IPOA
IRISH PROPERTY OWNERS' ASSOCIATION

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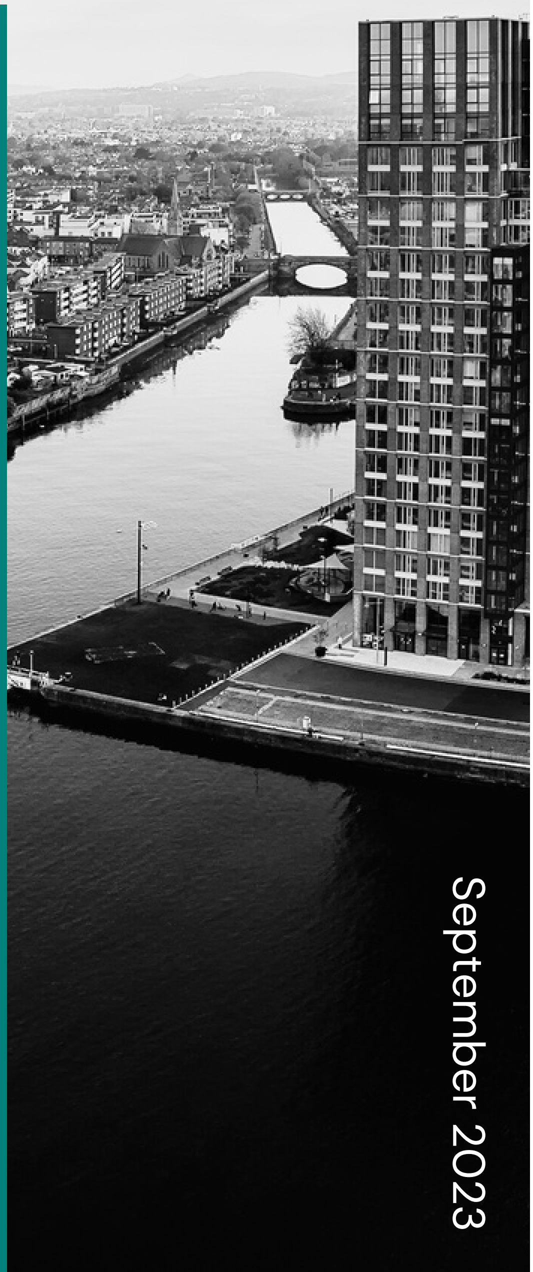
Pre-Budget 2024

Submission



September 2023

www.ipoa.ie

IPOA

ABOUT US

Founded in 1993, the Irish Property Owners' Association is a non-profit organisation that seeks to protect and promote the interests of private residential property owners and encourage the supply of good quality accommodation and professional standards of property management.

IPOA believe:

- In an industry that is professional, one that provides decent quality properties and high standards of property management.
- That the letting of residential property should be recognised as a legitimate business activity
- In the implementation of reasonable and fair legislation, without imposing unreasonable and impractical burdens on both owners and tenants.
- In the fair and equal tax treatment of our members comparable to other service industries and business.
- That bad practice and lawlessness should not be tolerated.
- In a fair and truthful portrayal of the business in all media.
- That education and training improve standards.

INTRODUCTION

The private rental sector is a very important sector for the State, assisting the Government in its role of providing accommodation for its citizens. It is essential that the State value and encourage investment in the sector.

The sector and its investor profile have changed significantly over the past three to four years. The numbers of traditional private investors have declined, while we have witnessed the rising role of overseas funds that have been heavily incentivised by the State, through a combination of fast-track planning measures, through to tax free status on rental income, which is in stark contrast to the tax regime in place for private property owners that sees rental income taxed at marginal rates of up to 55%.

The Government facilitates this policy, and asserts that this private equity led supply is required due to a lack of domestic capital. When one reviews the number of apartments that have been granted planning permission (currently in excess of 75,000), it is clear that there is now a real risk of serious oversupply of these high-end properties, and the generous incentives that exist for private equity players are now no longer required. The State cannot afford to allow funds with annual rental profits of hundreds of millions of euro to operate on a tax-free basis, whilst their smaller private counterparts pay tax at 55%. There is no other sector of the economy that operates a discriminatory dual taxation regime, and an urgent rebalancing of the tax code is required to ensure fairness and allow private property owners to remain in business and continue to supply their much-needed stock, stock that is worth no less to the sector than that provided by the private equity players. Our proposal provides solutions as to how these imbalances can be addressed on a cost neutral basis for the Exchequer.

