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

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## Executive Summary

### Vacant commercial premises rates refund

This report examines, and identifies options on, the Dublin City Council vacant commercial premises rates refund strategy. At present (for 2017) under certain conditions, a 45% refund of rates is given for eligible premises which are vacant at the time of striking the rate. Previously (up to 2016) the rate of refund in Dublin City was 50%. The Local Government Reform Act 2014 gave power to councils to vary the refund rate and to operate different rates in different locations within their council areas. Before this, the main urban areas were required to operate a 50% vacancy refund while the rest of the country operated a 100% refund. In their 2015 and 2016 budgets Dublin City kept the refund rate at 50%. The 2017 Dublin City budget reduced the refund to 45%.

### Dublin City commercial premises

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-Donaghamede, Clontarf and Ballymun.

### The Dublin City vacant premises

There were 1904 vacant premises in 2016 in Dublin City. This was 9.23% of the total population of 20633 commercial premises in Dublin City. Of the five administrative areas in the council, 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%.

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 with vacant premises having a slightly higher average size than total premises.

There was a revaluation of Dublin City premises effective from 1/1/14. Many properties that had numerous divisions were reclassified as one unit as they did not have multiple occupants. The number of individual ratings went from 24,000 to 20,700 approximately. 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.

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%.

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.

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 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).

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%.

**Financial analysis of rates on vacant premises**

There is a 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.

It is reasonable to expect that reductions in the Dublin City vacancy credit rate would increase both the difficulty of collecting the additional rates and the cost of collection.

On the assumption of an initial collection rate of 75% for vacancy related rates and that reductions in the vacancy credit would have a negative impact on the collection rate the extra revenue from reducing the vacancy credit would be relatively small.

**National Commercial Property Situation**

The DKM GeoView Commercial Vacancy Rates Report provides a national and local picture of vacant commercial property. The latest report refers to Quarter 4 2016. The failure of the national vacancy rate to decline, as indicated in the reports, between Quarter 4 2013 and 2016 is surprising given the substantial economic growth over the period. The national 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.

The Dublin (refers to the geographic county of 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 Dublin Quarter 4 2016 vacancy rate was 13.7% compared to the national total of 13.5%. In terms of the county vacancy rates, Sligo had the highest vacancy rate of 18.0% and the lowest was Kerry at 10.2%. Dublin had the fifteenth highest vacancy rate. Increases in vacancy rates were recorded in 25 counties compared with Quarter 4 2015. There were no counties which had a decrease.

Vacancy rates are available for the 22 Dublin postal districts for Quarter 4 2016. Some districts have parts in more than one council jurisdiction. The range of vacancy rates is 19.2% (district 17) to 7.0% (district 16). After district 17 which includes Dublin City and Fingal, the next five highest districts are all in the City council area (districts 2, 8, 10, 9, 3). Of the 22 Dublin districts 10 had vacancy rates which were greater than the national rate of 13.5%. Only 5 districts had rates of less than 10%.

The CBRE 2017 Real Estate Market Outlook regarded 2016 as an excellent year. It notes "take-up in all occupier sectors continued at pace in 2016." Strong rental growth was achieved in all sectors of the market. However, yields remained stable with most price appreciation due to rental growth. The pace of rental growth is expected by CBRE to slow down in 2017 but Dublin is still expected to exceed European average rental growth. As in recent years, some sectors will be better performers than others

Overall, the property market in Dublin is expected to perform well in 2017 but with lower growth than in 2016 in some cases. However, as shown by the GeoView data, a well performing overall property sector does not directly result in substantial declines in vacancy rates at the lower end of the office, industrial and retail sectors.

**Economic Prospects**

Economic growth projections for both the short and medium-terms are good despite the expected negative economic impact of Brexit. The Brexit impact will be significant for the Irish macro economy and potentially devastating for some sectors. Already the appreciation of Sterling is causing severe difficulties in trading with the UK.

Even including the Brexit negatives the growth performance will be reasonable on current expectations. The growth performance will slow from 2018 onwards compared with recent years but the growth rate will still be good. GDP will grow annually by about 3% between 2017 and 2021 and GNP growth will be about 2.5%. Consumption volume will grow by about 2.5% on average each year from 2017 to 2021 with a slowing to 2% for the last year of the period. Employment will continue to grow.

