Submission to the Working Group to Examine and Report on the Tax Treatment of Landlords

Simon Communities in Ireland

April 11th 2017

Introduction

Amidst the ongoing housing and homelessness crisis, the private rental sector is becoming increasingly unstable. Since 2012, the cost of rent in the private rental sector has increased by 50%, while the number of available properties has decreased by 78%.[1] Looking to more recent figures, according to the Daft.ie Quarter 4 Rental Report, rents rose by an average of 13.5% between September and December, the biggest 12-month increase in the price of rent extending back to 2002. During this period, average national rents rose from €1,077 to €1,111. There were fewer than 4,000 homes to rent nationwide on February 1st 2017, 10% fewer than on the same date a year previously.[2] The most recent emergency accommodation figures published by the Department of Housing Planning, Community and Local Government show there are 7,421 men, women and children trapped in emergency accommodation.[3] We know that many of the people who are becoming homeless are coming from the Private Rented Sector. Recently published Census 2016 figures show there are 497,111 households renting in the private rental sector, an increase of 22,323 households, representing an increase of 4.7% on Census 2011.[4] A sustainable private rented sector requires ongoing investment by landlords in new and current properties. Favourable tax treatment for landlords alongside increased security of tenure and rent certainty for tenants should not be considered competing rights or benefits. This brief submission will firstly examine the current regime of tax incentives available to landlords in the private rental sector. This will be followed by an analysis of current rental supply measures as contained in the *Rebuilding Ireland Action Plan for Housing and Homelessness (Action Plan)* and the possibilities for incentivising long term, sustainable and affordable investment in the sector.

Recommendations

- Tax incentives for housing providers must be balanced with improving the rental sector as a whole. This includes indefinite leasing, increased security of tenure, rent certainty and improved accommodation standards sector wise. An increasing number of people now wish to make their long term home in the rental sector.
- It is essential that any extension of incentives for landlords are linked with conditionality in areas such as enhanced quality standards and security of tenure.
- Implement NESC's (2015) recommendations for supply side initiatives and supports to increase the supply of affordable rental housing for low income and intermediate households. These include instruments to encourage provision of affordable rented accommodation such as low cost loans, access to state land on favourable terms, tax incentives and loan guarantees.
- Maintain current tax incentives for landlords including mortgage interest deductibility and the Home Renovation Incentive.
- Further taxation incentives should be considered for buy-to-let landlords given the large proportion of buy-to-let properties in mortgage arrears.
- Ongoing monitoring of the rent-a-room scheme to ensure increased tax incentives/thresholds do not drive increases in the cost of rent for tenants under the scheme.
- Examine the feasibility of developer contributions for Build-to-Rent developments akin to Part V social housing contributions.
- The use of Local Authority lands to deliver affordable rental accommodation must be balanced by securing significant conditions from investors in terms of security of tenure, rent certainty, quality of housing and amenities in addition to developer contributions similar to existing Part V contributions for social housing (minimum 10%).

---

[1] Daft.ie.
[2] Daft.ie Rental Report Q4 2016. https://www.daft.ie/report/2016-q4-rental-daft-report.pdf.
[3] DHPCLG, Homelessness report – February 2017, http://www.housing.gov.ie/sites/default/files/publications/files/homeless_report_-_february_2017.pdf.
[4] Census 2016, Summary Results – Housing, http://www.cso.ie/en/media/csoie/releasespublications/documents/population/2017/Chapter_9_Housing.pdf.

- Tax incentives for cost rental providers must be considered to ensure their viability. At a minimum this should include mortgage interest relief, local property tax deductibility and access to current and future home renovation schemes.