Public opinion has not yet queried why property owners would leave when rents are at such a high level. Historically property owners were satisfied to suffer the burden in the hope of securing an independent source of pension income over the long-term, but the risks and exposures for property owners has changed dramatically since 2006 resulting in many deciding that the exposures and potential liabilities are not worth the investment preferring more passive, risk averse and higher yielding investments.

We have carried out extensive research within our membership to establish the reasons for their exit. Our analysis has concluded that a penal tax and regulatory regime is the main reason property owners are leaving the market. We are satisfied that property owners would remain if the tax environment was more benign, and accordingly we urge the Government to implement fiscal policies in Budget 2024 to allow property owners to assist the government in stemming the serious rental crisis at present in our country.

Mary Conway

Chairperson
Irish Property Owners' Association

BACKGROUND

Historically, Ireland has had a high percentage of home ownership which was enabled by a system of subsidies. Homeownership reached a peak of 80% of all private households in 1991. However, since the 1990s, this has steadily declined, as the private rental sector – once the forgotten tenure – became a viable option.

According to the Central Statistics Office (CSO), the average house price in Ireland reached a new record of €359,000 in 2022, up from €343,250 the previous year. This trend is unlikely to revert. Exceptionally high construction costs coupled with inflation are only adding to the to the overall price of housing for aspiring purchasers, and exacerbating the affordability issue. Government subsidies and reduced restrictions on lending criteria have not only failed to alleviate cost pressures but have injected excess capital into the market and pushed average prices beyond the reach of those on an average wage. Most recently, the Organisation for Economic Co-operation and Development (OECD) warned that Government incentives like the help-to-buy scheme have the potential to further increase house prices, particularly in areas where there are housing shortages. [1]

As the cost of housing has outstripped standard wage growth, a new generation of young people find themselves unable to purchase a home and are therefore reliant on the availability of rental properties. The total number of people renting in Ireland in Q1 of 2019 was 910,300 and in Dublin, over one-quarter (25.9 percent) of dwellings were rented privately in the same period. The profile of renters reflects that the majority of tenants in Ireland are under the age of 35 – many are young professionals who meaningfully contribute to Ireland's economy, and who are unable to purchase a home due to a combination of insufficient stock and the increasing cost of buying a property. The situation has since intensified, as the Irish Government responds to the ongoing conflict in Ukraine. The facilitation of the arrival of 85,000 Ukrainian refugees (CSO, June 2023) is a compassionate reaction to a grave humanitarian crisis. It is also one which will place considerable pressure on existing housing and rental stock at a time when ordinary demand is exceeding supply. Recent Government forecasts suggest that 180,000 Ukranian people could be seeking refuge in Ireland by the end of this year. Current levels of property stock will be unable to [2] sustain this.

This acute shortage of rental properties risks damaging Ireland's reputation as a country that facilitates and encourages international investment. In a report published earlier this month, business representative body Ibec noted that the lack of available housing [3] has become a "critical barrier to continued growth and development" in the economy. If Ireland is to continue to engage and retain talented, educated professionals and attract the investment of global companies, adequate supply of rental accommodation is essential. While many of these professionals may not wish to live in Ireland permanently, their participation in our workforce and our society, will only be made possible if they have somewhere to live.

1) Housing minister rejects warnings government scheme may push up house prices, Breakingnews.ie, 9th January 2023 available at https://www.breakingnews.ie/ireland/housing-minister-rejects-warnings-government-scheme-may-push-up-house-prices-1415991.html
2) Oireachtas Library and Research Office, Houses of the Oireachtas, Number 3 of 2020.
3) Ibec Better Housing Better Business Report January 2023

At present, ‘small landlords’ (those with one or two tenancies) make up around 85 per cent of private landlords and more than half (53.5 per cent) of privately rented tenancies in the sector. These landlords are often described as "mom and pop" landlords as many have either inherited a property through family, or have invested in a single property as a means to secure a pension. While the rise in institutional investment has changed the make-up of the rental sector, the proportion of properties owned by landlords with more than 100 residential tenancies still only accounts for about 6% of privately rented tenancies registered with the Residential Tenancies Board (RTB). Small landlords are therefore the dominant player in the rental market and their participation in the market is critical.

Yet, in five years (2017-21), the total number of landlords associated with tenancies registered with the RTB has fallen by more than 15,000 and is now at 156,555 with overall tenancies falling by 64,000 from 340,952 in 2017 to 276,945 in 2021 (CSO). Many small landlords cite their leaving the rental market as being a result of a perceived lack of support from the Government – 44 per cent of landlords who sold their properties reported doing so as a result of unfavourable taxation treatment.[4] Some 32 per cent listed the regulatory environment as the reason for departing; primarily the introduction of Rent Pressure Zones (RPZs) and eviction bans. This exodus of small landlords from the market must be stemmed in order to avoid a critical situation turning into a catastrophe.

