

Indecon Report on the Taxation of Vacant Residential Property

Prepared for the Minister for Finance

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Indecon

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Executive Summary

Introduction and Rationale for a Vacancy Tax

Indecon International Economic Consultants is a leading firm of research economists (subsequently referred to as Indecon in the report). Indecon was appointed by the Minister for Finance to undertake an independent review of the issues to be considered in relation to the taxation of vacant residential property. The scope of this was outlined in the provisions of Section 86 of Finance Act 2017.

Indecon understands that the Government objective, in the event of a Vacant Property Tax (VPT) being introduced, would be to increase the supply of homes for rent or purchase to meet demand rather than to secure increased tax revenues. The focus of this review is to provide policy makers with evidence to inform an understanding of the quantity, locations and characteristics of long-term vacant dwellings, and the reasons why they are currently vacant. Specifically, the review covers the following elements:

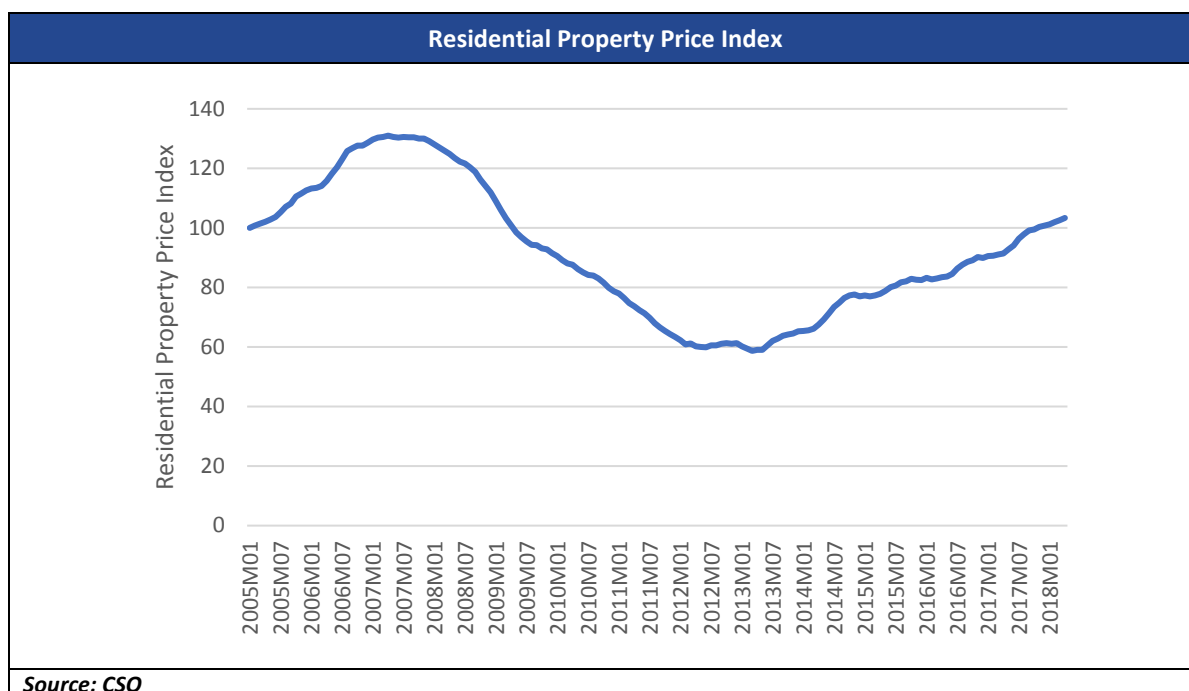
- ❑ An examination of the potential rationale for this form of taxation;
- ❑ An examination of the levels and trends in vacancy data;
- ❑ An examination of the reasons for vacancy and issues re the implementation of a vacancy tax;
- ❑ An examination of alternative options which may exist to reduce the levels of vacant properties.

Indecon's approach to this has involved the following research elements:

- Analysis of the existing data sources on residential vacancy rates in Ireland;
- Examination of unpublished empirical information provided by GeoDirectory to Indecon on vacancy rates in Rent Pressure Zones;
- Analysis of data provided by the Revenue Commissioners to Indecon based on Local Property Tax Returns;
- Review of submissions from open invitation for stakeholders to input to the review;
- National survey of auctioneers to gain their insights into prevailing vacancy rates;
- Examination of local authority initiatives to identify and reduce vacancy levels;
- New econometric modelling of the determinants of residential vacancy rates;
- Review of vacant property taxation regimes in other jurisdictions.

The rationale for a vacant property tax would be to provide additional supply in areas where demand for housing exceeds supply. The merits of a vacant property tax therefore depends on whether it would be effective in addressing housing supply shortages. The potential role of such a tax in reducing vacant properties has been highlighted in *“Rebuilding Ireland - The Action Plan for Housing and Homelessness”* published by the Department of Housing, Planning and Local Government in 2016 and more recently in the *“National Vacant Housing Reuse Strategy 2018-2021”*.

In considering whether such a tax would be effective it is necessary to examine developments in the property market. The following figure illustrates the trend in residential property prices since 2005. Nationally, house prices have been increasing since 2013. This reflects an increase in demand due to improving economic conditions and rising population numbers which has not been matched by a sufficient increase in supply. An important issue is the impact of the changes in property prices and rental values on the levels of vacancy.



On the supply side, while there has been increases in the number of new dwellings being completed, the level of new supply remains significantly below what is required. The ESRI have estimated that housing demand is likely to be around 27,000 units in 2018, rising to 30,000 per annum by 2024 which is much higher than the current annual levels of supply of new residential units¹.

Reflecting the imbalance between supply and demand, rents have also been increasing in recent years. Average rents in Dublin and Cork have risen by 30% since 2010. The evidence on property prices and rents are illustrative of the market misalignment between housing demand and supply in Ireland. It is in the context of these developments that the potential role of a vacant housing tax is being considered. In theory, a vacant property tax could re-activate significant segments of the existing housing stock. In practice the validity of such a tax will depend on the prevailing levels of vacancy and the reasons for vacancy.

Levels and Trends in Residential Vacancy Rates

The two main sources of information on vacancy rates are the CSO data based on the Census, and GeoDirectory data. These two sources initially appear to suggest very different estimates of vacancy levels. However, the reasons for the differences is in part due to differences in methodologies and definitions of vacancies. For example, CSO figures include all vacant properties while the GeoDirectory excludes dwellings which are available for sale or rent and dwellings currently undergoing renovations or where the owner is in hospital or a nursing home. The CSO figures are based on the 2016 Census while the GeoDirectory figures are calculated on a 6-monthly basis.

The following table shows historical vacancy rates from Census data for the State and for the key urban local authority areas. Vacancy rates increased dramatically in the years to 2006 but have fallen for all local authority areas between 2011 and 2016. Despite this decline, estimated vacancy rates in Dublin City in 2016 were over 8%. If vacancy rates of around 8% were representative of properties which would return to the market in the event of a vacant property tax, then the rationale for a tax would be very strong. However, it is important to

¹ ESRI, 2016, "Ireland's Economic Outlook: Perspectives and Policy Challenges"

examine the reasons for vacancies and whether significant numbers of properties would return to the market if a vacancy tax was introduced.

Vacancy Rates - Census Data						
	1991	1996	2002	2006	2011	2016
State	9.1%	8.4%	9.8%	15.0%	14.5%	12.3%
Dublin City	5.5%	5.7%	6.0%	11.7%	10.2%	8.1%
Dún Laoghaire-Rathdown	4.0%	3.2%	4.3%	8.9%	7.7%	5.5%
Fingal	3.9%	3.4%	4.9%	8.8%	7.0%	5.0%
South Dublin	2.6%	2.2%	2.8%	6.2%	5.4%	3.6%
Cork City	7.0%	5.7%	6.0%	12.0%	11.1%	7.8%
Galway City	6.8%	6.0%	7.5%	13.0%	11.2%	9.4%
Limerick City and County	8.2%	7.9%	8.1%	12.6%	12.3%	10.0%
Waterford City and County	9.7%	9.0%	11.4%	16.8%	16.4%	14.0%
Note: Figures include holiday homes						
Source: CSO						

The following table illustrates alternative estimates of the levels of vacancy rates from the GeoDirectory data both nationally and for select local authorities. GeoDirectory data indicates much lower vacancy rates than the CSO estimates. The GeoDirectory data also show a continued downward trend in vacancy rates since the last Census.

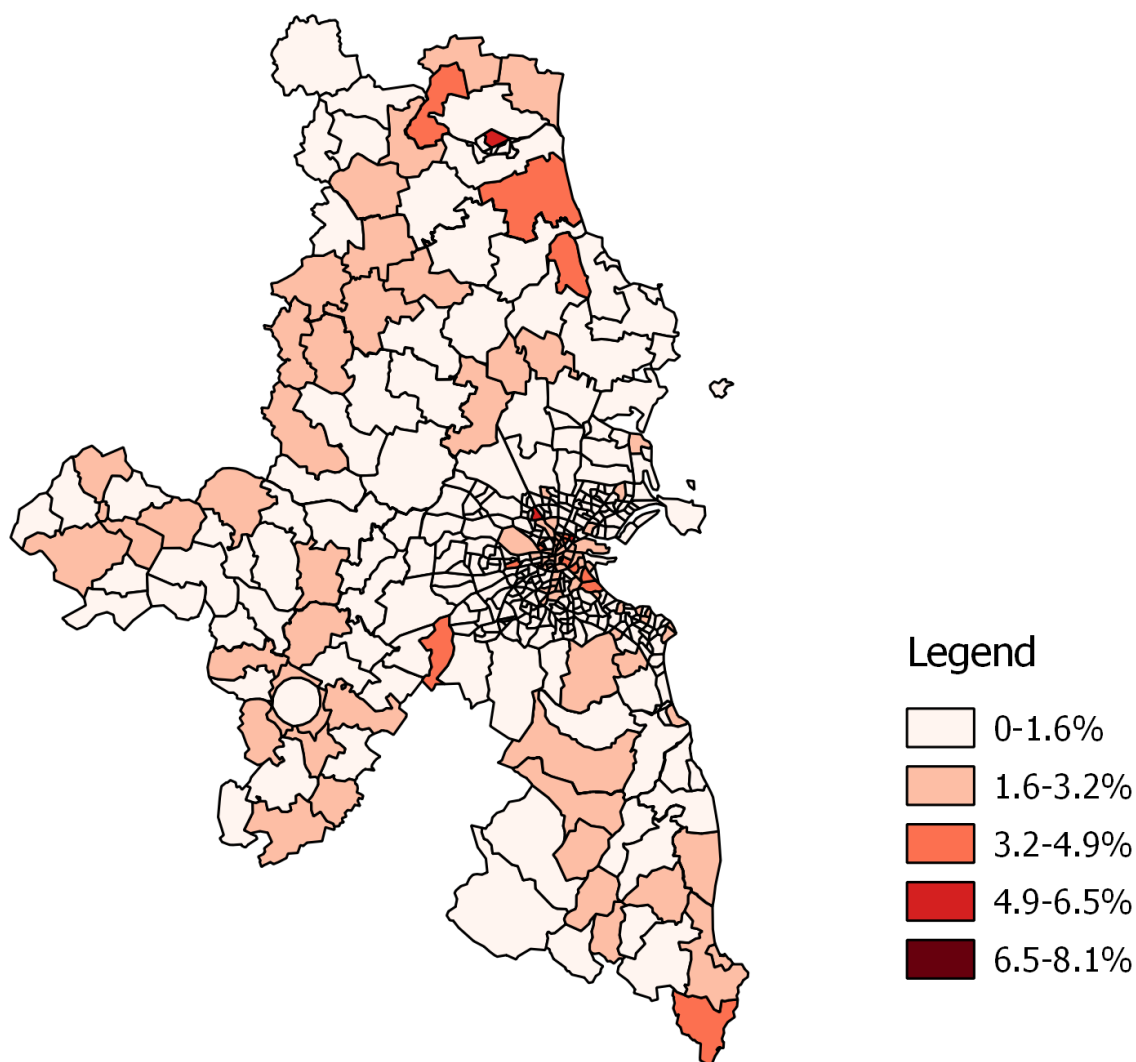
Vacancy Rates - GeoDirectory Data				
	2015Q2	2015Q4	2016Q2	2017Q4
State	4.1%	3.9%	3.8%	3.5%
Dublin (City Council)	0.8%	0.8%	0.7%	0.6%
Dun Laoire/Rathdown (County Council)	1.0%	1.0%	1.0%	0.9%
Fingal (County Council)	0.7%	1.0%	0.6%	0.6%
South Dublin Co. Co. (County Council)	0.5%	0.4%	0.5%	0.5%
Cork (City Council)	1.4%	1.4%	1.5%	1.1%
Galway (City Council)	1.0%	0.9%	0.9%	0.8%
Limerick (City Council)	1.5%	1.5%	1.5%	1.2%
Waterford (City Council)	1.2%	1.6%	1.3%	1.1%
Source: GeoDirectory Data				

The issue of the housing supply and demand imbalance is particularly relevant in the Rent Pressure Zones. There are 21 Local Electoral Areas which have been designated as Rent Pressure Zones (RPZ). Local authority areas have been designated as RPZs if the annual rate of rent inflation in the average amount of rent for the area has been more than 7% in four of the last six quarters and the average rent for tenancies registered with the RTB in the previous quarter was above the average national rent, in the quarter. The 2017 Annual Report of the RTB indicated that 57% of tenancies were currently in RPZs. The following table illustrates the vacancy rates in 2016 and 2011 for the RPZs and the non-RPZs. Vacancy rates in the RPZs in 2016 were 61% lower than for non-RPZ areas. The evidence shows that vacancy rates have been falling faster in RPZs than the national average.

Vacancy Rates – Rent Pressure Zones – CSO Data			
Rent Pressure Zones			
	2016 - Excluding Holiday Homes	2016 - Including Holiday Homes	2011 - Including Holiday Homes
Vacancy Rate	6.0%	6.4%	10.9%
Non-Rent Pressure Zones			
	2016 - Excluding Holiday Homes	2016 - Including Holiday Homes	2011 - Including Holiday Homes
Vacancy Rate	11.4%	16.4%	19.7%
<i>Source: CSO</i>			

A key policy focus of any potential vacant property tax would be to target properties which are vacant on a medium to longer term basis rather than the units which are vacant on a short-term basis. The prevalence of medium/ longer term vacant dwellings is therefore critical in assessing the merits and potential impact of a vacant property tax. New analysis completed for this study provides evidence on residential dwellings which have been vacant for five years. These are defined as properties recorded as vacant in both the 2011 and 2016 census. The new analysis on longer term vacant properties shows a very different picture than the overall national figures. The figure below illustrates the longer-term vacancy rates in the Greater Dublin Area. The majority of rent pressure zones in Dublin show very low longer-term vacancy rates.

Long-Term Vacancy Rates in the RPZs in the Greater Dublin Area by Electoral Division



Source: Indecon analysis of CSO data

Evidence on Reasons for Vacancy

The marked differences between the estimates of overall vacancies and long /medium term vacancy rates in part reflects the reasons for vacancy. The Census provided information on the reasons for vacancy of those dwellings classified as vacant. The following table provides an outline of the reasons for vacancy. The proportion of dwellings vacant due to the property being vacant long term or boarded up represents a minority of vacant properties. There may be many reasons for such long-term vacancies including legal problems/ issues with fire certs / Pyrite damage / dilapidation or other reasons. The overall low levels of long-term vacant properties suggest that a significant number of vacancy properties in RPZs may not be influenced by a vacant property tax.

Vacancy Rates in RPZs – Reasons for Vacancy		
	% of all vacant properties	% of vacant properties with known reason
For Sale/Rent/New Build/Renovation/Abandoned Farm House	15.0%	48%
Owner Deceased/In Nursing Home/Hospital/With Relatives	8.6%	27%
Other Personal Use	0.5%	2%
Vacant Long-Term/Boarded Up and Habitable	6.3%	20%
Information not readily summarise-able	0.8%	3%
Census form blank on reasons	68.8%	n/a
Source: CSO		

While the more detailed supplementary evidence on reasons are not available for RPZs, indicative estimates of this can be obtained by assuming that the percentage reasons for vacancy in RPZ areas are aligned with CSO data for Dublin City and Suburbs and for the non RPZ areas are aligned with CSO data for Other Areas. As a large number of the Census forms were returned blank on the reasons for vacancy it is also useful to make some assumptions about what are the possible reasons for vacancies for such non-classified properties. If it is assumed that the relative importance of different reasons for vacancies for properties for which no reason was given on the Census return, was in the same ratios as for those where data was available, alternative estimates of the reasons for vacancy can be derived. These provide some indicative indications of the levels of vacant properties which could be potentially available to add to the supply in rent pressure zones. The estimates presented below are dramatically lower than might have been previously assumed by the aggregate vacancy numbers. Given market developments, some of these properties may have already come to the market since 2016. Estimates prepared by Indecon based on the above approach suggests that the percentage of all properties in RPZ which are vacant long term or which are boarded up and habitable may be less than 1% of properties.

