-bed apt.	670	810	20.1	625	725	16
Luxury penthouse	1450	1500	3.4	930	1100	18.3
Older 3-bed semi	680	740	8.8	610	680	11.5
Modern 3-bed semi.	770	880	14.3	650	730	12.3
Older 4-bed semi	840	1075	28	750	900	20
Modern 4-bed semi	1000	1250	25	850	1000	17.6
Luxury Detached House	1650	2200	33.3	1300	1650	26.9

Source: Bacon (1999) Table 2.7 from LAVI August 1998 figures

There are a series of questions relating to management issues that an investor should ask of him or herself:

1. Am I going to undertake all repair and maintenance work myself?
2. Do I have the free time to be able to respond to repair requests by tenants?
3. How much of a budget is required for ongoing maintenance and minor repairs that may arise?
4. How large a contingency fund is required should major repairs be required?
5. Will I contract out all repair functions to a third party? Who might this third party be? What are the costs involved?
6. What is the function of management agencies of purpose built properties and what are the costs involved of using their services?

2.8 LANDLORDS AND RENT SETTING

2.8.1 RENT LEVELS IN DUBLIN CITY

The size of the private rented sector may have increased in absolute terms by over 60% between 1991 and 1997 (McCashin, 2000), but this level of supply has not kept pace with the strong demand for rental accommodation. In addition inadequate supply of social housing and spiralling house prices for new home owners have led to greater demands for renting, and therefore rents have increased accordingly. Demographic growth and increased numbers of households all continue to contribute to the pressures across the housing system for accommodation.

At the end of 1999 the IAVI⁵ reported strong growth in rents for residential accommodation. Growth rates of 13%

nationally and 15% in Dublin were reported. These types of increases are in line with house price increases, but there is not a direct practical relationship between the two, due to many landlords being long time owners of rented property. The IAVI reported some cyclical movement in the private rented sector, with some oversupply in the summer months, followed by shortages by the end of the year. Whilst there was not a complete rental survey supplied by the IAVI the following points regarding rent levels are made:

1. £550 to £650 per month for a one-bedroom unit, with prime locations going above these rent levels;
2. Average for Dublin one-bed units is £600, compared to £450 for a similar property in 1998;
3. Per capita for renting in Dublin is an average of £300 per month and it is not uncommon for four people to share a unit at £685 to £700 per month and up to £1000 in prime location (Ballsbridge); and
4. 3-bed semis in West Dublin average £700 per month, but in locations such as Rathgar and Terenure figures of between £1200 - £1400 are more usual.

By the end of 2000, the IAVI⁶ were reporting rent increases of 14% nationally and 18% in Dublin with the supply of private rented accommodation failing to meet demand. The IAVI pointed to measures taken to curb 'speculative' investment as having a negative impact on supply and rent levels. Examples of rent levels in Dublin for 2000 from the IAVI include:

1. £600-£700 for 1-bed apartments and £900 for 2-beds in Dublin 6, 14 and 16; and

5. Property Valuer, Winter 1999, published by the IAVI

6. IAVI Property Survey 2000

Table 2.8

Maximum Rent Levels in each Health Board Area for 1998 to 2000 by Household Circumstances (1)

Health Board	ERHA			MHB			MWHB			NEHB			NWHB			SEHB			SHB			WHB		
Year	98	99	00	98	99	00	98	99	00	98	99	00	98	99	00	98	99	00	98	99	00	98	99	00
Single Person	60	60	70	35	35	45	50	50	50	50	50	50	40	40	50	60	60	60	45	45	45	70	70	70
Couple, no dependents	96	96	100	60	60	65	73	73	85	75	75	75	55	55	75	75	75	75	80	80	80	70	70	70
Couples & LPs > 2 children	650 pm	650 pm	700 pm (2)	75	75	85	100	100	100	90	90	90	100	100	100	100	100	100	105	105	130	100	100	100
Singles & Couples sharing	48	48	55	100	100	120	Depends on each case			45	45	45	40	40	30	35	35	45	40	40	40	40	40	40
													55	55	55							70	70	70
Families sharing	650 pm	650 pm	700 pm	100	100	120	60	60	(3)	50	50	50	75	75	120	45	45	50	125	125	130	130	130	140

Source: Memery and Kerrins (forthcoming) using IDC Report, Appendix 4 & DSCFA, SWA Section

(1) All rents are per week unless otherwise stated

(2) This limit applies to three bed houses. Families requiring four or more bedrooms have an individual rate set for their particular case

(3) Assessed on an individual basis

2. City centre 1-bed apartments are scarce and rents can reach £750 per month, with 2-beds from £800-£1,000.

It is doubtful that an increase in supply of private rented property will cause a shortening of waiting lists; due to the lack of security and high costs of the private rented sector, households will remain on local authority waiting lists in the hope that eventually they can access housing suitable for their needs. The legislative framework that the private rented sector operates within means that the private sector cannot offer a secure and affordable option for households in the same manner that local authority or voluntary housing can.

2.8.2 RENT LEVELS AT THE LOWER END OF THE PRIVATE RENTED SECTOR

In March 1998, Threshold carried out a survey of 333 tenants in the lower end of the private rented market to assess the rents and conditions faced by tenants approaching Threshold for advice in Cork, Galway and Dublin. Of the total 333 respondents, 235 (71%) were from Dublin. The rent survey found that typical rents for bedsit type accommodation had risen from £50 per week in 1997 to between £65 and £80 per week in 1998, depending on location. Across accommodation at the low to middle end of the market, the survey demonstrated a growth in the rate of rent increase from 10% in 1997 to 20% by 1998. According to this survey, by late 1998, 20% rent increases were standard, with a growing number of tenants facing rent increases between 30% and 50%.

This finding is striking given that over 30% of the sample was rent supplement recipients. Indeed the respondents' profile on the whole was of low-income tenants

with 45% of all respondents having incomes below £16,000 per annum whilst 26% had incomes below £10,000 per annum.

The maximum 'reasonable rent' levels set by each health board from 1998 to 2000 are detailed in Table 2.8. These levels dictate the maximum amount of rent that households can pay before the health board concerned will consider paying out rent supplement towards this rent. For instance, a single person living alone in the Eastern Regional Health Authority (ERHA) area in 2000 must find accommodation with a rent of no more than £70 for the accommodation to be eligible for a rent supplement. While these rent levels demonstrate an upward trend in rents at the lower end of the private rented sector, they should be viewed as the minimum average rent levels across the country at the lower end of the private rental market.

Bearing out the fact that rents are higher in the Dublin area than in other parts of the country, the ERHA reasonable rent levels are the highest in the country, for all household types. Wicklow and Kildare come under the ERHA's functional area, meaning that the Dublin rents are not well reflected in the reasonable rent levels.

National rents increased 13% by the end of 1999 (IAVI) but some health boards left their reasonable rent levels static, thus making it very difficult for lone parents, the unemployed and those participating on training or employment schemes to access private rented accommodation (Memery and Kerrins forthcoming).

2.8.3 RENT SUPPLEMENT AND THE PRIVATE RENTED SECTOR

Rent supplement is an essential support for over 40,000 households in underpinning

their accommodation costs in the private rented sector. In 1999 ⁷ there were 41,873 recipients of rent supplement, representing an increase of 4.7% on 1998. 44% of rent supplement beneficiaries are living in the ERHA area, accounting for 50% of gross expenditure on rent supplement by the Department of Social, Community and Family Affairs (DSCFA).

In terms of age, 38% of beneficiaries are under 30 years of age. Interestingly 5% of beneficiaries are aged 65 and over living in the uncontrolled private rented sector. Elderly tenants living in the de-controlled private rented sector rents are covered under a different scheme administered by the DSCFA. Figure 2.7 illustrates the age breakdown for 1999.

According to Fahey and Watson (1995:153), 66% of households in receipt of rent supplement comprise of one person, and lone parents in receipt of rent supplement account for 20% of all beneficiaries. Fahey and Watson then concluded that the factors influencing the routes to dependence on rent supplement were non-marriage, marital separation and the growth of one-parent families.

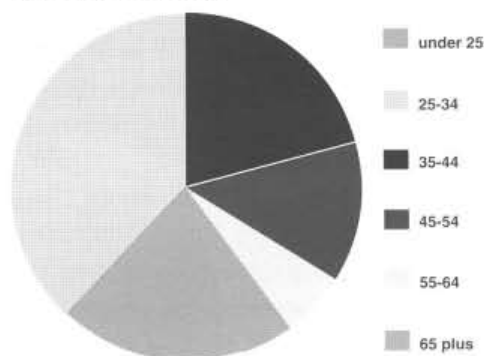
It is a generally accepted figure that one-third of tenants in the PRS are in receipt of rent supplement payments (Fahey and Watson, 1995), but the private rented sector is expanding in both absolute and proportional terms within the housing system. At the same time the numbers claiming rent supplement have not been increasing at the same rate. Most recent figures from the Labour Force Survey placed the number of households at 137,000, and allowing for increase in housing output up

to the end of 1999, a figure of 150,000 may be more reasonable. If so, tenants claiming rent supplement account for approximately one quarter of private rented sector households.

According to the 1999 figures from the social welfare services, lone parents account for 20% of beneficiaries of rent supplement, reflecting no change from the 1995 figures. 18% of beneficiaries of rent supplement are claimants of long-term unemployment assistance (LTUA). In addition 7% of beneficiaries are claiming short-term unemployment assistance.

In 1999 approximately 4,500 asylum seekers are in receipt of rent supplement payments, which accounts for 11% of all beneficiaries. 13% of beneficiaries are categorised as being in employment support services, i.e Back to Work Allowance, Community Employment, Back to Education Allowance, Vocational Training Opportunity Scheme (VTOS) and FÁS ⁸.

Figure 2.7
Age Breakdown of Rent Supplement Beneficiaries 1999



Source: Statistical Report on Social Welfare Services, Section H, compiled by the DSCFA.

⁷ All following information regarding 1999 is taken from the Statistical Report on Social Welfare Services, Section H, compiled by the Department of Social, Community and Family Affairs (DSCFA).

⁸ FÁS is the statutory body charged with co-ordinating and providing training and employment in Ireland.

2.8.4 OPERATION OF THE RENT SUPPLEMENT SCHEME

Rent supplement is currently administered through the health boards but ultimately co-ordinated and paid for by the DSCEA. The system operates within the Social Welfare Allowance framework and is complex in its operation. For people trying to access employment there are difficulties regarding the retention of rent supplement. In order to ease the transfer into employment, there is a system in place, which allows for limited retention of rent supplement on a tapered basis over 4 years⁹. The employment trap is still inherent in the rent supplement system, exacerbated by low wages and increasing rent levels.

Memery and Kerrins (forthcoming) report on the discretionary nature of the rent supplement system, and how variations in practices between health boards and between Community Welfare Officers lead to differences in outcomes for tenants. This ultimately means that landlords can also find the system confusing in terms of which tenants will be deemed eligible for rent supplement. There can be variation regarding the level of rent supplement that will actually be paid out from the health boards. For further information on the operation and structure of rent supplement Mills (1992), INOU (1997), Guerin (1999), Interdepartmental Committee Report (1999), are useful reference sources.

2.8.5 RENT SETTING STRATEGIES OF LANDLORDS

In the context of an examination of the economic behaviour of landlords, questions were asked regarding how initial rents are set, how rent increases are made, how frequent these increases are, and the level of rent increases required for investment return purposes. It is important to establish

the methods by which landlords set rent and then increase rent in order to determine the key influences in their behaviour in relation to rents.

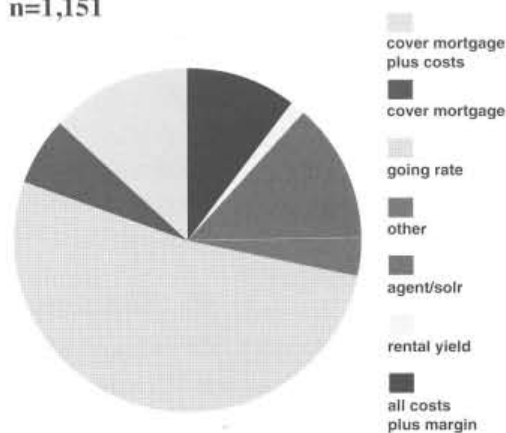
The frequency of rent increases, which a landlord is able to undertake, is linked to the type of tenancy that the landlord is using. The tenancy framework within which the private rented sector operates in Ireland is briefly explained in Chapter 1. The two main tenancies in the private rented sector in Ireland are fixed-term lease and a periodic tenancy. Leases are normally for one year and the rent is set for that period. Periodic tenancies can operate on a weekly or monthly basis and rents can be increased at the end of each of these periods.

There are two important elements to rent determination, firstly the question of how landlords set the rent for the first letting and secondly how and how often rent levels are adjusted. Figure 2.8 illustrates the manner in which landlords initially set their rents.

When first setting rents, the 'going rate' is the guide for just over half of the respondents. The 'going rate' refers to the

Figure 2.8

Strategy for Initial Rent Setting n=1,151



9. SWA Circular 3/00

market price for a similar property in similar location and also reflects demand within the sector. This is logical as the private rented sector currently operates in a free market, where demand and supply dictate prices, and rents are therefore set in this environment.

Figure 2.8 illustrates the proportion of landlords who are setting rents based on their own personal costs, i.e. combinations of covering the mortgage, covering additional costs involved (such as advertising, management etc), while some landlords are including a required profit margin. One in eight landlords leave the rent setting to their agent or solicitor.

2.8.6 RENT SETTING AND LANDLORD PROFILE

Table 2.9 examines the issue of rent setting at a more detailed level. Statistical tests demonstrates that there is a relationship between length of time a respondent has been a landlord and the means used to set

rent levels initially. Whilst the 'going rate' dominates the findings, landlords operating since the 1980s are more likely to use this method for setting rents and less likely to bring in any form of mortgage calculation. Recent investors in the private rented sector are more likely to take into account mortgage repayments and associated costs than any other group of landlords. Landlords with the most experience in the sector are more likely to use methods that calculate the cost of letting property plus the required profit margin.

2.8.7 LANDLORDS AND EMPLOYMENT STATUS

Retired landlords and those self employed solely as landlords are more likely to make a judgement on rent levels based on their costs and profit margin than the other landlords. This method ensures that a required margin is reached through rents charged, although this may not necessarily result in the setting of the maximum market rent. In a depressed rental market, the cost

Table 2.9

Rent Setting against Employment Status and Landlord Experience

Means of setting the initial rent levels	going rate	mortgage	mortgage plus costs	all costs plus margin	Agent or solr set rent	Base	Total (%)
Overall	55	7	13	11	14		100
employment status							
employed full-time	51	10*	17*	8	14	464	100
self-employed	61	6	12	7	13	330	100
retired	54	1*	8*	18*	19	165	100
self-employed as landlord	59	2	8	24*	8	63	100
<i>p</i> < 1% Pearson=59.253							
Length of time a landlord							
since 1995	53	10*	18*	6*	12	453	100
1990 - 1994	53	7	13	11	16	321	100
1980s	64*	2*	7*	10	16	191	100
pre-1980s	56	2*	6*	27*	10	135	100
<i>p</i> < 1% Pearson=87.471							

rent with profit margin may be above market rents, and therefore will not be achieved, and a lower margin will have to be taken. This is the same approach typically adopted in small business, whereby the producer knows the breakeven cost per unit of product, but also knows the cost per unit with a defined margin calculation on top such as 10%. Competitor's prices then have to be taken into consideration in determining the final price.

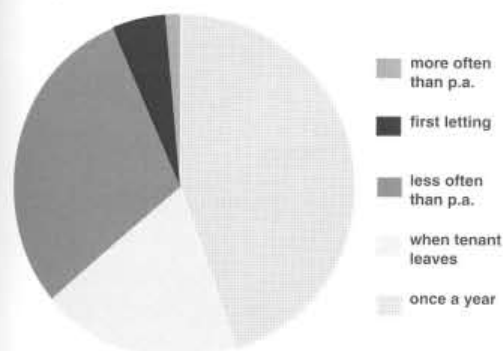
41% of respondents are in full-time employment and are the most likely group to calculate the rent charged on the basis of their mortgage costs, accounting for 66% of those who use mortgage as the basis of rent setting and 57% of those that use mortgage plus costs for rent setting. The key priority is to cover the costs of the borrowings attached to their investment. These landlords may find themselves exposed should the housing market change, leading to depressed rental market.

2.9 INCREASING THE RENT

2.9.1 FREQUENCY OF RENT INCREASES

Figure 2.9 sets out the results when landlords were asked how frequently rent increases were made. 45% of respondents increase their rents every year and this

Figure 2.9
Frequency of Rent Charges
n=1,202



finding is in line with leases typically being of one-year duration. On further examination of the results, there is a relationship between landlords increasing rents annually and having a turnover in tenants that largely occurs on an annual basis. Logically this is pointing towards a situation whereby rent increases sought by the landlord after the termination of the lease, mean that a tenant must leave if s/he cannot afford to enter into a new lease agreement. Also it may be pointing towards a preference by these landlords to maintain a regular turnover of tenants.

One in five landlords state that rent increases take place every time a tenant leaves. This may be a scenario where the landlord takes the opportunity to review the rent as the tenant decides to leave, or it may be understood as the landlord issuing notice to quit in order to bring in a tenant who can pay higher rents. There is no statistical relationship between the average duration of tenants' stay and the landlord adjusting the rent when the tenant goes.

The breakdown for responses stating 'every time a tenant leaves' is statistically spread evenly across the categories for rate of tenant turnover. For those respondents who adjust their rents per annum, there is a greater tendency for this group to have tenants that leave under one year or leave within 1 to 2 years.

Of particular interest are the 30% of respondents that state that they adjust rents less often than once a year, thus providing rent stability for their tenants. These landlords are more likely to have tenants that stay with them for over two years. This demonstrates that stability for landlords can be achieved with less frequent adjustments of rent levels. This stability also may relate

to landlords being happy to keep a good tenant, rather than seek rent increases. These findings also indicate that there are landlords who are not taking due regard to the rents that they are charging, indicating either a very hands off management approach, or lack of business understanding.

2.9.2 FACTORS INFLUENCING LANDLORDS' DECISIONS TO INCREASE RENTS

It is clear from Figures 2.8 and 2.9 that market factors are important in determining rents, and that rent adjustments are largely on an annual basis or related to the termination of tenancies. When a landlord decides one way or the other to increase rents, there are a series of factors that influence the setting of the new rent. These factors repeat themselves following the initial setting of the rent, which was represented by Figure 2.8.

Figure 2.10 sets out the factors that landlords take into account when calculating rent increases. 68% report that changes in local rent levels influences their decision-making. This is an increase from the response that 50% initially set rents due to local market conditions. Experience in the private rented sector appears to make the rent setting behaviour of landlords more market driven. This demonstrates that rent increases perpetuate themselves, and the market dominates and therefore influences landlords' economic behaviour. Landlords who initially set their rents on a personal income requirement basis, largely linked to mortgage repayments, are brought into the market driven loop, which in the current private rented sector in Dublin, will lead to a greater return for this group.

Up-grading of properties has an impact on rent levels, which is to be expected, as up-grading implies that the property has been

substantially improved rather than simply maintained. It is interesting that 'cost of living' (26%) is also considered an important element in rent adjustment. This refers to inflation and/or the landlords' need for more revenue to be released from the property for their own consumption. At the time of writing, October 2000, inflation is running at approximately 6% in Ireland, and this could lead to a further push in rent levels if landlords are looking at the rising costs that they are facing elsewhere.

A more recent and common phenomenon in the private rented sector is the non-quoting of rent levels on advertisements in local papers, and the subsequent 'bidding' for properties by prospective tenants. 13% of landlords state that they accept the best offer made to them, which puts tenants in a very exposed manner with a bidding process that can then bring the rent above local rents.

Figure 2.10
Factors Affecting Rent Increases
n=1,176



2.10 LANDLORDS' PERCEPTIONS OF RENTAL RETURN

2.10.1 RETURN FROM RENTS

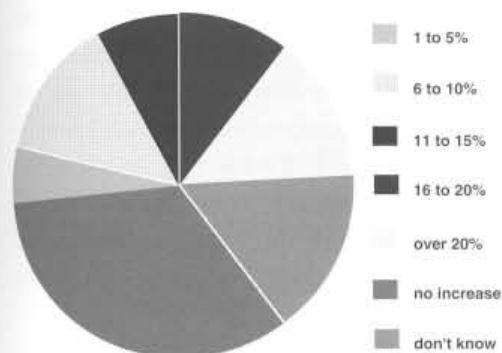
77% of landlords state that their rents cover at least their costs, but 20% state that rents charged are not cost covering. There is no dependent relationship between rents charged not covering cost and either type of property involved, employment status of the landlord, length of time a landlord and number of properties owned.

The 77% of respondents that stated 'rent covers costs' were asked if rent levels give an acceptable return.

- 69% said yes;
- 26% said no;
- 5% did not know.

Overall 53% of landlords believe that they are receiving an acceptable return from the rents that they are charging. The flip side of this finding is that 47% do not see the private rented sector giving them a sufficient return in terms of rent. This finding underlines the importance of asset appreciation in keeping landlords in the private rented sector, and backs up the findings that landlords are seeking secure investment in the form of bricks and mortar.

Figure 2.11
Increases in Rent Required
n=1,043



2.10.2 RENT INCREASES REQUIRED

All respondents were asked what size of rental increase is required in order to meet his/her investment needs. The results are illustrated in Figure 2.11.

One in three landlords state that they do not need to increase rents to meet their investment needs. 16% do not know if an increase is required, which is quite a high level of landlords who do not know the relationship between their rent levels and return from their properties.

The remaining 50% of landlords require increases in rent levels to meet their investment needs. In light of the extent of rises that have already occurred over the second half of the 1990s, this figure is substantial, particularly when 64% of these landlords are seeking rising greater than 10%. There is a dependent relationship between the rent increases required to meet investment needs and the type of property portfolio held by landlords. Table 2.10 reports on this relationship.

Landlords with apartments only are more likely to require increases of between 6 - 10% rather than increases above 20%. The 15% that do not know whether or not rent increases are required for their investment are more likely to be owners of houses. This high level of 'don't know' responses underlines the somewhat amateur approach that exists in the private rented sector and again points towards the importance of capital increases and secure investment for landlords. This finding is further explained in chapter 4.

