

**Committee on Housing and Homelessness
Leinster House, Dublin 2**

The Housing Problem and the Case for Rent Regulation in the Private Rented Sector

Executive Summary

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The Housing Crisis

One of the main causes of the continuing housing crisis has been the dramatic decline in provision by the “non-market” local authorities, housing associations and other non-profit organisations over the last 40 years. In 1975, non-market providers completed almost 8,800 homes for rent. This represented almost one third of total housing provision while “market” provision by property developers and builders accounted for over two thirds. By 2005 the non-market proportion had dropped to 7%. In 2015 non-market provision represented only 465 homes or a mere 4% of the total, while market provision had increased to 96%. See Table 1.

Table 1. Housing Provision : Market and Non-Market

Year	Market	%	Non-Market	%
1975	18,098	67	8,794	32
2005	75,398	93	5,559	7
2015	12,201	96	465	4

Source : *Housing Statistics*

It is clear, therefore, that housing provision is now almost entirely market-driven. In effect, we have presided over the “commodification” of housing where access to a home, whether to buy or to rent, depends on ability to pay.

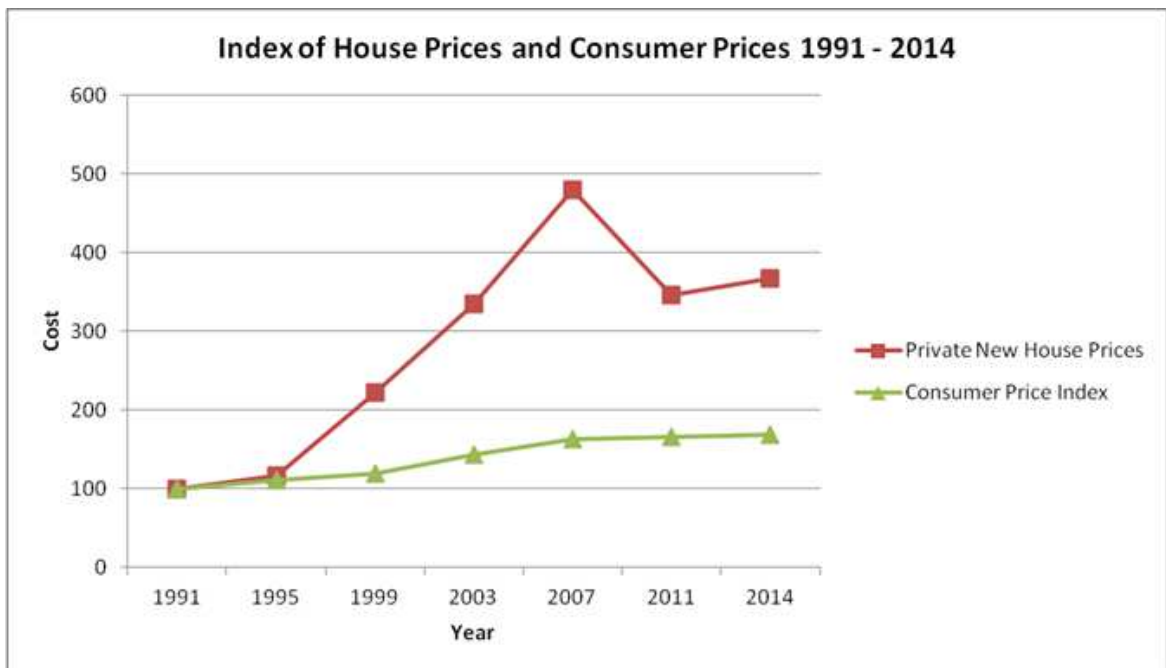
The most vulnerable who do not have the ability to pay must rely on temporary bed and breakfast accommodation subsidised by the government and the taxpayer. In extreme cases, the homeless, those without jobs, with little money or perhaps suffering addiction sleep on the streets or in cars. Despite some efforts by Local Authorities, travellers remain a disadvantaged group whose housing needs have not been met over an extended period. People with intellectual disabilities, the neglected citizens of Ireland, have also fared badly and the vast majority now have to live at home with elderly or ill parents, many unable to cope (See, for example, Submission by Carmona Services, Parents, Family and Friends Association, 2015)

Despite the crash in 2008 it seems that nothing has been learned. Even those currently in relatively well-paid employment again struggle to purchase or rent homes, especially in the Dublin area. CSO data show that house prices in Dublin increased by 15% in 2013, by 23% during 2014 and 17% up to June 2015. Apartment prices also increased – by 21% in 2013 and 2014 . Even if we exclude Dublin and despite oversupply in some areas, national house prices rose by almost 10% last year. The ratio of new house prices to average earnings for the country as a whole is now 7:1 compared to about half that in 1994. In Dublin the ratio is now 9.3:1 – the average house price is more than nine times average earnings. Thirty years ago a mortgage

could be obtained and a home purchased with one modest salary; today that would be a rare phenomenon.

The standard argument during the housing boom was, and still is, that the “fundamentals” of the economy were sound and that all would be well. It was even argued that soaring house prices were a good indicator of a successful economy. In any case, there would be a “soft landing”. Instead, there was a massive crash, causing much suffering. (See Drudy and Punch, 2005 for warnings before the crash).