Indecon Estimates of Rate of Vacant Supply		
	% of all Dwellings	
	RPZ	Non-RPZ
For Sale/Rent/New Build/Renovation/Abandoned Farm House	3.8%	5.0%
Owner Deceased/In Nursing Home/Hospital/With Relatives	1.4%	3.3%
Other Personal Use	0.0%	0.2%
Vacant Long-Term/Boarded Up and Habitable	0.8%	2.5%
Information not readily summarisable	0.1%	0.3%
Total	6.0%	11.4%
Source: Indecon analysis		

The Local Property Tax (LPT) returns are also useful in informing an understanding of some of the reasons for vacancy. Data is available on a national level for the number of LPT exemption / deferrals granted and the reasons for these exemptions / deferrals. Indecon notes that these are based on the last LPT returns and may not be reflective of current vacancy rates. It is however of note that some of the reasons for LPT exemptions or deferrals may mean that the property is likely to be deemed as vacant. The following table shows a range of reasons for deferral or exemption from LPT.

Analysis of Selected Causes for Deferral or Exemption for LPT for 2016 ⁽¹⁾	
	National
Properties vacated because of long-term mental/physical infirmity	6,600
New and Unused ⁽²⁾	5,300
Pyrite Damaged	700
Unfinished Housing Estate	3,300
Unsold by Builder / Developer	12,300
Executor / Administration of an Estate ⁽³⁾	900
⁽¹⁾ 2016 figures are preliminary estimates	
⁽¹⁾ Between 1/1/2013 – 31/10/2016. These properties will not be exempt following the next valuation date.	
⁽³⁾ Claim for deferral	
Source: Revenue Commissioners	

Econometric Modelling on Determinants of Vacancy Rates in Ireland

In order to inform policy on the determinants or factors influencing vacancy, Indecon's econometricians have undertaken some innovative new modelling to provide more quantified insights into this area. The baseline model highlights the significance of changes in rental values and suggests that around a 10% increase in rents, all else being equal, will lead to a 2% fall in the vacancy rate. It should be noted that this is a log-log model and thus the coefficient suggests that there will be a 2% fall in the vacancy rate which should not be confused with a two-percentage point fall in the vacancy rate. For example, if the prevailing vacancy rate is 3.5% nationally, the model would indicate that a 10% increase in rents would lead to fall in the vacancy rate to 3.4%. If the vacancy rate was 2% nationally, the model indicates that a 10% increase in rents would lead to fall in the vacancy rate to 1.96%. This model also suggests that a 10% increase in property prices will lead to a 2.8% fall in vacancy rates. The models suggest that the impact of rent increases on vacancy rates is greater in the rent pressure zones than in other areas. The impact of house prices changes however is significantly higher outside the RPZs than within the RPZs. The results may help understand the reasons for the very fast decline in vacancy rates in rent pressure zones.

The outputs from the econometric modelling can be utilised to generate scenarios for the likely future trends in vacancy in the coming years. The coefficients from the econometric modelling suggest that the vacancy rates will continue to fall if housing shortages continue and if rental values increase.

International Responses to Vacant Properties

In many countries housing shortages have emerged particularly in key cities but most countries do not appear to have implemented a vacant property tax. However, a number of countries have recently introduced such a tax but it is not feasible as yet to derive any overall conclusions on their effectiveness. This experience, however, should be kept under review by policymakers. We also examined other responses to vacancy levels including the means of identifying vacant properties and establishing vacant property registers which are utilised in other jurisdictions. For example, in Scotland, the vacant property register is linked to the collection of council tax. In Denmark, vacant properties are tracked via a legal obligation on property owners to inform the local authority of vacancy within a set period. Measures to enhance information on the extent of vacancies merit further consideration in the Irish context.

Issues for Consideration in the Implementation of a Vacancy Tax

Definition of Vacancy

A key first step in establishing a tax on vacant property is defining what constitutes a vacant residential dwelling for any proposed tax. Key variables could include the length of time which a property needs to have been vacant before it becomes eligible for the tax and what exemptions, if any, would apply to the tax.

Indecon would suggest that, should a vacant property tax be introduced at some stage of the future, properties subject to the tax could be deemed as eligible for the tax if, with certain exemptions, any property was vacant for a period of 12 months or more. There may also be merit in defining a property as vacant if it is not recorded as the owner's principal private residence or if there is no record of income from rent for that property for the previous 12-month period. In order to avoid property owners renting the property for a short period in a given year to avoid the tax, a minimum rental income threshold could be set below which the property is classified as effectively vacant and subject to the tax. This definition would however mean that holiday homes would be included but if the tax was confined to RPZs this would be less an issue. Issues would however arise if properties were used by children in third level education but there may be ways to exclude such properties if this was a policy objective.

Register of Vacancies and Tax Administration

The currently available data on vacancy rates in Ireland is not an appropriate means of establishing a register of vacant properties. Should a tax on vacant properties be imposed in an Irish context, Indecon would recommend that the tax be implemented via the existing administrative infrastructure of the LPT. The LPT is potentially suited as a means of implementing a vacant property tax given that it is a property-based tax and already obtains information on identifying properties which may be exempt from the LPT. The vacant property tax could be implemented via the LPT by imposing an additional LPT surcharge on properties which are defined as vacant for the purposes of the tax. However, the current LPT Register would not enable a tax to be levied but could be adjusted to facilitate this change in use. This however would take time and so a vacant property tax could not in our opinion be effective immediately if introduced.

In the context of a vacant property tax, property owners would be required to submit a declaration as to the status of their property when making their next annual LPT payment. These returns from property owners as to the status of their property in terms of principal private residence, leased as residential property, vacant etc. would provide a register of vacant properties which could then be updated annually. This register would also allow the Revenue Commissioners to identify the reasons for vacancy and establish whether properties fit the definition of vacancy for the purposes of any vacant residential property tax. There may be some unintended consequences of using the LPT system for such a tax such as increasing the administrative burden of the LPT but, on balance, it would be the most appropriate vehicle to levy a vacancy tax if one was introduced at some stage. It should be noted that the required information to levy a vacancy tax is not currently available on LPT returns and so this would take time to implement.

There would be initial administrative costs incurred if a vacant property tax was introduced. The costs relate to the establishment of the vacant property register and other administrative expenditures. Once the register was established, the costs of operating the tax are likely to be relatively low and could probably be implemented within the existing framework of the LPT.

Potential Impact of a Vacant Property Tax in Ireland

The impact of any vacant property tax in an Irish context would be contingent on the nature of the tax imposed. The precise definition of vacant property, the conditions under which exemptions will be granted, the basis for the tax and the rate of taxation are all policy decisions that would influence the impact of the tax on vacancy rates. The evidence in this report however suggests that the impact may be much more limited than suggested by overall vacancy numbers and only an extremely high vacancy tax would have any impact.

Conclusions and Recommendations

In considering the relevance of a vacant property tax in Ireland the key issue is the level of vacant properties which could potentially be influenced by such a tax and what would be the impact of a tax on housing shortages. A detailed evidence-based assessment of vacancy rates in areas in which the demand for housing is most acute, suggests that the vacancy rate in these areas is significantly lower than the national average and has fallen in recent years. Additionally, when vacant dwellings that are vacant for certain reasons (property for sale/rent, owner in hospital/nursing home) are removed from the data, the vacancy rate in these areas is extremely low.

The available evidence suggests that there is limited scope for a vacant property tax to bring significant numbers of currently vacant properties back into the housing supply in the areas of the country in which demand for housing is most acute. Indecon believes such a tax would represent a distraction from the critical policy challenge of addressing the underlying supply of new housing. Indecon's recommendations based on the evidence examined, are summarised in the next below.

Summary of Recommendations	
1.	Indecon does not recommend the introduction of a residential vacant property tax at this time as we do not believe it would be an effective response to deal with the housing shortages. Indecon however recommends this should be kept under review.
2.	In the event that a vacant property tax is introduced at some stage in the future, careful consideration is required to design the appropriate criteria for the implementation of such a tax.
3.	Properties which become vacant owing to the long-term illness of the owner and which subsequently are rented out should be exempt from Local Property Tax
4.	Enhanced evidence should be collected to monitor movements in the level of vacancies of residential properties.
5.	A major programme of compulsory purchase orders should be urgently activated on suitable residential vacant properties.
6.	Consideration should be given to introducing a time limited differential rate of capital gains tax for long term vacant residential properties.

- 1. Indecon does not recommend the introduction of a residential vacant property tax at this time as we do not believe it would be an effective response to deal with the housing shortages. Indecon however recommends this should be kept under review.**

The very low vacancy rates in the areas of greatest demand for housing, particularly in terms of medium-term vacancy, indicate that the potential for a vacant property tax to increase housing supply is very limited and could represent a distraction from the need to significantly accelerate the building of new social housing, affordable housing and the facilitation of other housing supply. While such a tax would be likely to generate significant media and public attention and may be seen as part of an effective response to our housing problems, Indecon does not believe that this would be supported by the evidence in this report.

Indecon's view on the merits of not introducing a vacant property tax at this time is supported by the submission received from the Housing Agency which while supportive of policy actions to bring vacant housing back into the housing supply, believe that a vacant property tax is not the appropriate means of doing so in an Irish context at this time. The Housing Agency submission, indicated that *"Introducing a vacant property tax at this stage, and prior to having a sound understanding of the duration of vacancy, locations and reasons why homes are currently vacant, would be premature and difficult to implement"*.

The evidence in this report suggests that the vacancy rate is likely to continue to fall due to market developments. While Indecon does not recommend the introduction of a vacant property tax at this time, we believe the issue of a possible vacant property tax should be kept under review should vacancy rates rise. We also believe that bringing any vacant property back to use could be of help in easing housing problems and that other more effective measures should be urgently introduced to further reduce vacancy rates.

2. In the event that a vacant property tax is introduced at some stage in the future, careful consideration is required to design the appropriate criteria for the implementation of such a tax.

Should the decision be made to introduce a vacant property tax, Indecon recommends careful consideration to the following elements in designing an effective tax:

- The tax should be levied on properties in rent pressure zones which have been vacant for a period of 12 months or more. Additional work would be required to establish an effective definition and to ensure compliance.
- The tax should be imposed in the form of a surcharge on the existing LPT. The level of the tax would need to be very high in order to have any impact on the incentives of the owners of vacant properties.
- Exemptions should be granted for those properties which have a legitimate reason for vacancy. These exemptions should be aligned with existing exemptions for the LPT and should also include exemptions for dwellings currently on the market for sale/rent or undergoing renovations as well as for residents in nursing homes or hospitals etc.
- Data should be maintained on the number of vacant properties returned to the housing market which had been subject to the vacant property tax to facilitate an ex-post evaluation of any tax introduced.
- One option might be to deem any properties as vacant which have been in ownership for more than 12 months and which have not been classified in Local Property Tax returns as the principal private residence and which have not been listed with the Residential Tenancy Board. It may also be appropriate to provide an exemption for cases where the property is utilised by children in full time education.

3. Properties which become vacant owing to the long-term illness of the owner and which subsequently are rented out should be exempt from Local Property Tax.

Properties vacated by their owners due to illness can be exempt from the local property tax (LPT). This exemption applies to a property which was occupied by a person as his or her sole or main residence and has been vacated by the person for 12 months or more due to long term mental or physical infirmity. An exemption may be available in situations where the property has been empty for less than 12 months, if a doctor (registered practitioners) is satisfied that the person is unlikely to return to the property. In both cases the legislation indicates that the exemption only applies where the property is not occupied by another person. This is a misaligned incentive with potential unintended consequences. We therefore recommend that such owners who rent vacant properties should be exempt from the Local Property Tax. This would also enhance security of the premises and assist the maintenance of homes for vulnerable individuals.

4. Enhanced evidence should be collected to monitor movements in the level of vacancies of residential properties.

A register of vacant properties should be constructed using annual LPT returns and data from the RTB to establish vacant dwellings which are not serving as a principle private residence or are not rented. Data from an amended LPT return or from RTB could be used to establish whether any rental income is associated with a given property should that property not be the owner's principle private residence. Indecon accepts that given the absence of a common property identifier in Ireland, linking datasets such as the LTP and the RTB is not straightforward and may not be feasible in the short-term. Amendments to LPT returns would however provide evidence on levels of vacancy.

5. A major programme of compulsory purchase orders should be urgently activated on suitable residential vacant properties.

The Buy and Renew scheme (funded by the Department of Housing, Planning and Local Government) aims to allow local authorities to purchase existing vacant properties and bring them back to the market as social housing. This scheme is limited by the requirement that the property being purchased by the local authority is suitable for use as social housing. Indecon recommends that a major programme of compulsory purchase orders should be activated by local authorities to purchase vacant properties via their existing compulsory purchase powers even when these dwellings are not suitable for social housing. The local authority should then resell these properties on the open market. In order to incentivise local authorities to acquire vacant properties and re-sell them, consideration could be given to central government covering the conveyancing and other costs incurred by local authorities in the process of acquiring and re-selling the properties.

The signalling impact of this would serve to act as a disincentive to any property owner holding vacant properties. While the numbers may be limited we believe this could be an effective policy instrument. The submission from the Housing Agency emphasised their support for engagement with owners of vacant properties as a means of bringing these properties back into use and indicated that: *"the most important and effective way of bringing vacant homes back into use is the identification of vacant homes and engagement with owners"*. In Indecon's opinion, the power to compulsory purchase properties from property owners who do not engage with the local authority should be actively used.

6. Consideration should be given to introducing a time limited differential rate of capital gains tax for long term vacant residential properties.

A time-limited capital gains tax differentiation could be considered for those owners of vacant properties who sell their properties within a set time period. Owners of residential properties where they are their principal private residence, are exempt from any capital gains tax. However, currently, owners of other vacant property are subject to a capital gains tax of 33%, while lower or zero rates have applied in the past. (For example, there was an exemption from capital gains tax given on the disposal of a property between 7 December 2011 and 31 December 2014). The higher rate which applies to owners of residential vacant properties if they sell the property, could act as a significant disincentive for these properties to be brought back into the housing market. If a 15% rate of capital gains tax was to apply to sales of vacant housing units Indecon believes this would incentivise some additional supply but only if this was for a restricted period. If owners of vacant properties believe that this relief would last for multiple years this would not be effective. This relief should be restricted to only those residential dwellings which have been vacant for over 3 years. This would help ensure that other property owners are not incentivised to leave their property vacant with a view to obtaining the relief once they pass the threshold. A potentially more restrictive variation on this policy may be to only apply the relief to those property owners who sell their properties directly to local authorities as social housing.

Acknowledgements

Indecon would like to gratefully acknowledge the valuable inputs made by a wide range of officials and other organisations to this review. Indecon would in particular like to thank Anna Donegan, Kevin Nolan, Matthew Jones and John Hogan in the Department of Finance. We also acknowledge the assistance of Keith Walsh in the Revenue Commissioners and other colleagues including Jean Kennedy, Anne Looney and Anne Walsh. Thanks are also due to Brendan Buggy, Caroline Timmons, Claire Darragh and Michelle Sheridan, George Hussey and Terry Sheridan in the Department of Housing, Planning and Local Government.

Particular thanks are due to Michael Walsh, Chief Executive of Waterford City and County Council and to Tom Gilligan, Director of Services for Mayo County Council, for providing a local authority perspective. We acknowledge the useful inputs from auctioneers who took the time to provide information as part of the Indecon survey. In addition, we acknowledge with thanks inputs made to Indecon on behalf of various stakeholders, and in this context Indecon received two submissions to our review, one from Isoilde Dillon from the Housing Agency and one from David Duffy of Property Industry Ireland. We would also like to thank Dr. Philip Crowe, Space Engagers Research Unit in UCD. We would also like to thank Dara Keogh, Chief Executive of GeoDirectory and Dominic Fahey, as well as Peter Quinn, Finance Director of An Post for their cooperation in providing detailed data which assisted our review.

The usual disclaimer applies and all of the analysis and judgments in this independent report are the sole responsibility of Indecon.

1 Introduction and Rationale for a Tax on Vacant Property

1.1 Introduction

Indecon International Economic Consultants is a leading firm of research economists (subsequently referred to as Indecon in the report). Indecon was appointed by the Minister for Finance to undertake an independent review of the issues to be considered in relation to the taxation of vacant residential property. The scope of this was outlined in the provisions of Section 86 of Finance Act 2017.

Indecon understands that the Government objective in the event of a Vacant Property Tax (VPT) being introduced would be to increase the supply of homes for rent or purchase to meet demand rather than to secure increased tax revenues. The focus of this review is to provide policy makers with evidence to inform an understanding of the quantity, locations and characteristics of long-term vacant dwellings, and the reasons why they are currently vacant. Specifically, the review covers the following elements:

- An examination of the potential rationale for this form of taxation;
- An examination of the levels and trends in vacancy data;
- An examination of the reasons for vacancy and issues re the implementation of a vacancy tax;
- An examination of alternative options which may exist to reduce the levels of vacant properties.