Table 2.10

Portfolio Type and Rent Increases Required

Rent Increase	Apartment	Houses	HMOs	Mixed	Sub-Total (%)	Base
1 to 5%	6	5	5	6	6	56
6 to 10%	17*	9*	13	13	13	133
11 - 15%	9	6	3*	10	8	75
16 - 20%	9	11	10	13	10	104
over 20%	11*	15	19	18	14	144
no increase	37	33	32	32	34	343
don't know	12*	20*	18	8*	15	146
Total (%)	100	100	100	100	100	1001

 $p < 1\%$

Pearson=39.873

The Dynamics of the Tenant – Landlord Relationship

3.1 INTRODUCTION

It could be said that the tenant and landlord relationship in the residential sector is one of the most emotive service relationships due to the need for a tenant to access shelter and ultimately to establish a home, and the need for a landlord to continue to exert a level of control on their property and investment. Both tenants and landlords are a very varied group in terms of socio-economic status, resources, age and experience, capacity to negotiate, personality traits etc. Both tenants and landlords have their own particular characteristics and attitudes and whilst this should not matter in a service delivery environment, the structure of the private rented sector in Ireland can lead to a high level of personal interaction between the landlord and tenant. There are imbalances in the relationship as it is the landlord who is the gatekeeper to the property initially and tends to determine the duration of the tenancy.

This landlord research attempts to tease out the relationship between the tenant and landlord in terms of the preference that landlords have for household and tenant types and the attitudes held towards these tenant groups. Examining these attitudes and associated behaviour by landlords assists in identifying the tenant groups that are most likely to struggle for access to the private rented sector. Although this research is based on a landlord survey, the findings at this point of the research also give a fresh insight into the type of people and households that are living in the private rented sector in 1999.

3.2 TYPE OF TENANTS

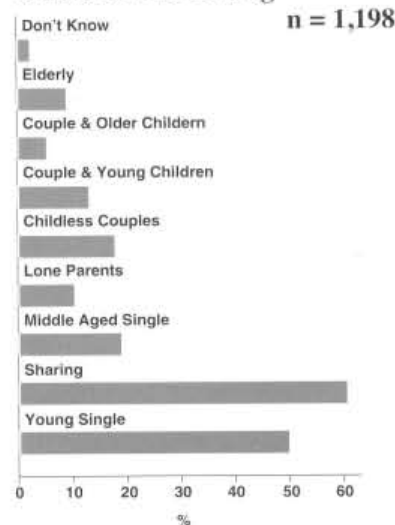
In order to ascertain the types of households to whom landlords are letting, respondents were requested to indicate all of the different types of households that they were letting to at the time of the survey. The results are illustrated at Figure 3.1 below. The results shown are the percentages of landlords that let to certain tenant types, which is a different figure to the actual percentage of tenants of a particular type living in the private rented sector in Dublin.

3.2.1 YOUNG SINGLES AND SHARING HOUSEHOLDS

The majority of respondents are letting property to young single households, and to people sharing accommodation. An overlap between young single households and sharing households was expected but the actual overlap is relatively small, accounting for 25% of the sample compared to the high response level for both sharing accommodation and letting to young singles

Figure 3.1

Type of Households to whom Landlords are Letting



(59% and 47% respectively). 19% of respondents report that they are letting to students on a sharing basis. The high level of students in the private rented sector will be discussed further in section 3.3.1.

These two sets of findings regarding the type of tenants that share accommodation indicate that a further 15% of landlords are letting on a sharing basis to other tenant types i.e. people with children and couples. The fact that these groups are living on a shared basis in the private rented sector demonstrates the conditions in the sector at the end of the 1990s, when couples and people with children have to share accommodation with non-family members.

49% of landlords have young singles as tenants, which falls into the traditional perception of the main type of tenant living in the private rented sector. But a more interesting finding is that 20% of landlords are letting to middle aged, single tenants. In the current housing market this may represent a particular group of people who will not be purchasing a home in the future and will increasingly depend on the private rented sector for their accommodation. Some of these middle-aged single people are on low-incomes or rent supplement. Due to marital breakdown these tenants may be separated or divorced and therefore removed from the main family home.

3.2.2 CHILDREN AND THE PRIVATE RENTED SECTOR

Many children live in the private rented sector as revealed by the profile of the

tenants of the landlords surveyed. When lettings to lone parents, families with young children and families with older children are combined, a total of 23% of responses are recorded. Re-calculating these figures on a respondent basis, as the question was asked as a multiple response, reveals that 19% of landlords are supplying accommodation for households with children.

Landlords accepting households with children tend to be drawn from those landlords holding the higher number of properties ¹ (section 2.3.1). This pattern holds for landlords holding a mixed property portfolio, where households with children are most likely to be found. Linked to this finding, children are also least likely to be found living in apartments ². Considering the strong evidence of children living in the private rented sector, and the fact that the building of new apartments has been a significant factor in the growth of the private rented sector in Dublin, there may be imbalance in the type of property available and the particular needs of children. In addition there is strong competition in Dublin for traditional 3-bed houses from individual sharing households such as young professionals, who are capable of paying more in rent than a single family household.

3.2.3 THE ELDERLY

Only 7% of respondents state that they are letting to elderly households.

On examination of the data elderly tenants are most likely to live in HMOs ³ and may be holders of decontrolled tenancies ⁴.

1. Pearson Chi Square=36.327; p<0.0005

2. Pearson Chi Square=46.460; p<0.0005

3. Pearson Chi Square=47.781; p<0.0005

4. The 1982, Housing (Private Rented Dwellings) Act gave statutory rights to tenants of dwellings that had been controlled under the Rent Restrictions Act 1960-1981. The 1982 Act gives certain rights to the original tenant prior to the commencement of this Act on July 26th 1982. It gave security of tenure for life to these tenants and allowed for terms of tenancy, including rent, to be set by the courts. The 1983, Housing (Private Rented Dwellings)(Amendment) Act then gave these powers to a Rent Tribunal. The Rent Tribunal acts under the aegis of the Department of the Environment and Local Government. It can decide on the terms of tenancy between landlord and tenant, including the amount of rent to be charged for the dwelling. A landlord can only request an increase to be set by the Rent Tribunal every 4 years and 9 months, unless improvements are made to the property.

Although landlords with decontrolled tenancies do not register these properties under the Housing (Registration of Houses) Regulations 1996, which is the sampling frame for this study, the respondents to this survey may have other properties in the private rented sector, and have included their decontrolled properties when answering questions in the survey.

HMOs by their nature need continual maintenance and regular repairs. Where there are elderly tenants in these properties, they may be very dependent on the landlord for maintenance. The landlords of the elderly tend to be elderly themselves. 31% of landlords with elderly tenants are themselves retired, which is disproportional to the overall profile of landlords. There is a possibility that retired landlords may find it difficult to maintain their properties directly, but perhaps they have more time to undertake this type of work. Elderly tenants and elderly landlords may demonstrate a long-term relationship, which can be beneficial to both parties in terms of personal relationships and friendships. On an economic analysis this type of a relationship might be criticised for lack of maximisation of rental income.

In terms of accommodation type, there is a question mark as to whether accommodation in HMOs is suitable for all elderly people due to having to use stairs, properties at times being in poor repair etc. The advantages of these HMOs possibly lie in their strong location characteristics, in central Dublin locations and within the older inner suburbs.

3.3 PROFILE OF TENANTS

This section examines the type of tenants that landlords are letting to in terms of their economic position as described by the

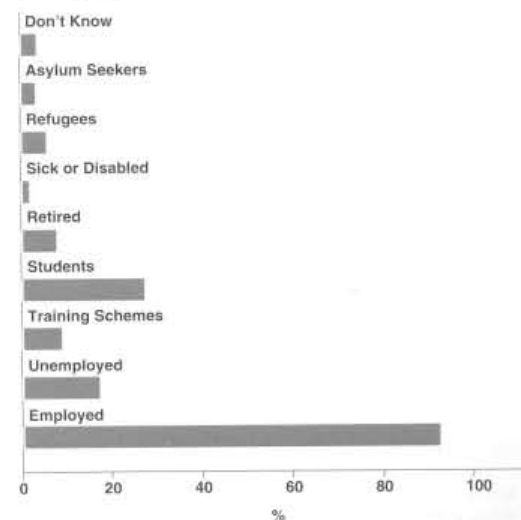
respondents. Figure 3.2 sets out the results and the over-riding factor is that 89% of landlords have at least one employed tenant.

The prevalence of landlords letting to employed tenants raises the issue of the supply of private rented dwellings for those unemployed and claiming SWA rent supplement.

However 25% of respondents are taking tenants who are possibly claiming a rent supplement (section 3.5 details rent supplement tenants) i.e. on combining unemployed, tenants on training schemes, sick or disabled, refugees and asylum seekers. This figure does not include the 6% of landlords with retired tenants who may or may not be accessing rent supplement. Unemployed tenants are disproportionately accommodated by landlords owning HMOs, as 30% of their landlords own HMOs only. In addition unemployed tenants are less likely to be housed by landlords owning apartments only (7%) compared to 37% of such landlords in the overall sample.

Figure 3.2

Type of Tenants to whom Landlords are Letting n = 1,198



In total 6% of landlords are letting to asylum seekers and refugees and this group of tenants are disproportionately accommodated by landlords with over 10 properties, and between 3 and 5 properties and by landlords with a mix of property.

3.3.1 STUDENTS IN THE PRIVATE RENTED SECTOR

According to this survey 20% of landlords are letting to students, which demonstrates the considerable impact that students have on the demand for the private rented sector. As this was a multiple choice question, this figures means that 20% of landlords are taking students as tenants, not necessarily that 20% of all private sector tenants are students. In fact the proportion of students households is possibly higher as this research shows that landlords with several properties are more likely to let to students rather than those who own only one property⁵. With the general propensity for students to share accommodation, often at levels that working people will not accept, or indeed Community Welfare Officers will accept for rent supplementation, the actual number of students in the private rented sector represents a significant block of the private rented sector.

Whilst students are to be found living across all property types, they are disproportionately represented in HMOs and in the property of landlords who hold a mixed property portfolio⁶. These findings indicate that it is the more established landlord who is letting to students in Dublin. Student letting is also occupying the lower end of the rental market where there is strong competition for accommodation with people on low incomes and/or recipients of rent supplement. This makes accessing

accommodation even more difficult for people on low and fixed incomes. Experience from the Threshold advice office indicates that some landlords prefer to let to students as they can request that parents guarantee the payment of the rent.

Although on campus accommodation is increasing in some Irish universities in the 1990s e.g. UCD, TCD and UL, due to the high numbers of people entering third level education, students continue to exert pressure on the private rented sector.

A section 23- type incentive was extended to the provision of dedicated student accommodation under Section 50 of the Finance Act 1999. This provision is available between 1 April 1999 and 31 March 2003. There are specific conditions linked to the award of Section 50 status including that the accommodation must be within an 8 km radius of the campus, and approved as a location by an educational establishment.

3.4 DESIRABLE TENANTS

Section 3.2 and 3.3 profiled the tenants that landlords are currently letting to. This section explores the issues of the landlords' preferred tenant type. Respondents were asked to choose two characteristics of tenants, which are important to them when choosing a tenant. Figure 3.3 graphs the results.

The desirability of employed tenants rates highly with respondents, which concurs with the results from section 3.2 where landlords indicated a high level of employed tenants living in their properties. References are also a very important element when choosing a tenant. Therefore a combination of an employed tenant with

5 Pearson Chi-Square=55.434; p<0.0005

6 Pearson Chi-Square=32.062; p<0.0005

good references is overwhelmingly the most desirable type of tenant to a landlord. References can be difficult for prospective tenants to acquire from past landlords and references can be a particular problem for asylum seekers who tend not to have banking or accommodation records in Ireland.

How easy is it for landlords to obtain their preferred tenant in the current housing environment? Figure 3.4 illustrates the responses given.

The results show that landlords' preferences in terms of tenant selection are met without any great difficulty. This confirms that landlords have the ability to pick their chosen tenant type, with only a total of 7% signalling difficulty in this regard. This result is unsurprising in the current housing climate where the demand for private rented dwellings is high and employed people are spending longer

periods living in the private rented sector, which is partly linked to high house prices. In addition, with falls in unemployment and growth in population, there are more people working than ever before.

This ability of landlords to choose from a range of tenants means that it is difficult for prospective tenants who are unemployed, have children and/or are asylum seekers to access housing. The demand for private rented accommodation in Dublin city also means that it is easier for landlords to discriminate against particular groups. Under the Equal Status Act 2000⁷, this type of discrimination is illegal although it may be very difficult for a person to prove that the reason that accommodation was denied or a tenancy terminated, was on the basis of discrimination.

3.5 TENANTS CLAIMING SWA RENT SUPPLEMENT

The system of rent supplement as a form of housing support for tenants in the private rented sector who are not in employment

Figure 3.3
Importance to Landlords of Tenant Characteristics and Circumstances
(n = 1,200 (reply 1) & 1,136 (reply 2))

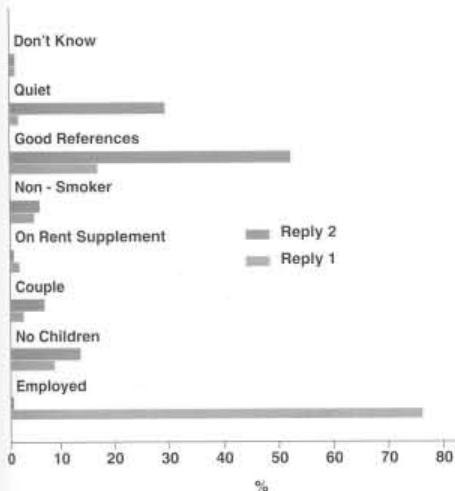
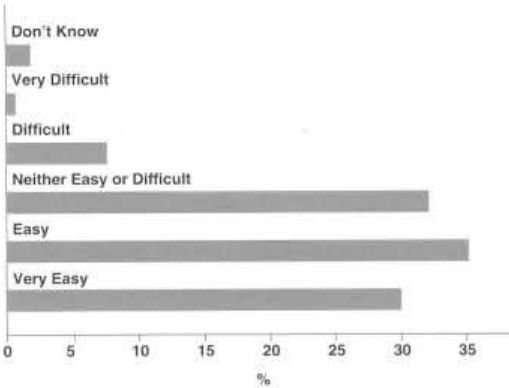


Figure 3.4
Ease of Letting to Preferred Tenant Type
n = 1,203



⁷ Equal Status Act 2000 – Accommodation providers (section 6), including private landlords, cannot discriminate when letting and cannot terminate a tenancy on the basis of gender, marital status, family status, sexual orientation, religious beliefs, age, disability, race and membership of the Traveller community. Among the exceptions to the non-discrimination rules are the letting of a small premises where the person letting the premises or a near relative of that person will continue to live in the premises; the provision of accommodation to one gender only where there is fear of invasion of privacy.

has been described in chapter 2. In addition the means by which rent supplement entitlement can be retained for a period of time for those entering employment schemes was also described. This section will now examine the opinions and actions of landlords when it comes to dealing with people who are claimants of rent supplement.

3.5.1 ATTITUDES OF LANDLORDS TOWARDS RENT SUPPLEMENT

In this research respondents were firstly asked whether or not they were aware of the existence of the SWA rent supplement. Awareness is high at a score of 86% but this awareness does not translate into the acceptance of the rent supplement by landlords:

- 53% accept tenants claiming rent supplement;
- 32% do not accept the rent supplement; and
- 15 % are unaware of whether they do or not.

Over half of the survey respondents accept the rent supplement and yet only 18% were actually letting to claimants at the time of the survey. Evidence from the research has already demonstrated the high preference expressed by landlords for employed tenants, so it is not surprising that the actual number of landlords letting to rent supplement claimants is lower than the 53% who state that they would accept claimants.

There is a relationship between the type of portfolio held by landlords and the issue of accepting tenants claiming rent supplement. Owners of apartments only are more likely than any other group of landlords to refuse the rent supplement while HMO owners are the least likely to refuse rent supplement. This can raise

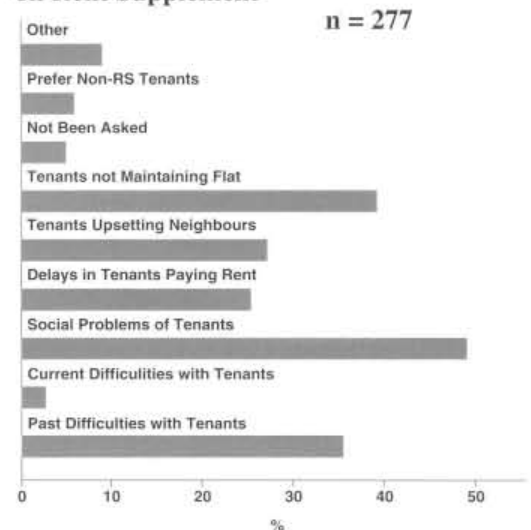
issues regarding the age, quality and condition of the accommodation rented by claimants of rent supplement i.e. they are being accommodated at the lowest ends of the market where there are question marks over accommodation complying with minimum standards. This is probably a reflection of the low rent caps set by the Eastern Regional Health Authority, which covers Dublin city. Therefore choice of accommodation is very limited.

The percentage of respondents unsure as to whether or not they accept rent supplement is high. Therefore the figures for both acceptance, and non-acceptance of the rent supplement could be higher than those given. Data analysis shows that landlords who do not know where they stand on accepting rent supplement payments is partially related to the use of letting agents to manage their properties.

Respondents that do not accept rent supplement were asked for the reasons behind this position. These reasons can be divided into those relating to the tenant and to the administrative difficulties. Figure 3.5

Figure 3.5

Landlords' Reasons for Refusing Tenants on Rent Supplement

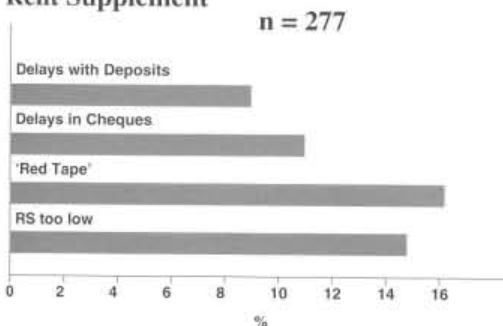


illustrates the responses that focus on landlords' attitudes towards tenants in receipt of rent supplement. 49% of respondents perceive that those in need of a rent subsidy have particular social problems. Tenants claiming rent supplement are singled out as a particular tenant-type unable, or unwilling to care for the property that they are renting. Further management problems are identified in terms of these tenants being more likely to upset neighbours, which reflects back to landlords' stated preference for 'quiet' tenants.

The administration of the rent supplement by the health boards can create management difficulties for landlords. Figure 3.6 identifies how the 'red tape' associated with rent supplement, and the delays in payment, are off putting to landlords. Only 14% state that they do not take rent supplement tenants because the rent supplement is too low. This clearly demonstrates how discrimination towards rent supplement tenants is often more about perceptions regarding behaviour than actual rents charged by landlords.

Figure 3.6

Administrative Drawbacks of Rent Supplement



In general, the rent supplement issue is a very sensitive area. Of the 32% that confirmed they do not take rent

supplement, 19% preferred not to give their reasons for adopting this letting policy.

Although in this section of the research the issue of tax liability was not raised, exposure to tax liability could be a fear for landlords through coming into contact with statutory agencies and eventually the Revenue Commissioners.

3.6 TENANCY AGREEMENTS

In chapter 1 the type of tenancies that exist in the private rented sector in Ireland were briefly described. Overall fixed term leases, typically of one year, and periodic tenancies are the norm. 80% of respondents stated that they used fixed term agreements i.e. leases, with 10% using periodic tenancies, and 9% using both types. This strong evidence of landlords operating on a lease basis is a positive step as there is more security for both parties in this type of arrangement. The tenant is guaranteed rent stability for the period of the lease, typically one-year. Whilst periodic tenancies provide flexibility for the tenant, they are also inherently insecure in terms of the power that landlords have to terminate such a tenancy. Therefore this section will focus on which type of tenancies that different landlords are opting for.

3.6.1 TENANCY AGREEMENTS AND PROPERTY TYPE

There is a relationship between the type of tenancy agreement used by landlords and the nature of their property portfolio. Periodic tenancies are more likely to be used by owners of HMOs rather than by owners of apartments only⁸. 28% of landlords with HMOs only are using periodic tenancies, compared to 4% of landlords with apartments. 44% of landlords using periodic tenancies are holding HMOs only.

8. Pearson Chi Square=105.089; p<0.0005

This result is to be expected, due to HMOs typically being at the lower end of the private rented sector and operating on a less formalised basis. Periodic tenancies are typically oral agreements and written agreements are rarely used. Therefore the combination of periodic tenancies and HMOs indicates a section of the private rented sector, which can be termed as having low standards and weak security of tenure.

3.6.2 DURATION OF STAY BY TENANTS

An important aspect of the operation of the private rented sector and the relationship between the tenant and landlord is the length of stay by the tenant. The respondents were asked what their experience is of the average duration of tenancy. Figure 3.7 illustrates these results and there are 3 distinct groups: tenancies lasting up to one year; between 1 and 2 years; and/or over 2 years.

The fact that 37% of landlords have tenants who are staying for over two years demonstrates that the private rented sector is providing a lot of medium and possible long term housing for tenants in a relatively stable environment. These responses do not present a picture of a totally transitory private rented sector in terms of turnover of tenants, but rather one that contains a stable

component for both landlords and tenants.

On the other hand there is a section of the private rented sector, which has a relatively high level of turnover, i.e. 16% of landlords report that tenants stay between 6 months and up to one year. In addition 39% of landlords state that their average duration of tenancy is one to two years, which demonstrates reasonably high levels of turnover.

3.6.3 FILLING A VACANCY

The respondents were asked how long it took to fill their last vacancy. The results are illustrated in Figure 3.8 and are quite evenly spread from 22% filling a vacancy within a week to 23% having to wait over a month to fill a vacancy. Taking into consideration that one-third of landlords have average stay by tenants of over two years, the two elements were examined to see if there was a relationship between the two, but they are independent of each other. Difficulty in filling a vacancy and property type held by the respondent are also independent of each other.

