

Energy Challenges in the Private Rental Sector

Good afternoon Ladies and Gentlemen.

The Irish Property Owners Association is the national representative organisation for landlords. Founded in 1993, the IPOA is a not for profit organisation, seeking to protect and promote the interests of private residential landlords, and encourage the supply of good quality accommodation and professional standards of management.

I would like to thank you and the organisers for our invitation to address you. It is often forgotten that there are two integral parties to any rental agreement, the landlord and the tenant. Any strategy has to investigate its impact on both parties, and on the supply of rental property.

The Importance of compliance with the EU Directive for Buildings, and the requirement for all rental property to have a Buildings Energy Rating Certificate, was acknowledged, understood and promoted by the IPOA, from the outset, to the extent that the Association hosted a conference, here in Croke Park on the 17th October 2006, to increase awareness of the requirements and the obligations on the Landlord to achieve compliance. IPOA were fortunate to have Duncan Stewart chairing and excellent speakers including Charles Roarty, Energy Action, and Mr Stratos J. Paradias, Lawyer, President of the International Union of Property Owners (UIPI), speaking at that event. The IPOA are members of the UIPI.

On 5th October 2007 we also followed this up with an information leaflet outlining money saving tips and case studies for improving energy efficiency in rental properties. This was in conjunction with the Irish Independent and Kingspan, and was circulated with the newspaper. 330,000 copies were circulated.

Energy poverty is a difficult issue; and energy efficiency in rental properties is very important, but the Irish private rental situation is complex, and the situation needs to be addressed in the context of the existing Irish Market.

The rental market in 2015 is sadly in crisis. A blanket imposition of a certain buildings energy rating is feared within the industry. Certainty increases confidence and confidence is required by investors.

There will be a high cost involved in making rental property more energy efficient and this will need to be addressed in the interests of development.

The profile of property owners is an essential consideration when making any decision on the sector. Approximately 65% of landlords own one property, 17% own two and 9% own 3 properties. 9% have more than three properties.

The breakdown of accommodation provided is flats and apartments 35%, semi-detached houses 27%, detached 17% and terraced houses 18%, bedsits are less than 1%. 62% of rented stock is 20 years old or younger.

IPOA members surveyed in December 2013/January 2014 were asked if they perceived the BER to be relevant to their business

71% stated the BER was not relevant.

- 63% considered that it did not influence the levels of rent and
- 57% believed that tenants are not concerned and rarely ask to see the BER.

29% felt that the Buildings Energy Rating is relevant to their letting,

- 18% because it impacted on the value of the property,
- 33% because they have to provide it by law,
- 33% felt that a good rating would make it more attractive to tenants and therefore easier to rent.

Education as to the value of energy efficiency is one of the challenges that will need to be addressed in the sector.

Residential landlords are under considerable financial and legislative pressure. There is a serious amount of legislative compliance required in the sector, approximately 36 various Acts including the Residential Tenancies Acts, Rent Book Regulations, Revenue Compliance, Housing Standards for Rented Houses, Fire Regulations and BER Regulations. All of these incur a cost, either financial; in time or both.

The sector is in crisis. Against a backdrop of falling rents, costs increased by 20-24%. The withdrawal of 25% of mortgage interest relief, resulted in landlords paying tax in a loss making situation. If the interest on a loan is €1000 per month and the rent is €1000 per month a landlord would be paying Income Tax, USC and PRSI on €250. Effectively there is a tax liability on an expense, the money has already been paid to the bank. The Local Property Tax is also not considered an expense for tax purposes but is an expense. For many landlords keeping the rental property is not sustainable and as a result they are leaving the sector. 29% of landlords intend to leave the sector as soon as they can and 30,000 are in arrears with the banks.

70% of landlords have loans and 71% have insufficient income from their rental property to pay their mortgage and their tax liability.

49% of properties sold in the first six months of the year were by investors selling and bank repossessions, with 18% purchasing. The figure for 2014 was 43% selling against 16% investing and for 2013 39% selling and 13% investing. The sector is leeching rental property and reducing the amount of accommodation available.

The Housing Standards for rented houses were updated in 2008 and as part of the increased standards, required permanently fixed independently controllable heating appliances in each studio. This resulted in electric wall heaters being introduced to the units and reduced the practice of landlords including oil or gas central heating of the whole property on timers during certain months. This practice is making units less energy efficient.

The importance of energy efficiency in rental property is understood but the effect of a blanket imposition on all owners to let a property with at a particular Building Energy level would be counter-productive. The costs involved would be impossible to meet for investors already struggling financially and not in a position to comply. The result may force investors to sell reducing supply. This could cause more homelessness and make it more difficult for tenants to source accommodation, by reducing the amount of accommodation available.

It is difficult for landlords to borrow in the current financial climate. To borrow to implement energy efficiency is currently not practical as interest paid on borrowings is not allowed for refurbishment. Rents would not be increased as a result therefore the property owner would be investing large amounts of money for little or no return.

The most practical solution would be to provide incentives for investors to make their properties more energy efficient. Not all property owners would be in a position to take them up, but over time it should improve the energy efficiency of the sector.

At European Level, the UIPI, the international association of landlords have got together with the European Builders Confederation to try to work out a plan for the sector going forward. This is seriously difficult because of the segmented nature of the private rental market and no one really knows how to address our members' needs and boost the energy efficiency in the private rental sector. Most financing opportunities, especially at EU level, are not adapted for small investors! The UIPI and the European Builders Confederation are consulting on how to make use of the obligation on energy companies to save energy for the benefit of the end users and generate financing opportunities for "small scale energy efficiency projects". Therefore, the IPOA together with other UIPI members are researching alternative financing schemes.

We are aware through our membership of the UIPI that on-going negotiations at EU level are continuing and the IPOA as an organisation would welcome involvement from interested parties to broaden our involvement in the sector at EU Level. High costs are involved to keep in touch with developments and must be subsidised if a meaningful outcome is to be gained.

Energy efficiency in the private rental sector has to be an integral part of the Governments Housing Strategy. It is vital that it encourages increased energy efficiency without reducing the supply of available accommodation.

Half of all landlords that took part in our survey believe that meeting the energy efficiency standard of "D" would be too costly and it would force them to consider the viability of remaining a landlord.

A cost benefit analysis on energy efficiency measures needs to clearly indicate that major energy efficiency improvements are financially justified.

Taking into account the precariousness of the finances in the sector, energy efficiency improvements needs to be encourage through incentives or grants. Most landlords will not be in a financial position to carry out major works to make their properties more energy

efficient. We need to focus on the least costly energy efficiency improvement in the short term with the best outcomes like insulating attics, dry lining, draught proofing, and double glazing..

Any money spent on making a rental property more energy efficient should be allowable in the tax year it is spent rather than as a capital expense which is offset when paying capital gains tax on the sale of the property. This would:

- encourage Investors to make their property more energy efficient
- reduce energy costs and benefit tenants
- help create employment with consequent tax payments
- reduce carbon emissions and help achieve 2020 targets.

Thank you for taking the time to listen and I hope that this contribution will help to formulate a policy that will work and not reduce the amount of accommodation available.