1.2 Methodological Approach

Indecon's approach to this has involved the following research elements:

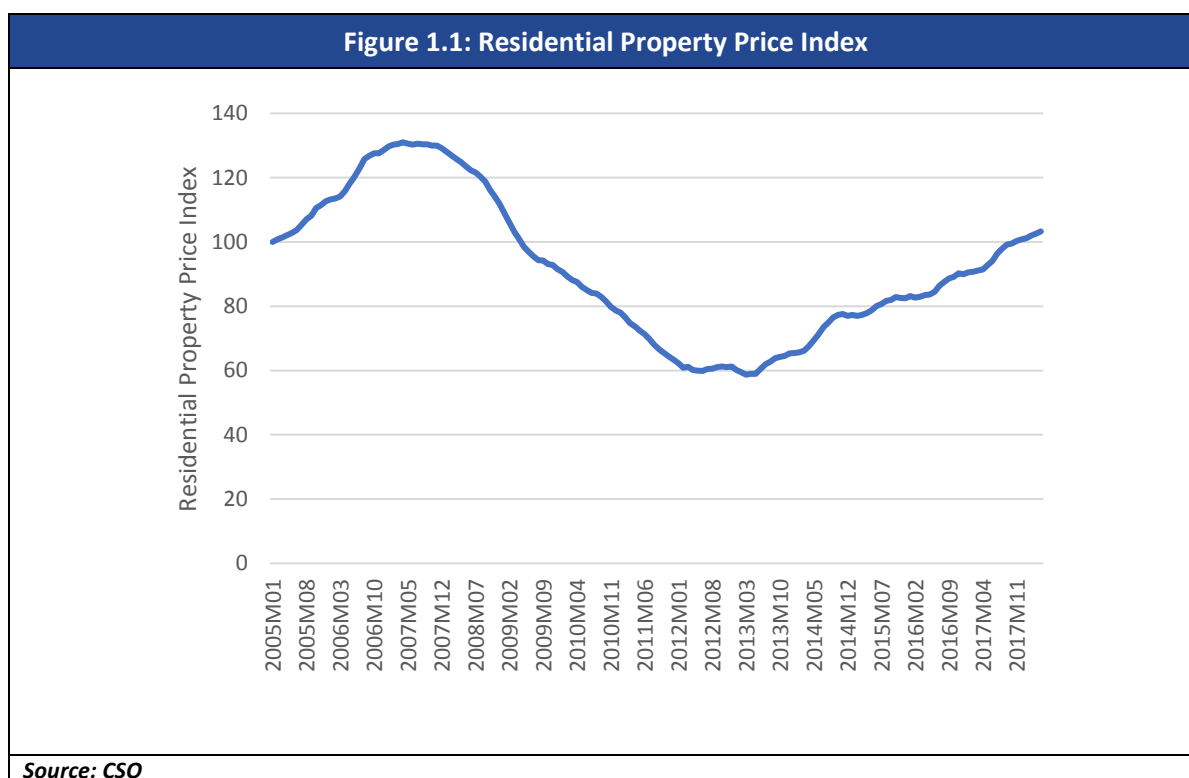
- Analysis of the existing data sources on residential vacancy rates in Ireland;
- Examination of unpublished empirical information provided by GeoDirectory to Indecon on vacancy rates in rent pressure zones (RPZs);
- Analysis of data provided by the Revenue Commissioners to Indecon based on Local Property Tax Returns;
- Review of submissions from open invitation for stakeholders to input to the review;
- National survey of auctioneers to gain their insights into prevailing vacancy rates;
- Examination of local authority initiatives to identify and reduce vacancy levels;
- New econometric modelling of the determinants of residential vacancy rates;
- Review of vacant property taxation regimes in other jurisdictions.

As part of the consultation process for this review, an invite for public submissions was issued on the Department of Finance website. The Indecon team also liaised with the Vacant Homes team in the Department of Housing and local authority representatives. A survey of auctioneers was also designed as one small element of the research. A copy of the survey questionnaire can be found in the appendix to this report.

1.3 Rationale for a Tax on Vacant Property

The potential rationale for a vacant property tax would be to provide additional supply in areas where demand for housing exceeds supply. The merits of a vacant property tax therefore depend on whether it would be effective in addressing housing supply shortages. The potential role of reducing vacant properties has been highlighted in “The Action Plan for Housing and Homelessness” published by the Department of Housing in 2016 and more recently in the “National Vacant Housing Reuse Strategy 2018-2021”.

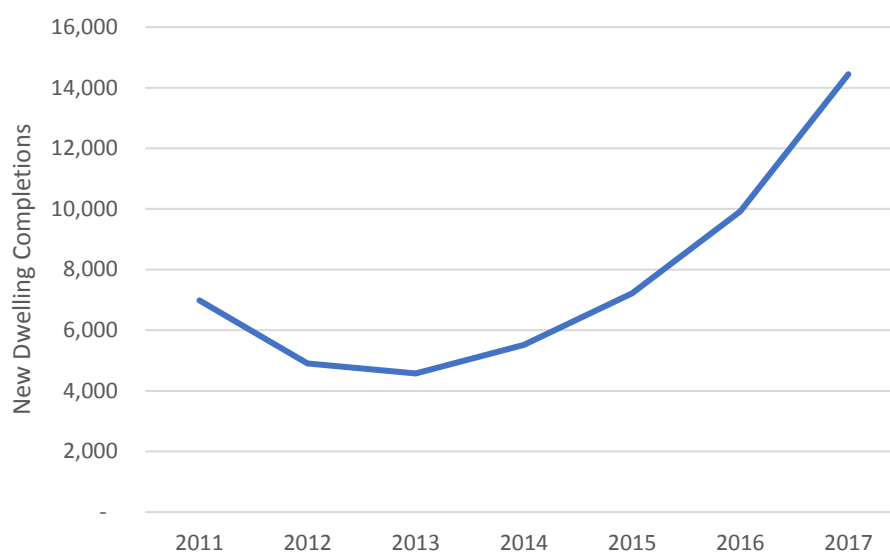
In considering whether such a tax would be effective, it is necessary to examine developments in the property market. The following figure illustrates the trend in residential property prices since 2005. Nationally, house prices have been increasing since 2013. This reflects an increase in demand due to improving economic conditions and rising population which has not been matched by a sufficient increase in supply. An important issue is the impact of the changes in property prices and rental values on the levels of vacancy.



On the supply side, the below figure illustrates the trend in new dwelling completions for each year since 2011. While there has been a significant increase in the number of new dwellings being completed between 2011 and 2017, the number of new dwelling units completed in 2017 remains significantly below the level required to meet demand. The ESRI have estimated that housing demand is likely to be around 27,000 units in 2018, rising to 30,000 per annum by 2024 based on the rate of population growth and new household formation².

² ESRI, 2016, “Ireland’s Economic Outlook: Perspectives and Policy Challenges”

Figure 1.2: New Dwelling Completions



Source: CSO

The impact of the divergence between housing demand and supply has been reflected in the declining affordability of housing in Ireland. The following table shows the ratio of average total annual earnings to average house prices and suggests that housing affordability has been consistently deteriorating since 2013. It should also be noted that the macro-prudential rules imposed on mortgage lenders by the Central Bank has placed a further constraint on access to mortgage financing by increasing the size of the deposit required by mortgage applicants. The limitation on loan-to-value ratios and loan-to-income ratios have impacted on those seeking to purchase a home. This has, in part, been eased for those first-time purchasers of new housing who qualify for the Help to Buy scheme.

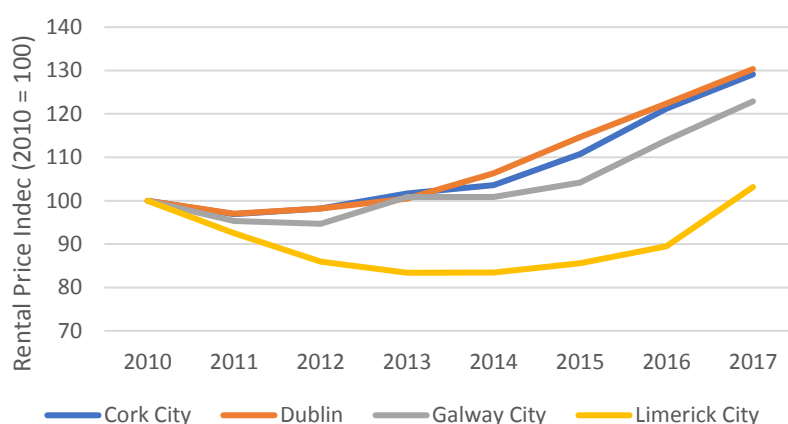
Table 1.1: Housing Affordability

	2010	2011	2012	2013	2014	2015	2016	2017
Ratio of average earnings to average house prices	7.1	6.3	5.6	5.7	6.0	6.2	6.8	7.3

Source: Indecon analysis of CSO data

Rents have also been increasing in recent years. The following figure illustrates the path of average rents in the urban centres in Ireland since 2010. Average rents in Dublin and Cork having risen by 30% since 2010.

Figure 1.3: Rental Price Index – Urban Centres



Source: Indecon analysis of CSO data

The evidence on trends in property prices and rents are illustrative of the market misalignment between housing demand and supply in Ireland. It is in the context of this dysfunctional housing market that the merits of a potential vacant housing tax are being considered. A housing market displaying a clear misalignment between demand and supply such as that prevailing in Ireland in recent years can lead to considerable deterioration in the quality of life as housing costs rise, commuting distances lengthen and homelessness becomes more prevalent as a result of an undersupply of housing units. Rising housing costs can also impact on Ireland's competitiveness. Government interventions to remove any barriers to increasing the supply of housing is therefore of critical importance.

A vacant property tax could in theory incentivise some owners of vacant properties to either sell or rent their properties. However, as will be discussed later in this report, properties can be vacant for a range of reasons including properties on the market for sale or rent or due to the owner being recently deceased, in hospital or a nursing home, or awaiting planning permission, or a range of other reasons including legal complications. A vacant property tax is unlikely to have an impact should a property be vacant for some of these reasons.

1.4 Structure of Report

This report is structured as follows:

- ❑ Chapter 2 outlines the trends in vacancy rates in Ireland;
- ❑ Chapter 3 outlines the available evidence on the reasons for vacancy in Ireland;
- ❑ Chapter 4 outlines the econometric modelling of the key drivers of vacancy rates in Ireland;
- ❑ Chapter 5 reviews the international responses to vacant property;
- ❑ Chapter 6 discusses issues for consideration in the implementation of a vacant property tax;
- ❑ Chapter 7 outlines Indecon's conclusions and policy recommendations.

1.5 Acknowledgements

Indecon would like to gratefully acknowledge the valuable inputs made by a wide range of officials and other organisations to this review. Indecon would in particular like to thank Anna Donegan, Kevin Nolan, Matthew Jones and John Hogan in the Department of Finance. We also acknowledge the assistance of Keith Walsh in the Revenue Commissioners and other colleagues including Jean Kennedy, Anne Looney and Anne Walsh. Thanks are also due to Brendan Buggy, Caroline Timmons, Claire Darragh and Michelle Sheridan, George Hussey and Terry Sheridan in the Department of Housing, Planning and Local Government. Particular thanks are due to Michael Walsh, Chief Executive of Waterford City and County Council and to Tom Gilligan, Director of Services for Mayo County Council, for providing a local authority perspective. We acknowledge the useful inputs from auctioneers who took the time to provide information as part of the Indecon survey. In addition, we acknowledge with thanks a range of inputs made to Indecon on behalf of various stakeholders, and in this context Indecon received two submissions to our review, one from Isoilde Dillon from the Housing Agency and one from David Duffy of Property Industry Ireland. We would also like to thank Dr. Philip Crowe, Space Engagers Research Unit in UCD. We would also like to thank Dara Keogh, Chief Executive of GeoDirectory and Dominic Fahey, as well as Peter Quinn, Finance Director of An Post for their cooperation in providing detailed data which assisted our review.

The usual disclaimer applies and all of the analysis and judgments in this independent report are the sole responsibility of Indecon.

2 Levels and Trends in Residential Vacancy Rates

2.1 Introduction

The two main sources of information on vacancy rates are the CSO data based on the Census and GeoDirectory Data. These two sources initially appear to suggest very different estimates of vacancy levels. However, the reason for the differences is in part due to differences in methodologies and definitions of vacancies. For example, CSO figures include all vacant properties while the GeoDirectory excludes dwellings which are available for sale or rent and dwellings currently undergoing renovations or where the owner is in hospital or a nursing home. The CSO figures are based on the 2016 Census while the GeoDirectory figures are calculated on a 6-monthly basis.

The CSO instructions to enumerators as regards classifying a dwelling as vacant for the purposes of the Census are as follows:

"In identifying vacant dwellings, enumerators were instructed to look for signs that the dwelling was not occupied e.g. no furniture, no cars outside, junk mail accumulating, overgrown garden etc., and to find out from neighbours whether it was vacant or not. It was not sufficient to classify a dwelling as vacant after one or two visits. Similar precautions were also taken before classifying holiday homes....."

*Dwellings under construction and derelict properties were not included in the count of vacant dwellings. As a result, the empty housing units were classified as vacant house, vacant apartment or holiday home only if the dwelling was considered fit for habitation by the enumerator. In the case of newly constructed dwellings, that meant that the roof, doors, windows or walls had to be completely built or installed. For older dwellings that were unoccupied the roof, doors and windows had to be fully intact."*³

As the CSO data is Census based, it is available only on a five-yearly basis with the two most recent data points being for 2011 and 2016.

The GeoDirectory database includes a vacancy if an address falls under one of the following:

- ☐ The dwelling is vacant and ready to be inhabited, based on whether the property does or does not receive post;
- ☐ The dwelling is vacant and requires a small amount of cosmetic/repair work to make it habitable.

We also understand that the GeoDirectory data focuses on classifying entire buildings as vacant while the CSO data classifies individual apartments as either vacant or occupied.

Individual Local Authorities have also undertaken an analysis of the prevailing rates of vacancy in their jurisdictions. Local Authority staff are undertaking both desk-top examination of the publicly available data and 'feet on the ground' investigation to determine vacancy levels. A recurring focus of the Local Authority analysis is the identification of viable, recoverable and liveable homes. Local Authority analysis thus is not focused on premises that are not suitable either financially or owing to overall poor condition. The main aim of local authorities is not to count vacant homes, but rather to identify in a realistic cohort of homes to be brought back into the viable housing stock mainly in terms of social housing.

³ <https://www.cso.ie/en/releasesandpublications/ep/p-cp1hii/cp1hii/bgn/>

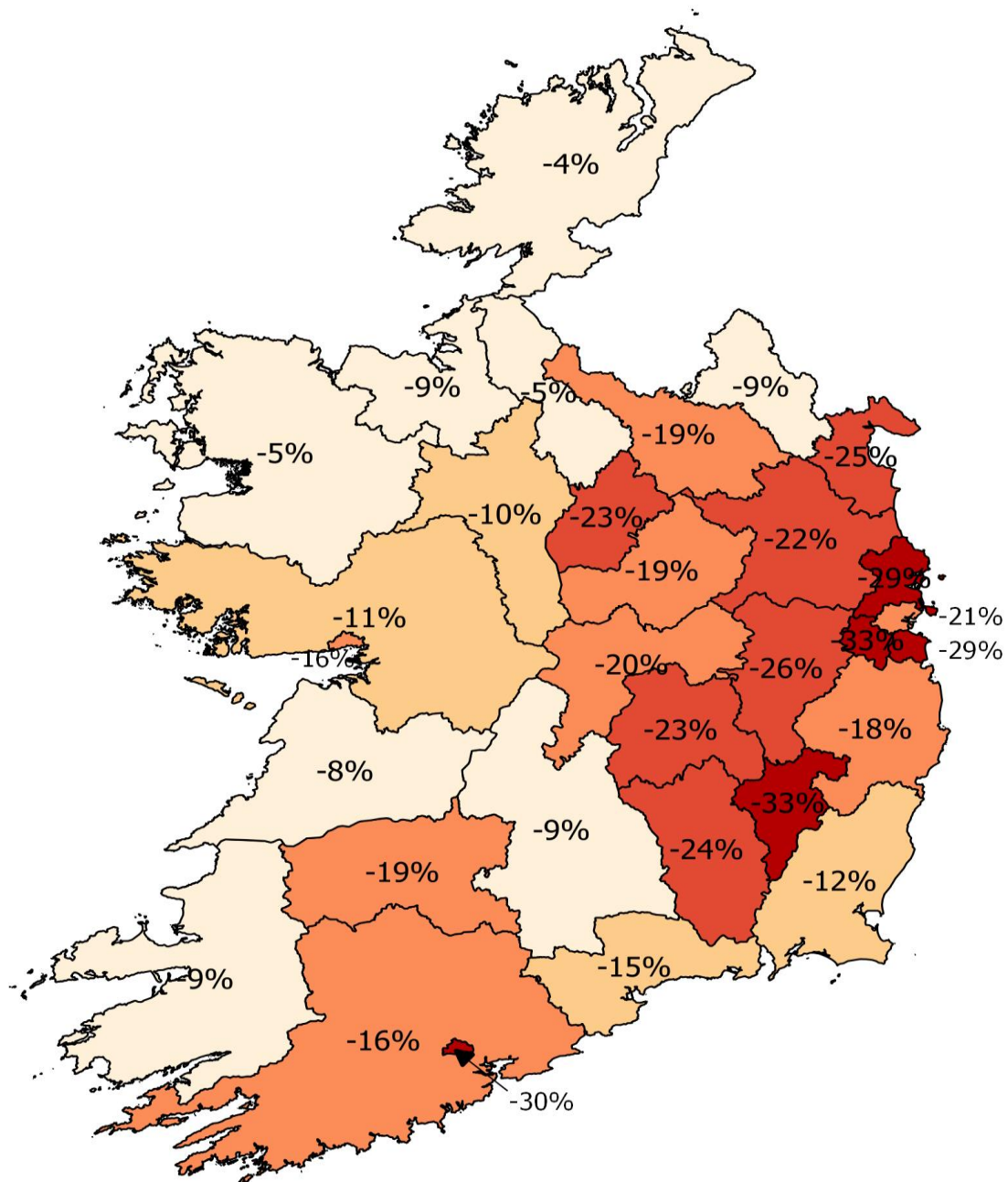
2.2 Vacancy Rates

The CSO has provided estimates of the vacancy rate from Census data since 1991. As discussed above, the CSO classifies dwellings as vacant based on the judgment of the census enumerator. It should also be noted that the main vacancy estimates provided by the CSO include holiday homes and properties which are for sale or rent and which are vacant for other reasons. The following table shows historical vacancy rates from Census data for the State and the key urban local authority areas. Vacancy rates increased dramatically in years to 2006 but have fallen for all local authority areas between 2011 and 2016. Despite this decline, estimated vacancy rates in Dublin City in 2016 were over 8%. If vacancy rates of around 8% were representative of properties which would return to the market in the event of a vacant property tax, then the rationale for a tax would be very strong. However, it is important to examine the reasons for vacancies and whether significant numbers of properties would return to the market if a vacancy tax was introduced.