Employment in the national economy was 2.1106 million persons in Quarter 1 2007. It was 2.1464 million persons in quarter 1 2008 and declined each year to 2012 Quarter 1 to a level of 1.8250 million persons a decline of 13.5% or 285,600 persons. Employment increased each year since 2013 and reached 2.0451 million persons in quarter 1 2017. The current national employment level is at 95.3% of the peak pre-economic collapse level. Employment is almost back at the pre-collapse level. Retail value in 2016 for the total sector is 14.3% below the 2007 level. In volume terms it is 1.1% below the 2007 level.

Dublin's employment peaked at 636.3 k persons in Quarter1 2008 and declined each year to 2012 when it reached 541.5k persons. Since then it increased each year to reach 627.1k in Quarter 1 2017. The Dublin increase between 2012 and 2017 was 15.8% which is higher than the national increase. Dublin's current employment is at 98.6% of its peak in 2008.

In 2008 Dublin had 29.6% of the total national employment. In 2017 this share had increased to 30.7%.

Overall services employment in Dublin in 2017 is above the 2008 boom level. Industry, construction and retail employment is still below the 2008 level, especially in the case of construction.

The April 2017 Dublin Economic Monitor notes that "*Dublin's economic resurgence continues despite international threats"* (page 4). It presents a picture of a strong and growing Dublin economy but with some concerns, such as housing. The July 2017 Dublin Economic Monitor states "*The latest Dublin PMI data suggest no signs of a let-up in the strong performance of the Capital's private sector with output growth accelerating from the first three months of the year.*" It also notes that…"*economic activity in Dublin has continued to gather pace*".

The more recent July Dublin Economic Monitor continues with the positive assessment of the Dublin economy. Page 4 states "*The latest Dublin PMI data suggest no signs of a let-up in the strong performance of the Capital's private sector with output growth accelerating from the first three months of the year.*" It also notes that…"*economic activity in Dublin has continued to gather pace*"

**Impact of changes to the refund scheme**

Reasonable notice of any reductions in vacancy refunds should be provided to ratepayers as the 50% refund, now reduced to 45%, has been a long time deeply entrenched element of the rates system. In addition the impact of the changes should meet challenges from an economic, equity, political and reasonableness perspective.

One of the main reasons for the reduced level of rates refunds for commercial premises is to encourage or force owners of vacant premises to bring them into use because of the higher rates related cost of vacancy. It is expected that this would have a very small effect on reducing the vacancy rate in Dublin City. It should be noted that Dublin City , and two other cities, over the past long term charged 50% of rates levied on vacant premises while the rest of the country charged 0%. This significant difference has not led to a clearly identifiable lower vacancy rate in Dublin City than in the 0% councils.

A second main reason for reducing the rates refund is the collection of additional revenue. Depending on the collection rate performance there could be limited additional revenue.

**Overall assessment**

Overall, the assessment of the report is:

- Vacant premises which satisfy the scheme's criteria can reasonably expect to be charged less than full rates. This is embodied 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 collection rate the additional revenue will be relatively small and in specific circumstances could decline.
- 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 where clearly premises are kept vacant as the site is assembled over time.
- 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. Selectivity, in trying to identify ability to pay, would generate a very large administrative burden and is not part of the rates framework. 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

**Objectives of report**

The objectives of the report are

1. **Undertake an empirical analysis/review of the vacant commercial property framework in Dublin City Council.** This is mainly done in section 3 and reports a decline in vacancies from 2014 and significant differences between areas within the council. The longevity of continuous and semi-continuous vacancy period is a notable feature and merits additional attention. The three largest shares of total vacancies are 40.5% offices, 31.9% retail shops and 19.1% industrial uses. Together these three account for 91.5% of all the vacant premises. The council vacancy data most likely understate the true vacancy rate in the city.
2. **Examine the views of relevant stakeholders.** This done throughout the report and identifies strongly held views on different sides of the “force

occupancy” versus “perverse subsidies to remain vacant”. Our assessment is that reductions in the vacancy refund rate would not lead to a significant reduction in vacancy rates but would, in certain cases, help to reduce vacancy. We agree with the view that additional revenue might be small.

