

# Analysis of Dublin City Council Strategy on Commercial Rates Vacancy Refund

- **Objective:** examination of, and identification of options on, the Dublin City Council vacant commercial premises rates refund strategy.
- **Methodology:** review of the relevant literature; analysis of existing reports and data on the national and local economies and the commercial property sector; analysis of specially compiled data (by Dublin City Council staff); discussions with city stakeholders in the council, economy and property sector. The project also involved personal field inspections of the city and a survey of rate collectors.

# Specific objectives

- **Specific objectives:**
- Undertake an empirical analysis/review of the city vacant commercial property.
- Examine the views of relevant stakeholders
- Assess the short and medium term economic and commercial property market position and prospects at national, regional and Dublin Council levels
- Assess the arguments for and against vacancy rates refunds, notably the resource tax incentive argument
- Assess the viability and cost of the collection of rates on vacant properties and financing implications of the refund measure.
- Assess the efficacy of targeted vacancy refund rates across different electoral areas.
- Outline options on the level of refund and possible differentiation between areas within Dublin City Council

# Facts and figures of vacant properties

- **Total commercial properties based on rates data**
- Of the 20633 commercial rateable units in Dublin City, 16.9% are industrial, 38.3% are offices and 34.8% are retail shops.
- The highest concentration of commercial premises is in the Pembroke-South Dock local electoral area which has 36.0% of the city's total. The next highest concentration is in North Inner City with 23.5%.
- Pembroke-South Dock has 52.2% of the city's offices and only 10.0% of the industrial units.
- Three local electoral areas each have less than 1000 commercial units, Beaumont-Donaghmede, Clontarf and Ballymun.

# Facts and figures of vacant properties

- 1904 vacant premises in 2016 in Dublin City. This was 9.23% of the total population of 20633
- Of the five administrative areas, **South East** had, by far, the largest number of vacant units, 813 or 42.7% of the total. **Central** accounted for 477 vacant units or 25.1%. **South Central** had 251 vacant premises or 13.2%. **North West** had 213 vacant premises or 11.2% and **North Central** had the lowest number of vacant premises at 150 or 7.9%.
- The largest vacancy rate, defined as vacant premises as a per cent of total commercial premises, was in North West at 10.65%. The Central rate was 9.85%. The South East rate was 9.19% followed by South Central 8.13% and North Central 8.10%. The overall city vacancy rate was 9.23%.
- The geographic specific vacancy rate varies relatively little from administrative area to administrative area within the city, with a range of 8.10% to 10.65%.

# Facts and figures of vacant properties

- There is a wide range of sectoral vacancy rates. Excluding miscellaneous and fuel depots, the range of sectoral specific vacancy rates is 3.29% in leisure, to 12.94% in health. Other sectors with high vacancy rates are retail warehousing 11.24% and industrial uses 10.40%. The office vacancy rate is 9.75% and retail shops are 8.46%.
- In terms of the mix of vacant premises, the three largest shares of total vacancies are 40.5% in offices, 31.9% in retail shops and 19.1% in industrial uses. Together these three account for 91.5% of all the vacant premises.
- Overall, the size distribution of the vacant premises is much the same as the size distribution of the total commercial premises

# Facts and figures of vacant properties

- There was a revaluation of Dublin City premises effective from 1/1/14. Consequently indicators such as the vacancy rate up to 2013 are not comparable with 2014 onwards. The 2014 to 2016 comparison remains valid because the new measurement methodology applied in all three years.
- ***The vacancy rate for the overall council declined from 11.2% in 2014 to 9.2% in 2016.*** This followed an increase from 8.3% in 2011 to 10.2% in 2013. ***There was a large decline in the number of vacancies between 2014 and 2016 of 423 premises of which 278 were offices, 115 were industrial uses but shops declined by only 8 premises.***