Table 2.1: Vacancy Rates - Census Data						
	1991	1996	2002	2006	2011	2016
State	9.1%	8.4%	9.8%	15.0%	14.5%	12.3%
Dublin City Council	5.5%	5.7%	6.0%	11.7%	10.2%	8.1%
Dún Laoghaire-Rathdown County Council	4.0%	3.2%	4.3%	8.9%	7.7%	5.5%
Fingal County Council	3.9%	3.4%	4.9%	8.8%	7.0%	5.0%
South Dublin County Council	2.6%	2.2%	2.8%	6.2%	5.4%	3.6%
Cork City Council	7.0%	5.7%	6.0%	12.0%	11.1%	7.8%
Galway City Council	6.8%	6.0%	7.5%	13.0%	11.2%	9.4%
Limerick City and County	8.2%	7.9%	8.1%	12.6%	12.3%	10.0%
Waterford City and County	9.7%	9.0%	11.4%	16.8%	16.4%	14.0%
Note: Figures include holiday homes						
Source: CSO						

Vacancy rates have fallen for all local authority areas between 2011 and 2016. The following figure illustrates the percentage fall in vacancy rates across the local authorities. Those local authorities shaded in darker red have seen higher percentage decreases in vacancy rates between 2011 and 2016.

Figure 2.1: Change in Vacancy Rates 2011-2016 by Local Authority



Source: Indecon analysis of CSO data

The 2016 Census allowed for a breakdown of the vacancy rate excluding holiday homes. The following table shows the alternative estimates for the vacancy rate including and excluding holiday homes for 2016 and the 2011 vacancy rate for context.

Table 2.2: Vacancy Rates – Including and Excluding Holiday Homes			
	2016 - Excluding Holiday Homes	2016 - Including Holiday Homes	2011 - Including Holiday Homes*
Vacancy Rate	9.1%	12.3%	16.1%
<p><i>*Note: Calculated using Small Area data on housing occupancy. Small Areas are areas of population generally comprising between 80 and 120. Small Areas are the lowest level of geography for the compilation of statistics in line with data protection and generally comprise either complete or part of townlands or neighbourhoods. Lack of granularity in data provides higher estimate of vacancy than headline rate reported for 2011 census</i></p> <p>Source: CSO</p>			

GeoDirectory also collect and publish data on vacancy rates. The following table illustrates the levels and trends in vacancy rates between 2015 and 2017 from the GeoDirectory data both nationally and for local authorities. GeoDirectory data indicates much lower vacancy rates than the CSO estimates. The GeoDirectory data also shows a continued downward trend in vacancy rates both nationally and in all local authorities between 2015 and the end of 2017.

Table 2.3: Vacancy Rates - GeoDirectory Data				
	2015Q2	2015Q4	2016Q2	2017Q4
State	4.1%	3.9%	3.8%	3.5%
Dublin (City Council)	0.8%	0.8%	0.7%	0.6%
Dun Laoghaire/Rathdown (County Council)	1.0%	1.0%	1.0%	0.9%
Fingal (County Council)	0.7%	1.0%	0.6%	0.6%
South Dublin Co. Co. (County Council)	0.5%	0.4%	0.5%	0.5%
Cork (City Council)	1.4%	1.4%	1.5%	1.1%
Galway (City Council)	1.0%	0.9%	0.9%	0.8%
Limerick (City Council)	1.5%	1.5%	1.5%	1.2%
Waterford (City Council)	1.2%	1.6%	1.3%	1.1%
Source: GeoDirectory Data				

As can be seen from the table above, vacancy rates vary significantly across different areas of the country. In the context of a vacant property tax which aims to increase the housing supply in the areas in which demand for housing is greatest, a particular focus on high demand areas is merited. There are 21 Local Electoral Areas which have been designated as Rent Pressure Zones (RPZ). Local authority areas have been designated as RPZs if the annual rate of rent inflation in the average amount of rent for the area has been more than 7% in four of the last six quarters and the average rent for tenancies registered with the RTB in the previous quarter was above the average national rent, in the quarter. The 2017 Annual Report of the RTB indicated that 57% of tenancies were currently in RPZs.

The following table illustrates the differing vacancy rates in 2016 and 2011 for the RPZs and the non-RPZs. Vacancy rates were 61% lower in 2016 in RPZs relative to non-RPZ areas. The evidence also indicates that vacancy rates have been falling faster than the national average in RPZs between 2011 and 2016.

Table 2.4: Vacancy Rates – Rent Pressure Zones – CSO Data

Rent Pressure Zones			
	2016 - Excluding Holiday Homes	2016 - Including Holiday Homes	2011 - Including Holiday Homes
Vacancy Rate	6.0%	6.4%	10.9%
Non-Rent Pressure Zones			
	2016 - Excluding Holiday Homes	2016 - Including Holiday Homes	2011 - Including Holiday Homes
Vacancy Rate	11.4%	16.4%	19.7%
<i>Source: CSO</i>			

GeoDirectory provided Indecon with data to estimate the vacancy rates in RPZs. The following table shows the vacancy rates in RPZs between 2015 and 2017 using GeoDirectory data. The estimates for vacancy rates in RPZs using this data suggest very low vacancy rates of less than 1%.

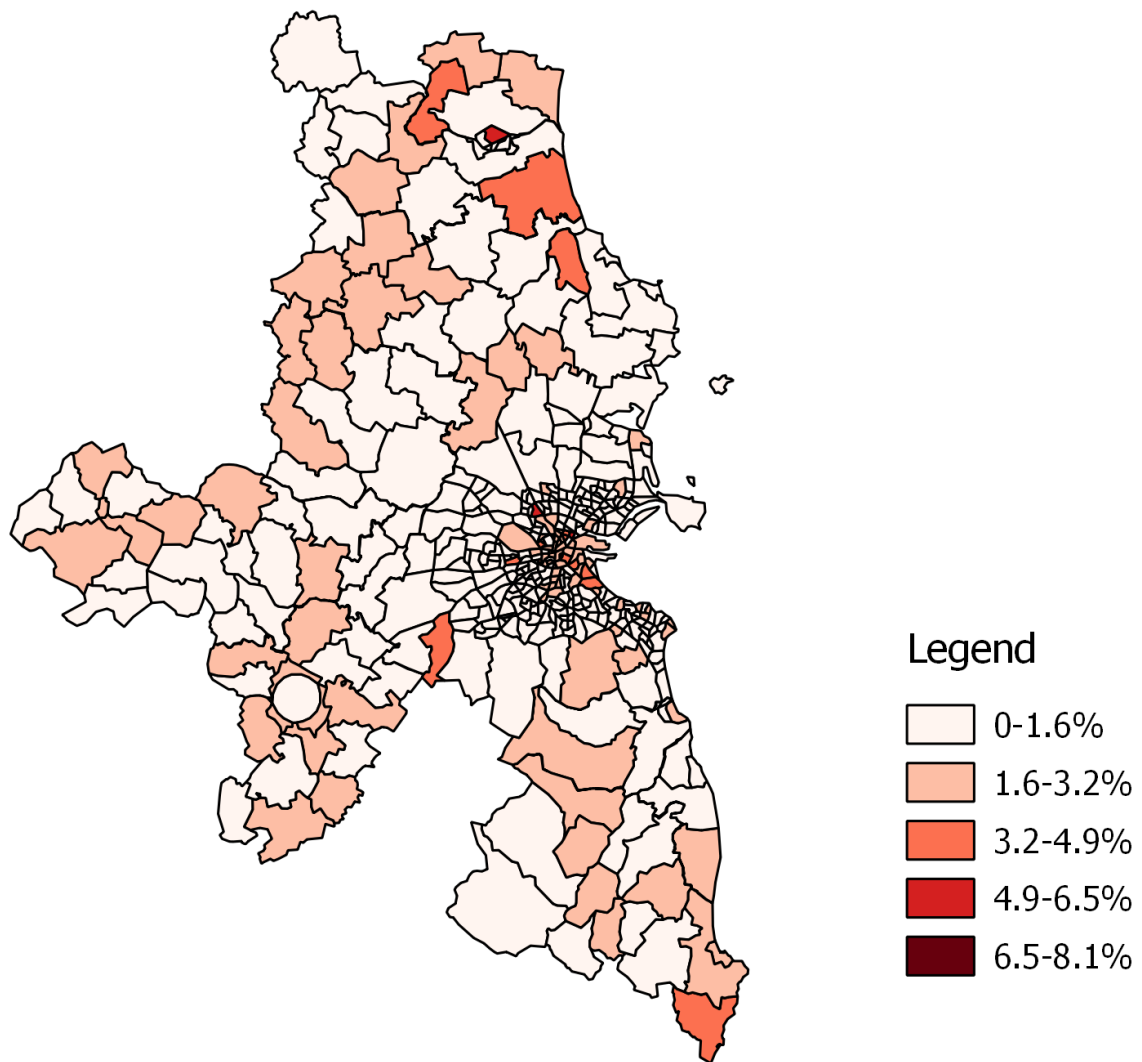
Table 2.5: Vacancy Rates – Rent Pressure Zones – GeoDirectory Data

	Vacancy Rate in RPZs
2015Q2	0.8%
2015Q4	0.9%
2016Q2	0.8%
2017Q4	0.7%
<i>Source: Indecon Analysis of GeoDirectory Data</i>	

2.3 Medium-Term Vacancy

A key policy focus of any potential vacant property tax would be to target properties which are vacant on a medium to longer term basis rather than the units which are vacant on a short-term basis. The prevalence of medium/ longer term vacant dwellings is therefore critical in assessing the merits and potential impact of a vacant property tax. New analysis completed for this study provides evidence on residential dwellings which have been vacant for five years. These are defined as properties recorded as vacant in both the 2011 and 2016 census. The new analysis on longer term vacant properties shows a very different picture than the overall national figures. The figure below illustrates the longer-term vacancy rates in the Greater Dublin Area. The majority of rent pressure zones in Dublin show very low longer-term vacancy rates.

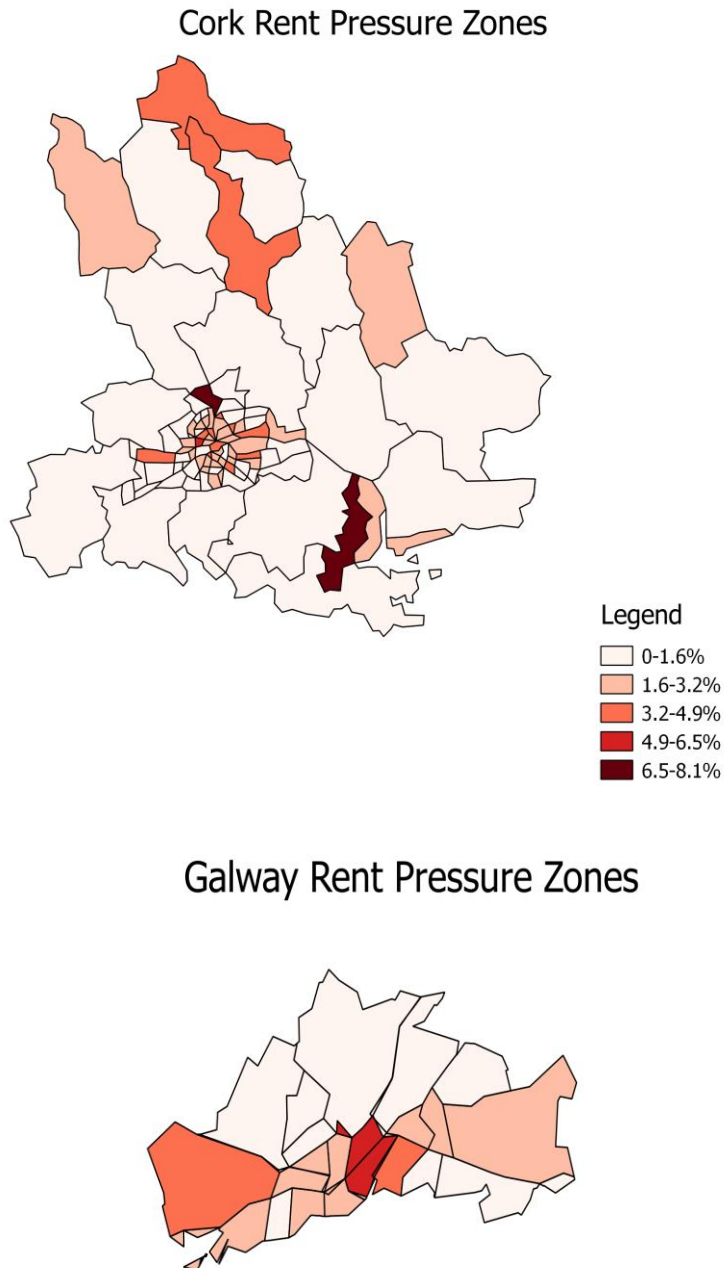
Figure 2.2: Long-Term Vacancy Rates in the RPZs in the Greater Dublin Area by Electoral Division



Source: Indecon analysis of CSO data

It is also useful to examine long term vacancy rates in RPZs in Cork and Galway. The following figure show somewhat higher long-term vacancy rates than prevail in Dublin, however, these areas also have longer term vacancy rates which are very low.

Figure 2.3: Long-Term Vacancy Rates in the RPZs in Cork and Galway by Electoral Division



Source: Indecon analysis of CSO data

The evidence presented in this section suggests that long-term vacancy rates in the areas of the country with the most acute demand for housing are significantly lower than elsewhere in the country and account for a very small percentage of the housing stock in the majority of electoral divisions.

As noted earlier, individual local authorities have been undertaking analysis of vacant properties in their areas. Initial results of this analysis have also indicated very low numbers of vacant properties. Indecon would note that these initial estimates by local authorities have been focusing on identifying vacant properties that may be suitable for conversion to social housing units.

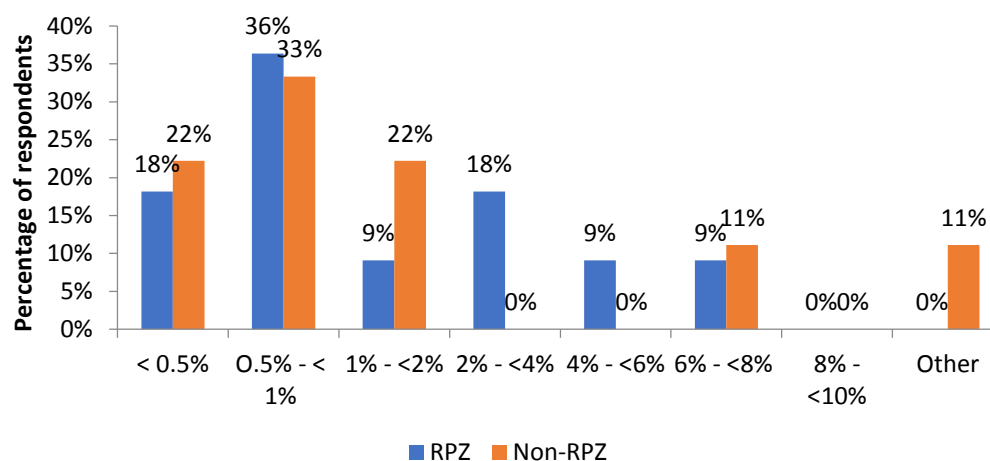
We note from our consultations with the Department of Housing, Planning and Local Government that a more comprehensive on-the-ground, pilot survey of vacant properties is currently being undertaken by six local authorities around the country. Each participating local authority will visually inspect approximately 1,400 homes, recording the location of potentially vacant properties, and where possible, recording apparent reasons for vacancy and categorising each vacant home (with a view to prioritising those which are seen as most likely to be re-introduced into the liveable housing stock).

The selected areas will be surveyed over two waves, at least six months apart. This is necessary to ascertain if or to what extent properties, whilst vacant at some point in time, may be occupied reasonably soon thereafter and therefore could be described as being “short-term” vacant rather than “long term” vacant.