3. **Assess the short and medium term economic and commercial property market position and prospects at national, regional and Dublin Council levels.** This is done in section 5 and presents a relatively optimistic view of the current and future property market nationally and in Dublin. But the vacancy rates data from DKM Geo 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.
4. **Assess the arguments for and against vacancy rates refunds, notably the resource tax incentive argument and the additional negative impact on the commercial sector and apply these to Dublin City Council.** This is done in section 2. Of particular note is the difference in thinking behind measures such as the vacant sites levy which attempts to force action and the rates vacancy refund which supports inaction. There were strong opinions that the lack of market demand is the main determinant of vacancy rather than the comfort of getting a 50% or 45% refund on rates. Our overall assessment as noted under objective 2 is repeated here. “Our assessment is that reductions in the vacancy refund rate would not lead to a significant reduction in vacancy rates but would, in certain cases, help to reduce vacancy”.
5. **Assess the viability and cost of the collection of rates on vacant properties and financing implications of the refund measure**. This is done in section 5 and concludes on different assumptions that the collection rate for vacancy rates would be lower and more costly than for rates as a whole and that additional revenue might be very limited or even lower under specific conditions. On very optimistic assumptions of a high and unchanging collection rate the additional revenue is significant.
6. **Assess the efficacy of targeted vacancy refund rates across different electoral areas.** This is not recommended in the absence of a specific area level strategic focus.

7. **Outline options on the level of refund and possible differentiation between areas within Dublin City Council.** The options relating to possible vacancy refund rates were outlined and discussed. As noted in objective 6, a geographic differentiation is not recommended. 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

## 1. Objectives and Methodology

The objectives of this report are to examine the vacancy situation, review the current strategy of Dublin City Council relating to commercial rates vacancy refund and to make recommendations on the future operation of the scheme. Specifically the report will:

1. Undertake an empirical analysis/review of the vacant commercial property framework in Dublin City Council, including trends in vacancy rates, location of vacant properties (on a range of geographic classifications), commercial sector classification and size of vacant properties on both a longitudinal and current basis. In addition the issue of "strategic" commercial vacancy will be examined.
2. Examine the views of relevant stakeholders
3. Assess the short and medium term economic and commercial property market position and prospects at national, regional and Dublin Council levels
4. Assess the arguments for and against vacancy rates refunds, notably the resource tax incentive argument and the additional negative impact on the commercial sector and apply these to Dublin City Council.
5. Assess the viability and cost of the collection of rates on vacant properties and financing implications of the refund measure.
6. Assess the efficacy of targeted vacancy refund rates across different electoral areas.
7. Outline options on the level of refund and possible differentiation between areas within Dublin City Council

The methodology included 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) on the Dublin City vacant and occupied commercial sector and on the rates revenue associated with the two sectors, interviews and discussions with councillors, council staff and other national and city stakeholders in the economy and property sector. The project also involved personal field inspections of the property sector in Dublin City Council.

The report is structured as follows. The basis for a rates refund scheme for vacant properties is dealt with in Section 2. Section 3 examines the vacant commercial property in Dublin City. Section 4 examines the financial aspects of the refund scheme including rates revenue foregone and the financial impact or burden of the average rates bill. The national commercial property situation is considered in Section 5 in terms of the current and recent positions and future prospects. National and Dublin economic prospects are analysed in Section 6 because economic conditions are a significant determinant of property utilisation patterns. Conclusions and recommendations are presented in Section 7.

Table 2.1 below presents the sectoral and geographic distribution of commercial rateable units in Dublin City to provide a context for the following discussion on vacant premises.

