



The Private Rented Sector in Ireland

AIB Real Estate Finance

Pat O'Sullivan and Rory McGuckin

August 2018



Contents

1. Introduction	1
Significant supply and demand imbalance has led to record rents	1
Construction and investment is on the rise	1
PRS is a critical component in solving the Irish housing problems	1
2. Demand	2
Sharp increase in households renting	2
Growth concentrated between 2005 and 2008	2
Continued growth during the downturn	2
Future demand robust, but no straight line	3
Census 2016 saw drop in younger age-cohorts renting	3
3. Supply	6
Stock of apartments in Ireland very low	6
Supply starting to emerge	6
Future supply prospects brightening	7
4. Rents and affordability	8
Rent price inflation and house price inflation	8
Rents and average earnings	8
Dublin rents in an international context	9
5. Summary	10

1. Introduction

The number of households in residential rental accommodation has grown significantly in the last 20 years, experiencing a threefold increase between 2000 and 2018, and now account for almost one fifth of all Irish households. While Ireland's rental sector has expanded significantly, it still falls short of European levels, with up to 50% of households renting in other European states. This trend is echoed in the numbers of people living in apartments – just 10% of Ireland's housing stock is accounted for by apartments, compared with between 30 and 50% in various European countries.

While Ireland's rental sector has expanded significantly, it still falls short of European levels, with up to 50% of households renting in other European states.

The Private Rented Sector (PRS) as an institutional asset class has only emerged in the past five years, as heretofore, the sector was dominated by private/individual landlords. Increasingly, new apartment supply is being designed and built to meet the needs of the institutional PRS

sector as the demand for rental accommodation remains very high, both from an occupational perspective and an investment perspective.

Significant supply and demand imbalance has led to record rents

There is a well-documented imbalance between supply and demand of residential properties in Ireland and, in particular, a critical shortage of rental properties in Dublin. According to daft.ie, there were just over 3,000 properties listed to rent in August of this year, 1,300 of which were in Dublin. As a consequence, rents have now surpassed their 2007 peaks, recording annual increases in the region of 8% to 10% per annum over the last five years. This robust growth has now brought Dublin rents up to the sixth highest level in a survey of global cities according to EU research, comparable with global centres such as New York, London, and Singapore.

This robust growth has now brought Dublin rents up to the sixth highest level in a survey of global cities according to EU research, comparable with global centres such as New York, London, and Singapore.

Construction and investment is on the rise

The pressure on the rental sector requires a sharp increase in rental supply. According to our analysis, there are almost 13,000 apartments currently in the pipeline in Dublin, with 9,790 having already been granted planning permission. In Dublin's docklands alone, there are currently 1,261 apartments in the pipeline specifically aimed at the PRS sector, while a further 1,268 are proposed in South Dublin¹. The growth of the PRS sector as an investment asset class saw €386.8m of capital transacted in the sector in 2017 across 24 deals², a substantial increase on the €269.1m transacted in the previous year, with further strong growth likely this year.

PRS is a critical component in solving the Irish housing problems

We believe that the PRS sector is a critical part of the solution to the residential supply problems facing the Irish economy. The key urban areas, in particular Dublin and Cork, require high density apartment developments and this goes hand-in-hand with the requirements of institutional investors. Institutional investors require high quality, large scale apartment blocks and this source of equity capital is key in supporting the development of the PRS sector.

While in our view, the growth of the PRS sector is structural in nature we do have concerns about the prevailing level and rate of growth of rents in Dublin and to a lesser extent in other major urban locations in Ireland. It is possible, if not likely, that this growth in rents will be curtailed once new residential supply approaches underlying levels of demand.

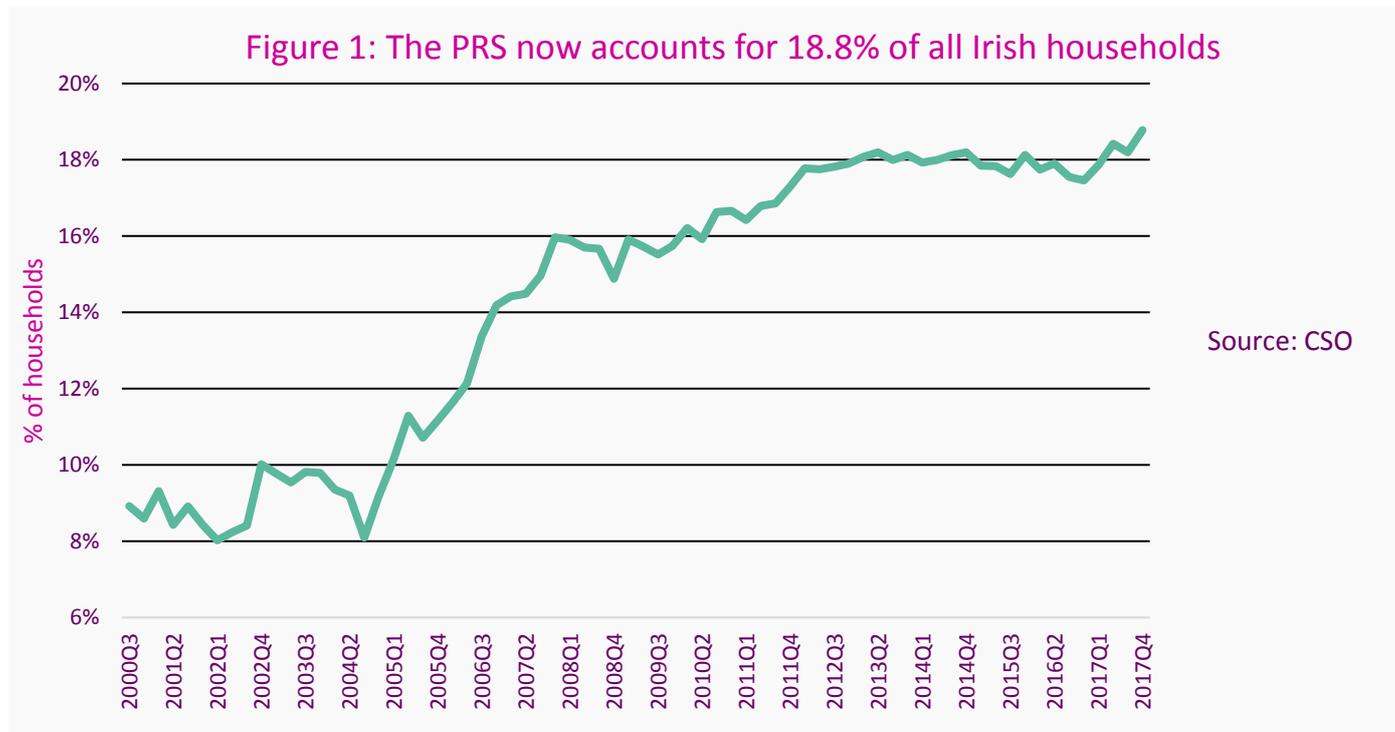
¹ Savills, *New Homes Dublin 1 Market Overview, May 2018*