# Facts and figures of vacant properties

- All five administrative areas had a decrease in the vacancy rate between 2014 and 2016.
- The Central rate increased from 7.7% in 2011 to 10.1% in 2013. ***The Central vacancy rate declined from 11.3% in 2014 to 9.8% in 2016.***
- The ***North Central*** vacancy rate increased from 7.9% in 2011 to 10.5% in 2013. ***Between 2014 and 2016 it decreased from 11.7% to 8.1%.***
- The ***North West*** vacancy rate increased from 10.1% in 2011 to 12.2% in 2013. ***Between 2014 and 2016 it decreased from 11.6% to 10.7%.***
- The ***South Central*** vacancy rate remained unchanged at 9.3% between 2011 and 2013. ***Between 2014 and 2016 it decreased from 10.7% to 8.1%.***
- The ***South East*** vacancy rate increased from 7.9% in 2011 to 10.1% in 2013. ***Between 2014 and 2016 it decreased from 11.4% to 9.2%.***

# Facts and figures of vacant properties

- ***There is substantial variability between administrative areas in the sectoral mix of vacant premises.*** The industrial uses share of vacancies varies from 6.5% (SE) to 36.0% (NC). The office share of vacant premises varies from 13.3% (NC) to 57.1% (SE). The retail shops share has the lowest degree of area related variability and varies from 27.1% (SE) to 43.3% (NC)
- 40.78% of the 2016 vacancies were vacant continuously between 2013 and 2016. 58.72% of premises which were vacant in 2016 were also vacant in two of the three years 2013, 2014 and 2015. Over three quarters of the 2016 vacancies were also vacant in one other year of 2013, 2014 or 2015. ***One third of the 2016 vacancies were vacant continuously from 2012 to 2016.***
- The evidence suggests a strong pattern of ongoing or recurring vacancy as opposed to substantial movement of different premises between vacancy and occupation.



# Facts and figures of vacant properties

- ***Of the nine local electoral areas there are three with relatively low vacancy rates, Clontarf 6.43%, Ballyfermot-Drimnagh 6.23% and Rathgar-Rathmines 5.68%.*** Ballymun has the highest vacancy rate at 12.69%. The other five electoral areas are between 8.70% and 9.90% (9.85%, 9.69%, 8.70%, 9.90% and 9.86%) and close to the City Council average of 9.23%.
- There are notable sectoral differences between the electoral areas in the vacancy structure. For example the shares of vacancies accounted for by offices range from 59.7% in Pembroke-South Dock to 8.7% in Beaumont-Donaghmede. All other seven electoral areas have office shares between 20.7% (Clontarf) and 36.1% (North Inner City).

# Facts and figures of vacant properties

- The retail shops shares range from 19.1% (Cabra-Finglas) to 58.1% (Ballymun). Both of these electoral areas are in the same administrative area. Three other electoral areas have shop shares above 40% but less than 50%. These are Beaumont-Donaghmede, Crumlin-Kimmage and Rathgar-Rathmines. Clontarf is close to 40% with a 39.7% shop share in vacancies. The other four electoral areas are between 25.3% and 30.4%.
- The shares of the industrial uses vacancies range from 48.3% in Cabra-Finglas to 5.2% in Pembroke-South Dock. Three electoral areas are between 30% and 40%. The North Inner City is at 28.9% for industrial uses share of vacancies. The other three are between 16.9% and 18.5%.

# **Facts and figures of vacant properties**

- Number vacant continuously for five years in LEAs
- North Inner City 152, Pembroke-South Dock 138, Ballymun 57, Crumlin-Kimmage 56.
- Vacant shops for five years.
- North Inner City 48, Ballymun 29, Crumlin –Kimmage and Pembroke-South Dock 27 each

# Financial analysis

- Substantial variation between administrative areas in the average rates levied (before refund) on vacant and total commercial premises. This reflects the different structure of the vacancy premises in each area. The lowest is €11596 in NW and the highest is €21516 in SE.
- 75.8% of vacant premises are in the rates band of up to €10k. This is almost the same share, 76.6%, as in the total population of commercial units.
- The total rates amount levied on, or associated with, the vacant properties in 2016 (before refund) is €32.9800 million for the full year or 10.16% of the city total of €324.5018 million. However, many vacant premises are not vacant for the full year and only receive part of the full credit.
- The actual cost of the credit, when adjustment is made for the length of vacancy over recent years was: 2014 €14.6 million; 2015 €13.5 million and 2016, €11.2 million. The actual cost is substantially less than the full annual rates on the vacant properties because many credits or refunds relate to less than a full year.