**Table 2.1 Administrative areas and local electoral areas, commercial unit total and sectoral mix 2016**

| Local area | Electoral Area | Total number of commercial premises | Industrial | Office | Retail shops |
|---|---|---|---|---|---|
| **Central** | | **4844** | **681** | **1953** | **1790** |
| | North Inner City | 4844 | 681 | 1953 | 1790 |
| | | | | | |
| **North Central** | | **1851** | **480** | **384** | **787** |
| | Beaumont-Donaghamede | 949 | 341 | 133 | 384 |
| | Clontarf | 902 | 139 | 251 | 403 |
| | | | | | |
| **North West** | | **2000** | **661** | **300** | **847** |
| | Cabra-Finglas | 1023 | 487 | 144 | 304 |
| | Ballymun | 977 | 174 | 156 | 543 |
| | | | | | |
| **South Central** | | **3088** | **1106** | **655** | **1037** |
| | Ballyfermot-Drimnagh | 1492 | 705 | 287 | 365 |
| | Crumlin-Kimmage | 1596 | 401 | 368 | 672 |
| | | | | | |
| **South East** | | **8850** | **562** | **4619** | **2729** |
| | Rathgar-Rathmines | 1425 | 214 | 486 | 579 |
| | Pembroke-South Dock | 7425 | 348 | 4133 | 2150 |
| **Total** | | **20633** | **3490** | **7911** | **7190** |

Source. Dublin City Council

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-Donaghamede, Clontarf and Ballymun.

## 2. Vacancy Rates Refunds; the arguments for and against

A distinction should be made between the direction and the magnitude of reductions in the vacancy credit or refund. As argued below, a decrease in the rates refund would increase the cost of maintaining the vacancy status of a property and would increase the incentive to bring a vacant premises into occupation. However, the magnitude of the reduction in vacancy levels arising from the refund reduction might be quite small.

The legislative basis for commercial rates is outlined first. This is useful in getting a picture of the cost impact of rates on vacant premises relative to the opportunity cost of the rent foregone and its impact as an incentive to "force" occupation.

The rates levied are a combination of the rateable valuation which is determined by the Valuation Office and the annual rate on valuation, also described as the multiplier which is decided by the elected members of a council.

The 2001 Valuation Act states that *"The value of a relevant property shall be determined under this Act by estimating the net annual value of the property."* and that *"net annual value" means, in relation to a property, the rent for which, one year with another, the property might, in its actual state, be reasonably expected to let from year to year, on the assumption that the probable average annual cost of repairs, insurance and other expenses (if any) that would be necessary to maintain the property in that state, and all rates and other taxes and charges (if any) payable by or under any enactment in respect of the property, are borne by the tenant".*

The valuation of a property is regarded as equivalent to the potential rent of the property at the time of calculating the valuation.

The current valuation list for Dublin City is effective from 1st January 2014. The Dublin City valuations reflect hypothetical and actual rents payable for each property as at 7th April 2011.

The Dublin City rates multiplier was 0.2570 in 2014 and had risen to 0.2580 in 2017. This would imply that on an average city wide basis the full rates bill was approximately 26% of the April 2011 actual of hypothetical rent. This indicates the relative incentive effect of rates versus the foregone rents from a vacant property. Rents have increased, but possibly not for all commercial properties, between 2011 and 2017. The Lisney Composite Index of Dublin Commercial rents report an increase of approximately 48% between December 2011 and June 2017 but this was significantly driven by offices at 108% with industrial at 48% and retail 18%. On the assumption that non-prime current rents are 25% higher than 2011, the current rates would be about 21% of the actual or hypothetical rent. There is a substantial variation of this proportion between sectors and locations. Using the unadjusted Lisney composite index would result in rates being about 17% of the current rents on average.

The 2014 Local Government legislation allowed local councils, for the first time, to alter the rate of commercial rates refund for vacant commercial properties. Up to then Dublin and some other cities allowed qualifying ratepayers a 50% refund or credit on rates paid for vacant premises and all other areas gave a full 100% refund to qualifying properties. The different 50% and 100% credits or refunds were based on legislation. The new legislation gave all councils the power to alter the refund rate within 0 to 100% and to provide different refund rates in different areas of the council. The 2015 budget was the first opportunity for councillors and councils to alter the refund rate. There has been a range of responses from councils in budgets since 2015 with many reducing the refund rate from what previously existed.

Dublin City Council retained its 50% credit for the 2015 and 2016 budgets. Its 2017 budget reduced the credit from 50% to 45%. Fingal reduced its vacancy refund from

100% to 75% in the 2017 budget. Dun Laoghaire/Rathdown reduced its refund from 100% to 75% in budget 2015 and to 50% in budget 2017 and also introduced a Vacant Property Assistance Scheme for properties with a rates bill of €10k or less which effectively kept the refund rate at 75% for these smaller properties. South County Dublin operated a 100% refund in its 2017 budget.

