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Landlords fight back in Irish rent review battle

New research suggests there is no need to abolish upward-only rent reviews - Mike Phillips reports

Across Europe, no property battle is being more fiercely fought than that over rent reviews in Ireland. The lines are clearly drawn. In one corner are the new coalition government and groups representing tenants – retailers in particular – who regard retrospective rent reviews as a way to reduce business costs and unemployment.

The upward-only rent review system has been branded a feudal remnant of British occupation by this lobby. In the other corner are landlords and Nama (the National Asset Management Agency), which think that the abolition of upward-only rent reviews will destroy values and further cripple the Irish banking system.

This lobby, represented by a group of interested parties that includes WK Nowlan Asset Managers, Bannon Commercial, WMK Solicitors, Treasury Holdings and Tom Dunne at Dublin Institute of Technology in conjunction with CB Richard Ellis, recently carried out research that argued that the abolition of the rent review system was unnecessary.

The research took a typical Irish county town, and dissected the retail rental discussions between landlords and tenants that have taken place over the past two years. The town studied was Wexford.

In the first instance, the study determined what proportion of the shops on the high street were owner-occupied or vacant (graph 1). For the remainder of the premises, it sought to establish whether the occupiers had sought rent reductions from their landlords in the last two years and for those that had, it analysed the outcome.

Of the 136 retail properties in the study, 45% were owner-occupied. “The most striking results of the Wexford case study is that only 2% of all the units surveyed had sought rent reductions and been refused,” notes Marie Hunt, head of research at CB Richard Ellis in Dublin.

This figure rises to 19% if owner-occupied properties are stripped out of the analysis. “In this example, 26% of the shops on the high street were let in the last two-year period. One has to assume that these units have been let at open market rents,” says Hunt.

“This suggests that, contrary to general opinion, the market is functioning and new retailers are continuing to enter the market, taking advantage of more competitive rents and lease terms.”

“The proposed legislation has no relevance for tenants who signed their leases in the last two years, who are already paying open market rents and whose rent reviews in future will be upwards or downwards, in accordance with market rents.”

The debate will no doubt rage on, as Ireland continues to monitor the health of its financial and retail sectors. This research comes from one side of the debate, but empirical evidence can only help the situation, argues Hunt.

“It suggests that the public policy argument for altering the lease code for all occupiers might be frailer than the minister believes. In keeping with the government’s objective for more evidence-based public policy, more detailed analysis of this nature needs to be commissioned to determine the facts before implementing a broad-brush policy that will have far-reaching consequences for the state and taxpayers.”