The recent increases in house prices are completely out of line with other price indicators such as the Consumer Price Index, average earnings and the cost of construction. Even today after prices fell for several years, residential prices are still significantly out of line with the Consumer Price Index (CPI) and have been since 1995. See Fig.



Over the 20 years since 1995 national house prices increased more than four times faster than the CPI (216% and 52% respectively). If the price of other necessities increased in this way, there would be a public outcry and justifiably so.

So what of the private rented sector? Housing provided by private landlords is expensive, insecure and almost 50% has been officially classified as sub-standard. Many individuals and families are being evicted since they are unable to pay large rent increases being sought. **Yet more than €5.5 billion in rent supplement has been paid out to Irish and international landlords over the last fifteen years to accommodate low-income tenants.**

Despite escalating rents, a concerted campaign was waged by Irish and international property and mortgage interest groups against any form of rent regulation. As an example, the US firm Kennedy Wilson which rents over 1,000 units in Dublin wrote

to the Department of Finance advising against such proposals. This firm argued that rent certainty measures would act as a “huge disincentive” for investors. The intervention by this international landlord played a key role in the compromise solution outlined above. Organisations such as Threshold and Simon arguing for rent regulation on European lines were largely ignored.

Some commentators also confuse the term “rent regulation” with the term “rent control” and use the terms interchangeably. Rent control was a rigid form of “first generation” “rent ceiling” or “rent freeze” which existed in Ireland, Europe and the United States for the period from the first World War up to the 1970s. This type of rent control or “rent freeze” was unreasonable and was found to be unconstitutional in Ireland in 1981. However, such “rent control” is now non-existent in Ireland or anywhere else in Europe. Instead, second and third generation “rent regulation” is the norm in countries such as Germany, France, Belgium, the Netherlands, Denmark and Sweden. This allows rent increases in line with inflation or some reasonable percentage increase and taking into account additional costs involved in improving the quality of rented accommodation.

The Economic Case for Rent Regulation

There are a number of economic reasons as to why “rent regulation” should be introduced in Ireland.

First, the private rented sector is an “imperfect” or “monopolistic-type” market where there are large numbers of tenants seeking accommodation and a much smaller number of landlords offering accommodation. Therefore, tenants have virtually no influence over rents and landlords can dictate what the rents will be. Government intervention and regulation is now widely accepted throughout the world as essential in such monopolistic-type markets.

Second, high rents (as well as high house prices) are bad for the economy.

Third, rent increases over recent years have been seriously out of line with other indicators such as the Consumer Price Index, average earnings and the cost of building.

Fourth, high house prices and rents act as a deterrent to skilled workers wishing to return to Ireland and to the executives of foreign companies considering Ireland as a location.

Apart from the economic arguments outlined above, there are a range of social, equity and ethical reasons why house prices and rents should not be allowed to escalate unreasonably. Housing must surely be a “home” rather than another “commodity”.

Landlords are not always to blame for all the difficulties in the private rented sector. There is evidence that some tenants fail to pay agreed rents over extended periods and cause significant damage to properties. This requires urgent attention as does the tax treatment of rental income.

Recommendations

- **A radical change of philosophy and policy is required to reverse the alarming reduction in the direct provision of public housing by the government and other non-profit providers. The proposal by the Government to build 35,000 homes for rent over the next five years and to refurbish many more represents a good start to redress this unacceptable situation. However, at least 10,000 such homes per annum are required to even deal with the 90,000 families currently in housing need.**
- **A cost-rental” model of housing for rent for those currently ineligible for public housing (e.g. nurses, guards, teachers etc) should be implemented by the government as a matter of urgency.**
- **The proposal to provide for 75,000 social housing tenants in the private rented sector is unwise and should be abandoned.**
- **A key objective of any government must be to ensure that the prices and rents of homes do not diverge significantly from other key price indicators such as the Consumer Price Index.**
- **While increasing supply will dampen down prices, managing demand (as the Central Bank has done) is also critical to ensure that exorbitant prices are not demanded and paid. The level of profit sought by developers/builders, the tax and levies by central and local government and the cost of land and finance all contribute to unsustainable house prices. All need urgent attention.**
- **Since land is a key requirement for housing, the government should have a long-term strategy of land acquisition. A substantial land tax or capital gains tax should be imposed on “unearned “ price increases of land zoned and serviced for housing.**
- **Rent regulation on European lines should be introduced as a matter of urgency in the interests of tenants and landlords.**
- **The right to housing should be enshrined in legislation and in the Constitution.**

Finally : What Kind of Society Do We Want?

If we are serious about providing homes for all our people, we need to first ask ourselves - and answer – one key question. What is the main purpose of housing? Is housing yet another market commodity subject to the market forces of supply and demand to be traded like other commodities such as cars, racehorses or stocks and shares? This view sees housing primarily as a means of profit-making and speculation, as well as procuring capital gain and accumulating wealth by home owners. Houses are bought by and sold and rented to only those with the ability to pay, whether through their own resources or by borrowing. Those without resources or the ability to borrow simply cannot participate in this market game. I believe that

this view of housing as a “commodity”, now predominant, is deeply flawed and is a central cause of our continuing housing crises.

We need to ask ourselves whether the first priority of the Irish housing system should be the realisation of investment, speculative or capital gains by those with the necessary resources, or the provision of an affordable, secure, good-quality home as the right of every citizen? Simply put, are houses a market commodity or comfortable shelter from the storm. The choice, either way, is ours.

References

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