3.7 LANDLORD – CONFLICTS WITH TENANTS

At the end of the survey, respondents were offered an opportunity to make any further comment. Of the 451 respondents who made comments, 12% of responses were

Figure 3.7
Average Duration of Stay by Tenant
n=1,202

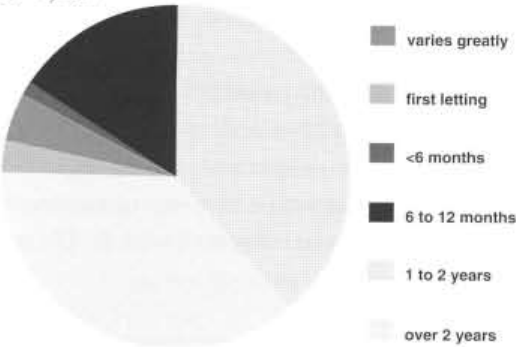
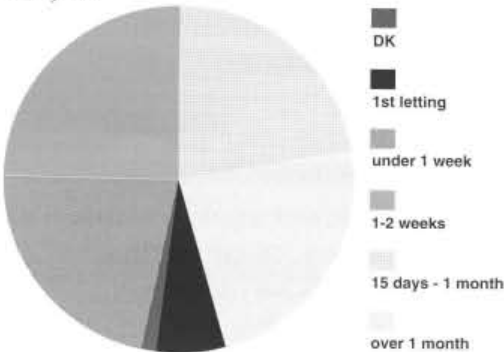


Figure 3.8
Filling Vacancies
n=1,182



related to tenants, from tenants' treatment of property, to difficulties with the behaviour of tenants. A further 9% specifically commented on the issue of desirable tenants, whilst another 9% mentioned issues relating to need for easier eviction of difficult tenants. 3% reported difficulties in relation to breaches of tenancy agreements. Overall one third of non-prompted comments by landlords were in relation to tenants, which underlines the difficulties and tensions in relation to tenancies and between landlords and tenants. As stated in the opening paragraph, the dominance of small-scale landlords in Dublin leads to direct involvement between the landlord and the tenant, which can lead to strains on the tenancy. If the private rented sector was operated more on a business basis, rather than by individuals, the removal of a direct relationship could be beneficial for some tenants and landlords. It also has to be recognised that for some tenants there are advantages of having a more personal relationship with the landlord, and in many ways this is demonstrated by the tendency of elderly tenants to have elderly landlords.

Motivations, Economic Behaviour and Attitudes of Landlords

4.1 INTRODUCTION

This chapter seeks to carefully examine the motivations of investors in the private rented sector and to ascertain their attitude towards the sector in terms of regulations, reform and future investment. This chapter also examines the financial and non-financial motivations for becoming a landlord and remaining in the private rented sector, and broader attitudes towards taxation and regulation issues affecting the sector.

4.2 MOTIVATIONS FOR BECOMING A LANDLORD

It is essential to attempt to establish the decision-making process and factors that led to individuals taking on the role of landlord. This will be examined in terms of the manner in which their first property was acquired and the financial and non-financial factors that influenced their decision to become a landlord.

4.2.1 ACQUISITION OF FIRST PROPERTY

90% of landlords purchased the first property that they let out in Dublin, with the remainder inheriting the property concerned, which undermines the inheritance model of landlord's initial involvement in the private rented sector. The respondents that purchased their first investment property were asked what was their primary reason for doing this. The results are as follows:

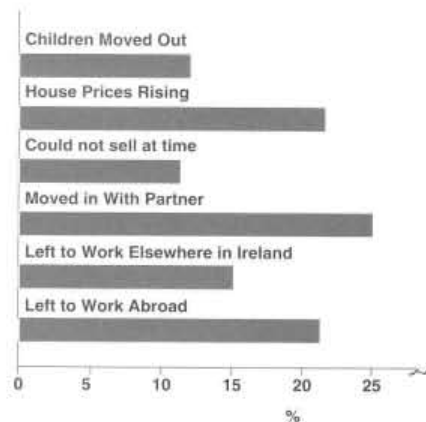
- 70% - in order to let the property out;
- 23% - to live there themselves;
- 4% - for their children to live in; and
- 3% - other reasons.

Overall 63% of all respondents bought their first rental property in order to let it out i.e. made the conscious decision to become a landlord. The remainder of respondents became landlords through a more circuitous route. Respondents who initially lived in the property were asked why they then decided to let out the property rather than sell.

Changes in employment circumstances play an important role when people decide to let out their own home. In addition respondents were aware at the time of making the decision to let out the property that house prices were rising, and 20% state that they preferred to let out the property at that time in expectation of future house price increases.

Figure 4.1

Reasons for Letting Property Rather Than Selling n = 317



Of those that purchased their first property for letting purposes, 28% state that the property was already being let out on purchase. This figure appears very high as sitting tenants normally are unattractive for investors, and can lower the house price.

It is probable that landlords are not referring to sitting tenants, but instead to the fact that the property had been let out by the previous owner.

4.2.2 FACTORS INFLUENCING INITIAL INVESTMENT

Figure 4.2 details the results of the survey findings in relation to the financial factors that influence entrants into the private rented sector. Clearly secure investment (56%) and the need for a pension source (50%) are the largest financial factors for the landlords concerned. This demonstrates how involvement in the private rented sector by landlords is largely related to finding a safe source for financial investment.

There is no statistical relationship between when a landlord first invested in the private rented sector and secure investment/pension being the reasons for taking this action. Secure investment is a common motivation across the various types of landlords surveyed. 69% of new entrants (1998/99) opt for the 'secure investment' response and this represents the largest

variation from the mean. Considering that this group is also more inclined to opt for rising house prices and low interest rates as reasons for investing in the sector, the fact that secure investment purposes are still important to this group, may indicate that new investors plan to stay with the private rented sector for the medium to long term.

29% of respondents state that both 'secure investment' and 'property as pension' were reasons for entering the sector. Therefore overall, 77% of respondents entered the sector seeking secure investment opportunities. This perception of housing as a secure investment, and one that will be of benefit as a pension emphasises the investment attraction of housing as a physical, tangible asset, compared to stocks and shares.

The influence of rising house prices and low interest rates on the motivations of landlords was examined against when landlords first became active in the private rented sector, and considerable differences were revealed. Figure 4.3 clearly demonstrates the emphasis by recent landlords, most notably those entering the sector in 1998/9, on rising house prices as a

Figure 4.2

Financial Reasons for Becoming a Landlord

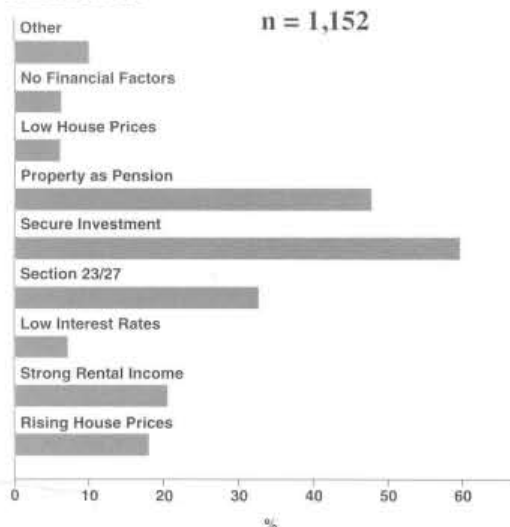
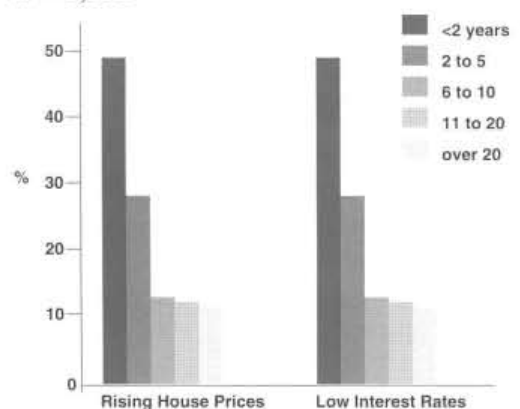


Figure 4.3

Market Considerations in Entering the PRS

n = 1,152



key motivation for entering the private rented sector. This demonstrates new entrants' focus on rising house prices. Even though property in Dublin is very expensive, the new investors have not been deterred, and rising house prices appear to be a significant part of the economic reasoning by these landlords when it comes to first investing in the private rented sector.

Low interest rates are also an important factor to the most recent entrants resulting in a 26% response rate. The combination of rising house prices and low interest rates makes residential property a very attractive investment option. Even though entry costs are currently high, servicing costs are low and rising house prices ensure strong returns on point of sale should the investor want to liquidate his/her holdings. The series of interest rate increases in 2000 may not yet worry these landlords regarding their investments, particularly as house prices and rents continue upwards.

Section 23 tax incentives

Figure 4.4 illustrates the importance of rental income and Section 23 incentives in attracting individuals to initially invest in the private rented sector according to the period that they first invested. Figure 4.2 already illustrated that 29% of respondents state that Section 23 incentives were a factor in attracting them into the private rented sector.

The existence of Section 23 tax incentives is difficult to unravel in terms of its importance in bringing investment into the private rented sector. According to this study, Section 23 played a significant part in attracting investors between 1990 and 1995 accounting for 42% of those who first invested in these years. This was at a time of

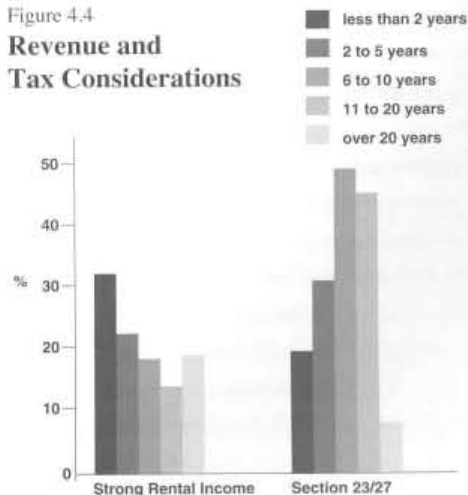
relatively stable house prices, the early days of inner city regeneration in Dublin when investments were riskier than those of the late 1990s, and the economy was only beginning to grow, and jobless growth was being experienced. The importance of Section 23 tax incentives has waned for investors ever since, with only 15% of the most recent investors referring to it as a reason for becoming a landlord. This may be due to several reasons.

1. Section 23 properties tend to be in central locations in Dublin City, which equates to high prices with the availability of the tax incentive possibly pushing the property prices up further;
2. The overall strength of the housing market is a sufficient attraction for new investors of the latter half of the 1990s, without the extra requirement for Section 23 type incentives;
3. Suburban markets, be it houses or apartments are attractive investments, due to strong rents and lower prices than city centre locations.

61% of landlords that purchased newly built property on entry into the private rented residential sector are currently in receipt of section 23. This does not mean

Figure 4.4

Revenue and Tax Considerations



that their first property qualified for Section 23. On further examination of this group, 48% have only one property for letting in Dublin, and therefore it can be stated that *at least* 48% of those investing initially in newly built property were in receipt of Section 23 incentives. The issue of tax incentives and the private rented sector is discussed further in section 4.6 and chapter 6.

Rental Income

31% of respondents who first invested in 1998/99 include strong rental income as a factor in their investment decision. Strong rent levels attracted 22% of those who entered the sector from 1995 to 1997 but rental income becomes less important as a factor for first entering the private rented sector the longer the respondent has been a landlord. Only 12% of respondents who entered the private rented sector in the 1980s include rent levels as a motivational factor. This may reflect the strong market conditions in the private rented sector in the late 1990s in terms of rents achieved, compared to the 1980s and earlier, when house prices were low, but so too were rents. Secure investment is the over-riding feature. The issue of rents and rent levels are discussed in detail in chapter 2.

The low response rate for rent levels being an investment motivation for landlords compared to secure investment and pension issues clearly shows where the key motivation for landlords to enter the private rented sector lies. Nonetheless rental incomes are more important for new investors, demonstrating a different outlook on investment characteristics compared to the older landlords when they first entered into the private rented sector. Rental incomes are probably a more important

factor due to the much higher prices that new landlords have paid for Dublin property since 1997 and therefore their need to cover a high level of borrowing.

4.2.2 NON-FINANCIAL MOTIVATIONAL FACTORS

There are a series of non-financial factors that also influenced initial investment in the private rented sector, but generally rate much lower than the financial reasons. The responses are as follows:

- 49% did not have a non-financial reason;
- 27% were influenced by families and friends who had rental property;
- 8% were considering their children (potentially) studying in Dublin; and
- 6% acquired a property with sitting tenants.

Perhaps the most interesting feature is that friends and families that already own rental property influenced 27% of respondents' decision to become a landlord. Word of mouth and the experiences of friends and families are playing a part in influencing investment in the private rented sector, as people are able to relate their experiences of being a landlord and the perceived benefits of this type of investment.

4.3 MOTIVATIONS AND INFLUENCES TO REMAINING IN THE PRIVATE RENTED SECTOR

The respondents were asked why they continue to be landlords. This is an important question as it establishes the conditions that keep landlords in the private rented sector. The results reveal differences between the motivations of landlords to first enter the PRS and their reasons for continued participation. Figure 4.5 illustrates the findings.

4.3.1 FINANCIAL FACTORS

The two most important factors for landlords remaining in the private rented sector are:

1. secure long term investment at 65%; and
2. rental income at 55%

The strong emphasis by landlords on 'secure investment' as a motivation continues, this time in relation to remaining within the PRS. Therefore there has been little change in their belief in residential property as a secure, long-term investment. This set of economic beliefs has therefore not changed through their experience in the private rented sector. This is a very important factor for continued supply in the private rented sector.

The significant change between the two sets of results is with regard to rental income. 18% state that rental income was one of the factors influencing their decision to first invest in the private rented sector but 55% state that rental income is a reason for remaining in the sector. In particular,

Figure 4.5

Reasons Why Landlords Remain in the Private Rented Sector n = 1,202



63% of landlords in the private rented sector before 1990 state that rental income is a reason for remaining in the sector. This contrasts markedly to the 12% of this group putting forward rent levels as a reason for entering the private rented sector.

These results demonstrate that the increase in rent levels being achieved for Dublin properties is an important factor for landlords remaining in the sector, whilst rental incomes were always an important feature for the investment behaviour of the landlords of the late 1990s. This is a definite shift in attitudes and motivations for the landlords of the pre-1990s, where rental income was not a key feature of investing in the private rented sector, but certainly is a factor influencing their participation by the late 1990s. This increased emphasis on rental income may have implications for the future.

30% of respondents state that rising house prices is a factor for remaining in the private rented sector. Attitudes towards capital appreciation factors are very important in establishing whether individuals are committed to being a landlord for the long term, or whether they will make judgements on the optimum moment to sell in the market, reflecting house price movements. 25% of respondents state that both rental incomes and rising house prices were factors in remaining in the private rented sector. This combination clearly demonstrates the type of booming housing market that 25% of landlords see as influencing their decision to remain with the private rented sector.

4.3.2 NON-FINANCIAL FACTORS

In terms of non-financial factors for remaining as a landlord, 14% plan to live in the property that is being let in the future.

53% of respondents living abroad fall into this category, which indicates a group of landlords operating in the private rented sector on a convenience basis for their housing needs in the future. Letting their properties is a means of ensuring a home in the future on their return from working abroad.

Further 'convenience' landlords can be identified, with investment motivations that go beyond returns and security. 24% of landlords are holding on to their property in order that their children may occupy it in the future. This attitude is more prevalent among landlords that live outside of Dublin, accounting for 34% of this group, whereas the figure for Dublin resident landlords is 21%. Overall 70% of respondents live in Dublin. In terms of landlords living outside Dublin, purchasing property for their children's future accommodation needs, this probably relates to their children coming to Dublin to third level education or employment. For Dublin based landlords, their reasoning is slightly more complex, in that if their children do go to third-level education in Dublin, there is not an immediate accommodation need, as students could live in the family home. The reasoning for purchasing property for their children to live in the future may relate to the belief that their children will not be able to afford to become home owners in the future, and therefore parents are circumventing this issue by purchasing the property in advance, and letting it out to gain a revenue flow until their children are in a position to take over the responsibility for the property. This type of purchasing behaviour has an impact on an already heated property market and can be seen to be speculative in nature.

Landlords that are staying in the private rented sector in order to provide accommodation for their children in the future are not providing a housing service for the long-term, and are making investment decisions which are influenced by family circumstances and the economics of investing in the Dublin housing market. In many ways these landlords are making an economic decision to hedge their bets on the housing market, by entering prior to the actual need for housing in itself.

10% of respondents state that a responsibility towards tenants is one of the motivations keeping them in operation. These respondents are largely to be found among the long established landlords. One in five landlords that have been in the private rented sector for over 20 years, cite responsibility towards tenants as a motivation for remaining in the sector, in comparison to only 7% of those who have entered in the sector since 1995.

This distinction between the motivations and attitudes of some of the longer established landlords towards their tenants as against the majority of the more recent investors is very important. A responsibility towards tenants may increase due to personal relationships established by the longer-term landlords, and the newcomers have not yet established these relationships. The question is whether these attitudes change as experience in the private rented sector grows, or will the level of response by new landlords with regard to tenant responsibilities re-confirm their more market orientation towards investing in the private rented sector i.e. more likely to state that rising house prices and rental incomes are key factors in their investment decision. Experience may not change these attitudes of new investors, as they have entered a

booming housing market in Dublin, and represent a new generation of landlords benefiting from the Celtic Tiger and keen to benefit from the upward trajectory of house prices. These landlords are focusing on house price increases which makes their participation in the private rented sector speculative, and their attraction to strong rental income may have more to do with covering the cost of the mortgage, rather than focusing on investment return issues.

4.4 UNDERSTANDING AND ATTITUDES OF LANDLORDS TOWARDS REGULATIONS AND COSTS INVOLVED

The regulation of the private rented sector in Ireland is limited (Ryall, 1999 and NESCI 1999:511-514), particularly when compared to private rental systems in Europe and North America (McCashin 2000, Galligan 1999). Nonetheless there is much opposition to regulation and consequently high levels of non-compliance with the Housing Act 1992, particularly in relation to registration with local authorities of dwellings in the private rented sector introduced in 1996. It is suspected that less than 20% of all dwellings are registered. Voluntary organisations that represent tenants and/or operate on a social justice basis continually campaign for reform of the private rented sector, stating that tenants' rights are weak, and that exerting these limited rights is very difficult in the current regulatory framework (SVP 1999:12, NYCI 2000: 8; Larkin Unemployed Centre 1998: 30-36).

4.4.1 FAMILIARITY WITH CURRENT REGULATIONS

Respondents were asked if they were aware of the existence of the four main regulations governing the private rented sector under the Housing Act 1992. Table 4.1 sets out the responses.

96% of landlords surveyed are familiar with the registration of private rented houses regulations. As the sample for this research was drawn from the same register of Dublin Corporation, this high level of knowledge is to be expected. It may be presumed that those unfamiliar with registrations have had their property registered by another party such as an agent.

Familiarity by landlords with the statutory twenty-eight day Notice to Quit (NTQ) requirement, at 68%, is still low for such a basic, but extremely important regulation for periodic tenancies. This means that tenants may not be receiving their full legal protection, if incorrect NTQ procedures are being followed, although the survey does not directly give this information. Where absence of knowledge exists with regard to NTQ legislation, it is evident across all categories of landlords. When the issue of awareness of NTQ requirements is cross-examined against the type of tenancy, it might be expected that landlords using leases would be more likely not to know about NTQ requirements. This is not so, as the two factors are independent of each other. Therefore 32% of landlords using periodic tenancies and a further 33% of landlords using both types of tenancies are unaware of the minimum NTQ regulations. This is of concern in relation to the tenants of these landlords. If the landlords do not know the legal requirements there is a possibility that illegal evictions may take place.

Sometimes leases can roll on into periodic tenancies, if neither the landlord nor the tenant takes notice of the termination date of the lease, and rent payments continue. Therefore the tenancy becomes periodic until such a time as a new lease is

negotiated. Landlords must know the 28 days NTQ rule, even if their lettings are all based on leases, for professionalism and for accurate treatment of their tenants when leases terminate and rent payment continues. Indeed landlords that are well aware of the need for 28 days written NTQ may not abide by these regulations. Knowledge of the regulations and abiding by the said regulations are two different things.

62% of respondents are aware of the minimum standards for rented accommodation, set down in legislation¹. This figure is low, as it means that over one-third of landlords do not know what the minimum standards are. Even though new apartments (and houses to a certain extent) are key investment vehicles in the private rented sector of the 1990s, this does not excuse landlords' lack of awareness of the minimum standards. There is a statistical relationship between knowledge of minimum standards and the types of property held by landlords. Apartment owners are much less likely to be familiar with these regulations compared to landlords owing a mix of properties. Over the medium to long term landlords of new build properties will need to undertake adequate maintenance to ensure properties remain at minimum standards levels.

Table 4.1

Familiarity with Regulations (%)

n=1,198

Rent Book	80
Minimum Standards	61
Notice to Quit	68
Registration of landlords	96

Overall, 53% of respondents are aware of all the four regulations listed above. The awareness of regulations overall by landlords is not related to the length of time in the business, landlords' employment status or the number of properties that they held. When awareness of regulations is examined in relation to the type of property portfolio held by the respondents, a relationship between the two factors is evident. A landlord with a mixed portfolio is more likely to be aware of all regulations than any other landlord. 43% of investors in apartments are aware of all the regulations compared to 64% of those with a mixed portfolio. This relationship may be explained by the fact that those with a mixed portfolio own at least two properties, tend to have been operating as a landlord since the 1980s and may be more professional with regard to the manner that they operate. Apartment holders tend to be the newcomers to the private rented sector, own newly built property, and will typically own only one apartment with little interest in expanding their holdings.

4.4.2 REGULATIONS AND COSTS TO THE LANDLORD

Landlords were asked a series of questions in relation to the introduction of the regulations of the 1990s and additional costs incurred as a result. Respondents were asked, apart from the £40 annual registration fee, whether the regulations had led to increased costs. The results are as follows:

- 29% - led to increased costs;
- 53% - had not led to increased costs; and
- 17% - did not know

The fact that over half the sample do not believe that the regulations have led to

1. Housing (Standards for Rented Houses) Regulations, 1993

increased costs for their operation demonstrates how regulation in the private rented sector does not always mean significant costs have to be incurred. When these issues are examined further, it is found that there is a strong relationship² between the issue of the costs of regulation and respondents being aware of all the regulations to begin with. 62% of those stating that regulations have led to an increase in their costs are also aware of *all* the regulations. Conversely those who do not know *all* the regulations have a very high tendency also to not know whether regulations have led to increased costs. This is one indicator of how some landlords are operating on an *ad hoc* basis with a limited knowledge of the interaction of regulations, rents and costs incurred as a landlord.