To mitigate this crisis, it is imperative that the Government supports the sector in a meaningful and sustainable way, so that small landlords can play a leading role in stabilising the housing market - by recalibrating their attitude to the sector, and recognising its strategic importance. As an example, small landlords can be a useful tool in facilitating the housing of those on council waiting lists at affordable rents, in exchange for tax reliefs or other such subsidies. Collectively, the implementation of these provisions would signal the Government’s support for small landlords and the crucial role they play in the provision of rental stock.

To date, Ireland has failed to recognise the contribution that small-scale landlords can make in helping to solve the current housing crisis. As a result, taxation incentives and subsidies have been misdirected at other sections of the housing market – therefore, progress has been minimal. Social housing is one such case as successive Governments have missed social housing targets. While new-build social homes should have hit 9,000 last year the total constructed homes fell well below the target, at 6,500. It is plausible to argue that there is no realistic prospect of the social housing sector growing to previously seen levels in earlier decades of the State. These same subsidies and taxation reliefs can be directed towards those small landlords with few rental properties, to encourage and incentivise them to stay in the market and provide certainty to current and future tenants. This approach has proved to be an effective measure in stabilising the housing market in other European countries.

Prompt action on behalf of the Government is needed to stem the flow of small landlords who are currently leaving the market. We must obey the empirical evidence from across Europe, which proves that small landlords are the single-best solution to solving the housing crisis.

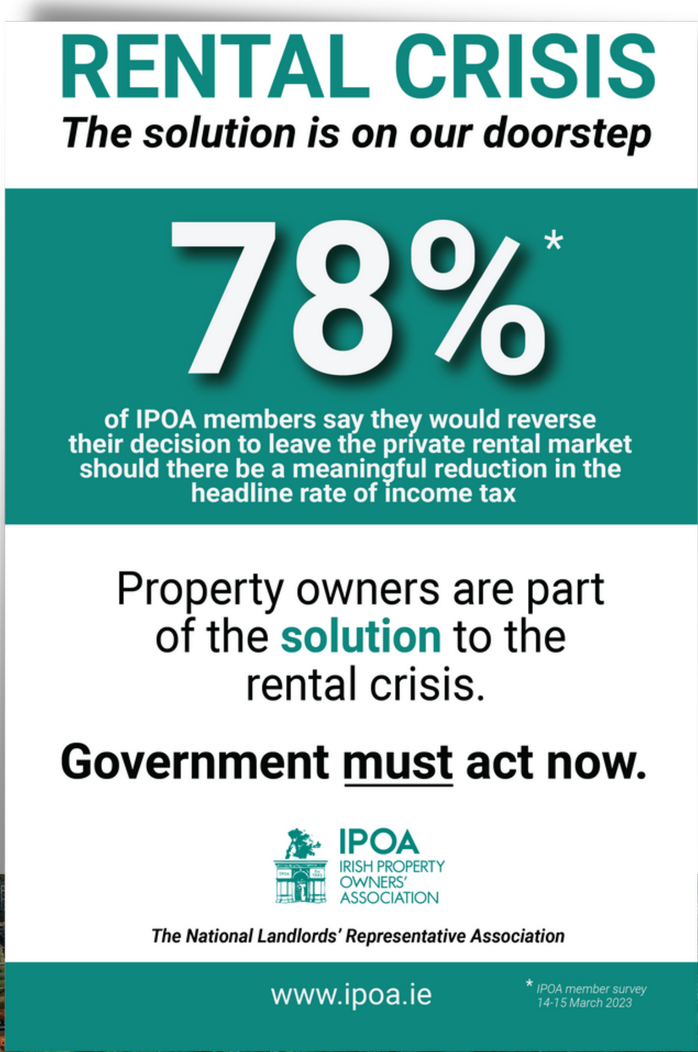
4) RTB Survey November 2022

URGENT ACTION REQUIRED FROM GOVERNMENT

The IPOA respectfully submits that the Government needs to take bold measures to address the supply side of the sector rather than small insignificant changes that will have little impact. Our recommendations are thus simple yet significant measures. The measures are designed to retain existing supply, stop the exodus of property owners from the market and encourage new investment. This submission is intended to help the Government to implement policies that will help create a sustainable property market and provide solutions for what is the most economically and socially challenging issue facing Ireland now.