² Cushman & Wakefield, *The Private Rented Sector Review, 2017*

2. Demand

Sharp increase in households renting

The number of households in private rented accommodation in Ireland has grown considerably, as illustrated in Figure 1. At the end of 2017, 343,600 households rented accommodation from a private landlord, representing 18.8% of all households. This represents a 200% increase from the beginning of the millennium, when just under 9% of households rented privately.



Growth concentrated between 2005 and 2008

Between 2005 and 2008, the number of households in private rented accommodation jumped from 8% to 16%, due primarily to unprecedented inward net migration, amounting to just under 300,000 migrants. The relative flexibility that rental accommodation affords makes the sector an attractive option, particularly for migrants unsure of the duration of their stay. It is also worth noting that unemployment in this period was near an all-time low, falling to 4.3% in Q2 2005, which had a knock on effect in increasing demand through greater affordability.

Continued growth during the downturn

The numbers in private rented accommodation did not decline during the economic crisis, and in fact continued to increase. The underlying reasons were very different to those of the 2005 to 2008 period; the economy contracted, unemployment rose sharply and net migration turned negative. This heightened level of economic uncertainty, combined with falling house prices and increasingly constrained availability of mortgage credit resulted in increased demand for rental properties. It also helped that rents fell sharply during this period. As stated by the National Economic and Social Council³, 'younger people who had not already bought houses would have seen little reason to buy, and many reasons not to, with not only low rents and falling house prices, but also the knowledge that many of those slightly older than them were in serious negative equity. Access to credit was also reduced, as were secure incomes, due to the rise in unemployment.'

In recent years the proportion of households in private rented accommodation appears to have stabilised at around 18%. However, as rental accommodation becomes increasingly expensive, it will be interesting to see if this percentage can be maintained or if there will be an increase in owner-occupation or in those renting from local authorities.

³ NESCC, *Homeownership and Rental: What Road is Ireland On?*, No. 140 December 2014

Private rental accommodation growth concentrated on Dublin

The growth of private rental accommodation is particularly obvious in Dublin, where just under 25% of households rent privately, a slight fall from the peak of 26% in 2015. This compares to a high of 17.2% in 2012 for the rest of the country, although this figure has now fallen slightly to 16.4%.

Between 2011 and 2015, there was an increase of 53% in the number of households renting in Dublin, followed by a further increase of 12.8% between 2015 and the end of 2017. However, in absolute terms, the majority of households in private rented accommodation are located outside of Dublin, with 213,500 (62%), compared with 130,100 in the capital.

Interestingly, there has been a decrease in the average number of persons per privately rented household, with Dublin's figure now standing at 2.5 persons, a fall from the peak of 2.9 persons in 2012.

In the rest of the country, the average is now 2.7, slightly lower than the high of 2.8. This fall coincides with a period of record rents, which is perhaps unusual as high rents should in theory encourage renters to spread costs over a larger number of people.

...there has been a decrease in the average number of persons per privately rented households, which is perhaps unusual as high rents should in theory encourage renters to spread costs over a larger number of people...

Future rental demand robust, but no straight line

Housing demand at its most basic is inextricably linked with demographics: population change and migration. According to Census 2016, Ireland's population stands at 4.7 million, an increase of 4.5% on the previous census, and over 500,000 people more than 10 years earlier. This growth is expected to continue, with the CSO predicting that Ireland's population could reach 6 million as early as 2038. This estimate is the highest out of six potential scenarios presented by the CSO, while the lowest projection would see Ireland's population increase to 5.37 million in the same period. Net migration has turned positive in recent years, and this along with Brexit related business and worker movement may result in the higher forecast being achieved. In addition, the Ireland 2040 National Planning Framework is likely to see the need for more high density housing in Ireland's regional centres, and could ultimately result in an increased demand for apartment and rental accommodation outside of the capital.

