Bord Um Thionóntachtaí Cónaithe
Residential Tenancies Board

# Rent Zone Report

**Proposed Rent Pressure Zone:** Ballincollig - Carrigaline, Co. Cork

**Date:** 26 /01/ 2017

Having considered a request from the Minister dated 25/01/2017 in respect of the designation of **Ballincollig - Carrigaline, Co. Cork** as a rent pressure zone, I confirm that Ballincollig - Carrigaline, Co. Cork **does meet the criteria** set out in Section 24A(4) of the Residential Tenancies Act 2004 (as inserted by section 36 of the Planning and Development (Housing) and Residential Tenancies Act 2016) for such designation.

## Criteria:

Section 24A(4) of the Residential Tenancies Act 2004 (as inserted by section 36 of the Planning and Development (Housing) and Residential Tenancies Act 2016) states

> *(a) the information relating to the area concerned, as determined by reference to the information used to compile each Rent Index quarterly report, shows that the annual rate of increase in the average amount of rent for that area is more than 7 per cent in each of at least 4 of the 6 quarters (each being a period of 3 months that is contemporaneous with the period to which the Rent Index quarterly report concerned relates) preceding the period immediately prior to the date of the proposal by the Housing Agency to the Minister under subsection (1),* ***and***
>
> *(b) the average rent for the area in the last quarter, as determined by reference to the manner referred to in paragraph (a), is above the average national rent (commonly referred to as the Rent Index national standardised rent) in the last quarter.*

## Methodology

In order to make an assessment of whether or not an area meets the criteria, the RTB needed to do two things with the rents information used to compile each Rent Index Report.

1- Our rents data needed to be mapped to Local Electoral Area (LEA) area, in order that each tenancy registered with the RTB could be identified at an LEA level. This exercise was undertaken by an Eircode Accredited Encoder, through an encoding

process, which mapped our addresses to Eircodes, which were then mapped to LEAs utilising built in linkages within the Eircode database. We achieved a matching rate of 95.74%, which is a very high matching rate.

2- A methodology then needed to be applied to provide for a standardised rent index for Irish Local Electoral Areas(LEAs). The Economic and Social Research were asked to do this on behalf of the RTB. The primary focus was to create a mix-adjusted measure of rents; that is, a measure of rents that takes account of the changing mix of properties rented in different time periods.

The data is also examined prior to any mix-adjustment to identify outliers and/or data entry errors. This is not a check of all the variables, but is focused on those that will form a part of the mix-adjustment process. A hedonic regression method is then used to provide indices[i].

The existing hedonic regression model used for the rent index had to be amended to take account of the new LEA information. The existing model used rolling data going back over 6 quarters and the new model is a pooled approach using all data since 2007 in one estimation. This is to ensure there are enough observations from which to generate satisfactory results. The specification does entail the assumption that preferences for different property types do not vary over time. However, the results were compared to the existing rent index at a national level and it is believed that they are broadly consistent. A more detailed description of the methodology can be found in Appendix a.

It should be noted that as we move forward to analyse future quarters' rents data there may be revisions to earlier quarters due to retrospective or late registrations, as all of our rent data is based on tenancy registrations.

3- The standardised rent is based on the average rent in the base period, which is then updated using the mix-adjusted index. This is as per the published quarter 3 rent index.

**Results of the Assessment**

1- Criteria A - Annualised growth rate per quarter

| | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| Quarters | 2015 Quarter 2 | 2015 Quarter 3 | 2015 Quarter 4 | 2016 Quarter 1 | 2016 Quarter 2 | 2016 Quarter 3 |
| **Annualised percentage increase** | **4.8 %** | **11.2%** | **11.1%** | **17.4%** | **13.5%** | **5.5%** |
| **Greater or less than 7%** | **<7%** | **>7%** | **>7%** | **>7%** | **>7%** | **<7%** |

Based on our analysis of the average rental data in Ballincollig - Carrigaline Local Electoral area, annualised rent inflation has been more than 7% in 4 out of the last 6 quarters. The Ballincollig - Carrigaline LEA therefore does meet criteria; that the average amount of rent for that area must be more than 7 per cent in each of at least 4 of the 6 quarters.

2. Criteria B – Average rent in the area in the last quarter is above the national average rent (Rent Index national Standardised rent)

The National standardised rent from the RTB's last published quarterly review, which was in respect of quarter 3 2016, was €973.

The average (standardised) rent for Ballincollig - Carrigaline in quarter 3 2016 was €1129, this is 16% over the standardised national average rent of €973. The Ballincollig - Carrigaline LEA therefore meets Criteria B.

3. Assessment Result

Based on our analysis of the rents information used to compile the rent Index quarterly report Ballincollig - Carrigaline LEA does meet the criteria, as annualised rent inflation has been over 7% in four out of the last 6 quarters.

**Signed:** Rosalind Carroll

**Rosalind Carroll,**
**Director**
**Residential Tenancies Board.**

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Hedonic regression, in economics, is a method of estimating demand or prices. It decomposes the item being researched into its constituent characteristics, and obtains estimates of the value of each characteristic. In other words, it is based on the hypothesis that products can be treated as bundles of characteristics and that prices can be attached to each characteristic. For example a house may be valued according to such components as the number of bedrooms, floor area, the age of the house and its location. It is usually estimated using ordinary least squares (OLS) regression analysis. For the RTB Hedonic Index the variables are dwelling size, type, location, and other characteristics.

## Appendix a

# Estimation of a Standardised Rent Index for Irish Local Electoral Areas (LEAs)

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Economic and Social Research Institute,

January 26, 2017

In this note we briefly outline empirical work aimed at estimating a standardised rent index for each Irish local electoral area (LEA) for the period since 2007Q3. This follows on from a specific request from the Rental Tenancy Board (RTB).

- The currently published rental index is based on a statistical model that included some broad regional indicators but did not have detailed information on the location of the properties.
- In late December we received new data from the RTB which allowed for the local electoral area for most rental properties to be identified.
- A new model was developed that estimated an individual time trend for each local electoral area. In other words, a separate variable for each LEA for each quarter since 2007Q3 was added to the model (137 LEAs times 40 quarters to give 5,480 additional variables).
- The model also includes controls for the size and type of house/apartment, length of tenancy, number of tenants, frequency of rent payment and presence of a third-level institution.
- Given the large increase in the number of variables, the model used a "pooled" approach where all the data since 2007 is included in a single estimation. This increases the number of observations we can use, which is particularly appropriate given the new data.
- The specification does entail the assumption that preferences for different property types do not vary over time, however, in future work this assumption can be tested.
- A comparison between these results and the existing rental index was carried out to validate the approach. The national index generated by the new method matches closely the existing index we currently provide the RTB with. Therefore, we believe the indices estimated for the LEAs are broadly consistent with the existing national indices.
- The methodology generates an index of rent growth. To estimate current standardised rent levels in each LEA (i.e. rent levels that take into account the different composition of rental properties), we apply the growth rate generated by the model to an initial average value of rents in each LEA. These are compared to a national average rent generated on the same basis.