Current tax incentives

Budget 2017 extended a number of incentives for landlords to encourage further investment and improvement in the sector. Mortgage interest deductibility for private residential landlords will be increased by 5% to 80% in 2017. Further increases of 5% will take place every year for four years thereafter until the deductible rate is 100%. This increasing incentive will have the greatest impact on the considerable number of owners of buy-to-let properties and should encourage them to remain within the sector. Given high levels of mortgage arrears amongst this cohort of landlords, further taxation incentives linked to conditionality should be considered to prevent the loss of considerable rental housing stock to private ownership as property prices increase.[5] The Home Renovation Incentive has been extended for homeowners and landlords for a further two years to the end of 2018. This incentive provides tax relief by way of a tax credit at 13.5% of qualifying expenditure incurred on repair, renovation or improvement work carried out on a premises. The implementation of the incentive must be monitored to ensure it does not act to disproportionately increase the price of rent on the basis of improvements made to the property. Budget 2017 also increased the thresholds for rent a room landlords. Landlords renting out spare bedrooms under the scheme can now earn up to €14,000 tax free, an increase of €2,000 on the previous iteration of the scheme. Implementation of the scheme must be monitored to ensure it does not adversely impact tenants who could experience significant rent increases in light of the increased earnings threshold.

Rebuilding Ireland rental supply measures

We welcome the private rental supply side initiatives and commitments contained in the *Action Plan* and the more recently published *Strategy for the Private Rental Sector*. The commitment to examine the standards, costs and feasibility of Build-to-Rent on a large scale is welcome. Build-to-Rent has the potential to rapidly increase private rental sector stock and in doing so relieve existing pressure on private market rents. Build-to-Rent offers significant opportunities for the further provision of affordable rental and social housing. We encourage the Department to examine Build-to-Rent developer contributions whereby a percentage of the total housing units constructed as part of a development would revert to local authority use for affordable rental accommodation. An increased percentage contribution should be considered where Build-to-Rent developments are developed in partnership with State and Local Authorities through the use of State and Local Authority lands. The Build-to-Rent model has the potential to attract a more stable accommodation investor in the form of private pension funds. Such funds operate on the basis of strong, long term investments characterised by low risk increasing yields. Not only does it provide a reliable supply of much-needed accommodation, the nature of the investment favours long-term, secure, stable tenancies.

The Affordable Rental Scheme as originally envisioned in the *Action Plan* will not now come to fruition in favour of advancing affordable rental on a project by project basis. It is envisioned that, where feasible, lands held by Local Authorities in Rent Pressure Zones will be brought to the market on a competitive tendering basis, with a view to leveraging the value of the land to deliver the maximum number of units for rental, targeting middle income private rental households. The use of Local Authority lands to achieve this must be balanced by securing significant conditions from investors in terms of security of tenure, rent certainty, quality of housing and amenities in addition to developer contributions similar to existing Part V contributions for social housing (minimum 10%). The offering of tax incentives to accommodation

[5] According to the most recent Central Bank mortgage arrears statistics, 14,028 BTL accounts were in arrears of over 720 days. https://www.centralbank.ie/news-media/press-releases/mortgage-arrears-and-repossessions-statistics-q4-2016.

providers in this regard would be questionable given the benefit already accrued through access to Local Authority owned lands.

The commitment to develop a cost rental model for the rental sector is encouraging. Approved Housing Bodies (AHBs) must be fully resourced and supported to engage with the model to provide as many affordable housing units as possible. Tax incentives for cost rental providers must be considered to ensure their viability. At a minimum this should include mortgage interest relief, local property tax deductibility and access to current and future home renovation schemes.

Conclusion

The private rented sector is one element of a disjointed housing system. Rented sector stock is at an all-time low as rents continue to spiral upwards. Supply side initiatives are badly needed and must be advanced as a matter of urgency but critically they must be balanced by conditionality. Current housing providers must be encouraged to remain in the sector through the maintenance of current tax incentives. Current incentives must be monitored to ensure they do not indirectly lead to rising rents. New supply side initiatives committed to in the *Action Plan* and the recently published *Strategy for the Rental Sector* are welcome. Incentivising these initiatives must be balanced with improving the rental sector as a whole. Improvements in security of tenure, rent certainty and accommodation standards are badly needed. At a minimum indefinite leasing must be urgently fast tracked to deliver security of tenure for those who wish to make their long term home in the rental sector.