Net migration has turned positive in recent years, and this along with Brexit related business and worker movement may result in the higher (population) forecast being achieved.

Census 2016 saw drop in younger age-cohorts renting

The 2016 Census showed that the number of households renting private accommodation increased marginally from 305,377 to 309,728 or 1% between 2011 and 2016⁴. However, this masked significant changes in the composition of the age-profile of those renting in the private sector. As Table 1 shows, there was a significant drop in the numbers in private rented accommodation in the 20-29 years age cohort, while there was a significant increase in the 35-49 years age cohort. This is due primarily to the fact that the population numbers in the 20-29 years age cohort fell (-87,782) between 2011 and 2016 and conversely the population numbers in the 35-49 years age cohort increased (+72,733). Also, affordability factors are impacting as it appears that the younger cohorts are remaining in the family home.

⁴ To note, the CSO uses different survey methods to arrive at the number of households renting in the Census versus the Labour Force Surveys which we use for more up to date information. However, both arrive at broadly consistent estimates. The Labour Force Survey estimates that the number of households at the end of 2016 was 305,700 versus the Census estimate of 309,728 for 2016.

It will be interesting to see if the older age cohorts remain renting or whether their propensity to purchase a home will increase. If the older age cohorts do start to purchase in greater numbers, this could have a dampening impact on future rents, given the drop-off in the numbers renting in the younger age cohorts. However, the big swing factor will be future migration trends and this could either alleviate or exacerbate the lower numbers coming through in the younger age cohorts. It is notable, that net migration has turned significantly positive in 2016 and 2017, cumulatively adding 36,000 to the population.

Table 1: Number of private renters by age cohort: 2011 Census & 2016 Census

Private Renters - Age Profile (No. of Units)	2011	2016	% Change
Age 20 – 24	41,183	26,185	- 36%
Age 25 – 29	72,296	54,348	- 25%
Age 30 – 34	66,186	70,109	+ 6%
Age 35 – 39	42,151	56,319	+ 34%
Age 40 – 44	28,037	35,909	+ 28%
Age 45 – 49	19,328	23,998	+ 24%
Age 50 – 54	13,565	16,043	+ 18%
Age 55 – 59	8,699	10,934	+ 26%
Age 60 – 64	5,455	6,582	+ 21%
Age 65 +	8,477	9,301	+ 10%
Total Private Renters	305,377	309,728	+ 1%

Changing preferences – structural or cyclical?

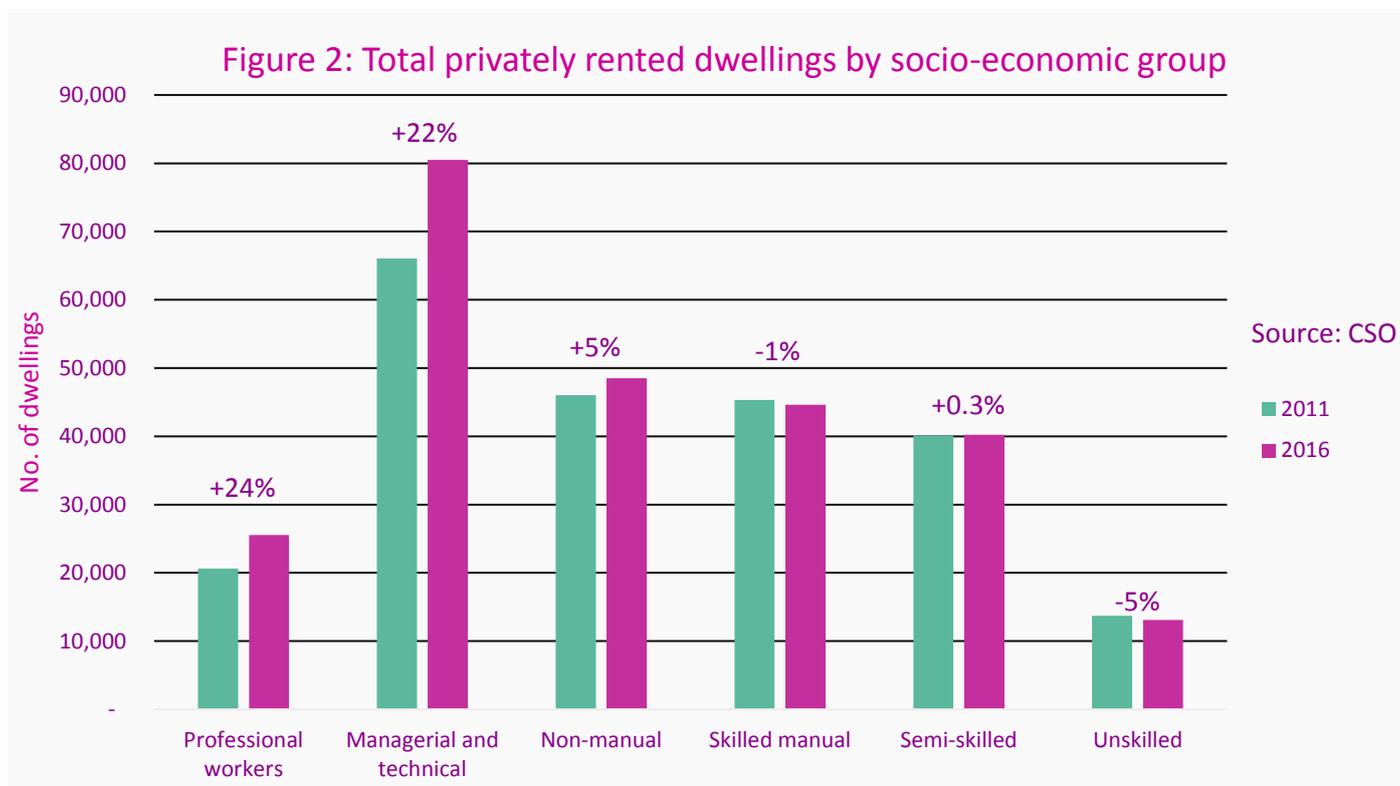
The most recent census data indicate that there is a shift in the preference of different socio-economic groups towards renting in the PRS market as Figure 2 shows. Between 2011 and 2016, there was a 24% increase in the number of dwellings rented by professional workers, whereas currently there are 22% more managerial and technical workers renting. In contrast, there was a fall in the number of skilled and unskilled manual workers renting from a private landlord. However, across all socio-economic groups there was an increase in the numbers of people renting from a local authority.