The UK also operates a business or commercial) rates refund scheme for vacant properties but it is much less generous than in Ireland, following 2007 legislative changes implemented in 2008 which greatly reduced the exemption to rates associated with vacancy. Vacant buildings are not charged business rates for three months but after this time most businesses must pay the full rate.

Some UK properties can get an extended period of empty property relief as shown below:

- industrial premises (eg warehouses) are exempt for a further 3 months
- listed buildings - until they're reoccupied
- buildings with a rateable value under £2,900 - until they are reoccupied
- properties owned by charities and which will continue as a charitable purpose
- community amateur sports clubs buildings continuing in same use

The reason behind the UK increasing rates on vacant premises was to incentivise owners to vacant property to ensure its occupancy. This would enhance the supply of property and lead to a reduction in rents. Overall, the measures sought to improve efficiency in land and property markets. The Royal Institution of Chartered Surveyors assessed the impact of the higher rates bill on vacant premises in a report Empty Property Rates (RICS Research 2013). The report was a survey of RICS members which sought their opinions of the impact. It was not an objective empirical assessment. It broadly concluded that the increased rates on vacant property had not incentivised or forced vacant premises into use.  In the survey 76% of respondents said the incentivising mechanism had not worked. 62% of respondents believed that landlords were already flexible in terms of lease terms and condition. 88% of respondents sated that vacancy business rates acted as a significant impediment to speculative development. This conclusion is consistent with the Dublin City situation whereby a much tougher vacancy credit regime than elsewhere in the country has not produced a low incidence of vacant commercial premises. However, it should also be recognised that the vacancy credit level is an instrument which could contribute to supporting council objectives such as lowering the level of vacancy even if the impact is quite small.

In a 2014 review commissioned by Fingal County Council the continuation of the 100% refund was recommended largely on the basis of the still relatively weak local property market and doubts that the mobility incentive effect of increasing the cost of holding vacant property through lower rates refunds would be successful in light of then weak demand for commercial property. (Myler O'Brien, 2015). A 2016 review for Fingal recommended a reduction in the refund rate from 100%. (Foley, 2016).

Vacant commercial properties are not entitled, as of right, to a refund. To qualify for a rates refund in Dublin City, the premises must meet the following criteria:

- It must be vacant on the date the rates becomes payable, for the year being claimed.
- It must have been vacant for one of the following reasons:
  - Vacant for letting (not for sale)
  - Vacant for repairs or alterations
  - Vacant pending demolition or re-development
- Documentation in support of the reason for the vacancy must be submitted, along with a sworn 'Declaration of Vacancy'. A Declaration of Vacancy is a document written by the applicant claiming a vacancy refund. It must be signed by the applicant in the presence of one of the following, Commissioner of Oaths, Peace Commissioner or Practising Solicitor.

In other councils the formal grounds for vacancy eligibility are letting and repairs/alterations as specified in the legislation. However, in the Dublin City Council case a court case in the 1970's resulted in a judgement that Dublin City Council was entitled to collect rates on a property vacant pending development / demolition but that the Local Government Dublin Act 1930 vacancy credit should be applied.

The requirement for properties to be vacant at the time of striking the rate is inequitable and also hides the fact that many vacant properties currently have to pay full rates. A property which is vacant for example, from April to October would not get a vacancy rates refund. While recognising the individual financial pain for a landlord in this case, it is also clear that the property market and the enterprise sector have continued to operate even without reduced rates for this group of vacancies. One could recognise a strategic aspect of behaviour where a landlord who faces recurring and lengthy vacancy within a year might try to ensure that at the relevant date the property is vacant.

It is notable that vacant premises which are for sale do not qualify for a rates refund. Subject to the criteria being met, there is no time limit on the number of annual refunds for a particular property. Nor is there a limit on the number of different vacancy applications for the same property.

The Dublin City vacancy rate over the long-term past has arisen in the context of an already relatively substantial rates penalty for vacant premises of 50% compared with 0% rates for other councils.