Before characterising a property as “vacant” the surveyor is instructed to visit the property on at least 3 occasions. The three visits will take place at different times of the day and on different days. In the event of no contact being made at a property (after the third visit)), that property can be considered potentially vacant and the local authority will attempt to identify the owner of the property, with a view to making contact and engaging with the owner on the options available should they wish to re-introduce their property in to housing stock (where it appears evident that a dwelling is clearly vacant after the first wave of visual inspections and the owner can be identified, then local authorities can engage with the owner at that stage to reactive the dwelling – and do not have to wait for a second wave visit six months later).

The pilot survey to be undertaken by local authorities will provide a useful additional insight into prevailing vacancy levels and reasons for vacancy. As part of this review, Indecon also undertook a survey of auctioneers and residential property professionals. This survey aimed to gain an insight into the perceptions of vacancy rates on the ground from those involved in the residential property market. Figure 2.4 illustrates the views of the auctioneers on the level of vacant housing in their area not currently for sale or rent. The majority of respondents in pressure zones believe that the vacancy rate is very low in their area, which is consistent with the new evidence presented in our analysis on long term vacancy rates.

Figure 2.4: Views of Auctioneers on the Percentage of the Housing Stock Accounted for by Habitable Vacant Properties not Currently for Sale/ Rent



Source: Indecon survey of auctioneers

2.4 Summary of Findings

- ❑ The two main sources of information on vacancy rates are the CSO data based on the Census and GeoDirectory data. These two sources appear to suggest very different estimates of vacancy levels. The reasons for the differences are in part due to differences in methodologies and definitions of vacancies.
- ❑ Vacancy rates increased dramatically in years to 2006 but have fallen for all local authority areas between 2011 and 2016. Despite this decline, estimated vacancy rates in Dublin City in 2016 were over 8%. If vacancy rates of around 8% were representative of properties which would return to the market in the event of a vacant property tax, then the rationale for a tax would be very strong. However, it is important to examine the reasons for vacancies and whether significant numbers of properties would return to the market if a vacancy tax was introduced.
- ❑ The issue of the supply and demand imbalance is particularly relevant in the Rent Pressure Zones. There are 21 Local Electoral Areas which have been designated as Rent Pressure Zones (RPZ). Vacancy rates in the RPZs in 2016 were 61% lower than for non-RPZ areas. The evidence shows that vacancy rates have been falling faster in RPZs than the national average.
- ❑ A key policy focus of any potential vacant property tax would be to target properties which are vacant on a medium to longer term basis rather than the units which are vacant on a short-term basis. The prevalence of medium/ longer term vacant dwellings is therefore critical in assessing the merits and potential impact of a vacant property tax. New analysis completed for this study provides evidence on residential dwellings which have been vacant for five years and which suggests very low levels of long-term vacancy.

3 Evidence on Reasons for Vacancy

3.1 Introduction

In examining the potential role of a vacant property tax, it is important to consider the evidence on the reasons for vacancy levels.

3.2 Main Reasons for Vacancy

The marked differences between the estimates of overall vacancies and longer medium-term vacancy rates in part reflects the reasons for vacancy. The Census data as evident in the table below indicates that the percentage of dwellings vacant due to the property being vacant long term or boarded up represents a minority of vacant properties. There may be many reasons for such long-term vacancies including legal problems/ issues with fire certs / Pyrite damage / dilapidation or other reasons.

Table 3.1: Vacancy Rates in RPZs – Reasons for Vacancy		
	% of all vacant properties	% of vacant properties with known reason
For Sale/Rent/New Build/Renovation/Abandoned Farm House	15.0%	48%
Owner Deceased/In Nursing Home/Hospital/With Relatives	8.6%	27%
Other Personal Use	0.5%	2%
Vacant Long-Term/Boarded Up and Habitable	6.3%	20%
Information not readily summarise-able	0.8%	3%
Census form blank on reasons	68.8%	n/a
<i>Source: CSO</i>		

While the more detailed supplementary evidence on reasons is not available for RPZs, indicative estimates of this can be obtained by assuming that the percentage reasons for vacancy in RPZ areas are aligned with CSO data for Dublin City and Suburbs and for the non RPZ areas are aligned with CSO data for Other Areas. As a large number of the Census forms were returned blank on the reasons for vacancy it is also useful to make some assumptions about what are the possible reasons for vacancies for such non-classified properties. If it is assumed that the relative importance of different reasons for vacancies for properties for which no reason was given on the Census return, was in the same ratios as for those where data was available, alternative estimates of the reasons for vacancy can be derived. These provide some indicative indications of the levels of vacant properties which could be potentially available to add to the supply in rent pressure zones. The estimates presented below are dramatically lower than might have been previously assumed by the aggregate vacancy numbers. Given market developments, some of these properties may have already come to the market since 2016. Estimates prepared by Indecon based on the above approach suggests that the percentage of all properties in RPZs which are vacant long term or which are boarded up and habitable is less than 1% of properties.

Table 3.2: Indecon Estimates of Rate of Vacant Supply		
	% of all Dwellings	
	RPZ	Non-RPZ
For Sale/Rent/New Build/Renovation/Abandoned Farm House	3.8%	5.0%
Owner Deceased/In Nursing Home/Hospital/With Relatives	1.4%	3.3%
Other Personal Use	0.0%	0.2%
Vacant Long-Term/Boarded Up and Habitable	0.8%	2.5%
Information not readily summarisable	0.1%	0.3%
Total	6.0%	11.4%
<i>Source: Indecon analysis</i>		

As part of the returns made to the Revenue Commissioners for the Local Property Tax, property owners were required to declare the status of the dwellings in terms of whether or not it was their principle private residence. The latest data for which these returns is available is for 2013. Indecon has been provided with the data outlining the percentage number of principle private residences and non-principle private residences for the purposes of the tax in the Rent Pressure Zones for 2013. The following table shows that in RPZs 86% of dwellings for which a return was made to the Revenue Commissioners were classified as a principle private residence.

Table 3.3: Revenue Returns on Principle Private Residence Status in the RPZs, 2013	
Principle Private Residences	86%
Non-Principle Private Residences	14%
Total	100%
<i>Source: Indecon analysis of data from the Revenue Commissioners</i>	

The LPT returns are also useful in considering the reasons for vacancy. Data is available on a national level for the number of LPT exemptions granted in 2016 and the reasons for these exemptions. Indecon notes that these are based on the last LPT returns and may not be reflective of current vacancy rates. It is however of note that some of the reasons for LPT exemptions or deferrals may mean that the property is likely to be deemed as vacant. Several of these reasons for exemptions are related to the vacancy of the property for reasons which are unlikely to be influenced by any vacant property tax. The following table illustrates the breakdown of exemptions nationally from the LPT in 2013. There were 46,200 exemptions granted accounting for 2.5% of properties.

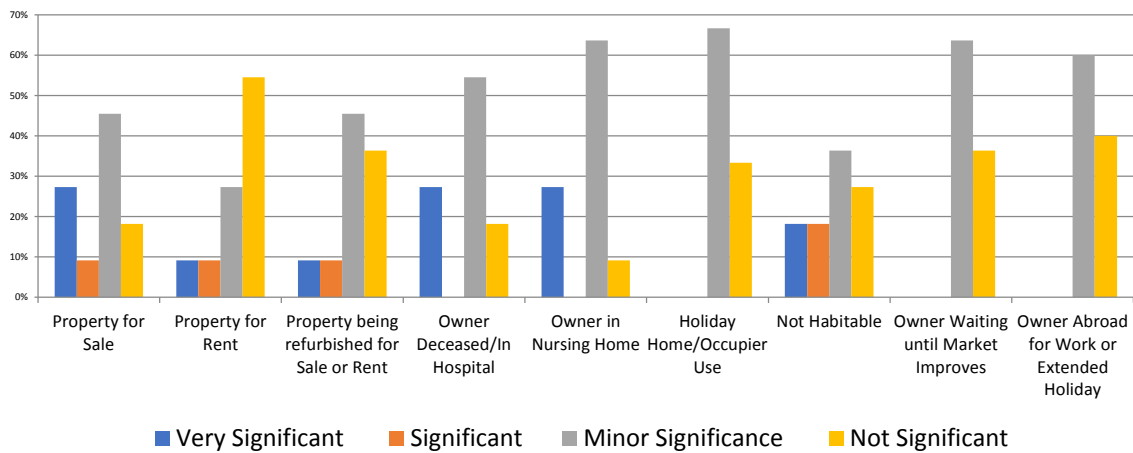
Table 3.4: LPT Exemptions, 2016 ⁽¹⁾	
Exemptions	% of Exemptions
Charitable recreational activities	0.5%
Charity/Public Body owned for special needs	14.7%
Diplomatic properties	0.0%
First Time Buyer purchase 1/1/2013 - 31/12/2013	25.2%
Fully subject to Commercial rates	4.7%
Properties vacated because of long-term mental/physical infirmity	14.4%
Mobile homes	0.6%
New and unused between 1/1/2013 - 31/10/2016 ⁽²⁾	11.4%
Nursing homes	0.5%
Pyrite damaged	1.5%
Residence of a severely incapacitated individual	4.1%
Unfinished Housing Estates	7.1%
Unsold by builder/developer	15.3%
Source: Indecon analysis of data from the Revenue Commissioners	
(1) 2016 figures are preliminary estimates	
(2) Between 1/1/2013 – 31/10/2016. These properties will not be exempt following the next valuation date.	

Deferrals were also granted to the LPT. The below table shows the breakdown of reasons for deferrals. In 2016 deferrals were given to 1.9% of households. The majority of deferrals were granted due to the household being below the income threshold.

Table 3.5: LPT Deferrals, 2016	
Deferrals	% of Deferrals
Executor/Administrator of an Estate	2.6%
Significant Financial Loss	0.6%
Below Income Threshold	94.6%
Insolvent Liable Person	2.2%
Source: Indecon analysis of data from the Revenue Commissioners; 2016 figures are preliminary estimates	

The next figure provides some qualitative views from respondents to the Indecon survey of auctioneers on the importance of a range of reasons for vacancy amongst respondents in rent pressure zones. The main reasons cited were that the property is currently available for sale or rent, the owner is deceased or in hospital or nursing homes or the property is not habitable. This is consistent with the empirical evidence from the Indecon analysis and with the Census data.

Figure 3.1: Importance of Factors in Accounting for Residential Property Vacancies – Auctioneers in RPZs



Source: Indecon survey of auctioneers

3.3 Summary of Findings

- The marked differences between the estimates of overall vacancies and long /medium term vacancy rates in part reflects the reasons for vacancy. The Census provided information on the reasons for vacancy of those dwellings classified as vacant. The proportion of dwellings vacant due to the property being vacant long term / boarded up represents a minority of vacant properties. There may be many reasons for such long-term vacancies including legal problems/ issues with fire certs / Pyrite damage / dilapidation or other reasons. The overall low levels of long-term vacant properties suggest that a significant number of vacancy properties in RPZs may not be influenced by a vacant property tax.
- While the more detailed supplementary evidence on reasons are not available for RPZs, indicative estimates of this can be obtained by assuming that the percentage reasons for vacancy in RPZ areas are aligned with CSO data for Dublin City and Suburbs and for the non RPZ areas are aligned with CSO data for Other Areas. As a large number of the Census forms were returned blank on the reasons for vacancy it is also useful to make some assumptions about what are the possible reasons for vacancies for such non-classified properties. If it is assumed that the relative importance of different reasons for vacancies for properties for which no reason was given on the Census return, was in the same ratios as for those where data was available, alternative estimates of the reasons for vacancy can be derived. These provide some indicative indications of the levels of vacant properties which could be potentially available to add to the supply in rent pressure zones. The estimates suggest much lower levels of vacancy than might have been previously assumed by the aggregate vacancy numbers. Given market developments, some of these properties may have already come to the market since 2016. Estimates prepared by Indecon based on the above approach suggests that the percentage of all properties in RPZ which are vacant long term or which are boarded up and habitable may be less than 1% of properties.

4 Econometric Modelling on Determinants of Vacancy Rates in Ireland

4.1 Introduction

In order to inform policy on the determinants or factors influencing vacancy, Indecon's econometricians have undertaken some innovative new modelling to provide more quantified insights into this area.

4.2 Results from Econometric Modelling

Indecon undertook two modelling approaches to estimate the impact of key factors on vacancy rates. We undertook a standard linear Ordinary Least Squares (OLS) regression using largely 2016 data on vacancy rates, average prices, average rents and other census data at a small area level. Using data from the 2011 and 2016 census, we also undertook a panel model using fixed effects to estimate the factors influencing the vacancy rate. The following table illustrates the correlation between some of the key variables in our models and is illustrative of the relationships that we may expect to find in the formal modelling. Not controlling for other factors, we can observe that the rent pressure zones are negatively correlated with vacancy, as are average rents and house prices. Small areas with larger populations also have a negative correlation with vacancy. The results illustrate the correlation between some of the key variables without controlling for the impact of other factors. The econometric models provide an insight into the influence of these variables, holding all else equal and are thus a more rigorous examination of the key drivers of vacancy rates.

Table 4.1: Correlation table for main variables

	vacancy rate	vacancy rate for 'other' reason	RPZ	Average rent	Median house price 2016	% housing stock built post 2000	% of population at work	Total population
vacancy rate	1							
vacancy rate for 'other' reason	0.9525	1						
RPZ	-0.3135	-0.3333	1					
Average rent	-0.284	-0.3045	0.7696	1				
Median house price 2016	-0.3681	-0.3854	0.6682	0.6537	1			
% housing stock built post 2000	0.0146	0.0519	-0.114	-0.118	-0.0982	1		
% of population at work	-0.0274	-0.0567	0.3202	0.3011	0.3429	0.1976	1	
Total population	-0.4528	-0.4241	0.2029	0.1619	0.2303	0.1366	-0.0135	1

Source: Indecon analysis

The following table displays the results for the baseline models and a version of the models including an interaction between the price and rent levels and the RPZ variable. The baseline model highlights the significance of changes in rental values and suggests that around 10% increase in rents, all else being equal, will lead to a 2% fall in the vacancy rate. It should be noted that this is a log-log model and thus the coefficient suggests that there will be a 2% fall in the vacancy rate which should not be confused with a two-percentage point fall in the vacancy rate. For example, if the prevailing vacancy rate is 3.5% nationally, the model would indicate that a 10% increase in rents would lead to fall in the vacancy rate to 3.4%. If the vacancy rate was 2% nationally, the model indicates that a 10% increase in rents would lead to fall in the vacancy rate to 1.96%. This model also suggests that a 10% increase in property prices will lead to a 2.8% fall in vacancy rates. The model also suggests that a 10% increase in population suggests an 8.2% fall in the vacancy rate. Model 3 shows broadly similar coefficients for the impact on the vacancy rate when defined only as those dwellings classified as vacant for 'other' reasons.

The models suggest that the impact of rent increases on both broad and 'other' vacancy rates as well as long-term vacancy is similar is greater in the rent pressure zones than in other areas. The impact of house prices changes however is significantly higher outside the RPZs than within the RPZs. The results may help understand the reasons for the very fast decline in vacancy rates in RPZs.

Table 4.2: OLS Model Findings						
	OLS Model 1-Vacancy Rate	OLS Model 2-Vacancy Rate	OLS Model 3-Vacancy Other Reasons	OLS Model 4-Vacancy Other Reasons	OLS Model 5-Long Term Vacancy	OLS Model 6-Long Term Vacancy
RPZ	-0.311***		-0.326***		-0.324***	
log average rent	-0.195***	-0.188***	-0.201***	-0.208***	-0.187***	-0.169***
change in rent 11-16	0.092**	0.082*	0.059	0.047	0.192***	0.181***
log median property price	-0.280***	-0.467***	-0.333***	-0.492***	-0.363***	-0.482***
change in price 11-16	0.077***	0.091***	0.074***	0.088***	0.085***	0.098***
% housing stock build post 2000	0.054**	0.096***	0.204***	0.243***	0.013	0.045
% pop at work	1.194***	1.185***	0.913***	0.900***	0.489***	0.489***
log total population	-0.819***	-0.786***	-0.844***	-0.816***	-0.720***	-0.701***
RPZ=0		0		0		0
RPZ=1		-5.328***		-4.904***		-4.002***
RPZ=0 # log average rent		0		0		0
RPZ=1 # log average rent		-0.106*		-0.067		-0.142*
RPZ=0 # log median property price		0		0		0
RPZ=1 # log median property price		0.472***		0.414***		0.381***
Constant	6.064***	8.016***	6.692***	8.440***	5.833***	6.990***
R-squared	0.318	0.331	0.318	0.327	0.297	0.305
N	16994	16994	16147	16147	12721	12721
* p<0.05, ** p<0.01, *** p<0.001						
Source: Indecon analysis						

The econometric models in the above table include interaction terms for the rent pressure zones. The coefficients in this model are best interpreted via the below table. These calculations suggest that the impact of rent increases on both broad and 'other' vacancy rates as well as long-term vacancy is similar is greater in the rent pressure zones than in other areas. The impact of house prices changes however is significantly higher outside the RPZs than within the RPZs.

