Martina Lawless Economic and Social Research Institute, Kieran McQuinn Economic and Social Research Institute and John Walsh, Economic and Social Research Institute

Identifying Rent Pressures in Your Neighbourhood: A New Model of Irish Regional Rent Indicators

Dorren McMahon

Introduction

Between 2007 and 2016 there were substantial changes in the Irish housing and rental market. Prices and rents fell sharply after the international financial crisis of 2007/2008. Between 2007 and 2012 economic activity fell by 12% with unemployment rising to over 15%. However, prices stabilised and then increased strongly from 2013 onwards. This robust increase in house prices after 2013 reflects the rapid change in Irish economic activity. The recovery of the Irish economy led to increased housing demand. Supply in the housing market, however, was slower to respond. With demand outstripping supply, house prices and rent levels have, since 2013, grown by 46% and 29% respectively. This paper describes the development of rental indicators at local electoral area (LEA) level that have provided the empirical basis for the establishment of Rent Pressure Zones (RPZ) in Ireland.

A rental index was developed for the Residential Tenancies Board (RTB) which collected data both for Dublin and on a regional level. From late 2016 developments in the research field have meant that more detailed geographical data (*granular* data) are now available based on 137 local electoral areas (LEAs). This now allows for a more rigorous assessment of regional trends in rental property supply and demand. The indicators allow for a more targeted approach to addressing changing needs in the rental market. An additional benefit is that they also reflect economic activity in these regions. This new LEA-level data arises from a policy desire to develop regional rental indicators in late 2016. These would then inform the introduction of "rent pressure zones" (RPZs). Legislation aimed to limit rent increases to 4 per cent each year for a period of three years from 2016. As of Q1 2017 all of Dublin, Cork and Galway cities along with 23 other towns have been designated RPZs.

Data and Methods

Every quarter, the RTB publishes a rent report for the private accommodation sector in Ireland. The database, which is the only one of tenancies in the country, contains information on "actual/agreed rent, location, six categories of dwelling types,

accommodation size and number of occupants and tenancy length". Landlords are legally obliged to register new tenancies so the coverage of the database is extensive, although as it collects information on new tenancy contracts it may exclude some rental increases in renewals of existing tenancy agreements. This paper describes the model of the Irish rental sector that was developed in 2016 using data on the geographical location of landlords in the private rented sector. The model includes a wide range of the features of the property and the tenancy contract to generate a "standardised" rent that is comparable across LEAs. The indicators are central to future decisions concerning which areas will be rent pressure zones.

Results

The new model of the Irish rental sector shows that during a significant downturn in the market, all rents appear to fall to the same extent. However, when the market is improving or expanding there is an increasing spread in rental levels. The housing and rental literature shows that there is a strong relationship between rent levels and location close to an economic focal point. Thus, the examination of rental levels on a regional basis tells us about changes in economic conditions at local levels.

Since the end of 2016 the RTB and the ESRI have been charged with collecting more granular local geographical information, based on Local Electoral Area level, in order to provide a basis adjusting the Rent Index. With this new more detailed regional information available, a way to present this data is using "heat-maps". Figure 5 looks at the LEAs using the following three conditions:

1. Whether the LEA has an annual growth rate greater than 7% for four of the last six quarters;

2. Whether their average "standardised" rent (i.e. controlling for property and contract features) is above or below the national average; and,

3. Where both conditions (1) and (2) occur

The purple areas in Figure 5, which experience both (1) and (2) above, are mainly centred around the LEAS of Dublin, Cork and Galway.

Conclusions

The new approach allows for the monitoring of trends in rental prices in specific local areas and provides a base for the identification of Rent Pressure Zones. Overall having such detailed information on rents available at a local level will allow more interesting research questions to be addressed in the future. For example, combining the rental indicators with the recently released CSO

information on regional house prices will allow a series of regional house price-to-rent ratios to be generated. These ratios can be used to gauge sustainability in the Irish housing market.

Figure 5