Claims that the introduction of regulations in the 1990s have led to increased costs for landlords are most evident among landlords who own solely HMOs. 43% of these landlords state that they have incurred costs due to the regulations. This finding is statistically significant³, and relates to the difficulties regarding standards in HMOs and associated older properties. 43% of landlords with a mixed portfolio share this opinion also, and the increased costs are probably reflected in the existence of older properties and HMOs in their portfolios⁴. Apartment owners stand out as being most likely to believe that regulations have not increased their costs. 59% stated that regulations had not led to increased costs, with the remainder dividing between a 'yes' and 'don't know' response. This finding is due to several factors, including these landlords' lack of knowledge of the regulations in the first place and the fact that most of these apartments were built in

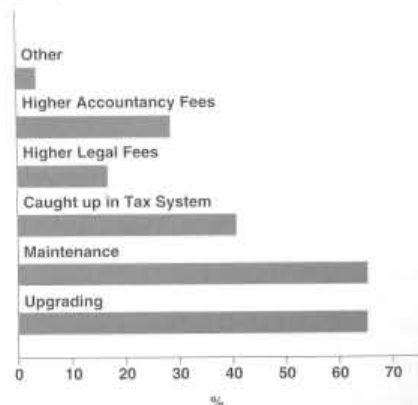
the 1990s and typically these landlords first entered the PRS in the 1990s, when regulations were already largely in place.

Nature of Additional Costs due to Regulation

Figure 4.6 demonstrates the reasons why 29% of respondents believe that costs have increased due to the introduction of regulations in the private rented sector in the 1990s.

The Housing (Standards for Rented Houses) Regulations 1993 may be responsible for the large proportion of landlords citing maintenance and upgrading as reasons for regulations increasing their costs. The maintenance cost for landlords emanates from the ongoing costs of keeping up with minimum standards regulations. The upgrading element relates to more substantial once-off work required of landlords whose properties were falling below minimum standards, presumably in relation to more structural problems.

Figure 4.6
Reasons Why Costs are Believed to have Increased
n = 343



2. Pearson Chi Square=43.10, p <1%

3. Pearson Chi Square=59.98, p <1%

4. op cit at 3

38% of respondents state that the introduction of regulations has drawn them into the tax net. Presumably these landlords previously did not declare any or all of their rental income to the Revenue Commissioners. In addition to this finding, 8% of respondents reported that recent regulations have increased their legal fees whilst 13% report increased accountancy fees. These increases in professional fees may be connected with some landlords entering the tax system as a result of regulations introduced in the 1990s.

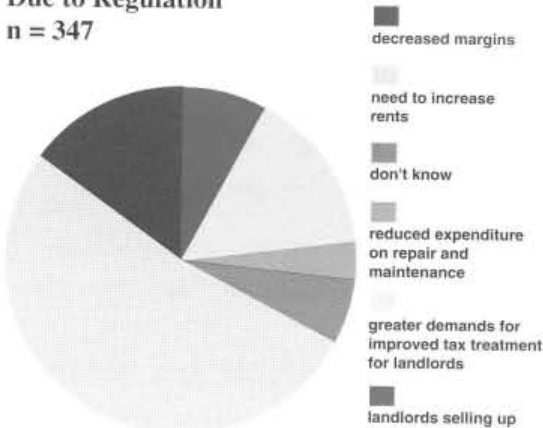
65% of these landlords state that they do not add the costs of these regulations onto their tenants' rents. This result may be a reflection of how rents are largely set by market forces (Section 2.8). On the other hand one in three of these landlords are adding the regulatory costs onto rent and therefore onto the tenant.

Effects of Costs linked to Regulations

Those landlords surveyed who believe that regulation leads to increased costs identify the effects of these greater costs on letting in Dublin. Figure 4.7 illustrates these effects.

Figure 4.7

Effects of Greater Costs on Letting Due to Regulation n = 347



52% state that the effect of the greater costs on letting properties is 'a need to increase rents'. This result is higher than the 32% who state that they do not pass on these additional costs as rent increases to their tenants. This gap between the two figures represents the potential for further rent increases in the private rented sector.

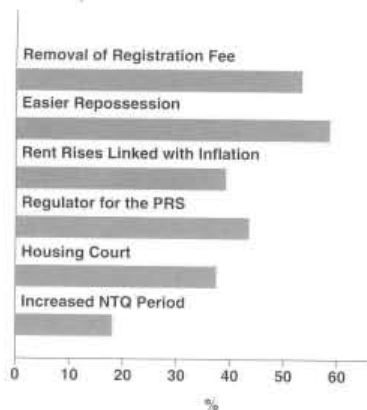
15% of landlords accept these costs associated with regulation, as a decrease in their profit margins, while a further 15% perceive the greater demands for improved tax treatment for landlords to be a result of the cost of current regulations. Only 4% believe that the effect of the costs of regulation will lead to a reduced expenditure on property repair and maintenance.

4.5 LANDLORDS' ATTITUDES TO POTENTIAL REFORM OF THE PRIVATE RENTED SECTOR

Respondents were asked to choose from a list the reforms that they would be interested in. The results are illustrated in Figure 4.8.

Figure 4.8

Support by Landlords for Changes in Regulatory Environment n = 1,117



4.5.1 REGISTRATION FEE

51% of the respondents support the abolition of the registration fee. There is a relationship between seeking the abolition of the registration fee and the nature of landlords' property portfolios. Owners of HMOs are more inclined to favour removal of the fee, whilst those owning houses only are less concerned with this issue. This result is not surprising as owners of HMOs have to pay for every dwelling unit eg if a house is split into 6 bedsits, the fee per annum is £240.

4.5.2 EASIER REPOSSESSION AND HOUSING COURT

34% of respondents support the proposal to establish a housing court. The purpose of a housing court, possibly linked to the District Court system, would be to act as a dedicated court service for housing and related issues. This would benefit both tenant and landlord in differing manners. From a landlord perspective the existence of a housing court would speed up the repossession process, due to more rapid access to the court. From a tenant perspective, a housing court would allow issues such as deposit retention and lease difficulties to be settled quickly. An easier repossession process may then encourage landlords to be more supportive of longer leases and particularly longer notice to quit periods. This is based on the premise that if landlords were confident that once their legal obligations have been executed, court proceedings would follow quickly once difficulties with tenants exist.

There is a statistical relationship between landlords seeking a housing court and landlords looking for easier repossession. Overall 57% of respondents favour an easier repossession process. 65% who are in favour of a housing court are also in favour of easier repossession.

4.5.3 RENT INCREASES LINKED TO INFLATION

The respondents were asked if they would support a system of rent rises linked to inflation. 35% of the sample approved of this policy. At the time that the survey took place, inflation was not an issue but inflation was running at over 6% when this report was completed (October 2000). Considering that at the time the research was undertaken inflation was at 5.6% and rent increases have been in the region of at least 20% year on year, there is a stronger level of support for this type of proposal than might be expected.

Landlords with HMOs only are more likely to support rent increases linked to inflation than any other landlord⁵, accounting for 40% of all HMO landlords. Least appetite for rent increases linked to inflation is found among landlords holding apartments only and landlords with a mixed property portfolio.

4.5.4 EXTENDING THE NOTICE TO QUIT PERIOD

One possible means of increasing the security of tenure for tenants is to extend the notice to quit period in order to allow tenants more time to find alternative accommodation. Only 15% of landlords are in favour of this proposal. This is probably not surprising considering that the current statutory 28 days notice to quit period gives landlords flexibility and control over their rental property and any increase in the notice period may reduce these advantages for landlords.

Alternatively, the lack of support for an increased notice to quit period may relate to the large number of landlords in this survey that give their tenants fixed term

5. Pearson Chi Square=14.490, p <0.006

agreements only and for them the length of notice to quit period is not an issue.

4.6 ATTITUDES TO TAXATION AND REFORM IN THE PRIVATE RENTED SECTOR

A further inter-linked issue to landlords' decision making and participation in the private rented sector is their financial treatment i.e. financial supports and tax treatment. Section 5.3 already discussed the role of Section 23 in decision-making of landlords. But how important are taxation issues to landlords, and do they impinge on certain types of investment behaviour?

In order to unravel these questions respondents were asked to rate the importance of a variety of possible changes to fiscal policy relating to the private rented sector. This included issues regarding the level of rent supplement payments and tax relief for tenants, in order to establish whether these housing subsidies also influence landlords investment and rent setting behaviour. The scale given in the survey ranged from a mark of 1 meaning that the issue is not important at all to a mark of 5 meaning that it is very important to the respondent. '3' represents the neutral position.

Table 4.2 shows the average response to each of the possible changes put forward in the survey, and the subsequent charts of Figure 4.9, illustrate the spread of the response.

From Table 4.2, it can be seen that many of the responses are near the central score of 3, suggesting that the issues are neither important nor unimportant to the respondents. These results standing on their own are somewhat mis-leading in terms of understanding landlords' attitudes. The charts in figure 4.9 demonstrate how many of the responses to these statements are mainly bi-modal in nature, i.e. there is a concentration of responses at both the not important and the very important areas of the graph.

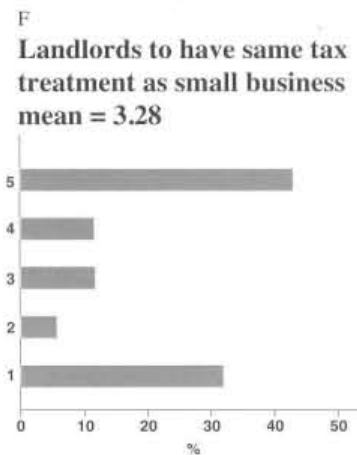
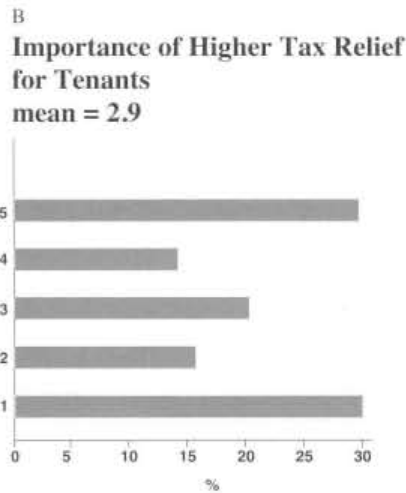
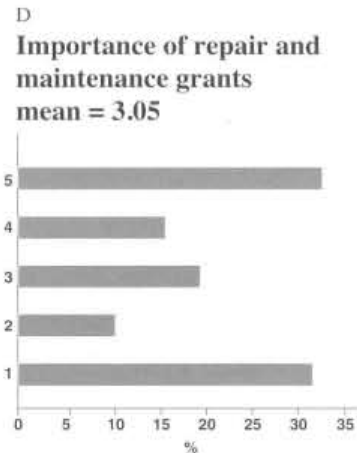
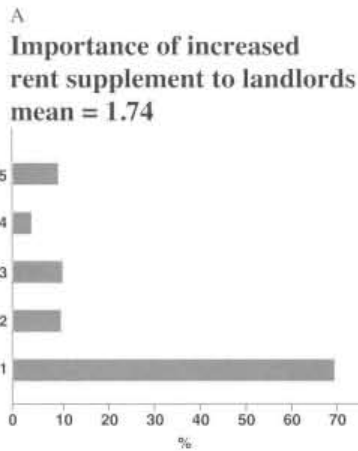
Table 4.2

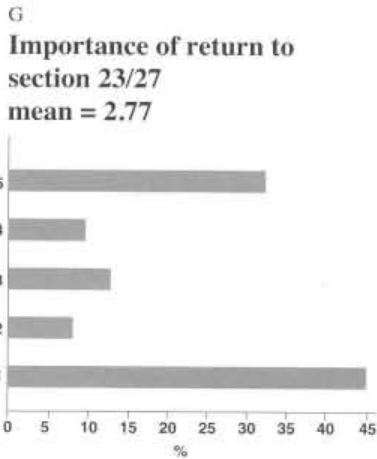
Support for Financial Changes (Marks out of 5)

Potential Change	Average Rating
Higher rent supplement	1.74
Higher tax relief for tenants	2.57
Less tax on rental income	3.85
Lower CGT on selling property	3.29
Repair and maintenance grants	3.05
Landlords to have same tax treatment as small business	3.28
Widening of section 23/27 tax relief	2.77
Total	1,157=n

Figure 4.9

Range of Support for Financial Changes





4.6.1 TAX TREATMENT FOR LANDLORDS

Support by landlords to 'paying less tax on rental income' receives the most positive response of the financial issues, which is to be expected. In figure 4.9C, it is clear that there is a substantial group ranking reductions in tax on rental income as important to very important. 55% of those surveyed stated that it was 'very important' with a further 13% indicating it was 'important'. The mean score was pulled down by 17% of respondents claiming that a reduction in tax on rental income is 'not important at all' to them. This response may indicate that these landlords are happy with the current tax arrangements, especially if they are in receipt of Section 23 incentives or are not declaring all their rental income to begin with.

The issue of landlords having the same tax treatment as small businesses was examined. The mean score was near the mid-point at 3.28. The response was heavily bi-polar with concentrations of respondents giving a mark of five and a mark of one. On further examination of the data, this bi-polar type of response was spread across the various categories of landlords, with no evident statistical relationship. It could be presumed that those holding only one

property would not see a business structure as important to them, as they are operating on a 'DIY' basis in terms of property lettings, but there is no statistical relationship between the two factors. Instead there appears to be a division between landlords across the board, as to whether treatment as a business for tax purposes, is of benefit to them.

The reaction to the proposition of lower capital gains tax (CGT) resulted in a mean score of 3.28 and Figure 4.9E has a bi-modal structure. At the time this survey was conducted (October 1999), CGT had already been reduced from 40% to 20% in Budget 1998. The bi-polar nature of the response to CGT reductions, may be due to:

- lack of knowledge by the respondents that CGT had been reduced and therefore supportive of further reductions;
- belief by other landlords that the CGT needs to be reduced further, i.e. below 20%;
- CGT is not that important to respondents at present as they have no intention of selling in the near future (only 5% plan to sell property in the next two years);
- lack of awareness of the impact of CGT on disposal of rental properties; and/or
- avoidance of CGT as rental property purchased under the name of an adult child in the guise of the property being his/her primary residence.

The respondents were asked if they wanted a return to the past levels of Section 23 tax incentive. The bulk of the response was that the issue is not important to them, with a mean score of only 2.77 achieved. 42% of respondents stated that section 23 was 'not important at all' to them. When the

response to the importance of an expanded Section 23 incentive is examined by whether respondents are availing Section 23 tax incentives, a very strong relationship between the two factors ⁶ is identified. Those availing of Section 23 are more likely to find the issue of expanding Section 23 important compared to those who are not availing of the relief. 60% of respondents in receipt of Section 23 believe that the issue of further Section 23 is 'important' to 'very important' to them. For those respondents not availing of Section 23 incentives, 53% see the issue of expanding Section 23 as 'not important at all'.

The survey dataset demonstrates a relationship between interest in expansion of Section 23, and the portfolio of landlords ⁷. There is a clear lack of interest in Section 23 by landlords owning HMOs, and by those with only houses in their portfolios. Not surprisingly those with apartments only are the highest supporters of the further development of Section 23, with 51% stating that the issue is of importance to them. This group is followed by 49% of those respondents with a mixed property portfolio. This reflects the interest among those already holding Section 23 incentives to access further tax relief and tax shelter. This continued interest in Section 23 incentives also demonstrates that there is still an appetite among investors to expand their investment. According to responses on future investment, this will not happen in two years as demonstrated in this study, but perhaps in the more medium term, as new investment properties have begun to pay for themselves.

For those investors who do not see an expansion of Section 23 as being important

to them this could be due to several factors:

- a deadweight factor in relation to Section 23, i.e. a financial incentive is not necessary to attract further investors into the private rental market;
- Section 23 properties can be expensive due to the very existence of the tax incentive designation particularly in central areas of Dublin such as Smithfield IAP;
- older suburban areas of Dublin may be attractive to investors due to high demand for private renting in these areas often linked to proximity to hospitals, third-level institutions, employment centres etc; and
- overall lack of interest in increased investment in the short-term.

Finally, although the shapes of the responses to the tax issues discussed were all quite bi-modal in nature, on examination of the dataset, there was no evidence for a correlation between scores given in relation to tax issues, i.e. if a respondent gave a '5' for reduced tax it did not follow that s/he was likely to give a mark of '5' for business treatment for landlords.

4.6.2 REPAIR AND MAINTENANCE GRANTS

In this survey, a mean score of 3.05 was achieved with regard to the issue of repair and maintenance grants and their importance in assisting the work of landlords. Again the response is varied, with 29% giving a mark of '1' and a further 29% giving a top mark of '5' for importance to them. On further examination of the dataset, there is a relationship between property portfolio type and support for repair and maintenance grants ⁸. 42% of respondents with HMOs only believe that

6. Pearson Chi Square=136.904, $p < 1\%$

7. Pearson Chi Square=92.814, $p < 1\%$

8. Pearson Chi Square=29.571, $p < 1\%$

repair and maintenance grants would be very important to them, compared to only 24% of apartment owners. Surprisingly those with a mixed property portfolio do not express a significant interest in repair and maintenance grants, which might have been expected due to the larger number of properties owned per landlord, and the fact that some of these landlords also own HMOs.

The response in terms of repair and maintenance grants also relate to the fact that landlords, who are new to the private rented sector, or those who largely own newly built apartments, do not see the repair and maintenance of their properties as an issue. However, as time goes on, the apartments of the 1990s, will need minor and major repairs e.g. owners may be called upon to pay for major roof repairs, new windows, overhaul of electrical and plumbing systems etc in the medium term. As newcomers to the private rented sector face repair bills in the future, this may change their beliefs and motivations regarding investment in the private rented sector. In addition if no financial contingency plans have been made to cover major repairs, this may have implication for their continuance as landlords in the private rented sector.

4.6.3 PERSONAL HOUSING SUBSIDIES – RENT SUPPLEMENT ISSUES

Many commentators on rent levels in the private rented sector believe that the level of rent supplement made available by the health boards can affect rent levels i.e. there is an assumption that landlords with tenants in receipt of rent supplement are profit maximisers and will always raise their rents to rent supplement levels (Downey, 1998:41; Guerin, 1999:83; Report of the Interdepartmental Committee, 1999:10). It is believed that when rent supplement

reasonable rent levels are increased, that the rental cost base increases as a direct relationship. This is a rather simplistic view, as in Dublin and in other cities many households struggle to access accommodation within reasonable rent levels and often have to top up the difference from other income. In addition, up until 6 April 2000, those retaining rent supplement on entering into employment schemes, were subject to the £250 per month 'cheque' limit, a level which on its own does not cover rent each month.

Rents at the lower end of the market are linked to rents elsewhere in the private rented sector, i.e. if rents are rising in the middle sector, these naturally pull up the rents in the lower reaches of the market. Low capping rates only make it increasingly difficult for rent supplement beneficiaries to access accommodation. It is the market that drives rent levels, which have been on an upward trajectory this past decade, due to the shortage of social housing, insufficient dedicated student housing, and the removal of home ownership as an accommodation option for low- and some middle -income households.

Bearing in mind these arguments there is a set of findings to be examined in relation to the rent supplement question:

- a very low average score of 1.74 (figure 4.9A) was achieved when landlords were asked if increasing rent supplement was important to them;
- 68% of respondents stated that increasing rent supplement was not important to them at all; and
- 53% of landlords stated that they are willing to accept tenants on rent supplement, but only 18% of landlords were actually letting to SWA tenants at the time of survey.

There is a relationship between the importance of rent supplement to landlords and their acceptance of tenants claiming rent supplement. Those landlords who state that an increase in rent supplement is 'important' to 'very important' to them are more likely to be accepting tenants on rent supplement than the remaining landlords (Figure 4.9A). Nonetheless 65% of landlords accepting tenants on rent supplement do not believe that an increase in rent supplement is important in assisting them as a landlord.

Therefore:

1. Increases in rent supplement reasonable rent levels is not the key issue for landlords currently taking tenants claiming rent supplement;
2. Increases in reasonable rent levels are not being sought by landlords who do not accept rent supplement; and
3. There are other social and administrative reasons why landlords are choosing not to accept rent supplement tenants.

Raising the reasonable rent levels does not automatically mean that all landlords will raise rents to meet this level. In the current private rented sector in Dublin, it is very difficult to find accommodation at rent supplement levels in the first instance and therefore tenants may be living in substandard accommodation or using other income to pay the difference in rent. An increase in reasonable rent levels may open up new parts of the private rented sector market for tenants and also reduce hardship for households where additional money is being paid to landlords to support rents above reasonable rent levels.

Higher Tax Relief for Tenants

Higher tax relief for tenants received a muted response from landlords with a mean score of 2.9. 42% of landlords consider that a higher tax relief for tenants is 'not very important' to assisting them - only 22% consider it to be 'very important'. For landlords that are in the tax system, tax relief for tenants is expected not to be an issue for them, as it makes no difference whether or not the tenant wants to claim the tax relief. Consequently landlords may have given it a low score for importance.

On the other hand, higher tax relief for tenants could adversely affect those landlords not declaring income from rental earnings. Insecurity of tenure has made some tenants reluctant to seek tax relief. It can be easier for tenants to claim their back tax relief after they have moved on to another property. If the tax relief was increased further, more tenants may want make a claim and therefore this leads to a greater risk for landlords who are outside the tax net, being identified by the Revenue Commissioners. Landlords outside the tax system, or declaring earnings on a limited number of properties, would be expected give a low score to a proposal to increase tax relief for tenants.

4.7 FUTURE PLANS OF LANDLORDS

In order to ascertain how the private rented sector can grow, it is essential to examine the future plans of landlords. As a starting point it is necessary to examine the investment plans of landlords for the immediate future.

4.7.1 FUTURE INVESTMENT IN THE PRIVATE RENTED SECTOR

Only 12% of landlords state that they intend to increase the number of properties that

they own in the following two years (2000 - 01) and 74% see no change in their investment in the private rented sector. These results draw a picture of little expected additional investment in the sector by existing landlords.

Table 4.3 illustrates the future plans for investment against the number of properties that the landlords are holding. There is a statistical relationship between these two factors. Overall 48% of interest in expanding the number of properties is focused on landlords with only one property, but this is less than would be expected statistically. Landlords holding between 6 and 10 properties are more likely to increase their investment levels than any other group, but overall it should be noted again that this group only accounts for 4% of the survey. In absolute terms the increase in investment will probably come from those with one apartment at present. Of the 12% who intend to increase their property portfolio (2000-2001), 30% are holding a mixed property portfolio, and these two factors are statistically dependent.

5% of respondents state that they will reduce their property numbers over the next two years (i.e. 2000-01). 4% of respondents stated that they would sell their property if it become vacant and a further

1% would improve and sell. This accounts for 65 landlords, whose property breakdown is:

- 18% own houses set in bedsits;
- 30% own houses set in flats;
- 46% own houses;
- 32% own apartments; and
- 1% own 'other'.

Landlords with bedsits and flats are over represented in this sample, possibly pointing to the housing market that has developed for period houses as single family homes for owner occupation. This does not necessarily mean that these landlords are leaving the private rented sector. Instead they may be changing the nature of their portfolio. Overall the very small size of the group wanting to sell property has to be taken into account, and in general the survey represents quite a stable set of landlords and property portfolios. Expansion of the private rented sector may therefore continue to come from new investors, repeating the patterns of the 1990s.