The increase in rental accommodation among higher earners could be attributed to a number of factors, including: –

- Rising house prices forcing people to rent, either long-term, or short-term until home ownership becomes more affordable. According to recent research conducted by housing charity Threshold⁵, just 29% of people rent by choice, with the remaining 71% renting because they cannot afford to buy, are unable to access a mortgage, or cannot get suitable housing.
- An increase in the supply of attractive rental properties aimed at professionals and high earners, e.g. Clancy Quay, The Grange, and Beacon South Quarter in Dublin and The Elysian in Cork, among others.
- A rise in international professionals who, attracted by Ireland’s large multinational sector, choose to rent out of preference, while also enjoying the flexibility and lack of long term commitment that the PRS offers.

⁵ Threshold, *Annual Tenant Sentiment Survey, National Results, 2018*

The future evolution of PRS in the Irish market will depend on which of these factors, or combination of factors, holds true.



Irish private rental market small compared with European peers

Despite the private rental accommodation market in Ireland growing and now standing at 18.8% of total households, it is still a relatively small sector when compared with other European countries. In Switzerland, over 50% of households rent privately, while in Germany and Denmark, the corresponding figures are 39.8% and 37.9%⁶ respectively. According to Eurostat data, rental is more prominent in the relatively more developed Western European markets, with the lowest levels seen in Macedonia, Lithuania, and Romania.

One relevant factor that is associated with the level of home ownership and the size of the rental market is the degree of rent control. According to the ECB⁷, ‘... Luxembourg, Austria, Germany and the Netherlands exhibit the highest degree of rent control. Indeed, rent control seems to be positively correlated with the relative size of the private rental market and negatively related to the degree of home ownership. Generally, countries where the home ownership ratio is high tend to be characterised by a comparatively small proportion of the rental market which is of the “private sector renter” type, but this then tends to be subject to relatively little control.’

We do not believe that the Irish private rental market will reach the same level as those that pertain in countries like Germany and the Netherlands due to the institutional arrangements in place in those countries.

⁶ Eurostat, *Distribution of population by tenure status, type of household, and income group – EU-SILC survey*

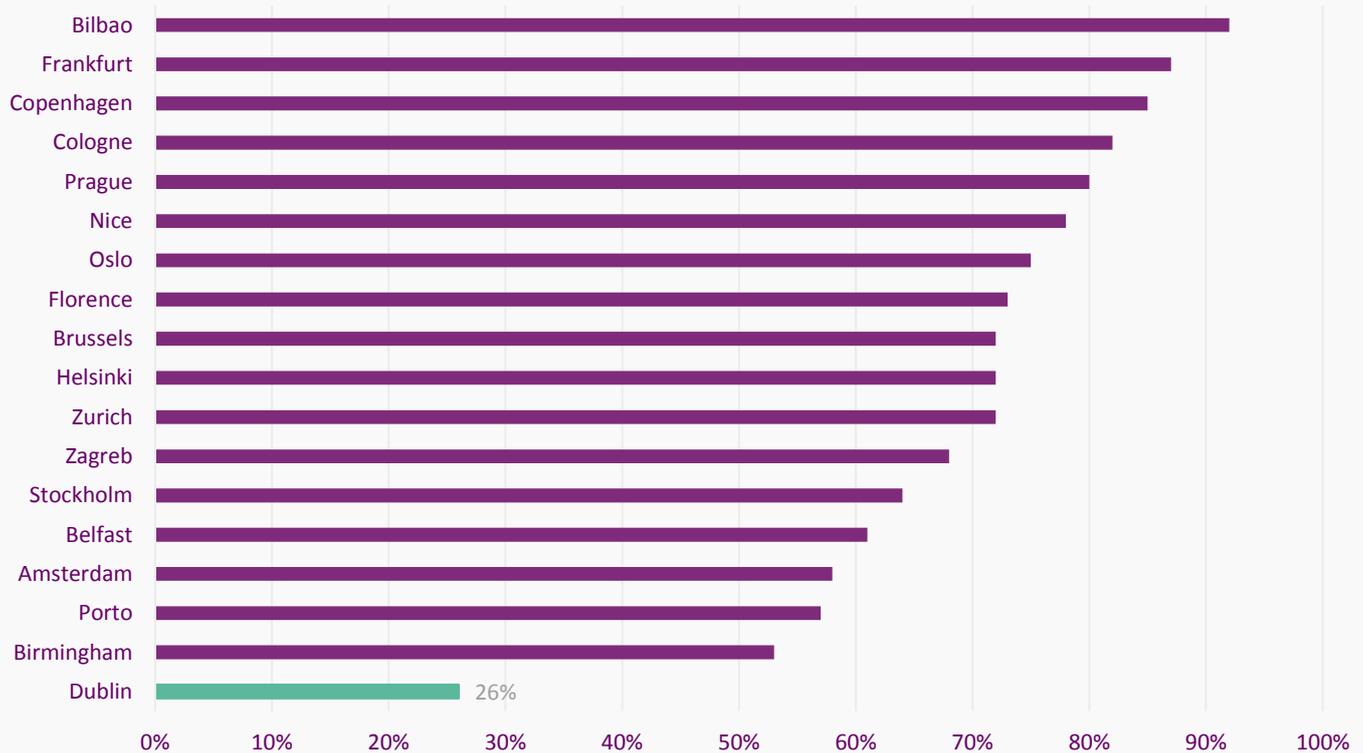
⁷ Economic Bulletin Issue 8, 2014, Box 4, *House prices and the rent component of the HICP in the euro area*

