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We Need a More Professional Rental Market

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THE IRISH TIMES

This page shows the article as it originally appeared in the newspaper. The article itself can be read on the following page.

Renting in Focus

We need a more professional rental market



Property Clinic
Insurance company went down over

waterfront RECOVER SALE
DAPHNE L. KAYE
GUNNE
DNG

The article is a multi-column layout. The main headline is 'We need a more professional rental market'. To the right is a 'Property Clinic' section with the sub-headline 'Insurance company went down over'. Below the main article are several real estate advertisements, including 'waterfront RECOVER SALE', 'DAPHNE L. KAYE', 'GUNNE', and 'DNG'. There are also smaller ads for 'HELP!' and 'Go ahead of the pack...'. The bottom of the page features a copyright notice for The Irish Times, 2014.

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We need a more professional rental market

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

THE LAST available figures from the Private Residential Tenancies Board show that in December 2010, Ireland had 145,021 landlords and 231,818 tenancies registered.

This means that each registered landlord has an average of about 1.6 tenancies. The April 2011 census, however, shows 305,377 households renting from private landlords, meaning many landlords have not registered properly as required to by law. This is a symptom of an unprofessional market.

When finance was readily available and most individuals and families wanted to buy their own home, having professional landlords wasn't a pressing issue. But with a combination of changing Government policy to provide "equity of tenure" (for example, reducing support for home ownership), problems with accessing

credit, and a changing attitude towards ownership, many more people are now renting their homes.

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

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

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

Having amateur landlords is now also a problem. With an average of 1.6 properties, landlords are never going to achieve the responsiveness nor economies of scale required in serious property management.

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

So, who can fulfil this demand?

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

What they are interested in is long-term rental income and, more specifically, the security of this income. This means that they are interested in tenants who want to stay for decades rather than a year or two. In the investment world, value comes from security of long-term income and low risk of default. In other words, long leases with good tenants in

well-maintained buildings.

In New York city, yields on such residential buildings, even with rent control in some cases, are around 3 per cent – much lower than the most valuable of prime Irish commercial property.

These residential investment companies design and construct buildings to suit a wide range of tenants, from single people to families to pensioners. They often have dedicated laundry rooms and storage spaces, and communal heating and water supplies. There is frequently a ground floor unit specifically for a live-in “superintendent” who looks after minor repairs, security and maintenance issues.

Just as importantly, they manage these buildings professionally, as better maintenance means lower running costs.

Of course, residential investment companies have certain requirements. The break-even point is about 30 residential units, including the non-rent-producing one for the superintendent, all under one roof. Depending on the site, this may mean buildings of higher density than we are currently used to, but nowhere near high-rise.

The main market for these long-term rental buildings is in urban areas, where Irish urban dwellers have consistently expressed a preference for suburban living, not artificial, high-density locations such as the Dublin docklands or Sandyford. People tend to want to live near established centres with existing facilities like shops and pubs and schools, meaning residential investors will need permission to build in traditional suburban locations.

Planners may therefore have to get their heads around the idea of buildings other than three-bed semi-detached houses in established areas such as Templeogue, Clontarf, Blackrock and Ranelagh; indeed, wherever there’s a demand. The idea of having either high-density urban living or low-density suburbia is going to have to shift and merge.

In order to supply the market with building stock which will have market demand – and not lie empty – buildings will have to suit both the investment company in terms of size and the occupier in terms of location and function.

As Ireland is virgin territory, these

residential investment companies may well have to be encouraged to enter the residential rental market through flexible planning or other mechanisms.

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

The building stock simply does not exist in the Irish market for long-term renting, nor does the type of landlord needed to deliver and run such developments. Issues of development, ownership and incentives are complex but not massively so. They do, however, require various departments and agencies talking to each other.

The Departments of Finance and Environment, and local authorities all have a role to play in collectively creating a modern rental market if they are really serious about their own housing policy.

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