4.7.2 RECENT SALES OF PROPERTY

10% of respondents sold a property in the previous two years (between 1997 and 1998). The reasons for selling the properties are illustrated in Figure 4.10. The survey offered a response 'increase in price for

Table 4.3

Plans for Investment in 2000 – 2001 (%) n=1,157

	One	Two	3 to 5	6 to 10	over 10	Total %
Increase	47*	25	18	9*	1	12
Decrease	45	20	22	11	2	5
No change	63	21	13	2	1	74
Don't know	67	14	13	6	0	8
Total (%)	60	21	14	4	1	100
Base	698	240	165	45	9	1157

p value < 1% Pearson=38.153

houses that had been set in bedsits' in an attempt to try establish indicators of the anecdotal evidence from estate agents that HMOs are being sold and converted to single homes, but this possible answer attracted a single response only.

The issues of '*rent return not enough*' and '*rising house prices*' are the most important responses for selling property. Only a very small group accounting for 15 respondents are trying to end their time as a landlord.

4.7.3 ATTRACTION OF BEING A LANDLORD IN DUBLIN

Respondents were asked what is the most attractive feature of being a landlord in Dublin. 55% of respondents state that rent levels and increasing property values are the most attractive feature of the private rented sector. In the current housing market in Dublin, and indeed across Ireland, this response is not surprising. There are benefits for landlords accruing from both strong rents and rising property values.

At the same time 28% state that rising property values alone is the most attractive aspect of being a landlord in Dublin. This type of response tends to point towards

landlords who are involved on a more speculative level and therefore may be more likely to sell their properties if there are signs of a slip in the housing market. Conversely they may be waiting for the optimum selling point in the housing market in order to maximise their return on their asset.

There is no relationship between landlords who see rising property values as the most attractive aspect of being a landlord and the type of property owned by this group. On the other hand, this opinion is more likely to be expressed by landlords who first entered the private rented sector since 1995. In fact these landlords account for 48% of those who are most concerned with increasing property values. This is a very important finding which demonstrates how rising property prices is the increasingly common concern among new entrants to the private rented sector. These landlords have also contributed to rising prices due to creating increased demand for properties and at the same time they may not have the commitment to the private rented sector in providing a housing service.

This is an important factor in terms of the future development of the private rented sector, which has been largely pushed by the recent entrants to the sector in the 1990s. If there is a tendency for landlords to be overly concerned with increases in the asset price of their investment rather than in the actual operation of a letting service, then sections of the private rented sector will be vulnerable to any levelling off or fall in property prices. These landlords may take their profit and leave the private rented sector, and could therefore act as destabilisers of the sector. The issue of speculation and investment in the housing market is discussed further in chapter 6.

Figure 4.10

Reasons For Selling Rental Property n = 117



'Company Landlords' in Dublin – A Profile

5.1 INTRODUCTION

The report so far has focused on the vast majority of landlords that describe themselves as operating in the private rented sector as individuals. This chapter reports on the profile, views and attitudes of the remaining 4% of landlords described as being organisations/companies. The term 'company landlord' is used for this grouping of landlords as they are incorporated. Company landlords account for 47 responses and therefore care should be taken in relation to the figures due to the small numbers involved. Where more appropriate actual frequencies will be used.

Corporate landlords are important in view of their tendency to hold higher numbers of properties than individual landlords, but also because the existence of larger portfolios could bring interest from large scale institutional investors to buy over. Of course there are individual landlords who own substantial numbers of properties, whose portfolios may be of interest to large-scale investors also.

The basic details of the so-called 'company landlords' are as follows:

- 85% are private companies;
- 40% have residential letting as their core business;
- 48% have general property as their core business;
- 38% have over 10 properties, and 2 organisations report holdings of over 20 properties;
- 21% have only 2 or less properties, but these tend to be general property companies or charitable institutions; and
- 47% are operating as a landlord for over ten years.

5.2 PROPERTY PROFILE

Figures 5.1 and 5.2 illustrate the profile of property held by company landlords.

There are distinctive differences between the property portfolios of company landlords and individual landlords. 46% of the former group hold portfolios that feature a mixture of property types, which contrasts to 18% of individual landlords.

Figure 5.1
Property Type Held by
Company Landlord
n = 43

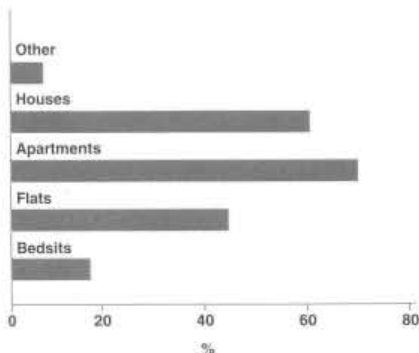
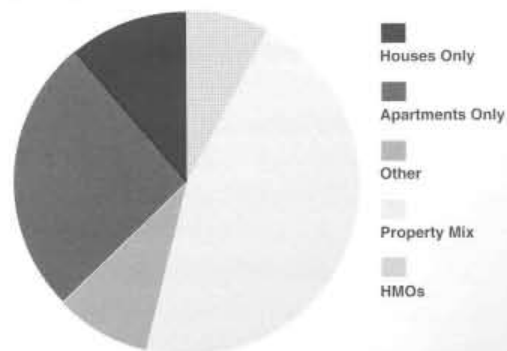


Figure 5.2
Type of Property Portfolio
n = 46



This can be related to the fact that companies tend to hold larger numbers of properties, and therefore there is greater scope to hold more diverse property portfolios. Apartments are also more dominant within this sector of landlords with 65% of respondents having apartments in their portfolios. It is often believed that only small landlords have HMOs but this research reveals that there are company landlords holding HMOs in their portfolio.

5.2.1 NUMBER OF PROPERTIES

In Table 2.5 calculations were made with regard to the number of properties that this survey covered. The same method of calculation has been used for company landlords.

From Table 5.1, on average each company has 4 properties from estimate A and 6.5 from estimate B, which is by far higher than the 1.9 average for individual landlords. Therefore whilst companies may account for a very small proportion of the sector overall, in terms of contribution in properties in relation to size, they can be relatively important suppliers, but are still small players in the overall private rented sector.

5.3 RENTAL ISSUES

In relation to rent setting, there are some differences between the methods used by company and individual landlords, but

largely both use the 'going rate' as their main indicator. Figure 5.3 illustrates the responses of both sets of landlords. In examining the differences between responses, the small number of company landlords included in the survey must always be kept in mind.

The differences in approach to rent setting that are evident between the two types of landlords are the greater use of rental yield and solicitors by companies and the lower use of non-market factors such as mortgage and costs compared to individual landlords.

Figure 5.3

Rent Setting by Company and Individual Landlords

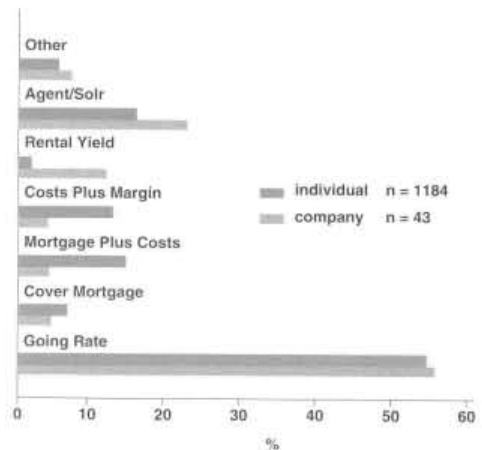


Table 5.1

Number of Properties held by Company Landlords

	No. Properties A	% Properties A	No. Properties B	% Properties B
HMOs	62	34	88	30
Apartments	47	25	100	33
Houses	71	38	108	36
Others	2	1	2	1
Not allocated	3	2	3	1
Total	185	100%	301	100%

5.3.1 FREQUENCY OF RENT INCREASES

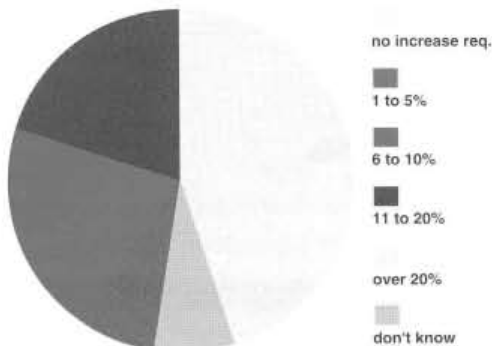
Survey results for the frequency of adjustment of rents by company landlords largely mirror the findings for individual landlords. The results are:

- 48% adjust rents annually;
- 4% adjust rents more than twice a year;
- 26% adjust rents less often than every year; and
- 21% adjust rents every time a tenant leaves.

65% of companies state that rents cover costs, which is lower than the 76% of individual landlords surveyed. After costs, only 33% (10 respondents) agreed that rents give an acceptable return on their investment. All respondents were questioned about increases required in rent levels to meet investment needs. The results are illustrated in Figure 5.4.

In comparison to individual landlords, company landlords are seeking larger increases in rents overall. Only one in four respondents believe that a rent increase is not necessary to meet return-on-investment expectations compared to one in three of the individual landlords. This possibly

Figure 5.4
Rent Increases required by Company Landlords for Investment Purposes
n = 45



reflects a business approach whereby the rent levels are under constant review and increases for investment purposes will be required. Considering the numbers that state rents are either not covering costs and the 48% stating that rents give an acceptable return, there is a clear indication of the level and potential for rent increases by company landlords.

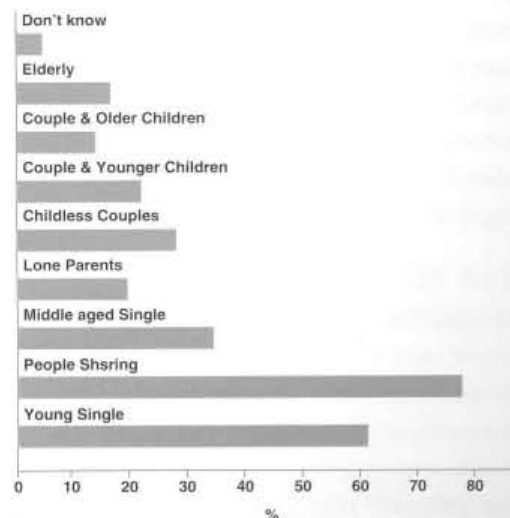
5.4 TENANTS AND COMPANY LANDLORDS

5.4.1 TYPES OF HOUSEHOLDS

Figure 5.5 illustrates the type of households to whom company landlords are letting.

By far, the majority of respondents are letting to young single people, and people sharing accommodation. However, when compared against the individual landlords, the company landlords have a higher propensity to let to people sharing, those in middle age and sharing, couples with children and the elderly. This inclination to let to households with children may partly be a reflection of the property portfolios

Figure 5.5
Type of Household to Whom Company Landlords are Letting
n = 43



held by the companies in that they may hold more houses, due to their tendency to have larger more mixed portfolios than individual landlords.

16% of the responses by company landlords indicated that they let property to the elderly. This compares with a figure of 7% for individual landlords.

5.4.2 TYPES OF TENANTS

Figure 5.6 illustrates the types of tenants to whom company landlords are currently letting. As with the individual landlords, company landlords overwhelmingly favour letting their property to employed tenants. However, company landlords distinguish themselves from individual landlords in their letting practices in relation to refugees/asylum seekers.

While the actual number of company landlords responding to the survey is very small, a total of 23% of landlords are letting to asylum seekers and refugees as compared with 6% for individual landlords. While the vast majority said that they are letting to refugees as opposed to asylum seekers, it is possible that these refugees are actually asylum seekers as there is often confusion about the meaning of these terms. It is possible that these company landlords have entered into agreements with the ERHA to supply accommodation to refugees and asylum seekers, in the form of emergency accommodation status. Emergency accommodation does not fall under the regulations of the private rented sector.

5.4.3 TENANT PREFERENCES

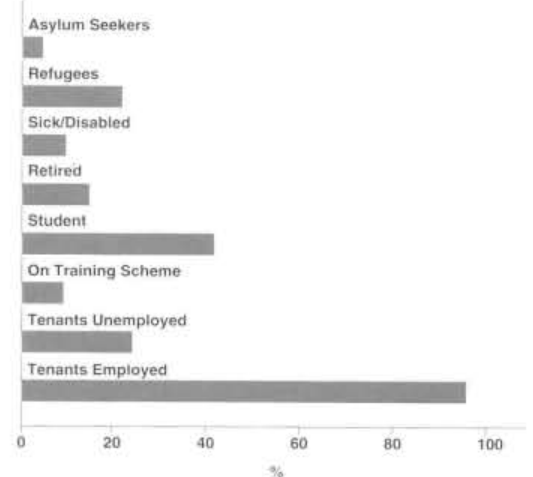
This section explores the issue of preferred tenant type for so-called company landlords. Respondents were requested to specify, from a number of options, two aspects of tenant characteristics and circumstances that influence their letting decisions.

Most company landlords only offered one characteristic i.e. employed tenants. Figure 5.7 illustrates the importance to company landlords of tenants in employment. They are by far their preferred type of tenant. The provision of good references by tenants is also considered to be a positive tenant attribute. Therefore, a combination of an employed tenant furnishing good references is an ideal tenant type for company landlords.

The comparisons between the attitudes of company landlords and individual landlords towards the characteristics and circumstances of tenants are striking. In section 3.4 the individual landlords indicated a definite preference for tenants in employment, with the provision of good references as also highly desirable. Therefore these findings raise issues surrounding the supply and access to suitable decent accommodation for unemployed tenants and tenants with children. Perhaps the most glaring omissions in relation to the type of tenant preferred by company landlords are the elderly and those in receipt of the rent supplement.

Figure 5.6

**Type of Tenants to Whom
Company Landlords are Letting**
n = 44



5.4.4 COMPANY LANDLORDS AND THE RENT SUPPLEMENT

Company landlords in this survey were requested to respond to a number of questions on rent supplement. 90% of company landlords responding to the survey are aware of the existence of the rent supplement yet only half actually accept tenants in receipt of the supplement. This finding in relation to company landlords is virtually identical to that of individual landlords.

Once again, as with individual landlords, there is sensitivity in questioning respondents for their reasons for not accepting tenants on rent supplement. Only 16 of the 46 company landlords in the survey gave a response to this question. The format of the question was multiple choice and of the 16 respondents, Figure 5.8 clearly demonstrates that social and behavioural perceptions of tenants are foremost in the policy of not letting to rent supplement claimants.

5.4.5 NATURE OF TENANCY

The type of tenancy agreements that are entered into by company landlords very much reflect the findings for individual landlords. The results are:

- Fixed term 82%
- Periodic 9%
- Both 9%

In terms of duration of tenancy, the company landlords reported the following pattern:

- Under 6 months 2%
- 6 months to 1 year 25%
- Over 1 year to 2 years 42%
- Over 2 years 24%
- Varies greatly 7%

One quarter of company landlords have tenants staying for over two years demonstrating a stable set of tenants, using their accommodation for more medium term housing.

Figure 5.7
Importance of Tenant Characteristics and Circumstances to Company Landlords (n = 43 (Reply 1) & 41 (Reply 2))

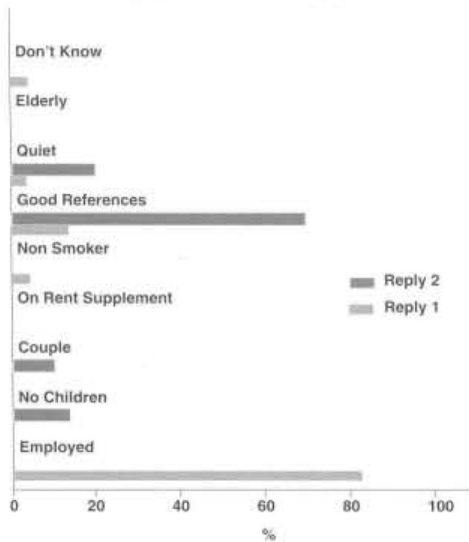
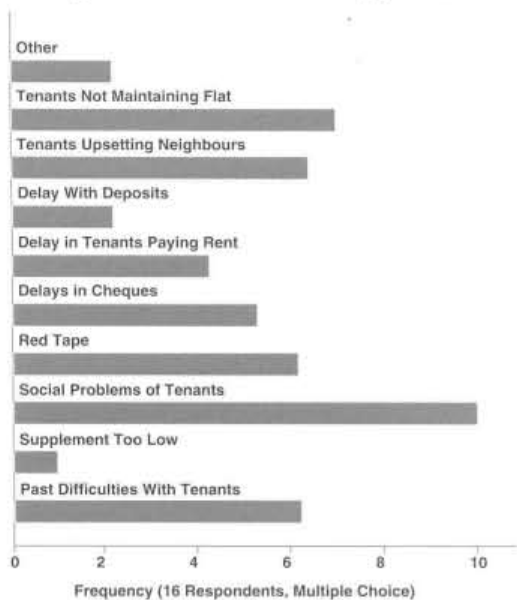


Figure 5.8
Reasons for Company Landlords Not Letting to Tenants on Rent Supplement

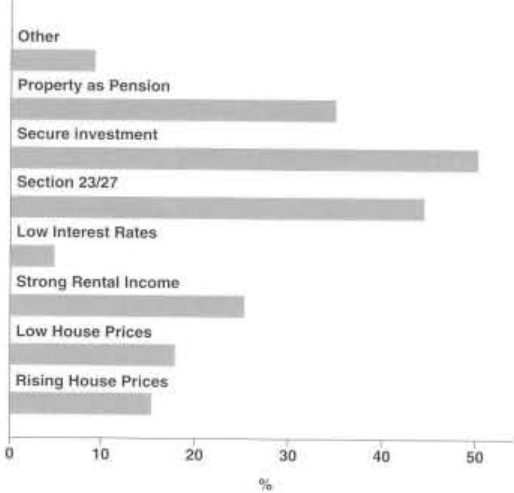


5.5 ATTITUDES AND
MOTIVATIONS TOWARDS
OPERATING IN THE
PRIVATE RENTED SECTOR

Figure 5.9 illustrates the financial reasons given by company landlords for entering the private rented sector.

Company landlords entered the private rented sector because property is seen as a secure investment, and also property is perceived as an investment for a pension. The strong showing of the link between property and pension in a company setting

Figure 5.9
**Reasons for Company Landlords
Entering the Private Rented Sector**
n = 45



possibly reflects the fact that the company landlords could be operating in a small business framework. Section 23 incentives have been a greater factor for company landlords becoming involved in private residential renting, at a rate of 42% compared with 29% of individual landlords. Finally rental income is not as strong a motive for entering the private rented sector as might have been expected.

The company landlords were asked why they are still in the private rented sector and the results are somewhat mixed. This is probably due to the fact of the inclusion of

Figure 5.10
**Reasons for Continued Investment by
Company Landlords in the
Private Rented Sector**
n = 45

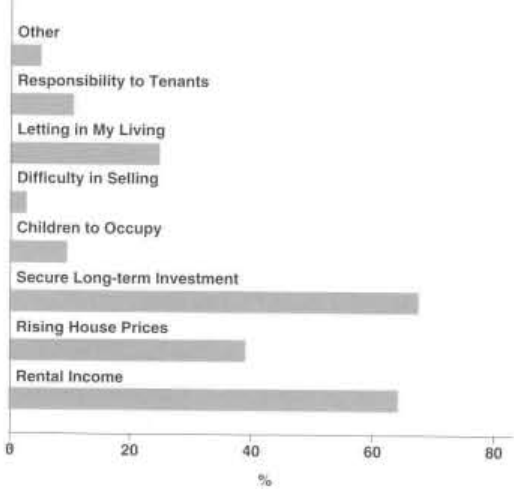


Table 5.2
Attitudes toward potential tax changes – Company Landlords n= 42

Proposed Financial/ Tax Changes	Mean
a higher rent supplement	2.12
higher tax relief for tenants	2.79
less tax on rental income	3.88
lower CGT on the sale of property	3.38
repair and maintenance grants	3.14
landlords to have the same tax treatment as a small business	3.38
expansion of Section 23 tax relief	2.79

some charitable institutions and general property companies in the sample.

Figure 5.10 charts the results.

Rental income becomes a key issue for remaining in the private rented sector, alongside rising house prices. This is a very similar result to that identified for individual landlords. The element of secure long-term investment still outstrips the other motivations for operating within the private rented sector.

5.5.1 ATTITUDES TO TAX AND RELATED ISSUES

A series of statements in relation to tax issues, were put forward and the respondents gave a mark out of five to indicate whether these issues were important to them. A mark of 1 means that the issue is 'not important at all' to them, whilst the top mark of five meaning that the issue is 'very important'. Table 5.2 reports the results of this marking system in terms of the mean score achieved for each statement.

Due to the small number of company landlords in the sample, it is difficult to make comparisons on mean scores with the individual landlords. When the results in the above table are compared with individual landlords they are broadly similar. There is some evidence of a higher level of support for an increase in rent supplement payments, but nothing of a significant nature. In terms of landlords having the same tax treatment as other businesses, it might have been expected that a higher score would have been achieved. This response may reflect that the tax treatment of landlords is not the big issue for landlords' investment as interest groups have made this out to be.

5.5.2 ATTITUDES TOWARDS REGULATIONS

Briefly this section examines the responses by company landlords to issues relating to regulations, financial structures and proposed reforms to the private rented sector.

5.5.3 FAMILIARITY WITH CURRENT REGULATIONS

The four key regulations associated with the private rented sector were put forward to company landlords and the response from the 46 organisations surveyed was as follows:

- 85% are aware of requirement for rent books;
- 63% are aware of the minimum standards for the private rented sector;
- 61% are aware of the requirement of a 28 day written NTQ for periodic tenancies; and
- 94% are aware of the requirement to register with the appropriate local authority.

These findings are largely in line with those for individual landlords and again particular aspects of concern are the 37% of respondents who are not aware of the minimum standards and the 39% unaware of the requirement of the 28 days written NTQ for periodic tenants. The latter is probably to do with the dominance of leases. At the same time these companies are operating in the private rented sector as a business, or part of a wider property business, and there are few excuses for not being aware of the legislation that relates to their business activity. Their information levels are largely no greater than those of the individual landlord. These information gaps put a question mark over their professionalism and the service being provided to their tenants.

5.5.4 REGULATIONS AND RENTS

36% of respondents believe that the regulations listed above have led to increased costs. This group linked most of these additional costs to upgrading and maintenance issues. Two-thirds of the respondents state that they do not add these additional costs onto the rent, which reflects the response generated by the individual landlords.