3. Supply

Stock of apartments in Ireland very low

The stock of apartments in Ireland is among the lowest in Europe, with apartments accounting for just 10% of the housing stock, compared with between 30 and 50% in Europe. Just 26% of Dublin’s housing stock comprises of apartments, one-third of that seen in similar European cities including Frankfurt and Copenhagen, and less than half that of Belfast⁸. This indicates that there is significant potential for increased supply of apartments in the Dublin market.

Figure 3: Fraction of dwellings in apartments



Source: Ronan Lyons (Estimate)

Supply starting to emerge

The increasing demand for apartments has been reflected in recent development activity. According to newly available CSO data measuring house completions, there were 2,249 apartments built in Ireland in 2017. This represents 15.6% of total new builds, and although still a very low percentage of the total, this marks a near doubling of the number of apartments that were built in 2016.

2,249 apartments were built in Ireland in 2017, nearly double the 2016 level

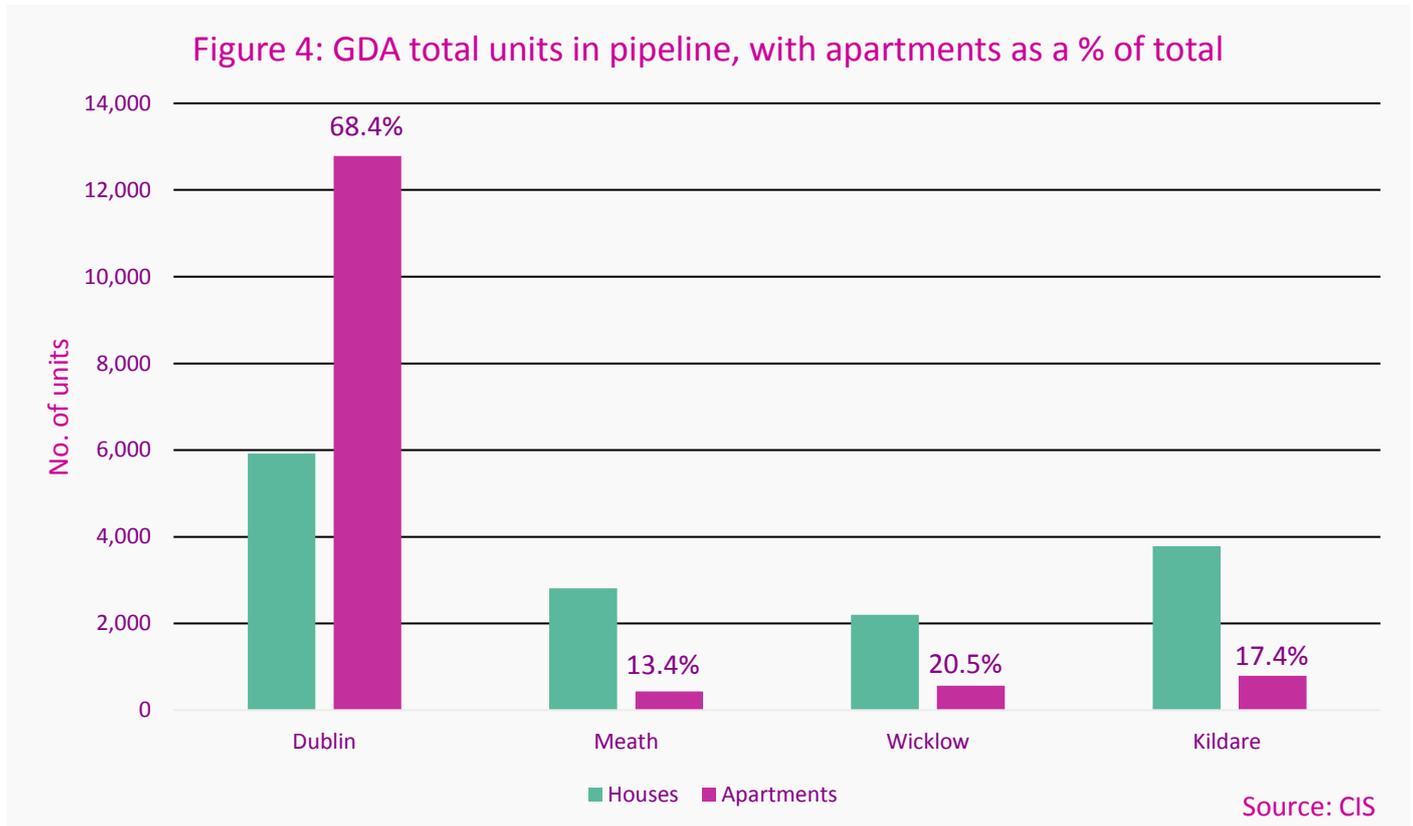
This trend appears to have continued into 2018, with 980 apartments completed in the year to date, accounting for 14% of all housing types.