Table 4.3: Interpreting OLS Interaction Model Coefficients

	Model 2	Model 4	Model 6
Average Rent	Coefficients	Coefficients	Coefficients
Non-RPZ	-0.19	-0.21	-0.17
RPZ	-0.29	-0.28	-0.31
Median House Price			
Non-RPZ	-0.47	-0.49	-0.48
RPZ	0.01	-0.08	-0.10
<i>Source: Indecon analysis</i>			

The OLS models suggest that key factors influencing different vacancy rates are changes in rent, house prices and population. As a check for the findings of the OLS models, we also run a panel model using the available data. The panel is set across NUTS 3 regional classifications for Ireland. The findings of the panel model are below. It should be noted that the dependent variable for the panel models is the overall vacancy rate and not the vacancy rate for those houses with the reason for vacancy as 'other'. As was the case for the OLS models, this is due to the 2011 census not containing detailed information on the reason for vacancy by region. As with the OLS model, we run both a baseline model and a model interacting the RPZ indicator variable with the rent and house price variables.

The baseline model indicates that house prices changes have a smaller impact on vacancy rates. A 10% increase in house prices is indicative of a 0.5% fall in vacancy rates, all else equal, in the baseline panel model. The coefficient on average rent suggests that a 10% increase in rent will lead to a 2.3% fall in the vacancy rate. The coefficient on the population variable suggests that a 10% increase in population will bring about a 14.7% fall in the vacancy rate.

Table 4.4: Panel Fixed Effects Model Findings

log median property price	-0.049***	-0.141***
log total population	-1.471***	-1.456***
log total no. households	1.460***	1.448***
log average rent	-0.233***	-0.222***
RPZ	-0.321***	0
% pop at work	0.625***	0.610***
hh_pre_2000_perc	-0.001	-0.024
y_2016	-0.533***	-0.550***
RPZ=0		0
RPZ=1		-2.880***
RPZ=0 # log median property price		0
RPZ=1 # log median property price		0.240***
RPZ=0 # log average rent		0
RPZ=1 # log average rent		-0.052
Constant	1.113***	2.131***
R-squared	0.444	0.447
N	33264	33264
* p<0.05, ** p<0.01, *** p<0.001		
<i>Source: Indecon analysis</i>		

The interpretation of the coefficients in the interaction model are outlined in the following table. This model finds that the impact of rent increases is slightly higher in the RPZs and that property price increases have had almost no impact on changing vacancy rates in the RPZs compared to a small negative impact out the RPZs.

Table 4.5: Interpreting Panel Model Interaction Coefficients	
Average Rent	Coefficients
Non-RPZ	-0.22
RPZ	-0.27
Median House Price	
Non-RPZ	-0.14
RPZ	0.10
<i>Source: Indecon analysis</i>	

As with the previous model, the panel models are based on small area level data and so are not directly comparable to movements in the national averages. Both models thus indicate that while house price changes, rent changes and population growth are significant drivers of falling vacancy rates, there are factors outside our models which are also influencing changes in vacancy rates. These factors may include changes in the bank lending environment, changes to planning policies, the impact of other government policies or other unobservable factors in our dataset. It is worth also highlighting the limitations of the modelling undertaken here due to a lack of time series data beyond the 2011 and 2016 census as well as the reliance on small area level data. Ideally, this type of analysis would be best facilitated by data on occupancy status at an individual household level.

As observed in earlier chapters of this report, there has been a significant decline in the vacancy rate in recent periods. This is evident in both the census and GeoDirectory data. The following table shows the percentage fall in the national vacancy rate and the rate in Dublin together with the rises in house prices, population and rent over the same period.

Table 4.6: Changes in Vacancy Rates and Other Key Variables 2011-2016						
	2011		2016		% Change	
	National	Dublin	National	Dublin	National	Dublin
Vacancy Rate	14.5%	8.3%	12.3%	6.2%	-15%	-25%
Average Rent	767	1,033	911	1,303	19%	26%
Average House Price	228,817	321,935	248,445	398,314	9%	24%
Population	4,588,252	1,273,069	4,761,865	1,347,359	4%	6%
<i>Source: Indecon analysis</i>						

How these key variables of house prices, rents and population continue to change in the coming years will, in combination with a number of other factors, play a key role in how vacancy levels are likely to develop even in the absence of government interventions. For the purposes of developing some indicative scenarios on vacancy rates, we outline three scenarios for rent, house prices and population nationally and in Dublin out to 2020. These scenarios are based on the recent movements in these key variables. The following table shows the recent trends in rent and house prices nationally and in Dublin. For our baseline scenario, we assume that these recent trends will continue annually out to 2020. In forecasting population, we assume that the annual growth in population between the 2011 and 2016 census will continue between 2016 and 2020. This assumes a national average growth rate of .7% and a growth rate in Dublin of 1.1%.

Table 4.7: Recent Trends in Rent and House Prices

	National	Dublin
Change in Average Rent (2016-2017)	7.0%	6.5%
Change in Average House Price (May 2017-May 2018)	5.3%	2.9%
<i>Source: Indecon analysis of CSO data</i>		

Our baseline scenario assumes that these rates continue to prevail out to 2020 but we would note that this is not a forecast but simply a way to consider the impact of different factors on vacancy rates. Our low scenario assumes that 50% of the above growth rates prevail annually. Our high scenario assumes 150%. Each scenario is outlined below in terms of the assumed average rents, prices and population and the implied change in vacancy rates as a result of these changes. It should be noted that these scenarios are for the impact on the overall vacancy rate, not the rate of vacancies for 'other' reasons or long-term vacancies. For the purposes of this scenario we utilise the coefficients from OLS models 1 and 2 for the headline rate of vacancy. The baseline scenario estimates that, other things being equal, should rent, price and population trends continue in line with their most recent trends, the vacancy rate will continue to fall both nationally and in Dublin. The coefficients from the econometric modelling suggest that the vacancy rates will continue to fall.

Table 4.8: Scenarios for Future Path of Vacancy Rates – Headline Vacancy

	National	Dublin
Baseline Scenario		
Vacancy Rate	10.4%	5.5%
Average Rent	875.23	1,676.50
Average House Price	314,176	465,955
Population	4,900,755	1,406,791
High Scenario		
Vacancy Rate	9.7%	5.1%
Average Rent	963.42	1,834.82
Average House Price	330,184	479,169
Population	4,970,201	1,436,507
Low Scenario		
Vacancy Rate	11.0%	5.8%
Average Rent	792.60	1,527.56
Average House Price	298,566	452,926
Population	4,831,310	1,377,075
<i>Source: Indecon analysis</i>		

4.3 Summary of Findings

- ❑ In order to inform policy on the determinants or factors influencing vacancy, Indecon's econometricians have undertaken some innovative new modelling to provide more quantified insights into this area. Specifically, Indecon undertook detailed econometric modelling to assess the key factors influencing vacancy rates in Ireland in recent years.
- ❑ The Indecon econometric model highlights the significance of changes in rental values and suggests that around 10% increase in rents, all else being equal, will lead to a 2% fall in the vacancy rate. This model also suggests that a 10% increase in property prices will lead to a 2.8% fall in vacancy rates. The models suggest that the impact of rent increases on vacancy rates is greater in the rent pressure zones than in other areas. The impact of house prices changes however is significantly higher outside the RPZs than within the RPZs. The results may help understand the reasons for the very fast decline in vacancy rates in rent pressure zones.
- ❑ The outputs from the econometric modelling can be utilised to generate scenarios for the likely future trends in vacancy in the coming years. The coefficients from the econometric modelling suggest that the vacancy rates will continue to fall if housing shortages continue and if rental values increase.

5 International Responses to Vacant Property

5.1 Introduction

In many countries housing shortages have emerged, particularly in key cities but most countries do not appear to have implemented a vacant property tax. However, a number of countries have recently introduced such a tax but it is not feasible as yet to derive any overall conclusions on their effectiveness. This experience, however, should be kept under review by policymakers.

5.2 Examples of Vacant Property Tax

Vancouver, Canada

A vacant property tax was recently introduced in Vancouver in Canada. January 2017 to December 2017 was the first taxable year under the vacant property tax regime in Vancouver. Property owners are required to make an annual submission declaring the status of their property. Failure to make a submission results in an assumption that the property is vacant and the tax is levied.

The Empty homes tax (also known as the Vacancy tax), was implemented in 2016 within the city of Vancouver and applies to residential properties that: Are not used as a principle private residence; and/or have not been rented out for a minimum of 6 months in a given year.

The rate of the Empty Homes Tax is 1% of a property's assessed taxable value. The tax is calculated each year based off the property's assessed taxable value in the previous tax year. If a residential property is an owner's principal residence then it is exempt from the tax, regardless of how much time the owner actually occupies the property. To be exempt from the tax, the owner is not required to occupy the property for any period of time, as long as the property is their principal residence.

Property status declarations are subject to an audit process and if a property is selected for audit, the owner is required to provide information or evidence in support of their declaration. The amount of days that a property is physically occupied by an owner, his/her family members or guests, does not determine whether the property is exempt from the tax. If the property is not a principal residence or rented for at least six months of the year, and does not otherwise qualify for an exemption, it is considered vacant and the tax will apply.

In the case of second homes, the Empty Homes Tax will not apply if the registered owner occupied their second home for at least 180 days of the tax year because their work required a physical presence in the city of Vancouver. Their work must be full-time for this exemption to apply.

The Empty Homes Tax in Vancouver provides a range of exemptions for properties whose owner recently passed away, for owners in medical care, for buildings vacant due to ongoing major construction/renovation works and for properties which are vacant due to court orders. There is no exemption of properties classed as uninhabitable.

2017 was the first year in which the tax was imposed. A total of 183,911 declarations were submitted in the first year of the program, accounting for 98.85% of all residential property owners in Vancouver. Just under 8,500 properties were determined to be unoccupied or underutilized: 1,200 were declared vacant by the owner and 2,100 people failed to declare, and their properties were deemed vacant and subject to the tax. 5,200 properties were declared exempt from the Empty Homes Tax.

Of the 5,200 properties declared exempt, the breakdown of type of exemption is:

- 2,480 where the property title transferred during the year
- 1,560 were under renovation or redevelopment
- 560 due to strata restrictions on rentals
- 600 other, including owner in care or death of owner, and occupied for more than 180 days for work in Vancouver.

It is estimated that the tax will bring in \$30-million of revenue in its first year. The 1,200-3,300 properties which may ultimately end up paying the tax for 2017 is significantly lower than the figures for vacant properties previously estimated for Vancouver. A study of electrical usage in 2016 estimated that 10,800 properties were vacant for a year in the City and the 2016 Census estimated the number of vacant homes at 25,000. There has been no evidence to date of the impact of the tax on lowering vacancy rates in Vancouver.

Vacant Residential Land Tax, Melbourne, Australia

A vacant residential property tax was recently introduced in Australia and came into effect in January 2018. The vacant residential land tax is a tax on residential properties in Melbourne's inner and middle suburbs which are unoccupied for more than six months a year. Provided a property was occupied for an aggregate of six months in the preceding calendar year, the vacant residential land tax does not apply for that tax year. A property is considered vacant unless it was occupied for more than six months in the preceding calendar year by:

- ❑ The owner, or the owner's permitted occupier, as their principal place of residence, or
- ❑ A person under a lease or short-term letting arrangement.

A permitted occupier is a person who uses and occupies the property with the permission of the owner. For example, a family member, friend or employee. A residence that is classed as an individual's principle private residence, regardless of the amount of time that the dwelling is vacant in a year, is not subject to the tax. Only vacant residential properties in Melbourne's inner and middle suburbs, where the issue of housing affordability is most pressing, are subject to the tax.

The tax is levied annually and is based on the capital improved value (CIV) of the taxable land. The CIV of a property is a value of the land, buildings and any other capital improvements made to the property as determined by the general valuation process. It is displayed on the council rates notice for the property provided in the state of Victoria. The tax is levied at 1% of the CIV.

Owners of vacant residential properties are required to notify the State Revenue Office by 15 January each year via an online portal. If a property is eligible for an exemption, the land owner is required to notify the State Revenue Office and advise which exemption applies. Owners are only required to notify the State Revenue Office if their property is vacant. The tax is thus based on owners self-reporting vacant properties. The State Revenue Office conducts monitoring and compliance activities to make sure that vacant residences are being declared. The compliance program includes comparing data with that of other state and federal agencies and conducting investigations.

There are a number of exemptions to the tax for recently deceased owners and owners in nursing homes. Properties being constructed or renovated will not be considered vacant for up to two years from when construction or renovation starts. Generally, if a property is vacant for more than six months in a calendar year it is subject to the vacant residential land tax irrespective of whether it is advertised for rent or sale during that time. If a property changes ownership during a year, it is not subject to the vacant residential land tax in the following year. This means that if a property is sold during the year, it is exempt from the vacant residential land tax in the following tax year. There is an exemption for properties owned and occupied by people who stay in Melbourne's inner and middle suburbs for work purposes, but whose principal place of residence is elsewhere in Australia. The exemption applies to properties occupied for at least 140 days a year for the purpose of attending the owner's workplace.

It should be noted that the tax only came into effect in 2018 and has thus yet to complete a full year of returns. As such, there is little evidence available on the impact of the tax to date. Estimates using water consumption data suggest that there are over 5,000 vacant properties in the targeted areas. The tax is estimated to raise over \$80 million over a four-year period, although the principle objective of the tax is to increase the housing supply and not raise revenue⁴.

Tax on Vacant Dwellings, France

Since 2014, holiday homes in areas of housing shortage in France have been liable to face a surcharge on their *taxe d'habitation*. This measure was amended in 2017. The tax applies to secondary homes which are not registered as owner or occupier's principle private residence.

The tax is based on a notional rental value for the property multiplied by the tax rate fixed in the locality. The rental value is assessed by the land registry (cadastre). Local councils have the discretion to apply a surcharge on second homes by between 5% and 60%. The rate in Paris was increased to 60% in 2017. The tax applies in around 28 urban agglomerations in France. Those who hold a second home for business or professional reasons are exempt, as are landlords who ordinarily let out a property on an annual basis, when rates are paid by the tenant.

There has been limited evidence of the impact of the vacant homes tax in France. The fact that the original tax, which was capped at a 20% surcharge, was reformed in 2017 to allow for a surcharge of up to 60% indicates that the initial tax was not having the desired impact on vacancy rates in the areas of the greatest degree of housing market pressure in France.

Doubling of Property Tax for Vacant Apartments, Israel

The Government in Israel announced double Arnona (Property Tax) on empty apartments which came into effect in 2016. The tax applies to any property that has not been lived in for 9 out of the 12 months.

Vacant properties are identified by municipal authorities and their owners informed of their eligibility for the tax. Municipal authorities rely on water usage data to identify vacant dwellings. Owners are then informed of their eligibility for the tax and can appeal the designation. The increased tax is imposed via a doubling of the local property tax. In Israel the local property tax (Arnona), is calculated based on the nature of the dwelling, the size of the dwellings and its location.

⁴ <https://www.theage.com.au/national/victoria/pretty-vacant-20000-properties-empty-across-inner-melbourne-20171109-gzi55w.html>

The evidence suggests that only a small fraction of the estimated 40,000 empty homes in Israel received notifications of their eligibility for the tax. Estimates for 2016 suggest that 3,000 out of the 40,000 estimated empty dwellings has been identified by municipal authorities. The available evidence suggests that while there has been an increase in tax revenue from the measure, there has been little impact on lowering vacancy rates as the largely foreign based owners of the vacant dwellings choose to pay the additional tax rather than sell or rent the vacant property.

Proposed Vacant Property Tax, Hong Kong

In June of this year, the government in Hong Kong proposed a vacant property tax on empty new homes in the city. The tax would apply only to newly built apartments and would not apply to resold dwellings. Under the proposed measure, developers would have to report the status of their new flats to the government annually, and the additional tax would be imposed on flats that had not been rented out for six of the previous 12 months. The tax is expected to be levied at two hundred percent of a newly built unit's rateable value, which is the estimated annual rental value of a property.

Increased Council Tax for Vacant Properties, the United Kingdom

In the UK, local councils have the power to impose an increased rate of council tax on dwellings that have been vacant for more than two years. The councils could previously impose an additional 50% council tax surcharge for such properties. In 2017 this was raised to allow councils to charge a 100% surcharge. Whether or not to impose this additional tax is at the discretion of the local council.

In Scotland, a property that has been unoccupied for more than 12 months could be charged double the normal rate of council tax. Councils have discretion to either grant no discount for empty homes or increase the council tax by 100% for certain properties which have been empty for 1 year or more

There has been limited evidence to date on the impact of these measures on vacancy rates in the UK. A criticism of the move to increase the vacancy surcharge has been that the doubling of the council tax is an insufficient means of disincentivising vacant properties in higher end properties in London which are an attractive asset for foreign investors.

5.3 Other Policy Responses to Vacant Properties

Scotland

The Scottish Vacant and Derelict Land Survey (SVDLS) is a data collection undertaken to establish the extent and state of vacant and derelict land in Scotland. The survey has been operating since 1988 and is managed by the Scottish Government Communities Analysis Division. The data is sourced from local authorities and the Loch Lomond and Trossachs National Park Authority. Most authorities submit data annually with a Survey base date of 31st March. While this dataset focuses on identifying vacant and derelict land in Scotland, it is also utilised in identifying the number of vacant residential dwellings in Scotland.