The main reason for the reduced level of rates refunds for commercial premises is to encourage or force owners/leaseholders of vacant premises to bring them into use. Reduction or elimination of the rates refund increases the financial burden of keeping a property vacant or of retaining the ownership of a vacant property. This increased financial burden of vacancy should encourage or force the owner to utilise or dispose of the premises. This thinking is reflected in the wording of the 2015 Programme for Government annual report which refers under its statement of priorities to:

"***Remove Perverse Incentives to keep Properties Vacant***
*The new Local Government Reform Act 2014 provides discretion to the elected members of local authorities to vary the level of rates of refunds for commercial properties that are vacant." (Page 13).*

The thinking behind the measure allowing councils to vary the refund rate was that a refund, especially a 100% refund, reduced the cost of keeping a property vacant and effectively provided an incentive or support to stay vacant compared to having to pay rates. However, as noted Dublin City vacancy premises always 50% of the rates.

The new 3% levy on vacant and unutilised urban sites is another reflection of this thinking. As the behavioural strategy behind the levy is similar to the behavioural expectations associated with vacancy rates refunds it is useful to outline the main features and expectations of the levy. The vacant sites levy will be applied annually by a local authority at a rate of 3% of the market valuation of the vacant sites, exceeding 0.05 hectares in area, with reduced and zero rates applying in certain circumstances (0.05 hectares roughly equates to one-eighth of an acre or 500m2). The levy shall be payable by the registered owner(s) of the site. Non-payment of the levy due will remain a charge on the land concerned.

Circular letter PL7/2016 explained the basis for the proposed levy. Land is a finite resource and the policy framework should support its efficient use. It was argued that there are many vacant sites in urban areas throughout the country which are lying undeveloped. Apart from the lost development of, for example, housing or other built facilities some sites are also unsightly and may encourage anti-social behaviour. The circular estimated that Dublin City had over 280 reasonably-sized, vacant, undeveloped sites within the two canals, many of which could be developed for residential and other purposes.

As stated in the circular "*The Urban Regeneration and Housing Act 2015 introduced the vacant site levy as a site activation measure which can become an integral part of the development planning process, to ensure that vacant or underutilised land in urban areas is brought into beneficial use.*"

The reasoning behind offering refunds for vacant properties would seem to be directly counter to this reasoning behind the 3% levy. Some councils offer incentives for businesses which occupy a hitherto vacant property. The different and sometimes conflicting policy rationales behind rates, vacancy refunds, vacant site levy and local property tax indicate the absence of clear integrated land use policies and incentives.

The vacant site levy can be applied only under certain conditions, as noted in the circular." *i.e. where sites remain vacant and site owners/ developers fail to bring forward reasonable proposals, without good reason, for the development/reuse of such property in line with the provisions of the relevant local area or development plan. However in deciding on the application of the levy in their areas, local authorities should also take account of the viability of developing vacant sites in specific locations*."

The levy shall be applied annually by a local authority at a rate of 3% of the market valuation of the vacant sites, exceeding 0.05 hectares in area, with reduced and zero rates applying in certain circumstances (0.05 hectares roughly equates to one-eighth of an acre or 500m2). The earliest date that the registered owners of vacant sites can become liable to the levy is 1 January 2019.

The possible financial burden of the levy on site owners is recognised by measures to help alleviate this financial burden. Vacant sites which are subject to a site loan will have a zero rate of levy if the outstanding amount of the site loan is greater than the market value of the vacant site on the date of its determination (negative equity situation). Where the outstanding amount of the site loan is between 75% and 100% of the market value of the vacant site on the date of its determination, a reduced rate of 0.75% levy shall apply. Where the outstanding amount of the site loan is between 50% and 75% of the market value of the vacant site on the date of its determination, a 1.5% rate of levy shall apply.

A vacant premises rates refund scheme reduces the council's commercial rates revenue. It results in some combination of higher other council charges or rates for those who have to pay and/or lower expenditure and lower services. In effect it is a transfer from recipients of council services and supports and/or from payers of other charges to those who gain from the refund scheme. Even with higher costs of collection and a lower payment compliance by the vacant premises rates payers a reduction in the current 45% refund and possible negative indirect effects of increased "own" resources on Government funding, could likely result in some higher revenue but less than the increase in rates levied because of a likely lower collection success rate. This additional revenue would enable the council to either reduce existing charges in other areas or increase services or a combination of both. However, the same argument can be made about the annual rates multiplier and any other specific charges sought by the council. If these other charges were higher it would enable a larger volume of services to be provided and/or lower charges in other areas.