Apartment completions have been dominated by Dublin, which accounted for 80% of all new apartments built in 2017, and 71% in 2018 to date. Cork accounts for the second highest amount, although it still makes up just 8.4% of total apartments completed in the first two quarters of this year, and 3.7% in 2017. Galway had the third amount of apartment completions in 2017, with 66 units built, with another 22 completed this year.

⁸ Ronan Lyons, “Is Ireland on 25 years into a 100-year housing crisis?”, 2017
AIB Private Rented Sector Report – August 2018

Future supply prospects brightening

There are currently just under 13,000 apartments in the development pipeline in Dublin, according to AIB's analysis conducted using planning data from the Construction Information Service (CIS). The data shows that planning has been granted for 9,790 units in Dublin, while a further 2,995 have had plans submitted and are awaiting approval. Apartments account for the majority of the immediate supply in Dublin, constituting 68.4% of total potential new housing units in the capital.



Unsurprisingly, this trend does not appear to be the case outside of Dublin, with apartments being in the vast minority in the Greater Dublin Area (GDA), accounting for as little as 13.4% in Meath, and 17.4% in Kildare.

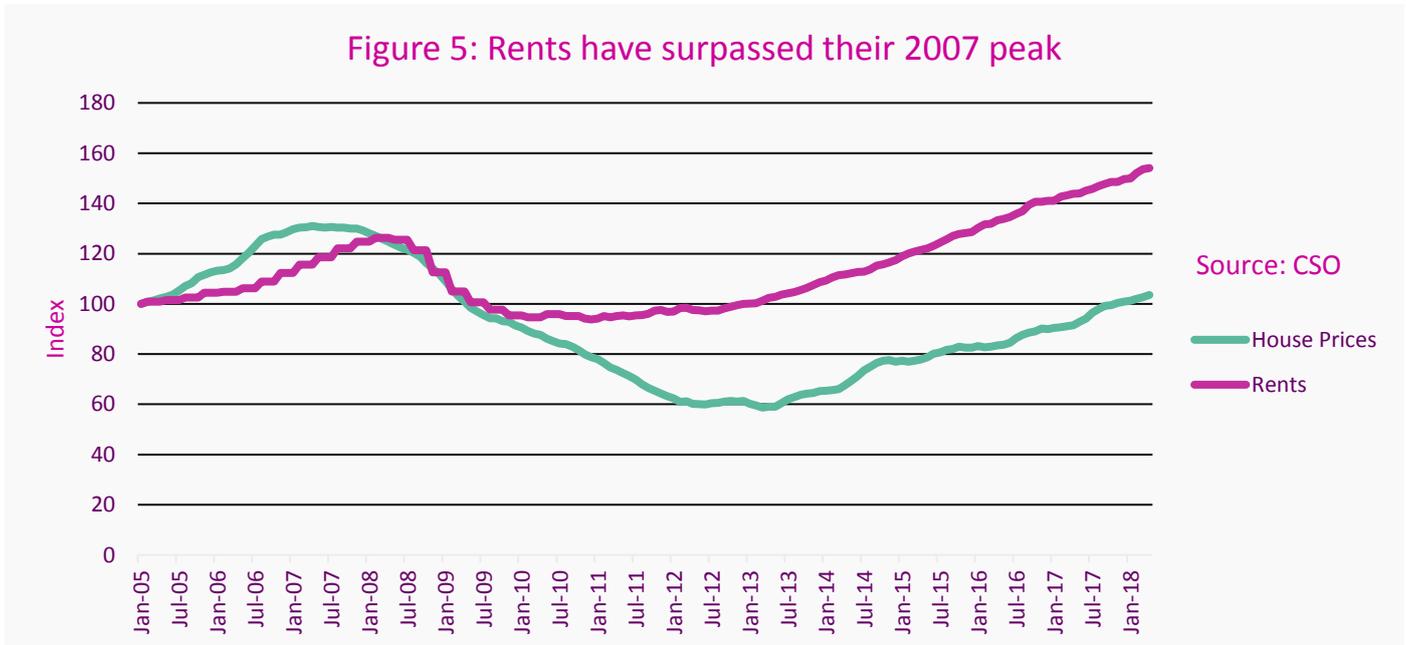
We would expect to see an acceleration in the supply of apartments over the coming years, underpinned by ongoing structural demand and also helped by the recent changes to the planning guidelines, which make apartment construction more viable. The new guidelines addressed such issues as the number of apartments per core, dual aspect ratios, apartment size and mix and car parking, among other measures⁹.