Additionally, Scottish legislation allows Local authorities to use Council Tax records to identify vacant properties. The Council Tax process begins when tenants notify the Council if they move out. Landlords face increased charge if the dwelling is subsequently left vacant, subject to some exemptions. The local authorities collate data on the vacancy rates according to these council tax returns.

Scottish Empty Homes Partnership (SEHP) is funded by the Scottish Government and hosted by Shelter Scotland. The Scottish Empty Homes Partnership exist to help councils and their partners to develop processes to engage with these private empty home owners and get their homes back into use. They do this in a number of ways:

- ❑ Guides and tools – bringing best practice from across the UK into a Scottish context
- ❑ Facilitating relationships and training – holding seminars and hosting an officers' network so that professionals in Scotland with an interest in private sector empty homes can link up with each other
- ❑ One to one advice – working directly with councils and other organisations to help them develop locally relevant tools and approaches
- ❑ Recommending change – identifying some of the barriers that are stopping more empty homes work happening in Scotland and suggesting changes, in policy, legislation and funding.

Over half of Scottish Councils have a dedicated Empty Homes Officer (EHO). The EHO is responsible for management of council tax data, data collection, providing advice to owners and proactive engagement with owners.

The impact of this level of engagement with the issue of vacant homes in Scotland has seen an increase in the number of vacant homes brought back into use rise from under 100 per annum between 2010 and 2013 to 742 in 2017-18, according to the SEHP Annual Report for 2017-2018,

Denmark

Statistics Denmark, the national statistical authority for Denmark, compiles detailed data on vacant properties. Data is collected on the type of property, the size of property, the length of vacancy and the location of the property. Data collection is devolved to local authorities and the status of dwellings is updated by individual citizens. It is a criminal offence in Denmark not to inform the municipal authorities of a vacancy of longer than 6 weeks.

The Danish data is built on two main data sources:

- ❑ Danish Civil Registration System (CPR) (population register)
 - Civil registration number;
 - Name;
 - Geo-located address;
 - Birth registration;
 - Citizenship;
 - Church membership;
 - Parentage;
 - Marital status.

❑ Central Register of Buildings and Dwellings (BBR) (property register)

- Each individual building and building unit's identification;
- Location;
- Purpose;
- Year of construction;
- Technical conditions;
- Layout and electric installations;
- Tenancy;
- Permits;
- Licences;
- Planning history.

The Danish dataset for vacant properties thus relies on the cross verification of 2 datasets with one dataset recording where an individual lives and the second dataset recording who lives in a given property. Statistics Denmark does not publish personal data. Published data is limited to statistical data. Statistics Denmark operates an internal dataset on vacancy which is updated in real time while the publicly available data is updated on an annual basis. A similar system to that in operation in Denmark is in place in all the Nordic countries.

Philadelphia, USA

Philadelphia operates a vacant properties indicator model to attempt to estimate the number of vacant dwellings in the area. The model is run by the City of Philadelphia Department of Planning and Development in cooperation with OpenDataPhilly. OpenDataPhilly is based on the idea that providing free and easy access to data information encourages better and more transparent government and a more engaged and knowledgeable citizenry.

Inputs to the model include:

- ❑ Office of Property Assessment (property taxes etc., tied to Revenue)
- ❑ Department of Licenses and Inspections (violations, permits, code enforcement etc.)
- ❑ Philadelphia Water Department (run by the municipality)
- ❑ Philadelphia Gas Works (owned by the municipality)
- ❑ Electricity (private entity)
- ❑ Aerial imagery
- ❑ Crowd sourcing

The model utilises these inputs to assign a score to properties and areas to determine the likelihood of vacancy. Properties are included in the output dataset as vacant if they are assigned a score of 3 or above out of a maximum of 6.

While the model provides indicators as to likely vacant dwellings, verification is undertaken by ground-truthing via the Department of Licenses and Inspections field inspectors, Philadelphia Redevelopment Authority (PRA) staff, Philadelphia Land Bank (PLB) staff and Planning Commission staff as part of district planning process.

5.4 Summary of Findings

- ❑ In many countries housing shortages have emerged, particularly in key cities but most countries do not appear to have implemented a vacant property tax. However, a number of countries have recently introduced such a tax but it is not feasible as yet to derive any overall conclusions on their effectiveness. This experience, however, should be kept under review by policymakers.
- ❑ We also examined other responses to vacancy levels including the means of identifying vacant properties and establishing vacant property registers which are utilised in other jurisdictions. For example, in Scotland, the vacant property register is linked to the collection of council tax. In Denmark, vacant properties are tracked via a legal obligation on property owners to inform the local authority of vacancy within a set period. Measures to enhance information on the extent of vacancies merit further consideration in the Irish context.

6 Issues in the Implementation of a Vacancy Tax

6.1 Introduction

This chapter examines a number of issues for consideration concerning implementation in the future of any vacant property tax in an Irish context. These issues include the appropriate definition of vacancy, the appropriate means of establishing a register of vacancies, consideration of potential unintended consequences, anti-avoidance rules and potential alternative policy options to incentivise owners of vacant properties to bring these properties back into the housing supply. We note from our consultations with the Revenue Commissioners for this review that the Revenue Commissioners do not currently collect data which links individual taxpayer's rental income to specific properties or whether properties are vacant.

6.2 Definition of Vacancy for Purposes of Taxation

Definition of Vacancy

A key first step in establishing a tax on vacant property is defining what constitutes a vacant residential dwelling for any proposed tax. Key variables could include the length of time which a property needs to have been vacant before it becomes eligible for the tax and what exemptions, if any, would apply to the tax.

Indecon would suggest that, should a vacant property tax be introduced at some stage of the future, properties subject to the tax could be deemed as eligible for the tax if, with certain exemptions, any property was vacant for a period of 12 months or more. There may also be merit in defining a property as vacant if it is not recorded as the owner's principal private residence or if there is no record of income from rent for that property for the previous 12-month period. In order to avoid property owners renting the property for a short period in a given year to avoid the tax, a minimum rental income threshold could be set below which the property is classified as effectively vacant and subject to the tax. This definition would however mean that holiday homes would be included but if the tax was confined to RPZs this would be less of an issue. Issues would however arise if properties were used by children in third level education but there may be ways to exclude such properties if this was a policy objective.

Register of Vacancies and Tax Administration

The currently available data on vacancy rates in Ireland is not an appropriate means of establishing a register of vacant properties. Should a tax on vacant properties be imposed in an Irish context, Indecon would recommend that the tax be implemented via the existing administrative infrastructure of the LPT. The LPT is potentially suited as a means of implementing a vacant property tax given that it is a property-based tax and already obtains information on identifying properties which may be exempt from the LPT. The vacant property tax could be implemented via the LPT by imposing an additional LPT surcharge on properties which are defined as vacant for the purposes of the tax. However, the current LPT Register would not enable a tax to be levied but could be adjusted to facilitate this change in use. This however would take time and so a vacant property tax could not in our opinion be effectively introduced immediately.

In the context of a vacant property tax, property owners would be required to submit a declaration as to the status of their property when making their next annual LPT payment. These returns from property owners as to the status of their property in terms of principal private residence, leased as residential property, vacant etc. would provide a register of vacant properties which could then be updated annually. This register would also allow the Revenue Commissioners to identify the reasons for vacancy and establish whether properties fit the definition of vacancy for the purposes of any vacant residential property tax. There may be some unintended consequences of using LPT system for such a tax such as increasing the administrative burden of the LPT, but on balance it would be the most appropriate vehicle to levy a vacant tax if one was introduced at some stage. It should be noted that the required information to levy a vacant tax is not currently available on LPT returns and so this would take time to implement.

There would be initial administrative costs incurred if a vacant property tax was introduced. The costs relate to the establishment of the vacant property register and other administrative expenditures. Once the register was established, the costs of operating the tax are likely to be relatively low and could probably be implemented within the existing framework of the LPT. Indecon however accepts that there are complexities involved in using the LTP for this purpose.

The register of LPT properties is fixed, apart from the addition of new properties coming on stream. For the most part, LPT treatment for a number of years is determined by the position on a periodic valuation date – value, exemption, habitability – regardless of what happens in the period up to the following valuation date.

Certain vacant properties may not be within the charge to LPT if they are sufficiently derelict as to be uninhabitable. In contrast, a register of vacant properties would be in a constant state of flux as certain properties became occupied and others were vacated. Compliance activities for ‘static’ properties is much more manageable than for properties whose taxable status can change at any time.

The verification of the vacancy or occupation of a property is likely to involve an ongoing compliance burden for Revenue and would probably have to be done in ‘real time’ to be effective. It would involve regular physical inspections as there may not be relevant documentation or other evidence available to verify occupation of a property.

The potential for Revenue to establish a register of vacant properties is predicated on the regular annual receipt of LPT returns to which a declaration about the vacancy of a particular property could be attached. However, LPT returns are only required on a valuation date, which was originally intended to be once every three years but is still operating on a 1 May 2013 basis. Interim returns are required only where a liable person wants to change payment method or to claim an exemption or deferral. This arrangement keeps compliance and administration costs to a minimum. Most liable persons have not had to submit an LPT return since May 2013.

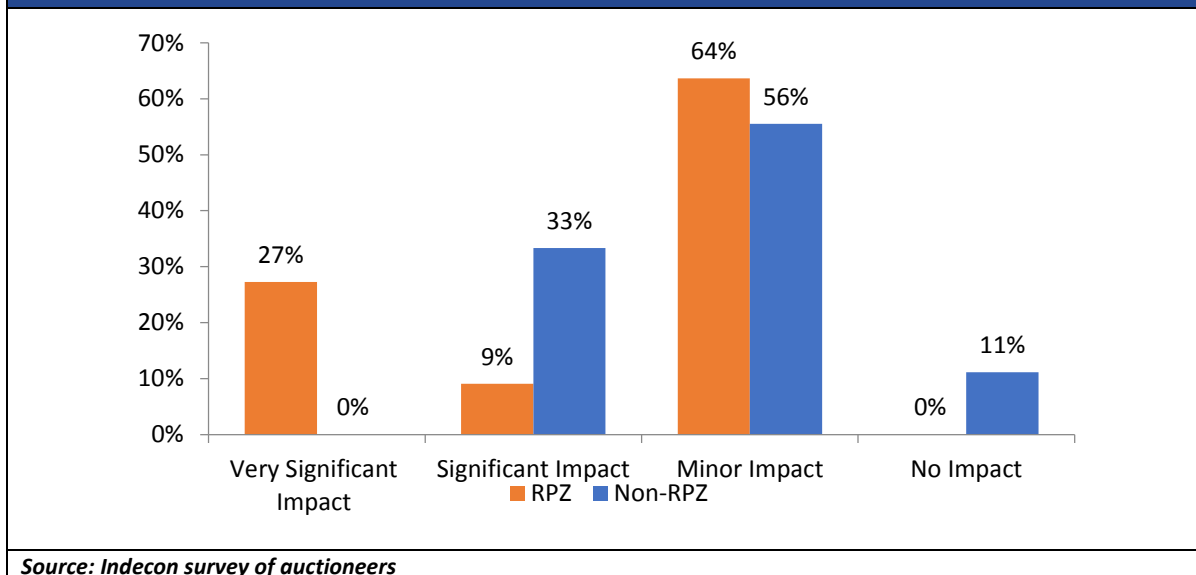
6.3 Potential Impact of Vacant Property Tax in Ireland

The international evidence on the impact of vacant property taxation on vacancy rates is limited. As outlined in the preceding chapters, several of the vacant property tax regimes in other jurisdictions have only been implemented relatively recently and the impact of these regimes remain to be seen. The evidence from the French experience in which the rate of taxation on vacant property was increased from a maximum of 20% of notional rental value of the property to a maximum of 60% is suggestive of the initial rate not having the desired impact on vacancy rates. A common criticism of vacant property tax regimes in other jurisdictions is that the tax is not sufficient to incentivise owners of vacant properties to sell or lease their property.

The impact of any vacant property tax in an Irish context would be contingent on the nature of the tax imposed. The precise definition of vacant property, the conditions under which exemptions will be granted, the basis for the tax and the rate of taxation are all policy decisions that would influence the impact of the tax on vacancy rates. The evidence in this report however suggests that the impact may be much more limited than suggested by overall vacancy numbers and only an extremely high vacancy tax would have any impact.

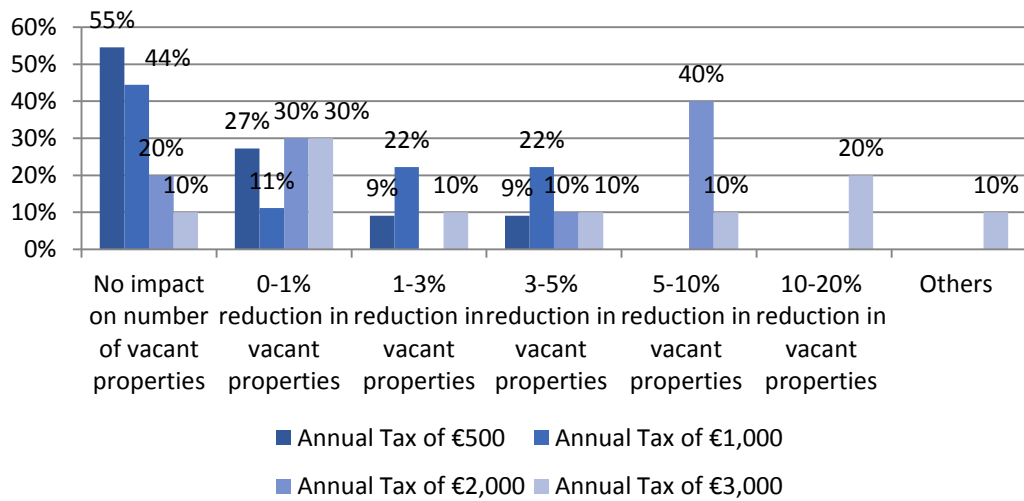
Qualitative evidence from the Indecon survey of auctioneers confirms Indecon's view that a vacant property tax is unlikely to have a significant impact on vacancy rates. The Indecon survey of auctioneers asked respondents for their views on the impact of a vacant property tax regime on vacancy rates in their areas. The views of the auctioneers are illustrated in the below figure. The majority of respondents in both rent pressure zones and outside these zones indicated that a tax on vacant properties would have only a minor impact on bringing vacant properties into use. 27% of respondents in RPZs believed that such a tax would have a very significant impact on bringing vacant properties into use.

Figure 6.1: Views of Auctioneers on the impact of residential property tax in bringing vacant properties into use where there is greater need



The Indecon survey of auctioneers also asked respondents for their opinion on the impact of different levels of vacant property tax. The following figure outlines the response of auctioneers within the RPZs. The survey indicates that auctioneers believe that a very large annual tax of between €2,000 and €3,000 will be required to have any significant impact on lowering vacancy rates with average house price in Dublin in 2017 of €423,000, a €3,000 annual charge would equate to a tax of 0.7% of the value of the property.

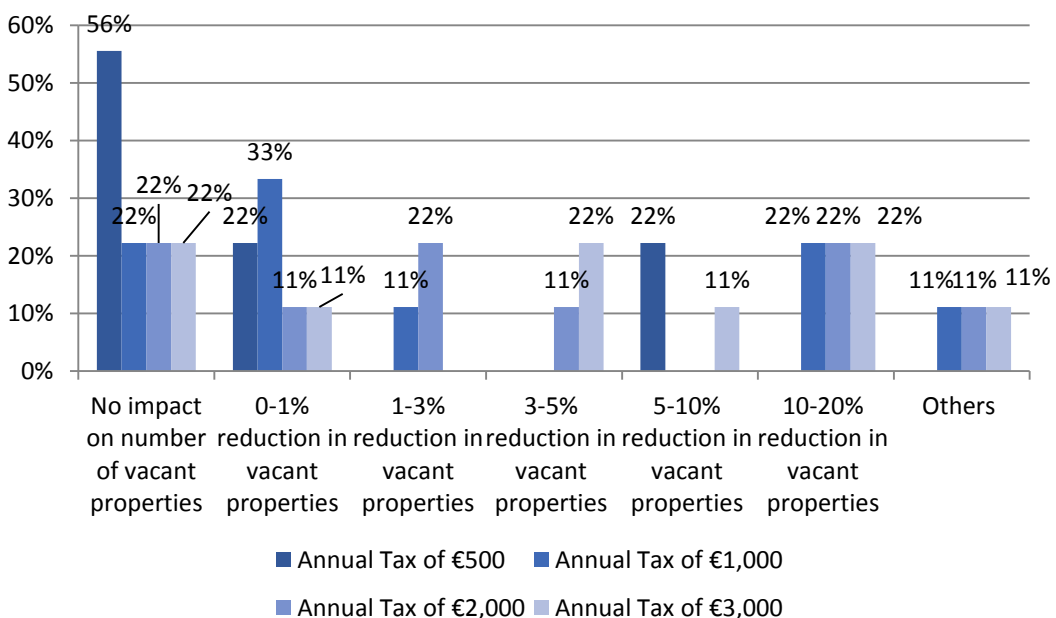
Figure 6.2: Views of Auctioneers on the impact of different levels of residential property tax in bringing vacant properties into use in RPZs



Source: Indecon survey of auctioneers

Figure 6.3 illustrates the finding from the survey of auctioneers for the same question for those auctioneers outside the RPZs. The findings are broadly similar and indicate that a very high tax would be required in order to have any significant impact on vacancy rates.