# Financial analysis

- Collection performance of vacancy rates likely to decline as vacancy bill increases
- Collection of vacancy rates difficult and lower than occupied rates
- Image of council??

# Economy and property market

- There is a relatively optimistic view of the current and future property market nationally and in Dublin.
- But the vacancy rates data from DKM GeoView show an unwelcome failure of the overall vacancy rate to decline significantly.
- The economy will continue to perform well but at lower growth than the past few years, despite Brexit and Sterling. This will help the overall property and vacancy situation.
- Economy solid unless Brexit or other international major problem (eg USA tax policy)

# GeoView

- The failure of the national vacancy rate to decline between Quarter 4 2013 and 2016 is surprising given the substantial economic growth over the period. The vacancy rate was 12.4% in 2013, increased to 12.8% in 2014, declined to 12.6% in 2015 and increased to 13.5% in 2016. The 13.5% rate is the highest of the four years. It would have been reasonable to expect that 2016 would be the lowest vacancy rate of the four years.

# GeoView

- The Dublin vacancy rates from this source were 2013, 13.8%; 2014 13.8%; 2015 13.4% and 2016 13.7%. The constancy of the vacancy rate is surprising given the improved economic situation in Dublin over this period. This contrasts with the Dublin City Council data which recorded a decrease in the vacancy rate between 2014 and 2016 of 11.2% to 9.2%.
- However, different methodologies, geographic coverage and definitions apply to the two data sources. The DKM data are based on addresses while the Dublin Council data are based on rates accounts.



# Overall assessment

- Vacant premises which satisfy the scheme's criteria can reasonably expect to be charged less than full rates. This is in the legislation.
- A reduction in the vacancy rate would not have a significant overall impact on the enterprise sector but individual landlords and entrepreneurs could be significantly financially affected.
- The nationally low refund rate of 50% for many decades in Dublin did not generate a relatively low vacancy rate in the past several years.
- A reduction in the vacancy refund will not have a significant impact on reducing the vacancy rate and level but would contribute a little.
- A lower vacancy refund will increase revenue but depending on the impact on the collection rate the additional revenue will be relatively small and in specific circumstances could decline.

# Overall assessment

- There is little evidence that premises which are being deliberately or strategically withheld from occupation are a significant issue. This is not the situation for site assembly situations.
- There are cases where owners of vacant premises could pay the full rates without significant negative consequences beyond the impact that the owner/leaseholder/company has less money. Some vacancy rate payers experience great difficulty in meeting the reduced rates bill.
- However, the scheme is universal and not selective. Valuation and the rates system looks at actual or hypothetical market rent as opposed to ability to pay or profits or commercial revenue or incomes. However, the legislation does, and always has, allowed for full or partial refunds in specific cases of vacancy

# Conclusions on objectives: geographic differentiation

- The nine different electoral areas have a variety of vacancy characteristics. Geographic prioritising and vacancy rate differentiation require a clear statement of objectives. Different vacancy related objectives result in different electoral area specification. A range of possible vacancy priorities and the associated designated area are shown below. Depending on the policy objective, the selected or designated area will be different.
- geographic differentiation is not recommended now but should be utilised where there is a clear geographic-based strategic rationale and objective.

# Conclusions on objectives

- Undertake an empirical analysis/review of the city vacant commercial property.
- Examine the views of relevant stakeholders (included throughout report)
- Assess the short and medium term economic and commercial property market position and prospects at national, regional and Dublin Council levels

# Conclusions on objectives: resource tax argument

- Based on the analysis and data no expectation that reductions in the rate of the refund will significantly improve the vacancy problem but there are some grounds for expecting that reductions could contribute to the solution.
- The lower is the cost of having the property vacant the less is the incentive to change to occupancy.
- In this assertion a distinction should be made between the direction of impact and the magnitude of the impact. There will be some small proportion of properties which could be pushed into occupancy by the lower refund. But, in our assessment, this will be a small proportion. Equally, there will be some property owners who maintain vacancy for strategic reasons and the cost of rates would not be sufficient to change that. We believe this is a small number and proportion.
- What is certain is that the lower is the cost of vacancy the less incentive there is to seek to have the property occupied or to dispose of the ownership.
- Vacant site levy, budget, perverse incentives