⁹ Department of Housing, Planning and Local Government, *Sustainable Urban Housing: Design Standards for New Apartments*
AIB Private Rented Sector Report – August 2018

4. Rents and affordability

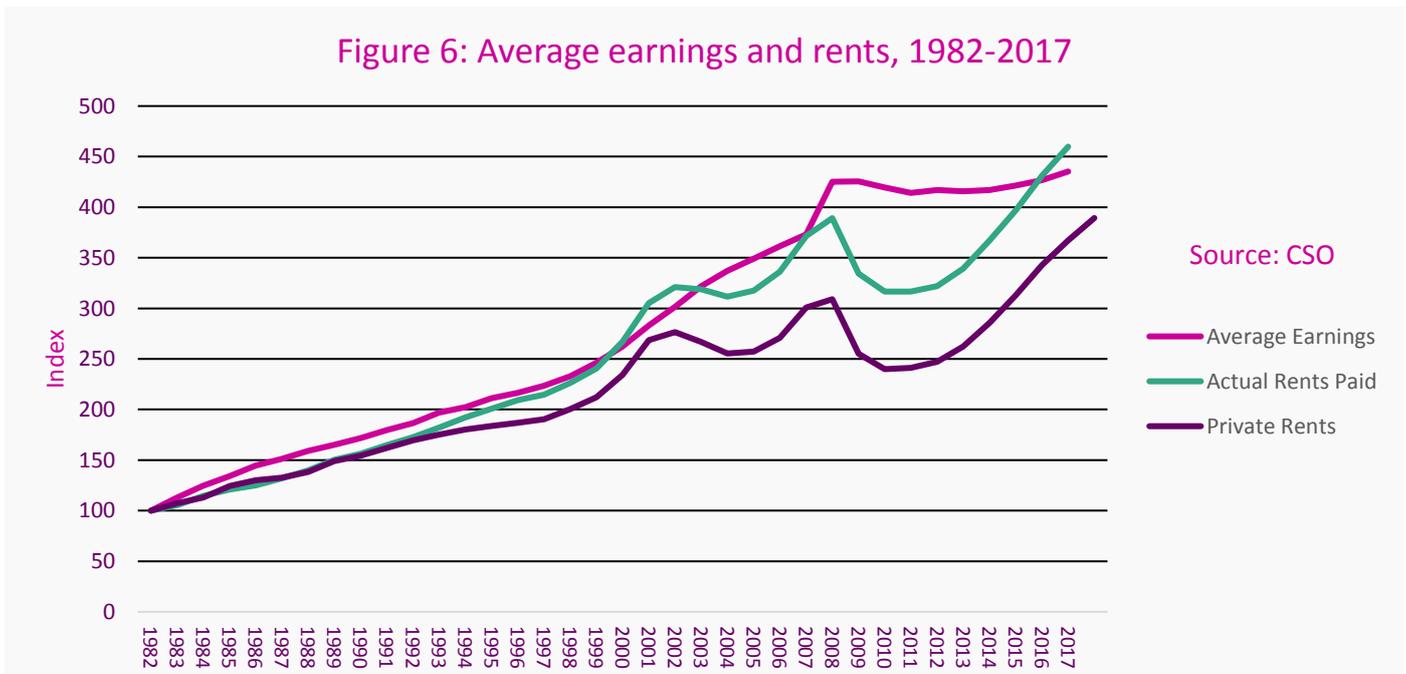
Rent price inflation and house price inflation

Residential rents have risen significantly since 2012, increasing by a cumulative 58% to date which equates to an average annualised growth rate of 8%. The rate of rental inflation has matched house price inflation over the last six years but rents, unlike house prices, are now above their 2007 peak. This is all the more notable given that house prices experienced a bigger peak to trough decline (c.-55%) than rents (c.-25%).



Rents and average earnings

Figure 6 illustrates the relationship between the rate of growth of average earnings and residential rents (consisting of Actual Rents Paid and Private Rents) in Ireland dating back as far as 1982.



Actual Rents Paid are rents paid by private sector tenants and local authority tenants and Private Rents are those paid by the private sector only. In general, the rate of growth in earnings has acted as a constraint on the rate of growth

in residential rents. This is particularly evident with the Actual Rents Paid time series. However, the sustained strength of the growth in Actual Rents Paid in recent years has now seen rents surpass the long-term earnings trend line. Similarly, the rate of growth of Private Rents has outpaced the rate of growth of Average Earnings in recent years.