On the other hand, a decrease in the vacant refund rate of 45% will have a direct negative effect on the enterprise sector. There will be a worsening of the financial circumstances of owners of vacant commercial property and of former occupier commercial operators with rates paying leases. In effect, it would be an additional tax on a particular section of the commercial sector.

The 50% and current 45% rates refund which reduced the cost of maintaining keeping a property vacant was seen as something which encouraged vacancy as opposed to occupancy and use. The greater is the cost to the owner of having a property vacant the more likely he or she is to seek to have the property occupied. The lower is the cost of vacancy the less is the incentive or pressure to seek to have it occupied. The logic of this situation is that the higher the cost burden of vacancy the stronger is the incentive to occupy the premises. The rates system is essentially a tax on property although calculated relative to rental yield but in having a vacancy refund provision for eligible vacant units it implicitly brings in an element of leniency and ability to pay.

Several councils have introduced business support programmes which are separate from the rating legislation and framework (LGA 2015). In some cases these provide mechanisms to provide what are partial refunds of rates for new businesses for the initial period of the new venture. This contrasts with refund of rates on vacant properties. In effect there is a contradiction of an implicit subsidy to have properties vacant and at the same time a subsidy to occupy the properties.

In addition to rates, there are other costs associated with having a property vacant including insurance, security, maintenance and repair. In some cases these might be quite small. For example, security has to be maintained on an industrial estate regardless of some of its units being unoccupied. Maintenance of a small main street shop with accommodation overhead would be relatively low. Consequently the additional imposition of a substantial portion of the rates bill could be a significant addition in many cases.

An enterprise which ceases operation may still be committed to a lease and obliged to pay both ongoing rates and rent. In this case the additional rates from a decrease in the vacancy refund may be a relatively small proportion of the overall burden.
The main cost of a vacant commercial property to the owner is the opportunity cost of the foregone rent or earnings from a business which could be operated in the property or the income which could be obtained from the capital available from selling the property. These are larger than the rates bill or other vacancy related costs providing selling, rental or business opportunities exist. An unwillingness to sell a vacant property may be influenced by a debt situation. A sale at current market price may not cover all the debt on the property which gives a strong incentive to delay sale. Indeed banks may insist on delaying a sale until market prices increase.

The higher cost of vacancy could have several effects on the enterprise sector and some of them are unappealing. The ideal is that a vacant property owner will be pushed by the higher cost of the lower rates refund to find a tenant at reasonable market rates. The property owner might also be forced to accept tenants at a low rent, accept otherwise undesirable tenants or sell the property at an unattractive or fire sale price. Or, another business of the owner, or personal resources, might have to subsidise the higher cost of vacancy in the absence of other options with a negative effect on the operating business. There may be a high proportion of vacant property owners who will be unwilling or unable to pay the increased rates on vacant premises and these would have to be dealt with as part of the usual rates collection system.

The impact of lower vacancy refunds on the enterprise sector as opposed to the landlord/ladies/property owners will depend on the letting/leasing conditions. In many cases the occupant pays a rent and the landlord is responsible for the rates. In other cases the occupier would pay the rates as well as the rent. In the former case a lower vacancy refund does not directly affect the current occupier, should she/he leaves the premises vacant but could indirectly if the property owner had already included an estimate for vacancy costs in determining the rent. In any event the occupier will be liable for the terms of the lease even if her/his business ceases.

Another possibility is that the extra rates, which are due from the lower refund, are paid with no change in the vacancy status. This generates revenue for the council and reduces the resources of the property owner which may or may not have a negative effect on other enterprise activity.

A particular concern with a vacancy refund is that some landlords/landladies are deliberately, or strategically, keeping the premises vacant and could afford to pay the increased rates bill. This could arise because the landlord is anticipating a higher rent in the future and is unwilling to commit to a lease at lower current market rates. In cases where the owner is planning to sell but is awaiting a higher market price, there should be no vacancy rebate because sale does not meet the criteria for a vacancy refund. However, it could be nominally up for letting without any serious intent to rent. In this case the vacancy refund could be applied even though the spirit of the scheme is not met.

Other strategic vacancies would arise where individual properties are being assembled to form a larger site for development. The Dublin City Council refund criteria include this situation. It is likely that full rates in this situation would be affordable and would not change the intended behaviour.