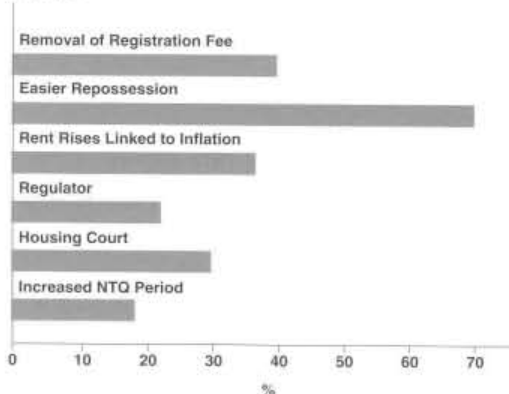
5.5.5 ATTITUDES TO THE INTRODUCTION OF NEW REGULATIONS

Figure 5.11 illustrates the response by the company landlords to changes in the regulation of the private rented sector.

There are some interesting differences between company and individual landlords in this area. The particular responses that stand out are the higher support for easier repossession and the lower support for the removal of the registration fee by company landlords when compared to the responses of individual landlords. There is little support for rent rises linked to inflation presumably due to the large rent increases, which can be availed of in the current market and the extent of increases sought by company landlords.

Figure 5.11

Support by Company Landlords for Regulatory Changes n = 45



Overall interest in increased regulations is rather muted by the company landlords. Although routes to easier repossession are welcomed, these are not related to the establishment of a Housing Court.

5.5.6 FUTURE PLANS OF COMPANY LANDLORDS

Respondents were asked what is the most attractive feature to them of being a landlord in Dublin. 46% state that the combination of rents and rising property values is the most attractive aspect to being a landlord in Dublin. A further 38% state that it is the increasing value of property only that makes investment attractive, whilst 14% (6 respondents) opt for rent levels achieved as the key attraction. These results show the dominant role that rising property prices are playing in maintaining company landlords in the private rented sector, with the issue of strong rental income very apparent also, as reflected in previous multi-choice questioning of the attractions of continuing investment in the private rented sector.

The respondents were then asked what their investment plans are for the next two years. 9 respondents (20%) state that they plan to increase their investment, whilst 32 respondents (73%) state that their portfolio will remain the same.

There is little evidence of company landlords expanding to provide further accommodation.

Searching for Solutions for Building a Better Private Rented Sector

6.1 INTRODUCTION

As Ireland takes its place with the advanced economies, maintaining labour competitiveness is paramount and therefore an efficient and affordable rental system is essential, be it based in the not-for-profit, the private sector or both. In order for this to be achieved and the prevailing difficulties in the private rented sector tackled, legislative reform of the private rented sector is required alongside targeted long-term investment strategies for investors. This chapter sets out the recommendations for the building of a better private rented sector, necessary for a flexible and growing economy. Reference is made in this chapter to the findings of the survey but the full summary of the findings is reported in the executive summary.

In March 2000 a summary of the findings of this study was published and Threshold existing policies have been re-visited in light of the research findings and new policies developed. The research findings on the profile, behaviour and motivations of landlords in Dublin have brought new information into the debate on the private rented sector in Ireland, gathered directly from landlords.

The discussion and recommendations towards building an improved private rented sector are divided into the following headings:

- a vision for the private rented sector;
- speculation in the housing market by landlords and home owners;
- taxation and investment in the private rented sector;

- the tenant landlord relationship: security of tenure, rent levels and dispute resolution mechanisms;
- promoting investment at the lower end of the private rented sector; and
- promoting property management and professionalism.

6.2 DEVELOPING A VISION AND CENTRAL ROLE FOR THE PRIVATE RENTED SECTOR

The private rented sector is an essential housing option for a range of households across Ireland, particularly in urban areas. Private renting in the 1990s can no longer be seen as only transitional, but as a provider of housing for many households for the medium and long term. Therefore the Government has to adopt a vision for the private rented sector and ask whether this sector is to continue to grow as a considerable housing provider. If this is so a strengthening of the underpinning of the private rented sector is required, which must include legislative reform of residential tenancy law.

The vision for the private rented sector presented in the Report of the Commission on the Private Rented Residential Sector¹ is:

a vibrant, thriving, well-managed and diverse sector which satisfactorily meets a range of housing needs, provides an adequate supply of secure, affordable, good quality accommodation and operates within a regulatory framework which protects the interests of tenants and landlords (p.145)

1 For the remainder of the chapter this report will be referred to as the Commission report

This vision for the private rented sector appears to capture the key elements of a functioning private rented sector, but does not mention the manner in which the dwelling units of the private rented sector are to be delivered i.e. large-scale or small-scale investors; profit and/or non-profit providers. The following additions to the vision for the private rented sector are recommended:

The Government to adopt the vision of the private rented sector's role as set out in the report of the Commission on the Private Rented Residential Sector. But then go further by:

- (a) **making a clear statement on the importance of the role of the private rented sector in the overall housing system;**
- (b) **clearly indicating that the Government wishes to see the expansion of the private rented sector; and**
- (c) **indicating the nature in which supply in the private rented sector will be encouraged.**

This type of statement would bring certainty to the private rented sector for both landlords and tenants.

6.3 LANDLORDS AND OWNER-OCCUPIERS: WHO IS PLAYING THE SPECULATION GAME?

Before discussing specific issues such as investment and taxation reform in the private rented sector, it is important to examine the issue of speculation and operation of the housing market and how this has influenced the Government's housing policy. Speculation in the housing market became a high profile issue due to

the third Bacon report and the temporary instatement of an anti-speculative property tax on landlords who do not comply with the conditions of the Housing (Miscellaneous Provisions) Act 1992. The Government subsequently abolished this short-lived tax in the Finance Act 2001.

If speculation in the housing market is creating a house price bubble, this will undermine the stability of the market, which will lead to a fall in house prices. Whilst accepting the high level of demand in the Irish housing system at present which pushes up house prices and rents in the private rented sector, speculation on the housing market carries with it very serious repercussions in terms of attempting to bring a market into equilibrium. Therefore the nature of speculation, investment and consumption requires greater understanding if the housing market is to be stabilised.

Bacon (2000:10) identifies speculators in the Irish housing market, on two levels:

1. individuals taking a view about prospective house prices and buying residential property, as opposed to another form of investment
2. a transitory increase, following from demand being brought forward, so as to avoid expected future price increases

Bacon perceived these types of activities as disturbing the opportunity for the housing market to stabilise, and sought the removal of such 'speculators' from the market place through the introduction of an anti-speculative property tax. In doing so he only applied the speculative nature of purchasing residential property at the feet of landlords and prospective landlords. This approach is flawed because some owner-occupiers are speculators and not all landlords are speculators.

6.3.1 LANDLORDS - SPECULATION AND INVESTMENT

In an examination of the profile of landlords in the USA during the depression of the 1930s, Dennis (1995:307) uses the broad distinction between speculative landlords and investment landlords. He describes speculative landlords as those 'whose reason for owning house property was their anticipation of future capital gains' and investment landlords as being 'content with a regular income from monthly rents'. The issue is more complex as one can be a speculator initially and then become a long-term investor. Dennis believes that this is particularly true where the purchase involves property rather than just land, the former being the case for private landlords (and home owners).

In terms of the research on the economic behaviour of landlords in Dublin there is good evidence that a large set of landlords is remaining in the private sector due to the win-win combination of high capital gains and strong rental incomes. 55% of landlords supported this statement which demonstrates Dennis' point that where property is involved it is very difficult to draw a line between speculation and investment motivations regarding the purchase of residential property. The Dublin survey revealed that 17% of landlords are attracted by the rental income and fall clearly into the 'investment' landlord category. The more obvious speculative landlords are the 28% stating that the main attraction is capital gains and importantly landlords who have only entered the private rented sector since 1995 are most likely to give this response (Section 4.7.2). This points towards a set of recent first time investors in the private rented sector who may only be staying in the sector to make a fast return on capital appreciation. The

research demonstrates that with experience the investment attractions of private renting, i.e. rental income, gains a stronger position within landlords' economic motivations for remaining as landlords (Section 4.3).

This survey of Dublin landlords appears to represent a quite stable set of landlords. There is very little evidence of intention to sell off properties in the short-term, exhibiting a more medium to long term commitment to the sector albeit these views were expressed in a very buoyant housing market for both residential property and private letting. External factors could change the economic behaviour of landlords if the housing market begins to stall as the Irish economy slows down. The truly speculative landlords will then emerge, by selling their properties in order to maximise the return on their investment. The more investment driven landlords will hold onto properties, collect their rental income and continue to invest in the long term knowing that overall residential property offers a secure investment and a hedge against inflation. Considering the very high levels of landlords in this study who invested initially in a growing and booming housing market, there will be uncertainty for the private rented sector when the property market slowdown occurs, as investors will have to decide their strategy in a different investment environment.

6.3.2 HOME OWNERS - SPECULATORS, INVESTORS, CONSUMERS?

Housing is a complex social good. For those who choose home ownership over renting, be it in the private or social sector, the additional investment elements such as capital gains and financial treatment meet consumption factors expressed in the need for shelter and accommodation as a basic human necessity.

The apparent conflicting issues of consumption and investment can co-exist, but both these elements have a bearing on an individual's behaviour generally determined by external issues such as house price movements, government housing policy, interest rates etc. Ford and Seavers (2000:21) discuss the importance of consumer confidence in borrowing for home ownership, in terms of confidence in their personal circumstances and in the housing market.

Ford and Seavers (2000) state that the behaviour of borrowers, essentially home owners in their study, functions on the basis that 'while attitudes set the broad context, borrower's behaviour is responsive to shorter term changes in the economy, and their own personal circumstances'. This comment relates to employment certainty, interest rate increases, continuance or arrival of a 'feel good' factor.

Munro *et al* (1998) demonstrated how in a buoyant housing market, investment issues will over-ride the consumption issues as phrases such as a 'step on the ladder' become more common and the continuing strong increases in house prices generates a distinctive feel good factor for homeowners. In times of stagnant and/or falling house prices the emphasis switches to the house being a consumption good and a home for the future rather than as an investment vehicle. This is the ontological security associated with home ownership but at different times the essence of being a home owner shifts between house as home and house as investment vehicle.

In the Irish context of a booming housing market there is little to deter home owners moving about in the housing market in order to accumulate capital on their primary

residence. This can often result in under-occupation of residential property. These owner-occupiers are speculating on the housing market when they are making economic decisions based on investment and return, more so than on defining a consumption need in terms of house as home. These home owners may also be making judgements about the rising cost of property which they may desire to live in the future and therefore move sooner in the housing market than otherwise necessary. In doing so, the decision may then be made to pay over the market rate for the property. In both of these scenarios home owners are acting as speculators, and using their own home as the basis for their speculative activities. The absence of property tax and the reduction of stamp duties during a housing market boom have assisted this type of activity.

6.3.3 TACKLING SPECULATION IN THE HOUSING MARKET

The previous sections demonstrated that speculation on the housing market is not necessarily the preserve of landlords. Homeowners can also be property speculators and not all landlords are speculators.

In *Action on Housing* following Bacon (2000), the anti-speculative property tax (2% rate) was introduced. But if landlords were compliant with legislation governing the private rented sector, then the tax was not payable. Therefore speculation was being defined in relation to landlords abiding by regulations, with the Government and Bacon making a presumption that speculative short-term landlords do not register with local authorities.

The removal of the anti-speculation property tax through the Finance Act 2001

could be attributed to a series of factors, namely:

- opposition to this tax from the Commission on the Private Rented Residential Sector, published one month after *Action on Housing*;
- lobbying to abolish this tax from voluntary sector organisations, IPOA and the IAVI among others;
- evidence of slow down in supply in the private rented sector and continuing large increases in rent levels reported by estate agents.

If the Government had any intention towards limiting speculative activity in the housing market in a bid to curb house prices, the anti-speculative property tax was not going to deliver this goal.

No similar tax is applied to homeowners who operate in the housing system in a speculative manner i.e. there is no property tax in place to discourage over-expenditure and under-occupation of housing by home owners. Property taxes are a means of re-balancing asset wealth and creating steady positions in the housing market, in the attempt to curtail rapid price inflation. Property tax can also act as a mechanism to re-distribute wealth in society. The existence of a property tax would also make investors think twice about over-paying for property and have a calming influence at different points in the housing market.

The Government through continual reductions in stamp duty rates for home owners since 1998 in the height of the housing boom, cut the transaction costs and consequently allowed first time buyers to pay higher prices for houses and brought more people into an overcrowded market.

Action on Housing introduced an increased stamp duty rate to 9% for all property purchased by investors whilst reducing stamp duty rates for first time buyers and movers. The stamp duty rates for investors were revised in the Finance Act 2001 and those investors buying new build pay a 3% rate while stamp duty remains at 9% for investors purchasing second hand properties. The Government by charging the higher rates of stamp duty on second hand properties, penalises the investor and therefore the tenant, in an attempt to discourage investment in the private rented sector, and releasing more property for home owners.

It appears that politically the first time buyers are the most important group for the Government. At no point in the development of these two measures is there any consideration for tenants in the private rented sector; instead the growth of the private rented sector is seen as an impediment to the promotion of home ownership.

If the aim of the Government is to remove speculation from the housing market, then a series of measures have to be designed which curtail home owners acting as speculators and encourage a long term approach by landlords (section 6.4). In order to deter speculation by owner-occupiers and curtail the continual increases in house prices, there is a need for a form of property tax that partially shifts the tax burden from personal income to housing in order to generate more efficiency in the housing system. (OECD, 1999; Memery 2000) A simpler step, but one with a more limited impact is to increase stamp duty in order to calm down house prices (Memery 2000; Ball, 1999). The absence of stamp duty on new build property for home owners is a

left-over legacy from past government support for the construction industry, particularly in the 1970 – 1990 period, which saw an expansion of home ownership from 60 to 80%. (Murphy, 1995). It is very debatable that the construction industry needs this continued type of state support. The current stamp duty system in Ireland has become extremely complex due to the variation in the treatment of purchasers and new build and existing houses. Therefore the following recommendation is made:

A single set of stamp duty rates to be applied across all residential property transactions, whether new-build or existing stock, and across all types of purchasers whether investors or home owners.

6.4 RESIDENTIAL LETTING – TAXATION AND FINANCIAL INCENTIVES

Residential property has always been a tax shelter for homeowners in Ireland through the fiscal measures adopted by successive Governments. In the 1990s residential property became a particularly attractive tax shelter for investors supported by the Section 23 tax incentives. This brought a new breed of landlords into the private rented sector who purchased their first investment property in the 1990s. This growth in new entrants into the private rented sector has been discussed extensively through the report. This section now examines the taxation issues surrounding investment in the private rented sector and the recommendations for further reform in this area in order to encourage the expansion of supply. These recommendations take into account the Commission Report and the new taxation arrangements for investors in the private

rented sector as a consequence of the Financial Act 2001.

6.4.1 TAX TREATMENT AND STATUS OF LANDLORDS

The findings of this study demonstrate that 41% of individual landlords are employed full-time, 30% are self-employed in non-landlord sector and a further 16% are retired. Only 6% described themselves as being self-employed with letting accounting for their main income (Table 2.1). Overall only 4% of the respondents were described as organisations involved in residential investment and letting. These findings should be kept in mind when considering the tax treatment of landlords discussed below.

Firstly the manner in which landlords were treated under the tax system at the time the research was conducted (October 1999) is set out below, adapted from the Commission Report:

1. Rental income tax liability is dealt with as non-trading or passive income known as Case V within the income tax code. This categorisation is also the same for companies with either commercial or residential property from which they receive a rental income. A landlord can offset non-capital expenses and costs against their rental income. This is ring-fenced to prevent these items being offset against other earnings, such as employment income.

According to the Commission report, the rules surrounding the definition of capital costs (and therefore non-deductible) and revenue costs are complex and in addition are structured in a manner that could be discouraging landlords from improving their properties.

2. In 1997 landlords received an additional support through the introduction of tax relief on wear and tear of fixture and fittings. Management costs are also tax deductible.

3. Landlords can offset the registration fee of £40 to local authorities per unit of accommodation against their tax liability.

4. Capital Gains Tax is paid at the rate of 20% from a rate of 40% charged in 1998.

5. Since 23 April 1998 landlords cannot offset interest on borrowings for property purchase or repairs for tax purposes, although transitional arrangements are in place for tax relief on interest incurred on borrowings prior to this date.

Section 23 tax incentives are still available for landlords in designated areas even after their supposed curtailment following Bacon report (1998). Since 1981 there have been several versions of this incentive, but by 1988 Section 23 allowed for 100% of capital costs to be offset against all the rental income of a landlord. A clawback exists if tenure changes within a 10 year period. Section 23 type incentives are to be found at present in areas with an Integrated Area Plan (IAP), the Rural Renewal Scheme and in small towns through the *Town Renewal Act 2000*. Therefore there are still considerable opportunities for landlords to avail of Section 23 properties.

In the Finance Act 2001 the following additional tax treatments were introduced:

1. Refurbishment works classified as capital expenditure, in addition to routine maintenance work, can be offset against rental income for tax purposes.

This new allowance for capital expenditure linked to refurbishment will reward landlords with a greater incentive to upgrade their properties, and improve the quality of their accommodation eg replacement of windows. It is too early to say what the impact of this allowance will be on the quality of accommodation in the private rented sector.

2. Roll over relief on Capital Gains Tax available where the proceeds of the sale of an investment property are invested in another investment property provided that:
 - the landlord derives a minimum percentage of income from the business, and
 - the reinvestment property contains a minimum of 3 units and at least as many units as the disposed one.
3. Interest payments on money borrowed is allowable for tax purposes where:
 - the property had been converted from a single unit into multiple units of 3 or more prior to 1st October 1964 (i.e. when the 1963 Planning legislation came into force)
 - the property consists of at least 3 units and the total number of units is not reduced below 50% of the number of units at the time of acquisition
 - at least 50% of the units in the property are available for letting to tenants in receipt of SWA

- assistance or any revised rent assistance arrangements which are put in place
- the relief applies to the tax liability on the rental income only.

The two sets of measures above are targeting properties, which have been subdivided and therefore provide additional units for letting. It appears that this set of measures has been introduced to prevent the decline in the number of small flats and bedsits available. There is evidence from estate agents that during the housing boom, HMOs are being purchased and returned to single family homes. Therefore an important source of relatively affordable accommodation is being lost from the private rented sector. These measures are important steps forward in the Government recognising the importance of HMOs to the lower end of the private rented sector and the reluctance by landlords to rent to rent supplement beneficiaries.

4. Entitlement to any tax incentives or reliefs is dependent on compliance with the applicable regulatory controls and to registering tenancies with the proposed Private Rented Residential Tenancies Board.

This measure is very important in order to bring landlords into the regulatory environment where local authorities have been struggling to ensure compliance.

The government's budget in December 2000 introduced a 'Rent-a-Room' scheme as a supply measure. Owner-occupiers can let rooms in their homes and receive up to €7,620 per annum in rent tax-free. The property is exempt from Capital Gains Tax upon sale of the property.

6.4.2 TAX TREATMENT OF LANDLORDS – REFORM OPTIONS

In the Commission report it is suggested that in relation to tax reform for landlords, a landlord could be considered to be operating as a residential business when the Revenue Commissioners are satisfied that there is a legitimate business whereby the properties are being 'actively managed' (p.160). No further explanation is given as to what 'actively managed' entails. The survey of landlords reveals that 41% believed that having the same tax treatment, as a small business is important to them (Section 4.6.1).

The proposals put forward in the Commission report in relation to tax treatment as a result of a landlord being categorised as having a legitimate business are:

1. in certain specified categories of private rented accommodation where landlords' property portfolio are actively managed, all expenses can be treated in the same manner as other business, including interest payments;
2. roll over relief on CGT should be made available;
3. refurbishment which is classified as capital expenditure can be allowable against tax on rental income, with a clawback period of 10 years should the property be removed from the private rented sector;
4. business relief from Capital Acquisition Tax, on inheritance of rented property, where at least 80% of the inheritor's income is derived from the inheritance; and

5. equal treatment for inheritor of family property which then enters the private rented sector. (p.161)

The Department of Finance representative in the Commission did express concern regarding the possible inflationary impact of these measures on the wider housing market (page 174-175).

In spite of the revised tax treatment introduced for private landlords in the Finance Act 2001 the issue regarding the ability of landlords to offset rental income against monies borrowed is still outstanding and the issue of roll-over relief on CGT only partially allowed for properties of three or more units. To fully address these issues, there is a basic point that has to be decided and that is the defining and establishment of a business status that some landlords are able to qualify for. Therefore it is recommended that:

Business status for landlords of residential property be awarded to companies/individuals that are solely operating a property letting service and in the case of individuals are not actively earning income elsewhere. Business status requires proof that the landlord is abiding by regulations.

Tax Allowances

Following the curtailment of tax relief on interest incurred on borrowings by landlords, the IAVI and IPOA believed that rents increased due to this measure as landlords attempted to maintain their returns. There are several questions that are raised from this analysis of an association between interest rate deductibility and rising rental levels.

1. Did the removal of tax relief on interest on borrowings cause landlords to increase their rents post Bacon 1?
2. Were the increases in rents a function of demand for the private rented sector due to demographic growth and rising house prices?
3. How many investors were actually affected by this measure i.e. how many investors are cash buyers, have no outstanding borrowings in relation to their properties, or are covered under the transitional measures introduced in April 1998?
4. How many investors actually sold out due to the change in tax treatment for interest on borrowings?

Whilst all these questions are inter-linked, without an understanding of the dynamics of the private rented sector, statements correlating rent increases with reductions in tax relief cannot be proven. The survey of Dublin landlords clearly demonstrates how the 'going rate' and 'local rents' are the key factors in both setting and raising rent levels. Many other factors feed into the determination of rents in the open market, influenced by high levels of demand due to increased population, high levels of household formation, rising house prices and severe shortage of local authority housing. It is in comparison with other investments that the issue of interest relief on borrowings can influence an investment decision where that investor has the choice available to him/her.

McCashin (2000) believes that the abolition of interest deductibility on borrowings for rental property could be reviewed and proposes that limits be

imposed on the amount of borrowing that could be allowable for taxation deductibility purposes. The amount of interest deducted could be related to the length of time that the property will be in the rental market or to the level of the rent charged.

In light of the considerations above and the changes of landlords' taxation treatment introduced through the Finance Act 2001, the following recommendations are made:

Interest payments on money borrowed is allowable for tax purposes where landlords have business status, limited per property to prevent distortion in the wider housing market. However it would also apply to any landlord who provides affordable, secure accommodation for tenants on S.W.A. rent supplement.