Figure 6.3: Views of Auctioneers on the impact of different levels of residential property tax in bringing vacant properties into use outside RPZs



Source: Indecon survey of auctioneers

6.4 Viability of Revenues and Potential to Cover Administration Costs

Given the uncertainty around the levels of any vacant property tax and the number of properties impacted, it is difficult to assess the degree to which any vacant property tax would cover its administrative costs. However, should the decision be made to impose a significant vacant property tax, and assuming that such tax would be implemented via the existing LPT administrative infrastructure, we believe that the administrative costs will be relatively low. We note that additional resources will however be required to develop the register of vacant properties due to the requirement to link the LPT data and tenancy data from the RTB.

6.5 Anti-avoidance rules

Should a vacant property tax be implemented in line with Indecon's recommended approach with regards to the definition of vacancy as outlined above, a key avoidance rule would involve ensuring that property owners cannot register more than one property as their principle private residence.

It is also important to ensure that property owners do not avoid the vacant property tax by only renting their otherwise vacant property for a very short period in order to record some rental income for the period and avoid classification as vacant. To avoid this situation, a minimum threshold for rental income over a 12-month period could be imposed.

It would also be important to ensure that robust procedures are in place to ensure that those applying for exemptions from the vacant property tax for reasons such as the owner being in hospital or a nursing home provide sufficient evidence as to their status.

6.6 Summary of Findings

- ❑ A key first step in establishing a tax on vacant property is defining what constitutes a vacant residential dwelling for the purpose of the proposed tax. Key variables include the length of time for which a property needs to have been vacant before it becomes eligible for the tax and what exemptions, if any, would apply to the tax.
- ❑ Indecon would recommend, should a vacant property tax be introduced at some stage of the future, properties subject to the tax should be vacant for a minimum of 12 months. There may also be merit in defining a property as vacant if it is not recorded as the owner's principal private residence or if there is no record of income from rent for that property for the previous 12-month period. In order to avoid property owners renting the property for a short period in a given year to avoid the tax, a minimum rental income threshold could be set below which the property is classified as effectively vacant and subject to the tax. This definition would however mean that holiday homes are included but if the tax was confined to RPZs this would be less an issue. Issues would however arise if properties were used by children or other family members in third level education. However, there may be ways to overcome this if this was a policy decision.
- ❑ The currently available data on vacancy rates in Ireland is not an appropriate means of establishing a register of vacant properties. Should a tax on vacant properties be imposed in an Irish context, Indecon would recommend that such a tax be implemented via the existing administrative infrastructure of the LPT. The LPT is potentially suited as a means of implementing a vacant property tax given that it is a property-based tax and already obtains information on identifying properties which may be exempt from the LPT. The vacant

property tax could be implemented via the LPT by imposing an additional LPT surcharge on properties which are defined as vacant for the purposes of the tax. However, the current LPT Register would not enable a tax to be levied, but it could be adjusted to facilitate this change in use. This however would take time and so a vacant property tax could not in our opinion be effectively introduced immediately.

- ❑ In the context of a vacant property tax, property owners would be required to submit a declaration as to the status of their property when making their next LPT payment. The potential for Revenue to establish a register of vacant properties is predicated on the regular annual receipt of LPT returns to which a declaration about the vacancy of a particular property could be attached. However, LPT returns are only required on a valuation date, which was originally intended to be once every three years but is still operating on a 1 May 2013 basis. Interim returns are required only where a liable person wants to change payment method or to claim an exemption or deferral. This arrangement keeps compliance and administration costs to a minimum. Most liable persons have not had to submit an LPT return since May 2013.
- ❑ These returns from property owners as to the status of their property in terms of principal private residence, leased as residential property, vacant etc. would provide a register of vacant properties which could then be updated annually. This register would also allow the Revenue Commissioners to identify the reasons for vacancy and establish whether properties fit the definition of vacancy for the purposes of the vacant residential property tax. There may be some unintended consequences of using LPT system for such a tax but on balance it would be the most appropriate vehicle to levy a vacant tax if one was introduced at some stage. It should be noted that the required information to levy a vacant tax is not currently available on LPT returns and so this would take time to implement.
- ❑ There would be initial administrative costs incurred if a vacant property tax was introduced. This relates to the establishment of the vacant property register required. Once the register has been established, the costs of operating the tax are likely to be low and could probably be implemented within the existing framework of the LPT to administer such a tax.
- ❑ The impact of any vacant property tax in an Irish context will be contingent on the nature of the tax imposed. The precise definition of vacant property, the conditions under which exemptions will be granted, the basis for the tax and the rate of taxation are all policy decisions that will influence the impact of the tax on vacancy rates. The evidence in this report however suggests that the impact may be much more limited than suggested by overall vacancy numbers and only an extremely high vacancy tax would have an impact.

7 Conclusions and Recommendations

7.1 Introduction

This report has assessed the relevant issues surrounding the potential role for a tax on vacant residential properties in Ireland in lowering vacancy rates in areas of the country where housing demand is greatest. The available evidence clearly demonstrates the widening gap between the demand for and supply of housing in Ireland in recent years. The growth in house prices and average rents, particularly in the urban centres, are an effect of the growth in housing demand due to population growth and an improving economy combined with a relatively static housing supply. In the context of these developments in the housing market, there is merit to the consideration of all means to increase the supply of houses by bringing currently vacant properties back into the housing supply. However, a detailed assessment of the available data on vacancy rates in the areas of the country in which the demand for housing is most acute, the Rent Pressure Zones (RPZs), suggests that the headline vacancy rate in these areas is significantly lower than the national average and has fallen significantly.

7.2 Costs of Potential Vacant Property Tax

Should a vacant property tax be introduced in Ireland, there would be an administrative cost incurred in the establishment of the vacant property register required to establish the number of vacant dwellings on an annual basis, the reasons for vacancy and which properties are eligible for the tax. While Indecon believes that over time this register could be constructed via the existing Local Property Tax (LPT) administrative infrastructure, there would be a cost to linking this new register with the Residential Tenancies Board (RTB) data on rental income for properties. However, once the register was established, the costs of operating the tax are likely to be relatively low.

7.3 Impact and Efficiency of Potential Vacant Property Tax

In considering the relevance of a vacant property tax in Ireland, the key issue are what is the actual level of vacant properties which could potentially be influenced by such a tax, and what would be the impact of a tax on housing shortages. A detailed evidence-based assessment of vacancy rates in areas of the country in which the demand for housing is most acute, suggests that the headline vacancy rate in these areas is significantly lower than the national average and has fallen very significantly in recent years.

The available evidence suggests that there is limited scope for a vacant property tax to bring significant numbers of currently vacant properties back into the housing supply in the areas of the country in which demand for housing is most acute and it could represent a distraction from the key policy challenge of addressing underlying supply.

7.4 Policy Recommendations

Indecon's recommendations based on the evidence examined, are summarised in the next below.

Table 7.1: Summary of Recommendations	
1.	Indecon does not recommend the introduction of a residential vacant property tax at this time as we do not believe it would be an effective response to deal with the housing shortages. Indecon however recommends this should be kept under review.
2.	In the event that a vacant property tax is introduced at some stage in the future, careful consideration is required to design the appropriate criteria for the implementation of such a tax.
3.	Properties which become vacant owing to the long-term illness of the owner and which subsequently are rented out should be exempt from Local Property Tax
4.	Enhanced evidence should be collected to monitor movements in the level of vacancies of residential properties.
5.	A major programme of compulsory purchase orders should be urgently activated on suitable residential vacant properties.
6.	Consideration should be given to introducing a time limited differential rate of capital gains tax for long term vacant residential properties.

- Indecon does not recommend the introduction of a residential vacant property tax at this time as we do not believe it would be an effective response to deal with the housing shortages. Indecon however recommends this should be kept under review.**

The very low vacancy rates in the areas of greatest demand for housing, particularly in terms of longer-term vacancy, indicate that the potential for a vacant property tax to increase housing supply is very limited and could represent a distraction from the need to significantly accelerate the building of new social housing, affordable housing and the facilitation of private sector supply. While such a tax would be likely to generate significant media and public attention and may be seen as part of an effective response to our housing problems, Indecon does not believe that this would be supported by the evidence in this report.

This view on the merits of not introducing a vacant property tax at this time is supported by the submission received from the Housing Agency which while supportive of policy actions to bring vacant housing back into the housing supply, believe that a vacant property tax is not the appropriate means of doing so in an Irish context at this time. The Housing Agency submission, indicated that *"Introducing a vacant property tax at this stage, and prior to having a sound understanding of the duration of vacancy, locations and reasons why homes are currently vacant, would be premature and difficult to implement"*. The evidence in this report suggests that the vacancy rate is likely to continue to fall due to market developments. While Indecon does not recommend the introduction of a vacant property tax at this time, we believe the issue of a possible vacant property tax should be kept under review should vacancy rates rise. We also believe that bringing any vacant property back to use could be of help in easing housing problems but that other more effective measures should be introduced to further reduce vacancy rates.

2. In the event that a vacant property tax is introduced at some stage in the future, careful consideration is required to design the appropriate criteria for the implementation of such a tax.

Should the decision be made to introduce a vacant property tax, Indecon recommends careful consideration to the following elements in designing an effective tax:

- The tax should be levied on properties in rent pressure zones which have been vacant for a period of 12 months or more. Additional work would be required to establish an effective definition and to ensure compliance.
- The tax should be imposed in the form of a surcharge on the existing LPT. The level of the tax would need to be very high in order to have any impact on the incentives of the owners of vacant properties.
- Exemptions should be granted for those properties which have a legitimate reason for vacancy. These exemptions should be aligned with existing exemptions for the LPT and should also include exemptions for dwellings currently on the market for sale/rent or undergoing renovations as well as for residents in nursing homes or hospitals etc.
- Data should be maintained on the number of vacant properties returned to the housing market which had been subject to the vacant property tax to facilitate an ex-post evaluation of any tax introduced.
- One option might be to deem any properties as vacant which have been in ownership for more than 12 months and which have not been classified in Local Property Tax returns as the principal private residence and which have not been listed with the Residential Tenancy Board. It may also be appropriate to provide an exemption for cases where the property is utilised by children in full time education.

3. Properties vacated by owners due to illness who rent vacant properties should be exempt from the Local Property Tax.

Properties vacated by their owners due to illness can be exempt from the local property tax (LPT). This exemption applies to a property which was occupied by a person as his or her sole or main residence and has been vacated by the person for 12 months or more due to long term mental or physical infirmity. An exemption may be available in situations where the property has been empty for less than 12 months, if a doctor (registered practitioner) is satisfied that the person is unlikely to return to the property. In both cases the legislation indicates that the exemption only applies where the property is not occupied by another person. This is a misaligned incentive with potential unintended consequences. We therefore recommend that such owners who rent vacant properties should be exempt from the Local Property Tax. This would also enhance security of the premises and assist the maintenance of homes for vulnerable individuals.

One option might be to deem any properties as vacant which have been in ownership for more than 12 months and which have not been classified in Local Property Tax returns as the principal private residence and which have not been classified as residential properties with the Residential Tenancy Board. It may also be appropriate to provide an exemption for cases where the property is utilised by children in full time education.

4. Enhanced evidence should be collected to monitor movements in the level of vacancies of residential properties.

A register of vacant properties should be constructed using annual LPT returns and data from the RTB to establish vacant dwellings which are not serving as a principle private residence or are not rented. Data from an amended LPT return or from the RTB could be used to establish whether any rental income is associated with a given property should that property not be the owner's principle private residence. Indecon accepts that given the absence of a common property identifier in Ireland, linking datasets such as the LTP and the RTB is not straightforward and may not be feasible in the short-term. Amendments to LPT returns would however provide evidence on levels of vacancy.

5. A major programme of compulsory purchase orders should be urgently activated on suitable residential vacant properties.

The Buy and Renew scheme (funded by the Department of Housing, Planning and Local Government) aims to allow local authorities to purchase existing vacant properties and bring them back to the market as social housing. This scheme is limited by the requirement that the property being purchased by the local authority is suitable for use as social housing. Indecon recommends that a major programme of compulsory purchase orders should be activated by local authorities to purchase vacant properties via their existing compulsory purchase powers even when these dwellings are not fit for social housing. The local authority should then resell these properties on the open market. In order to incentivise local authorities to acquire vacant properties and re-sell them, consideration could be given to central government covering the conveyancing and other costs incurred by local authorities in the process of acquiring and re-selling the properties.

The signalling impact of this would serve to act as a disincentive to any property owner holding vacant properties. While the numbers may be limited we believe this could be an effective policy instrument. The submission from the Housing Agency emphasised their support for engagement with owners of vacant properties as a means of bringing these properties back into use and indicated that: *"the most important and effective way of bringing vacant homes back into use is the identification of vacant homes and engagement with owners"*. In Indecon's opinion the power to compulsory purchase properties with owners who do not engage, should be actively used.

6. Consideration should be given to introducing a time limited differential rate of capital gains tax for long term vacant residential properties.

A time-limited capital gains tax differentiation could be considered for those owners of vacant properties who sell their properties within a set time period. Owners of residential properties where they are their principal private residence, are exempt from any capital gains tax. However, currently, owners of other vacant property are subject to a capital gains tax of 33%, while lower rates or zero have applied in the past. (For example, there was an exemption from capital gains tax given on the disposal of a property between 7 December 2011 and 31 December 2014). The higher rate which applies to owners of residential vacant properties if they sell the property, could act as a significant disincentive for these properties to be brought back into the housing market. If a 15% rate of capital gains tax to apply to sales of vacant housing units Indecon believes this would incentivise some additional supply but only if this was for a restricted period.

If owners of vacant properties believe that this relief would last for multiple years this would not be effective. This relief should be restricted to only those residential dwellings which have been vacant for over 3 years. This would help ensure that other property owners are not incentivised to leave their property vacant with a view to obtaining the relief once they pass the threshold. A potentially more restrictive variation on this policy may be to only apply the relief to those property owners who sell their properties directly to local authorities as social housing.

Annex 1 Copy of Questionnaire for Indecon Survey of Auctioneers

CONFIDENTIAL SURVEY OF AUCTIONEERS/ESTATE AGENTS CONCERNING GOVERNMENT REVIEW OF TAX ON VACANT RESIDENTIAL PROPERTY

Background Details

Please indicate the city or county of location of your business: _____

Is your business in a rent pressure zone? Yes ☐ No ☐ Don't Know ☐

Extent of Vacant Residential Property

1. Please indicate your judgement on the percentage of the housing stock in your area accounted for by vacant residential properties which are not currently for sale/rent and which are currently habitable?

	<0.5%	0.5% - <1%	1% - <2%	2% - <4%	4% - <6%	6% - <8%	8% - <10%	Other
Percentage of vacant residential properties in your area	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2. What is your judgement on the change in the number of vacant residential properties in your area since 2016?

Significant Decline	Minor Decline	No Change	Minor Increase	Significant Increase
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3. What is your assessment of how the amount of vacant properties in your area is likely to change over the next 2/3 years, taking account of market factors and in the absence of any vacant property taxation?

	Significant Decline	Minor Decline	No Change	Minor Increase	Significant Increase
Vacancy Levels	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

4. What is your judgement on the approximate percentage of the housing stock of residential properties in your area which are habitable vacant properties not currently for sale or rent? Please feel free to give a range if you are not in a position to provide a precise estimate. _____ % of Housing Units

Reasons for Residential Vacancies

5. Please indicate how significant the following factors are in accounting for residential property vacancies in your area:

	Very Significant	Significant	Minor Significance	Not Significant
Property for Sale	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Property for Rent	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Property being refurbished for Sale or Rent	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Owner Deceased/In Hospital	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Owner in Nursing Home	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Holiday Home/Occupier Use	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Not Habitable	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Owner Waiting until Market Improves	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Owner Abroad for Work or Extended Holiday	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other, please specify _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Impact of Tax on Vacant Residential Property

6. Please indicate your view on the impact, if any, of the following levels of annual tax on a typical vacant residential property in your area on the overall vacancy rate in your area:

	no impact on number of vacant properties	0-1% reduction in vacant properties	1-3% reduction in vacant properties	3-5% reduction in vacant properties	5-10% reduction in vacant properties	10-20% reduction in vacant properties	Other, please specify
Annual tax of €500	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Annual tax of €1,000	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Annual tax of €2,000	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Annual tax of €3,000	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

7. What impact would a residential property tax have, if any, in bringing vacant properties into use in areas where there is greater need?

Very Significant Impact	Significant Impact	Minor Impact	No Impact
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Views on Alternative Options to Encourage the Bringing Back into Use of Vacant Properties

8. Please indicate any views you may have on other policy tools including tax incentives or regulation which may be better suited to addressing vacant properties.

Other Comments

9. Please indicate below any other comments you may have on the relevance, costs, impact and efficiency of any proposed tax on vacant properties:

Thank you. We are very grateful to you for your valuable assistance with this Confidential Survey. All information will be treated as strictly confidential and will be aggregated and used for statistical reasons only with the results from the other companies. If you have any queries re this assignment please do not hesitate to contact Brian O'Connell at Indecon 01-6777144 or email b.connell@indecon.ie.