# Conclusions on objectives: revenue increase possibility

- As discussed in the report in Section 4, if collection rates worsen and as costs of collection increase, the additional revenue would be less than the nominal increase in rates charged and may be much less and in certain circumstances of much weaker collection performance could decline.
- As shown in Table 4.8, the 2016 total rates levied on the vacant premises were €32.98 million.
- At a 50% refund the cost of the refund was €11.20 million because some refunds were for less than the full year and €21.78 million was due.
- A 30% refund on an assumption of all else staying the same would cost €6.72 million instead of €11.20 million, which is a gain of €4.48 million in additional revenue.
- However, this gain assumes 100% collection of the rates due on vacant premises. This is unlikely. On an 80% collection rate the gain would be €3.58 million. If the lower refund rate causes the collection rate to worsen the gain for any lower refund rate would be less.
- For example, on a 30% refund rate compared to the 50% rate and a drop in the collection rate to 70%, the gain in revenue would be only €0.96 million before taking account of additional costs of collection.

- The overall Dublin City vacancy rate is likely to continue its recent decline which will reduce the cost of a specific refund rate and also reduce the positive revenue impact of a lower refund rate.
- Larger own resources revenue in Dublin City might negatively impact on Government financial transfers to the council.

# Options on refund rate

- Options 100% to zero
- No desire to improve 45% (reverse 5% of budget 2017 or to go beyond 50% refund)
- Realistic options 45% refund to 0% refund, strong case for some refund, 45% to 20%/30%??.



# Options on refund rate

- The main issue on the vacancy refund rate is primarily a policy one, i.e. whether Dublin City Council's rates vacancy refund policy should or should not have leniency arrangements (and the scale of these).
- The discussion of the implications of the options is informed by the empirical analysis and qualitative discussion undertaken in, and for, the report. However, there is not a conclusive data set or quantitative analysis which point directly to the appropriateness of a particular option on the refund level. In other words, a specific refund rate does not empirically or logically flow from the data.
- The 2014 Act provides no guidance on the refund level or the balance between leniency and efficiency.
- However, the rates legislation does include the view that commercial rates are based on property (even if calculated relative to actual or hypothetical rent) regardless of ability to pay but also contains the view that vacant premises are deserving of amelioration of the rates burden in specific circumstances.

# Options on refund rate

- Consideration of options for changing the refund rate should take into account the following factors:
- Leniency/equity relating to property owners not generating an income
- Incentive to occupy/increased penalty for vacancy
- Increased revenue possibility
- Impact on collection rate and relationship with ratepayers and impact on council's standing in the community
- Competitiveness of Dublin City vacancy refund relative to adjacent councils

# Additional comments

- The rates refund scheme is significantly determined by national legislation and the council's use of it must be within those guidelines. At the national level it is desirable to remove constraints such as being vacant at date of rate being struck, make it available for properties for sale and widen the scope for refund rate differentiation from area to other aspects of the vacancy situation subject to EU state aid rules. In addition, the legislation could provide additional guidelines for vacancy rate determination.
- Reduction of the vacancy refund rate will not solve the vacancy problem. Short-term and medium term market improvements will also not be sufficient to solve several aspects of the vacant commercial problem issues.
- Specific integrated strategies for managing the vacancy problems and associated problems are required in addition to lower vacancy credits and an improved economic environment. Future land use planning strategies should take account of patterns of commercial vacancy as indicated through the vacancy refund database.

# Additional comments

- Should the council determine a reduction in the rates refund rate good notice should be given to ratepayers in light of the long-term historic availability of the 50% (now 45%) refund.
- To the extent that it is feasible with the current Dublin City rates payments data system there should be an assessment of the impact of the change in the refund rate from 50% to 45% on collection and payment. The outcome of this assessment would be brought to the SPC for discussion.
- There should be an examination of the 2016 vacant premises which have been continuously vacant to assess reasons for the longevity and to inform future geographic differentiation, local strategy formulation and vacancy resolution.