6.4.3 TAX INCENTIVES FOR INVESTMENT IN RESIDENTIAL PROPERTY

The main vehicle in Ireland for the encouragement of investment into residential property has been the so-called Section 23 tax incentives and variants thereof.

There is insufficient research information on the impact of Section 23 incentives. An investment vehicle, which brought new life to the inner cities and has assisted urban renewal in the stagnant housing market of the late 1980s, early 1990s, is not necessarily an appropriate vehicle for renewal in a booming housing market of the 2000s. In the current market it may appear that Section 23 is being capitalised into the price of property carrying this type of designation, which reduces the tax advantage to either investors or potential homeowners. The winners in this scenario are always the property developers, whilst

investors have to keep pushing up the market rents in order to meet their investment costs and required returns.

It is difficult to see how the expansion of Section 23 tax incentives is required in the current housing market in order to encourage investment be it by home owners or landlords. Instead integrated responses to urban and rural renewal should be developed which emphasis community based housing in the non-profit and co-operative sector rather than presenting further tax incentives for landlords and home owners. The results from the Dublin survey demonstrate that the attitude of tax incentives for investors is mixed with 42% stating that expansion of Section 23 incentives as not being important to them, although 60% of respondents in receipt of Section 23, believed that further expansion would be important to them (4.6.1).

The recommendations regarding Section 23 and related tax incentives for residential property investment are:

Access to Section 23 tax incentives already designated, to be dependent on investors demonstrating compliance with the regulations governing the private rented sector.

The claw-back period for Section 23 and other financial packages, which may be developed for the private rented sector, to be increased from 10 to 20 years. This would be in line with the clawback period under the affordable housing scheme in Section V of the *Planning and Development Act, 2000*.

The DoELG and the Dept. of Finance to jointly commission an evaluation of the impact and cost of Section 23 tax incentives in order to establish its

applicability to the current housing market for both investors and home owners.

6.4.4 PROMOTING INSTITUTIONAL INVESTMENT

The research has demonstrated how many small landlords dominate the private rented sector in Dublin. Investment in private rented housing could also come through institutional investment, using either debt or equity funding, but firstly the development of residential letting companies with strong portfolios would have to be encouraged. These portfolios are required for purchase by institutional investors who would in general not be interested in buying properties on an individual basis.

The conclusions of the Commission on the Private Rented Residential Sector in relation to institutional investment were quite vague. Analysis of investment was minimal, particularly in relation to developing financial packages, understanding rental yields and the need for intermediate property companies as a precursor to such investment. The conclusions of the Commission are (143-144):

1. institutions are unlikely to invest directly in the private rented sector;
2. institutions, if investing, would focus on the upper end of the market if no appropriate incentives were in place;
3. large-scale investment would most likely only come from companies with an international portfolio of residential properties if the legislative framework in Ireland was similar, the rental market mature and rent yields significantly above current levels;
4. In order to make the private rented sector attractive the long-occupation equity clause would have to be

abolished, dispute resolution mechanisms put in place and the general tax measures suggested by the Commission adopted;

5. Institutional investors would have no experience of management of residential property. Other specific measures that might attract corporate investment are development of property management through the voluntary housing sector and residential investment vehicles based on securitisation (pp.143-4).

In the context of the British situation, which is in many ways very similar to Ireland in terms of the size of the private rented sector, and dominance by small landlords, Crook and Kemp (1999) identify the nature of investment vehicles that are required to introduce equity funding into the private rented sector, following the development of corporate residential provision.

1. Create a tax transparent vehicle - tax-exempt residential letting scheme (TERLS) - which would enable investors to receive their returns free of tax from the investment vehicle itself. This is because these institutions do not have a tax liability on the commercial property that they receive returns from. The individual would be taxed under the usual measures of their tax liability.
2. Introduce an industry-wide code of practice setting out the minimum standards for the management and maintenance of privately rented premises in order to build confidence in the private rented sector.

In turn there are other important factors which need to be resolved if investors are to see the attraction of the private rented

sector. These factors can be summarised as developing certainty within the private rented sector regarding the tenant-landlord relationship, developing residential portfolios, enforcing regulations in order that the private rented sector is perceived as being attractive, developing property management structures (potentially linked to housing associations) and the absence of rent controls. (Crook and Kemp, 1999).

In the Irish context there needs to be further consideration given to the opportunities for the private rented sector from potential institutional investment. The recommendations in this area:

To undertake a systematic evaluation of the attitudes of institutional investors towards investing in Irish residential property, whether on a debt or equity funding basis. This evaluation should clarify the reasons for lack of institutional investment and importantly establish what is required in order to attract institutional investment in residential property: e.g. tax vehicles, property portfolios, investment returns, legislative structure etc².

Investigate potential models and interest in the development of public-private-partnerships in relation to low-cost rental housing.

This latter recommendation is in line with the views expressed by NESC (1999).

6.5 THE TENANT - LANDLORD RELATIONSHIP

A key factor in the development of the private rented sector relates to the tenant-landlord relationship. On acceptance that

the private rented sector has an important role to play in providing a range of accommodation for a variety of tenants, there is a need to strengthen the underpinning of the landlord-tenant relationship in respect of dispute resolution mechanisms, security of tenure, and rent certainty. Each of these issues is dealt with below with recommendations on the appropriate means to improve the system for landlord-tenant relationships.

6.5.1 DISPUTE RESOLUTION MECHANISMS

Mediation Service

The Commission report recommends the establishment of a *Private Residential Tenancies Board* in order to provide a speedy dispute resolution process for landlords and tenants (p.149). It would be mandatory for both tenants and landlords to refer their disputes to this board where agreement cannot be reached between the parties concerned. The board would also register the tenancies, and undertake rent reviews where requested. The board would have additional roles in relation to research and policy development in the private rented sector; development of model leases, providing information for landlords, tenants, etc (p.149 - 154).

The proposed Private Residential Tenancies Board, now supported by the DoELG, will provide a forum for rapid dispute resolution mechanisms, but only if the necessary resources are put in place to operate the service and to force landlords comply with the new regulations.

Rental Deposit Scheme

Deposits are one of the most contentious issues in the tenant-landlord relationship and yet at the same time the function of the

2. Threshold will be undertaking a study into institutional investment in the private rented sector.

deposit is quite limited, offering small financial redress for landlords if the tenant damages their property. Instead the deposit system is more of an incentive for tenants to return properties in the condition of which they were let. In 1997 it was estimated that there were approximately 137,000³ households living in the private rented sector in Ireland. This number will have increased by 2001, but even taking the 1997 figure, if every household has given an average of €600 deposit to a landlord, this means that there is €82m of tenants' money being held by private landlords. Included in this figure are the deposits, which are awarded through the SWA system on a discretionary basis so therefore landlords are also holding funds originating from the taxpayer.

In this context the following recommendation is made:

The establishment of a Rental Deposit Scheme, for deposits paid to landlords by tenants, in order to develop an equitable, fast and efficient system of dealing with disputes in relation to deposits. These deposits would be safeguarded for both tenants and landlords.

A Rental Deposit Scheme could initially run on a pilot basis through the operation of a voluntary system in selected areas. When the Private Residential Tenancies Board is established the Rental Deposit Scheme could be linked to its operation, and assist in financing its operations through the interest raised from deposits held.

6.5.2 SECURITY OF TENURE

This study raised a series of issues regarding security of tenure. There is evidence that

some landlords have a quite stable tenant structure with 37% stating that on average tenants stay for over 2 years (section 2.9.1). In addition 10% of respondents expressed a responsibility towards tenants, and this responsibility accounted for one of the factors in their remaining in the private rented sector (section 4.3.2).

On the other hand this study shows evidence of high turnover of tenants, often linked to rent increases. 37% of landlords reported an average stay for their tenants of less than 6 months, with a further 16% having tenants remaining up to the one-year period. In addition at least 23% of landlords are housing tenants with children. Stability in home life is very important to children, and therefore stability in the private rented sector is essential.

Within the current legislative structure it is the most vulnerable tenants who suffer due to the ease at which landlords can remove tenants. This is due to the limited choices for vulnerable people within the private rented sector. Therefore they are more willing to accept poor conditions, tend not to exercise their limited rights for fear of losing their tenancy and where rent increases occur, inability to pay the increases force these tenants to leave with few alternatives available. In order to build a thriving private rented sector, where there is investment certainty (for the landlord) and accommodation certainty (for the tenant) there is a need for increased security of tenure.

Before making any recommendations in relation to security of tenure it is essential to place them in context at time of writing. The Commission Report recommended (154-158) the following set of reforms for

3. Labour Force Survey, 1997 op cit McCashin 2000.

security of tenure issues within the private rented sector. In principle the Government has agreed with these proposals as follows:

1. An initial 6 month probationary tenancy during the course of which the landlord is free to terminate with the normal 28 days notice-to-quit under current legislation;
2. Whereby a 6 month period is continued, the tenant then has a 3 and a half year right to occupy the dwelling, giving 4 years in total;
3. The tenant loses the right to occupy the dwelling if s/he breaches the tenancy obligations, the landlord wants to sell or substantially renovate the property, the landlord wants the property for own or family member occupation, the accommodation is no longer suitable for the tenant by reference to the number of bed spaces;
4. The length of notice-to-quit which the landlord must give under all the above 'get-out' clauses (bar breach of tenancy) increases according to length of stay of the tenant up to a maximum of 112 days. Once the four-year period has elapsed, if the tenant stays on s/he reverts back to the 28 days notice-to-quit period and has to re-build occupancy rights;
5. A 7-day notice-to-quit will suffice when a tenant fails to abide by the tenancy obligations which include rent arrears, behaviour which is anti-social or 'threatening to the fabric of the property';
6. Where a landlord has failed to comply with his/her obligations, a tenant can give a 28 day notice of surrender, otherwise the tenant must give notice of surrender in according to their duration of stay;

7. The proposed 'Private Residential Tenancies Board' will be able to ensure due process in these cases;
8. Proposals apply to periodic and fixed-term tenancies; and
9. All tenant's rights to the dwelling expire after this four year period.

As private renting becomes the only option for increased numbers of households in Ireland, the following set of recommendations are made in light of the Government's proposals resulting from the Commissions report.

The probationary period proposed by Government to be reduced to three months.

The right to occupy proposed by the Government to be increased from four to seven years.

This right to occupy to be removed from the tenant under the following circumstances:

- the landlord wants to sell/ substantially renovate/ change the use of the dwelling concerned;
- the landlord wants the dwelling for their own occupation or for occupation by a family member;
- the tenant is in rent arrears for a period of 28 days, with no resolution of this situation;
- the tenant fails to abide by the conditions of the tenancy as laid down in a model tenancy agreement (set down in legislation); and
- a re-assessment can be made by the landlord of the appropriateness of the living accommodation if the household has grown and a decision arrived at as to whether the accommodation is now suitable for this family.

The minimum notice to quit issued by landlords, for all periodic tenancies, to be increased from the current 28 days notice-to-quit to 56 days. This minimum period to extend up to a ceiling of 6 months notice-to-quit where periodic tenants have been resident for five years or more.

The extended notice-to-quit periods as set out in the Government's recommendations, not to be removed from tenants following the expiry of their 'right to occupy' period, presuming that the tenant concerned remains in the same dwelling.

In the event of the tenant failing to abide by the terms of the tenancy, the landlord would not be required to issue the enhanced notice to quit. An application could be made to the Residential Tenancies Board who would adjudicate on the appropriate length of notice period.

The maximum notice to surrender (for a tenant to give the landlord) to be 28 days for those on periodic tenancies regardless of their length of occupancy. For tenants with leases normal lease obligations apply.

On the introduction of these measures, the long-term equity clause under the Landlord and Tenant (Amendment) Act 1980 could then be reviewed.

6.5.3 RENT CERTAINTY

Security of tenure is linked to the issue of rent levels, rent increases and stability in rent levels. A tenant can have all the rights to occupy a dwelling, but if the rent is increasing and becomes unaffordable, s/he will have to leave of his/her own accord. It is important that the market plays a role

in determining rent levels, but where the market is failing a substantial number of tenants for the benefit of a number of investors, there is a case for the Government to insert a mechanism to protect tenants whilst taking cognisance of the investment needs of landlords. If the Government is not prepared to make an intervention into the private rented sector in relation to rent increases in the face of rapidly increasing rents, then the Government will have to support an increasing number of tenants in their payment of rents largely through a revised rent supplement system, which is employment neutral.

Basically there are two issues: the rent charged by landlords and the state system to support tenants in the private rented sector.

This survey asked landlords about their views on having a system whereby rent increases are linked to inflation and 35% supported this approach (Section 4.6.3). In addition a rent indexation system would keep the rent supplement bill from spiralling upward due to large rent increases, which has been the case across the second half of the 1990s.

In order to achieve a level of rent certainty for tenants in the private rented sector, the following recommendations are made:

Initial rent levels to be set by agreement between the landlord and the prospective tenant. Thereafter, increases in rent should take place on an annual basis based on a rent indexation system. This system would allow for increases in rent based on inflation levels, and could be administered through the proposed Residential Tenancies Board.

All landlords would be entitled to raise their rent by this amount and seek additional increases where substantial renovations have occurred. On expiration of the right to occupy period, the rent level can be freely negotiated be it with the existing tenant if it is agreeable that s/he remains or with a new tenant.

The Commission on the Private Rented Residential Sector deferred the issue of rent affordability to the Planning Group on Local Authority Rent Assistance. Currently the rent supplement operated through the Social Welfare Allowance system contains employment traps, which means that many households struggle to meet rents in the private rented sector if a member of the household returns to or enters training or employment. A range of changes to issues regarding retention of rent supplement was introduced in Budget 2000, to allow those entering programmes such as 'Back to Work' to retain diminishing parts of their rent supplement over a four year period, to 25% by year 4. This four year taper is too harsh, because it does not take into account annual increases in rent for the household involved and nor does it take into account affordability issues when related to the relatively low incomes received by people re-entering employment after a long absence.

Affordability of rents is linked to wage levels, prevailing rent levels, intervention in rent payment by social welfare system, household size etc. Due to the failure of the private rented sector to bring affordable rents to many households, and the lengthy waiting lists for local authority housing, the Government will have to begin to accept that there are working households that will need support for their rent in the long term. Whilst the recommendations following from

this study are related to the reform of the private rented sector rather than the reform of the social welfare system, the two are inextricably linked. Therefore Threshold support:

The development of a rent support system that is employment neutral and is sufficient to allow recipients access to decent, affordable accommodation.

6.6 TARGETING SUPPLY/INVESTMENT AT THE LOWER END OF THE PRIVATE RENTED SECTOR

The survey of Dublin landlords has clearly demonstrated landlords' preference to let to employed tenants with references and landlords report little difficulty in finding their preferred tenant type (Section 3.4). One-third of landlords admitted in this research that they do not let to rent supplement beneficiaries, largely due to their perception that these tenants are more likely to have social problems, disturb neighbours, and fail to look after their property. Although 53% of landlords state that they would let to a tenant on rent supplement, only 18% actually had such tenants (Section 3.5). Therefore those in receipt of rent supplement and on low incomes can struggle to get accommodation, largely due to landlords' perception of these households. Consequently prospective tenants who are eligible to receive rent supplement may have to opt for accepting substandard housing or alternatively will have to be housed in emergency accommodation, i.e. B&Bs and hostels.

In developing any further tax incentive packages for the private rented sector, the Government must focus on the housing of households claiming rent supplement and

households with low-incomes. This is particularly urgent because waiting lists for social housing grew rapidly towards the end of the 1990s and had reached 31,176 by 1999⁴. Section 23 tax incentives are not targeted in relation to the tenant type housed in these developments. McCashin (2000) puts forward a series of proposals which he believes are of value for further exploration in light of the fact that the private rented sector is comprised of small-scale non-professional landlords. He perceives these measures as a means of targeting landlords to provide a supply of affordable private rented accommodation for those on low incomes.

His recommendations are:

1. Incentives are required at the lower end of the market eg grants, direct subsidies, which could be linked to the provision of long term accommodation at affordable rents;
2. Older stock in the private rented sector should attract incentives so that properties can be upgraded, and these type of grants be conditional on accepting tenants on lower incomes at affordable rents; and
3. Incentives for owner-occupiers to sublet unused accommodation, with these incentives again targeted at the lower end of market.

Whilst private landlords are fulfilling a very important role in providing accommodation for households at the lower end of the market, this does not immediately mean that this is the best method for housing *all* households on low incomes and/or rent supplement. This is due to a variety of inter-connected reasons:

- limited security of tenure for tenants in

the private rented sector in Ireland, creating an exposure that could lead to homelessness for the most vulnerable of tenants, due to their weak bargaining position;

- the need by a small proportion of tenants in the private rented sector for additional service supports which cannot be provided or administered effectively through the private rented sector eg for those suffering from mental illness; drug addicts; ex-prisoners etc.
- accommodation through the local authorities or voluntary housing organisations offers a greater security of tenure, potential for easier access to services based locally due to estate management and community development facilities, and low rents.

The recommendations regarding the tenant and landlord relationship set out in section 6.5 would particularly assist the most vulnerable tenants, but the fact remains that many people would be better off housed in supported social housing.

Through the new measures of the Financial Act 2001, the Government has made the first steps towards linking tax incentives for landlords to the delivery of housing for tenants in receipt of rent supplement/rent assistance. This refers to the introduction of interest relief for landlords of sub-divided properties (at least 3 units) where a minimum of 50% of lettings is for rent supplement/rent assistance. This may address some of the balance towards the reported reluctance of landlords to take tenants claiming state assistance for rent.

Both estate agents and the relevant government departments must actively

⁴ Housing Needs Assessment, 1999, Department of the Environment and Local Government.

market this new scheme for landlords in order that investors are aware of the benefits of the scheme. The marketing of the tax breaks is particularly important information to have at hand when subdivided residential properties are placed on the market, in order to encourage these properties to remain within the private rented sector.

In light of the new tax incentive for HMOs the following recommendations are made:

The new tax incentive (2001) for subdivided properties with at least three units to be monitored and evaluated in terms of uptake by landlords, any increases in availability of accommodation for rent supplement claimants, improvement in quality of accommodation etc.

6.6.2 LOCAL AUTHORITIES CONTRACTING WITH PRIVATE LANDLORDS

In *Action on Housing* the Government requested that the Planning Group on Local Authority Rent Assistance⁵ examine the 'more direct arrangements or partnerships between local authorities and landlords or investors'. In October 2000 the Department of the Environment and Local Government launched a scheme and local authorities such as Dublin Corporation advertised for landlords to participate. Contracting arrangements are already in place by some local authorities with landlords in relation to emergency-type accommodation.

The key concern in relation to contracting methods and therefore direct provision of accommodation, is the potential for landlords to let their properties on a licence basis and therefore undermine tenants'

rights. In addition this method normally involves direct payment to landlords of the rent, which removes the role of the tenant paying rent to a landlord, and creates a more benefit dependency culture. Service delivery suffers under direct provision because the landlords are receiving a guaranteed rental stream directly from the local authority and will have little incentive to react to any particular needs of tenants, a point which is illustrated by Kemp (2000) in relation for the tendency for housing benefit in the UK, to be paid directly to the landlord. Direct provision of this manner means that tenants could lose the ability to seek out their own accommodation in a locality that suits their needs, which is one of the benefits of living in the private rented sector, compared to the limited number of areas where local authority housing is to be found.

An alternative recommendation to direct provision of private rented accommodation is:

Local Authorities in co-operation with the Health Boards develop a database of landlords willing to take both rent supplement and rent assistance (when this scheme is in place) tenants. The database should be regularly up-dated for availability and for the recruitment of more landlords. This service could be contracted out to a third party.

6.6.3 STUDENT HOUSING

The survey of landlords demonstrated that 20% of landlords have students as tenants and that students are more likely to be found living in HMOs than in other forms of accommodation. Not only are students competing with those on limited income for

5. The establishment of this Planning Group follows on from the recommendations in the Inter-departmental Review of the Transfer of Rent Supplement to Local Authorities, which supported the transfer of long term claimants of rent supplement into a new rent assistance system administered by local authorities.

accommodation, but they are distorting the private rented sector through the manner in which they live in the sector i.e. high numbers sharing dwellings, some parents giving rent payment guarantees to landlords, a greater acceptance of rental properties in poor condition as accommodation is required for a short period. The lack of the provision of dedicated student housing by educational institutions has exacerbated these difficulties and in turn means that high numbers of students are seeking accommodation in the private rented sector, and placing undue pressure on the private rented sector.

There is a need for increased on-campus provision of student accommodation. The provision of dedicated student housing through private investment is the route adopted by the Government through the development of Section 50 ⁶ incentives, which operates in a similar manner to Section 23 incentives. The difference being that the accommodation has to be within an 8-mile radius of the third-level educational institution, and approved as a location by the educational institution. The drawback of this form of tax incentive is that after 10 years the owners can withdraw from student housing provision and these properties converted into private housing after the ten-year period elapses. If this happens Section 50 tax incentives will have proven themselves to be an ineffective measure for addressing the long-term issues of student housing. Therefore the main recommendations in relation to student housing are:

Provision of financial assistance to educational institutions for the direct provision of student accommodation on a non-profit basis in relation to

rents charged. Third level institutions would adopt a long-term perspective on student housing.

The option of a non-profit housing trust to supply dedicated student accommodation for all pursuing full-time education to be explored.

6.7 IMPROVING MANAGEMENT AND PROFESSIONALISM IN THE PRIVATE RENTED SECTOR

Taking into account the nature of landlords in the private rented sector as reported in this study, there are a series of recommendations to be made regarding property management, HMOs, letting agencies and information regarding the regulations and operation in the private rented sector.

6.7.1 HOUSES IN MULTIPLE OCCUPATION – IMPROVING THE SERVICE

This research has demonstrated that HMOs remain a substantial accommodation type within the private rented sector, with typically pre-1919 houses being sub-divided into bedsits and/or self-contained flats. 24% of landlords have a HMO in their portfolio (section 2.6.2) and HMOs continue to be an important source of accommodation for those on low-income, rent supplement beneficiaries, the elderly and students.

By their nature HMOs are difficult properties to manage due to the number of tenants, age of the properties, ongoing repair and maintenance needs, and particular issues in relation to fire safety ⁷. The reputation of the HMO sector is poor due to low standards of conversion and maintenance of these older properties.

6. Section 50 of the Finance Act, 1999 – available between 1 April 1999 and 31 March 2003.

None the less HMOs are providing accommodation at the lower end of the market for many tenants, but there is much room for improvement in terms of conditions and management. On this basis specific recommendations are made for HMOs.

A licence to be required for the management and ownership of HMOs. The conditions of this licence sets down specific fire and safety conditions and management standards for HMOs. Local authorities to award these licences following inspection of the properties and the establishment that the landlord is a fit person to hold a HMO licence.