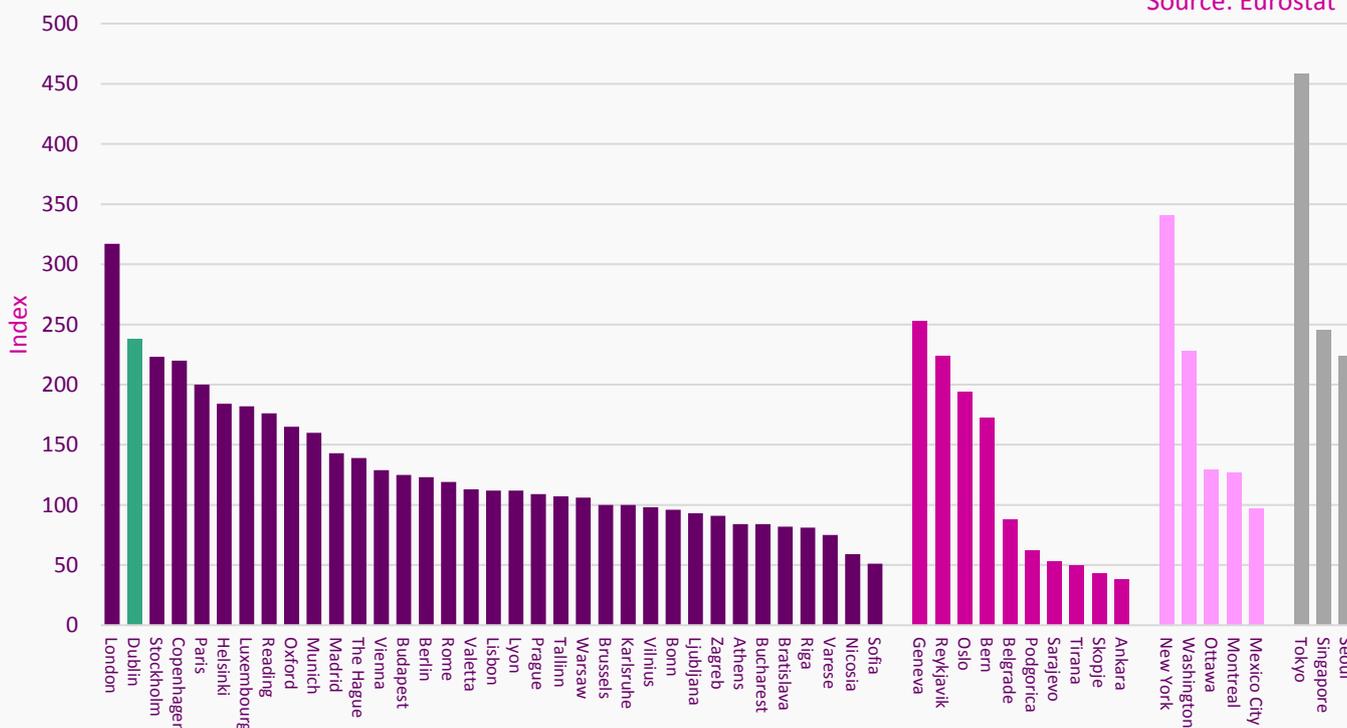
Note: Figure 6 denotes the rates of growth of Average Earnings, Actual Rents Paid and Private Rents as opposed to their respective levels and highlights the relative rates of momentum of each time series.

Dublin rents in an international context

According to a report published by Eurostat in 2017¹⁰, Dublin now has the sixth highest rents in its survey of global cities. The Current Market Rents report is compiled annually with data supplied by real estate agents around the world, for one, two, and three bedroom apartments, non-detached houses, and detached houses. Each property is required to be in a good quality residential area and built within the past 10 years. The study is carried out in order to adjust the salaries of staff in international organisations based on affordability in each city. Results are presented in index form, with Brussels at 100.

Figure 7: International comparisons of average rents 2017
(Brussels = 100)

Source: Eurostat



Based on this report, Dublin now has the sixth highest rents in the cities surveyed, behind Tokyo, New York, London, Singapore, and Geneva. It is interesting to note that in 2007 Dublin had the fourth highest rents and by 2010 Dublin’s ranking fell to the 14th highest.

The above analysis does point to concerns about the affordability of rents in Ireland and in particular rents in the Dublin market. In the short-term, given underlying economic conditions and the constraints on supply, rents are unlikely to fall. However, once residential supply starts to approach underlying demand residential rents should moderate.

¹⁰ Eurostat, “Current Market Rents”, 2017
AIB Private Rented Sector Report – August 2018

5. Summary

The private rental sector has become an increasingly important part of the Irish residential market, with the number of households in private rental accommodation growing threefold in the last 20 years, and now accounts for approximately 18% of all household tenure types.

PRS as an institutional asset class has only emerged in the last five years, as heretofore, the sector was dominated by private/individual landlords. Increasingly, new apartment supply is being designed and built to meet the needs of the institutional PRS sector as the demand for rental accommodation remains very high, both from an occupational perspective and an investment perspective.

We believe that PRS is a critical part of the solution to the residential supply problems facing the Irish economy. The key urban areas, in particular Dublin and Cork, require high density apartment developments and this goes hand-in-hand with the requirements of institutional investors. Institutional investors require high quality, large scale apartment blocks and this source of equity capital is key in supporting the development of the PRS sector. Importantly, supply has started to respond meaningfully, helped in part by the changes in the apartment planning guidelines.

While in our view the growth of the PRS sector is structural in nature, we do have concerns about the prevailing level, and rate of growth of rents in Dublin and to a lesser extent in other urban locations in Ireland. According to a Eurostat report, Dublin now has the sixth highest rents in its survey of global cities. Furthermore, according to Census 2016 there was a significant drop in the numbers in private rented accommodation in the 20-29 years age cohort. This, combined with affordability issues could have a dampening impact on rents, especially as supply starts to pick-up over the coming years.



This publication is for information purposes and is not an invitation to deal. The information is believed to be reliable but is not guaranteed. Any expressions of opinions are subject to change without notice. This publication is not to be reproduced in whole or in part without prior permission. In the Republic of Ireland it is distributed by Allied Irish Banks, p.l.c. In the UK it is distributed by Allied Irish Banks, p.l.c. and Allied Irish Bank (GB). In Northern Ireland it is distributed by First Trust Bank. In the United States of America it is distributed by Allied Irish Banks, p.l.c. Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland. Allied Irish Bank (GB) and First Trust Bank are trade marks used under licence by AIB Group (UK) p.l.c. (a wholly owned subsidiary of Allied Irish Banks, p.l.c.), incorporated in Northern Ireland. Registered Office 92 Ann Street, Belfast BT1 3HH. Registered Number NI018800. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In the United States of America, Allied Irish Banks, p.l.c., New York Branch, is a branch licensed by the New York State Department of Financial Services. Deposits and other investment products are not FDIC insured, they are not guaranteed by any bank and they may lose value. Please note that telephone calls may be recorded in line with market practice.