The IPOA is determined to help the Government to address the housing market challenge. It is in the interests of all stakeholders to ensure that a properly functioning housing market is enabled.

Such a market should be characterised by sufficient supply of suitable housing that is affordable; a moderation of rental price inflation; social mobility that is not constrained by housing and a high quality and sustainable housing stock that enhances the overall competitiveness of the Irish economy.



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INDUSTRY PROPOSED SOLUTIONS FOCUSED ON:

MEANINGFULLY RESPONDING TO THE HOUSING EMERGENCY

RETAINING PROPERTY OWNERS IN THE MARKET

TAXATION

INTRODUCE A 25% TAX RATE FOR PROPERTY OWNERS

The IPOA recommends that a new rate of tax on residential rental income of 25% (inclusive of USC and PRSI) is introduced for residential rental profit, as a means of dealing with the housing emergency. This action will encourage private investors to stay in the market and support new investment.

This proposal could be funded through the introduction of a 25% tax rate applying to all investment funds/REITS operating in the residential rental market. It is entirely inequitable that two different investor classes both providing identical product and service can have such a significant disparity in terms of tax treatment. The small private investor is taxed at a marginal rate of up to 55% whilst the private equity fund/REIT pays 0% tax on rental profit. The loss to the Exchequer is considerable when one considers that REITs can sometimes make rental profits totaling hundreds of millions of euro. The Exchequer gain from subjecting funds to a 25% rate of tax should be used to encourage small property owners to stay in the market through a tax reduction which would allow them to remain viable and continue providing much needed accommodation. By ensuring equal tax treatment of investors, this will have the effect of assisting with retention of landlords in the market and therefore, increasing supply.

TAXATION

INTRODUCE CAPITAL GAINS TAX (CGT) RETENTION RELIEF

The IPOA supports tax relief for property owners who remain loyal to the market. Owners who commit to remaining in the market for a period of seven years should enjoy a CGT relief when they eventually exit.

The measure should extend CGT relief to the property owner over the full gain when they eventually dispose of their property. The measure will be similar to previous CGT relief for property owners who retained their property for seven years.

REDUCE CAPITAL ACQUISITIONS TAX (CAT)

The IPOA is seeking a reduction in Capital Acquisitions Tax (CAT) on the inheritance of residential investment properties.

Many families are forced to pay large CAT bills on the inheritance of a residential property, which very often forces the beneficiary to sell the property to fund the taxation payment. This has the direct impact of further losses of rental stock.

The IPOA proposes a reclassification of the taxable value of residential property, that is utilised for rental purposes. This is reflective of the position pertaining to the inheritance of agricultural property and business assets, and therefore should be introduced. This would mean that the taxable value is reduced by 90% which will encourage current property owners to pass assets to the next generation, and help to retain this housing stock in the rental market, while serving to incentivise others to invest in the market.

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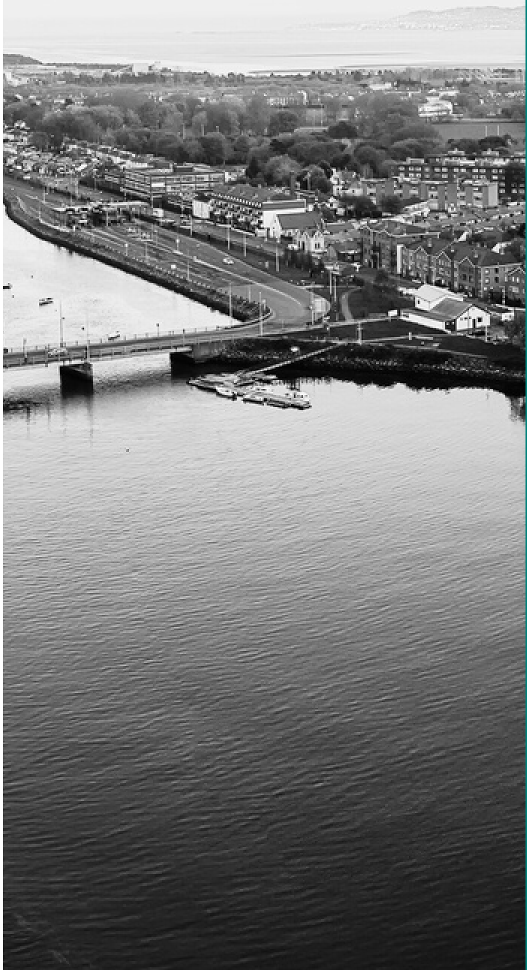

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