Linked to the HMO licence, the local authorities to offer support in improving management of HMOs through training programmes. Existing landlords could apply for grant assistance, up to a sum to be defined, to up-grade their properties linked to provision of accommodation to low-income tenants including students.

6.7.2 LETTING AND MANAGEMENT AGENCIES

The Dublin landlord survey demonstrated how 23% of landlords delegate elements of management responsibility to an accommodation agency. There are difficulties regarding the standards of some letting agencies in delivering an effective and quality service to clients, which was investigated by Threshold (1995). These letting agencies are self-regulatory and the poor reputation associated with some letting agents has led to calls from the IAVI and Threshold for mandatory regulation.

These letting agents can cause hardship for both tenants and landlords where standards of operation are poor, charges are made to tenants for registering whilst landlords experience difficulties with the service. As a result two key recommendations are made:

General regulation for controlling and supervising letting agencies to be enacted. All letting agencies to be licensed and bonded in the same manner as estate agents.

Letting agencies to charge a fee only if and when suitable accommodation is found for the client who has been previously made aware of the cost involved.

6.7.3 INFORMATION AND ADVICE SERVICES

A pro-active information and advice system to all landlords would lead to a raising of standards within the private rented sector, which in turn would make the private rented sector more attractive to institutional investors (Crook and Kemp, 1999).

The findings of this survey revealing high levels of ignorance by landlords regarding regulations, clearly shows the need for an information system for landlords. In addition small landlords dominate the private rented sector in Ireland and these landlords need training and support to management residential property. Recommendations for improvement in this area are:

On registration of properties all landlords to receive an information pack on the obligations of landlords and tenants. In addition the pack to contain information on best management practices, whether

7. Research in the UK has shown that tenants in bedsit houses are six times more likely to die from fire than people in houses occupied by a single household. Adults living in bedsit houses of 5 or more storeys are 17 times more likely to be killed in a fire than single family houses. From *Fire Risk in Houses in Multiple Occupation* by the DETR, 1997.

undertaken directly by the landlord and/or through management and letting agencies.

Local authorities to provide a series of seminars for landlords in order to keep them informed on developments within the private rented sector. In addition a regular newsletter to be sent to all landlords to assist them in their operation.

In the event of the establishment of the proposed Private Residential Tenancies Board, this board, depending on resources and staffing might perform these information functions.

AND FINALLY:

When new regulations are introduced into the private rented sector, there is always the concern that some landlords will leave the sector, if they think that they will have to comply with a new set of regulations, even if they are not particularly onerous.

It is worth pointing to the Green Paper on Housing for England and Wales, *Quality and Choice: A Decent Home for All* for a comment in this area. In the Green Paper's discussion of the way forward to create a better and larger private rented sector a particularly relevant point on trying to achieve this objective is made, being that:

'make the worst landlords perform better, or (they) get out of the business altogether'.

The point is particularly salient in the Irish context as the Government takes the steps towards reforming the private rented sector. If in the pursuit of developing a better private rented sector some landlords to

decide to leave the sector due to the necessity to abide by regulations, the conclusion must be that the private rented sector is better off for the loss of 'bad' landlords. Encouragement and assistance must then be given to new and existing landlords to work with the proposed new structure for the private rented sector.

It is reform in terms of the landlord-tenant relationship, improvements to security of tenure, new dispute resolution mechanisms, regulation of rent increases etc. that will strengthen the underpinning of the private rented sector. When the housing boom comes to an end, the private rented sector will still need to function in a better manner, with improved conditions for tenants and the availability of good standard, regulated accommodation. A better functioning private rented sector can then become a more attractive investment option for the institutional investment.

It is the private rented sector that has experienced the greatest expansion in the 1990s, in proportion to home ownership and local authority rental housing. It is the private rented sector that provides a range of accommodation to various types of households and at the same time acts as a buffer between home ownership and local authority housing, for households who cannot afford the former and for those that are waiting to access the latter. In the new Irish economy where people need to be encouraged into the country to boost the labour force, an affordable and vibrant private rented sector is required. There needs to be a realisation by government that home ownership, particularly in the cities in Ireland, has become a target, which many people and families can no longer aspire to. Renting in the private rented sector becomes the housing solution and this can

be an unsatisfactory experience particularly in relation to the combination of high rents and low security of tenure. The Government needs to take the steps to assist in making the private rented sector a more attractive place to live with the support from landlords and indeed tenants. The private rented sector should not be punished in the battle between first time buyer and property investor and its place in the housing system needs to be clarified and supported by the Government.

Appendix A – Pilot Study: Survey of Cork City Landlords

A1 INTRODUCTION

In November 1996, Threshold Cork instigated a postal questionnaire sent to the 280 landlords registered with Cork Corporation. Joe Finnerty when working with Threshold Cork undertook this survey. 83 landlords completed the survey. This survey acted as a pilot for the larger Dublin study. The survey used in the Dublin study was expanded, re-worked and up-dated, taking into account changes in both the regulatory environment and the housing market.

The policy environment in which the Cork landlord survey took place was very different to that of the Dublin landlords' research. Since 1996 house prices have risen considerably, and economic growth has gathered further momentum. In addition all the measures of the Housing Act 1992 were well established by the time of the Dublin survey.

This overview of the Cork landlord survey is not meant as a comparative piece with the Dublin landlord survey.

A2 PROFILE OF LANDLORDS

93% of respondents to the survey were individual landlords with the remainder describing themselves as company landlords.

Of individual landlords:

- 38% of landlords were aged between 25 and 44, and 38% aged between forty-five and fifty-nine. 24 % were aged sixty and over;

- 36% of landlords worked full-time in paid employment while 36% were self-employed. 22% were retired while only 3% described themselves as having no other occupation except landlordism.

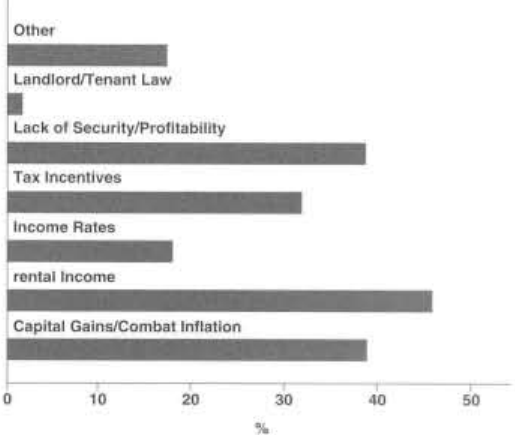
A3 INITIAL INVESTMENT IN THE PRIVATE RENTED SECTOR

87% of respondents became landlords through property purchase, while 11% inherited their properties.

The reasons identified by landlords for purchasing property to let out are illustrated in figure A.1.

When asked for the reasons for retaining the properties that they had purchased or inherited, 68% of responses related to secure long-term investment. 47% of responses stated that receipt of rental income was an important consideration in the decision to retain the properties. The capital gain involved in property ownership was cited in 39% of responses as important in property

Figure A.1
Financial Reasons for Acquiring /
Retaining Rented Property



retention, while in 37% of responses the possibility of children or relatives living in the property in the future was a factor in the decision to retain the property. Indeed, only 13% of landlords had recently disposed of rented property since 1993 with the remainder holding on to their portfolios.

A4 SIZE OF HOLDINGS, PROPERTY TYPE AND PROPERTY MANAGEMENT

Size of Holdings

- 55% of individual landlords let one property in Cork City;
- 44% let between two and ten properties; and
- only one respondent let between ten and twenty properties.

Property Management

- 62% of respondents managed their properties themselves; and
- 38% wholly or partly delegated management functions to others.

A5 TENANTS AND LANDLORDS

67% of respondents used fixed-term tenancies, with the remainder using periodic tenancies. The duration of these tenancies were as follows:

- 41% of tenancies lasted between six months and one year;
- 24% for between one year and eighteen months; and
- 14% of tenancies lasted for between eighteen months and two years.

Landlords in Cork City were asked to express views on variety of statements relating to tenants in order to gauge their attitudes towards tenants. Table A.1 illustrates some of the results.

Landlords were asked to assess the ease of letting to their preferred type of tenant

- 19% of landlords felt that it was very easy
- 21% found it easy
- 36% felt that it was neither easy nor difficult
- 20% thought that it was difficult
- 4% very difficult

A6 RENT SUPPLEMENT

Although 90% of respondents were aware of the existence of the rent supplement, the percentage of surveyed landlords actually consistently letting to this tenant type was low. 31% had never let to a tenant on rent supplement. 21% let frequently to rent supplement tenants.

Table A.1

Landlords' Attitudes on Tenants

	'Landlords are adequately protected by law against tenants refusing to leave'	'Tenants generally look after their accommodation'
strongly disagree	17%	1%
disagree	40%	30%
neither agree nor disagree	32%	19%
agree	8%	46%
strongly agree	3%	4%

When landlords were asked why they refused rent supplement tenants many respondents declined to comment. However the responses that were given related to delays in deposits and cheques by health boards, and the feeling that this tenant type exhibited social problems.

The argument that rates of rent supplement set by health boards affect rent levels was tested in this survey. Landlords were required to agree or disagree with the statement that: *'Landlords can charge a higher rent for tenants on rent supplement than they can for working or student tenants'*. 69% disagreed with this statement, and only 6% expressed agreement.

**A7
RENT SETTING**

Respondents were asked to give the main factors influencing their initial rent setting strategies for a new tenancy. 73% of landlords set their rents at the 'going rate'. Covering costs was also an important factor in rent setting. In terms of later rent adjustments, the following factors determined rent increases for respondents:

- 49% - inflation as important;
- 42% - changes in prevailing rents;
- 37% - increased spending on the property;
- 28% changes in regulations
- 20% - adjusted rent with interest rates; and
- 13% - rising house prices.

The most popular time for respondents to adjust rents was when the accommodation became vacant, 12% adjusted annually and 13% after improvements were made to the dwelling.

Landlords had divergent views on the profitability of private renting. 53% agreed with the proposition that rents received were meeting costs and giving a reasonable return in terms of time and money spent. However, 47% of landlords were dissatisfied with their rent levels in meeting costs and providing a return.

Therefore, what level of rent increase would satisfy these landlords?

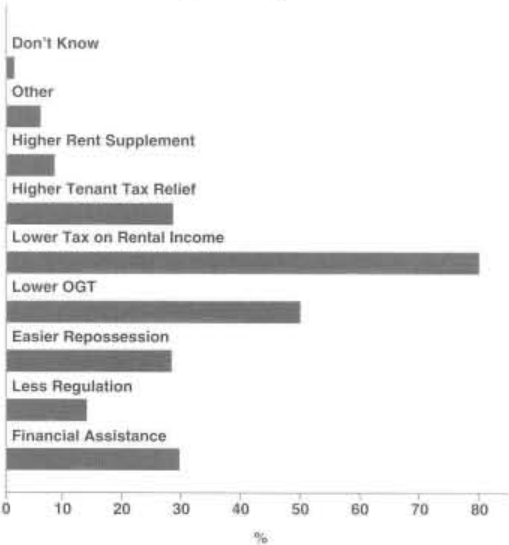
- 8% wanted an increase of up to 5%;
- 33% wanted an increase of between 5% and 10%;
- 41% felt a 10% to 15% increase would cover costs and give a return; and
- 18% felt that a more than 15% rent increase would be required.

**A8
REGULATIONS**

Respondents were asked about their perception of how the changes in the regulatory environment had impacted on them.

- 19% thought that the change was for the better;

Figure A.2
Preferred Policy Changes



- 22% felt it was for the worse;
- 31% saw some change as good, and others as bad;
- for 20% things remained the same; and
- 8% did not know.

However, 75% thought that these changes had brought greater costs for them, but had mixed feelings on who should bear these costs. Bureaucracy and red tape was an issue for some respondents with 45% agreeing that there is too much bureaucracy within the private rented sector.

79% stated a reduction in tax on rental income would be most helpful to landlords. Cork City landlords did not consider an increase in rent supplement attractive but financial assistance was a preferred policy change in 28% of responses.

When asked more specifically about the preferred form that this financial assistance should take, 35% of landlords chose increased tax relief on rental income with 27% preferring cash grants towards property improvements.

In terms of the effect of government action in relation to the private rented sector, the recent changes to the regulatory environment at the time of survey did not appear to dampen the enthusiasm of these landlords. 60% had no plans to change the number of rental units in their possession, while 19% intended to add to their property portfolios. 16% were unsure of their future plans and only 4% definitely planned to sell some properties within two years of the survey.

Appendix B

– Protected Tenancies

STATUTORY TENANCIES

Most tenancies in the Irish private rental sector are based on contractual agreement and are regulated through legislation, the most important being the Housing (Miscellaneous Provisions) Act, 1992 (see section 1.4.4). While this legislation has been valuable for tenants in providing for minimum physical standards, the abolition of distress and notice to quit periods, the more substantive issues of security of tenure and rent certainty remain contentious. However, in the past, legislation has been made, for a variety of reasons, to provide for increased security of tenure and rent control for tenants.

LONG OCCUPATION EQUITY TENANCIES

Landlord and Tenant (Amendment) Act 1980

The Landlord and Tenant (Amendment) Act, 1980 gives security of tenure to a tenant, or his/her predecessor in title, living in a dwelling continuously for a twenty-year period. Prior to this, tenants needed to reside 30 years in a dwelling before any such rights accrued to them.

This legislation provides that the tenant is entitled to a new tenancy for a period of thirty-five years, or any lesser period chosen by the tenant. This tenancy is renewable and can be assigned. The tenancy can only be sought once the landlord issues the tenant with a notice to quit the dwelling and must be applied for within three months of the expiry of such notice. The terms of the tenancy are fixed by the Circuit Court and rents are based on those prevailing in the open private rented market.

Rent Determinations

The rent set by the Circuit Court is the gross market rent less, where appropriate, an allowance for improvements made by the tenant. In setting the rent, the court considers the rent that a willing tenant would give a willing landlord and the rent that that landlord would take for the dwelling in the case where there was vacant possession. The courts also take into account other terms of tenancy and the letting values of similar dwellings in a comparable area. The Court can review these rents every 5 years.

Security of Tenure

There is security of tenure for those tenants protected by the 1980 Act in that they can receive a perpetual thirty-five year lease, and the landlord may only seek repossession of the premises on very limited grounds. As Threshold has continuously argued, while giving security of tenure to tenants is to be welcomed, it is weakened if a landlord can demand unlimited rent increases. As the rent in this tenancy is based on market rents, inability to afford the set rent can leave these tenants very insecure in their tenancies if they are on limited incomes or social welfare payments. Those receiving state financial support can apply for a SWA rent supplement (detailed in section 2.8.3 and 2.8.4) to help meet the rental payments in the same way as a tenant in the mainstream rental system. The SWA rent supplement is available for these leaseholders on welfare payments. However, the 'reasonable rent' set by the health boards may not be reflective of market rents, particularly for single people and couples in situations where the rented property is a large flat or house.

However, the possession of a thirty-five year lease is advantageous in that the lease can be sold or assigned by the tenant. For many of those holding, or entitled to, a 35-year lease selling the tenancy is not an option as renting or buying another home is too expensive or impractical for reasons of age. As the possession of the lease gives the tenant an interest in the property, landlords tend not to allow the tenancy to reach 20 years in duration. This issue was highlighted when landlords of apartments in the Mespil Estates avoided the provisions of the 1980 Act by serving a notice to quit on tenants prior to the twentieth anniversary of their tenancy. This occurrence led to the setting up of the Working Group on Security of Tenure. The Group recommended the amendment of the 1980 Act to allow tenants to opt out of any entitlement to a lease of up to 35 years so as to ensure their continued stay in the property.

Profile of Tenants

Little is known about the holders of long occupation equity tenancies. Threshold advises many tenants who have these long occupation tenancies, or have the entitlement due to length of tenancy, and are subject to notice to quit or rent increases. By virtue of the length of their tenancies, these clients tend to be middle aged or elderly and are often living on state or occupational pensions. For this group, the private rented sector is their home for life.

Holders of long occupation equity tenancies are believed to be small in number (Ryall, 1998:51). However the numbers of tenants holding this tenancy type is not necessarily reflective of the numbers of tenancies in existence for over 20 years, where if the landlord issued a notice to quit, the entitlement to the new tenancy under the 1980 Act would come into play.

HOUSING (PRIVATE RENTED DWELLINGS) ACTS, 1982 & THE HOUSING (PRIVATE RENTED DWELLINGS) (AMENDMENT) ACT, 1983

Irish landlord's attitudes towards rent control are partly tempered by past legislation restricting landlord right to set their own rents for their properties in the private rented sector. Although rents are now decontrolled, the legacy of rent restriction is still present in the sector through the 1982 and 1983 Private Rented Dwellings Acts.

Rent Restriction

Rent control was originally introduced in 1915 in Great Britain and Ireland to prevent landlords taking advantage of the housing shortage during wartime, and was followed by a number of temporary rent restrictions acts. These acts placed restrictions on the rent payable by tenants, with no limit on the rent restriction and no review procedures. Additionally, landlords could only recover possession of the rented dwelling under specific restricted circumstances deemed satisfactory by the courts.

This rent control continued into the post war years and the establishment of the Republic through a succession of rent restrictions acts. Restrictions on rent and the landlords right to repossession of the premises continued.

In 1981, parts of the 1960 Rent Restrictions Act were held to be an unjust attack on the property rights guaranteed under the Irish Constitution. Following this decision, tenants of controlled dwellings were to be put on an equal footing with other tenants, and rent control was at an end. A bill was introduced in 1981 to help those tenants paying below market rents due to rent control, but was also found to be unconstitutional. This then led to the

enactment of the 1982, Housing (Private Rented Dwellings) Act.

The Current Basis for Formerly Rent Controlled Dwellings

The 1982, Housing (Private Rented Dwellings) Act gave statutory rights to tenants of dwellings that had been controlled under the Rent Restrictions Act 1960-1981. The act gives certain rights to the original tenant prior to the commencement of the act on July 26th 1982. It gave security of tenure for life to these tenants and allowed for terms of tenancy, including rent, to be set by the courts. The 1983, Housing (Private Rented Dwellings)(Amendment) Act then gave these powers to a Rent Tribunal.

Terms of Tenancy

Landlord and tenant can decide the terms of tenancy between themselves but, failing that, a Rent Tribunal is in place to make such decisions. The Rent Tribunal acts under the aegis of the Department of the Environment. It can decide on the terms of tenancy between landlord and tenant, including the amount of rent to be charged for the dwelling.

Rents

The restriction on rent increases is a highly contentious issue for landlords letting to tenants in de-controlled dwellings. There are restrictions on the frequency and amount of rent increases. A landlord can only request a rent increase every 4 years and 9 months, unless substantial improvements are made to the property by the landlord. The rent set is the gross rent, reduced by an allowance for improvements made by the tenant. The gross rent is the just and proper rent having regard to:

- The nature, character and location of the dwelling;

- Other terms of tenancy;
- Date of purchase of the dwelling by the landlord and the price paid for it;
- The number and ages of the tenants family residing the dwelling;
- The means of both landlord and tenant;
- The duration of the tenancy; and
- Improvements made by both landlord and tenant to the dwelling.

For tenants whose rent is set by the Tribunal and are of limited means, the Department of Social Community and Family Affairs administers a rent allowance scheme.

Security of Tenure

The 1982 Act gives lifetime tenancies to the original tenants of decontrolled dwellings and restricts a landlord's recovery of possession. However there are criteria under which it may be reasonable for a landlord to seek repossession of a dwelling through the courts. The landlord may seek repossession for reasons of his/her own, for instance where the home is bona fide required by the landlord for his own or his family's use as a residence; or due to a default by the tenant, for example non-payment of rent due by the tenant. The court will only grant an order for possession where they are fully satisfied that the request is reasonable and satisfies the criteria set down in the Act. Compensation may be paid to the tenant where the landlord seeks repossession and the tenant is not in default.

The 1982 Act made provisions for family members to inherit tenancies. However, for those inheriting formerly controlled tenancies, protection under the 1982 Act only lasts until July 2002, or July 2007 depending on when the tenancy was inherited. In practice, the inheritance of these tenancies tends to come about due to

the death of a parent and the dwelling is often the family home.

Tenants who inherited decontrolled tenancies are feeling very insecure in their accommodation due to their tenancies falling outside of the remit of the 1982 Act. The Commission on the Private Rented Sector has made recommendations on the future of such tenancies and tenants. The Commissions recommends:

'a transitional period of 5 years, during which the entitlement to claim a lease of up to 35 years may be exercised, would enable all the tenants concerned, who wish to do so, to ensure a continuing right to occupy their dwellings. The Commission recognises, however, that the fact that market rents will then apply every five years has affordability implications for the tenants concerned, as well as implications for revised rent assistance arrangements being developed at present. These, together with the poor standard of many of these dwellings, are issues that now require examination by the DoELG'

Therefore this proportion of decontrolled tenancies would become subject to the provisions of the 1980 Act.

Size of the De-controlled Rented Sector

Decontrolled tenancies do not constitute a large proportion of the total number of private rented tenancies in Ireland. The 1997 Labour Force Survey estimates the total number of private rented tenancies in Ireland as being the region of 131,500. 9,400 formerly rent controlled dwellings are registered with national housing authorities, over 5,000 of these with the Dublin local authorities. These figures are not final in that dwellings that were formerly rent controlled are continuously coming to light and being

determined by the Rent Tribunal, while other tenancies are falling out of the sector due to surrender or the death of a tenant. In 1998, 19 of the 78 applications to the Tribunal for rent hearings were first time applications.

Tenants of Decontrolled Dwellings

The majority of those living in these dwellings are elderly people in receipt of some form of Social Welfare payment and tend to be living alone (figures taken from Rent Tribunal, Annual Report and Accounts, 1998).

Often, these elderly tenants are living in older accommodation that is in need of upgrading and requires constant maintenance. The stock is a mixture of houses and self-contained flats, with the majority of cases heard in the Rent Tribunal in 1998 comprising of houses. The flats tend to be contained in HMOs and have all of associated problems of this stock type detailed in chapter 2. As 61% of Tribunal determinations in 1998 involved tenants living alone, and these people are elderly, maintenance is usually difficult.

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Working for Justice on
Housing and Homelessness

Threshold
Web: www.threshold.ie

DUBLIN
6 Western Way
Dublin 7
Tel: 01 872 6311
Fax: 01 872 6063
Email: info@threshold.ie

CORK
8 Father Matthew Quay
Tel: 021 427 1250
Fax: 021 427 0261
Email: threshold@eircom.net

GALWAY
Augustine House
Augustine Street
Tel: 091 563 080
Fax: 091 563 687
Email: thresholdgalway@eircom.net