About Simon Communities

The Simon Communities in Ireland are a network of eight regionally based independent Simon Communities based in Cork, Dublin, Dundalk, Galway, the Midlands, the Mid West, the North West and the South East that share common values and ethos in tackling all forms of homelessness throughout Ireland, supported by a National Office. The Simon Communities have been providing services in Ireland for over 40 years. The Simon Communities deliver support and service to over 8, 300 individuals and families throughout Ireland who experience – or are at risk of – homelessness every year.

Whatever the issue, for as long as we are needed, Simon's door is always open. For more information please visit www.simon.ie

Services include:

- Housing provision, tenancy sustainment & settlement services, housing advice & information services helping people to make the move out of homelessness & working with households at risk;
- Specialist health & treatment services addressing some of the issues which may have contributed to homeless occurring or may be a consequence;
- Emergency accommodation & support providing people with a place of welcome, warmth & safety;
- Soup runs & rough sleeper teams who are often the first point of contact for people sleeping rough.

For further information please contact:

Niamh Randall

Head of Policy and Communications

E: niamh@simoncommunity.com

Ph: 085 8588 384

Appendix 1: Housing and homelessness crisis in umbers

- During one week in February 2017 (latest available figures), there were 7,421 men, women and children in emergency accommodation across the country. This included 3,219 adults with no dependents in their care and 1,239 families made up of 1,656 adults and 2,546 children. (DHPCLG, 2017).
- On the night of 22nd November 2016, there were 142 people without a place to sleep in Dublin City. This included 65 people sleeping rough and 77 people sheltering at the Nite Café. Unfortunately, Dublin is the only area where an official rough sleeper count takes place, making it difficult to get a countrywide rough sleeping picture. (DRHE 2016).
- Homelessness and housing insecurity are more acute and visible in our cities but the Simon Communities are working at capacity countrywide – in urban and rural areas.
- There are 91,600 households on the social housing waiting list. Two-thirds of households on the list were living in the private rented sector and one fifth living with parents, relatives or friends. 5,159 households (5.6%) had at least one member considered to be homeless, a proportion which has doubled since 2013 (Housing Agency, 2016).
- Social housing commitments will take time to begin to deliver housing. This is far too long for the people we work with and those at risk of homelessness. Social housing output for 2015, reached 1,030 new builds and acquisitions, with new builds accounting for 75 units. (DECLG, 2016). This is below the *Social Housing Strategy* target of 18,000 new units for the period 2015-2017.
- The average rent nationwide has risen by over one third since bottoming out in 2011 and has surpassed its 2008 peak. The average national rent is now €1,111. This is a 12-month increase of 13.5%, the highest rate of annual inflation on record (Daft.ie Rental Report Q3 2016).
- *Locked Out of the Market V* (October 2016 Simon Communities) found that 80% of rental properties are beyond the reach for those in receipt of state housing support.
- Nearly 80,000 mortgage accounts are in arrears. 43% of all mortgage arrears are in arrears of over 720 days (Central Bank of Ireland, 2016).
- At the end of September 2016, 21,435 or 16% of buy-to-let mortgages, were in arrears of more than 90 days. (Central Bank of Ireland, 2016).
- 750,000 people are living in poverty in Ireland (*Poverty, Deprivation and Inequality* (July 2016) Social Justice Ireland Policy Briefing).
- Since 2007 the deprivation rate, which looks at the number of people forced to go without at least 2 of 11 basic necessities examined, in Ireland has doubled - 29% of the population or 1.3 million people are experiencing deprivation (Social Justice Ireland ibid).
- There were 198,358 vacant houses in April 2016. The county with the highest rate of vacancy is Leitrim at 30.5% of all housing stock vacant (Central Statistics Office, 2016)