A zero or low refund has a negative impact on the enterprise sector, particularly small enterprises, in increasing the risk associated with business failure. If the business fails and the entrepreneur is locked into a lease with rates included, there is a continuing financial burden even if the business no longer operates. However, this also applies to the rent. Or, if the property is bought with a loan, the loan payments will continue. The rates add to the risk and consequence of business failure but so do all ongoing contractual financial commitments. A zero or low vacancy refund also puts an additional negative in the incentive package to speculatively develop commercial facilities. A developer might be more enthusiastic if there were no rates to be paid on vacant commercial facilities than if full rates would apply.

It is desirable to reduce the amount of vacant properties, ensure the efficient use of premises and generate the economic activity associated with utilised commercial premises. However, it should also be recognised that a vacant premises is most unlikely to generate the same demand on council services and resources as an occupied premises. Consequently, there is a strong fairness argument for vacant premises paying less than the full rates level.

The rates refund scheme is not intended to assist all vacant property. Only property vacant on the date the rate is struck is eligible. A vacant property which is for sale is not eligible. Eligible empty properties must be available to let at reasonable market rates or be undergoing refurbishment or be vacant pending demolition or re-development.

Over 90% of Dublin City commercial premises are levied full rates. These will be unaffected by a reduction in the rates refund except where some of the owners of the 90% also own some of the vacant properties and a reduced refund would divert financial resources from the operating business and possibly put it under stress. However, we do not believe this impact would be significant because there are additional other possibly substantial financial costs of vacancy and vacant premises already over the long term had to pay 50% of the rates due. One other possibility is that growth and expansion plans might be negatively affected if it requires moving to a larger premises because of the increased potential risk of a higher rates commitment if the business fails. Again, we believe this would not be significant.

In fact, if any additional revenue from a lower vacancy refund was allocated to reducing the rates multiplier, the overall enterprise sector would be better off. At present one could argue that, partially, the vacancy refund is a transfer from the functioning 90% of enterprises in premises to the 10% or less vacant section.

## 3. Vacant Commercial Property in Dublin City Council

This section identifies the number, sectoral mix, size (as measured by rates levied) and location (as defined by administrative and local electoral areas). The main emphasis is on administrative areas due to the availability of data. It also identifies the change in vacant properties since 2011.

Dublin City council area is divided into 5 administrative areas.

C. Central Area includes Cabra, Broadstone, North Wall, Drumcondra, Ballybough, Phibsboro, East Wall and the North City centre.

NC. North Central Area includes Kilbarrack, Raheny, Donaghamede, Coolock, Clontarf and Fairview.

NW. North West Area includes Finglas, Ballymun, Glasnevin and Santry.

SC. South Central Area includes Ballyfermot, Inchicore, Crumlin, Drimnagh, Walkinstown, The Liberties and the South West Inner City.

SE. South East Area includes Rathmines, Rathgar, Terenure, Ringsend, Irishtown, Pearse Street and the South East.

Alternatively, the council area is divided into nine local electoral areas.

The figures relating to vacancies refer to vacant premises which were eligible for the vacancy refund. As discussed in Section 2 vacant properties are eligible for a rates refund only if certain conditions are satisfied. Some vacant properties are not eligible for a refund. Consequently there are additional vacant properties to the council vacancy total.

Table 3.1 contains details of the number of vacant premises in the five different Dublin City administrative areas and in the city as a whole. There were 1904 vacant premises in 2016. This was 9.23% of the total population of 20633 commercial premises in Dublin City. South East had, by far, the largest number of vacant units, 813 or 42.7% of the total of 1904 vacant premises. 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% of the total and North Central had the lowest number of premises which were vacant at 150 or 7.9% of the total.

The largest vacancy rate, defined as vacant premises as a per cent of total commercial enterprises 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%.

Overall, there is a substantial number of vacant premises, 1904 which is 9.23% of the city total commercial premises. The geographic specific vacancy rate varies relatively little from area to area within the city, from 8.10% to 10.65%. However, there are substantial geographic differences in the range of absolute numbers of vacant premises. The number of vacant premises varies from 813 to 150 in the five local administrative areas.

**Table 3.1 Number of units (properties) 2016 or latest year Dublin City Council and Administrative areas**

| Administrative area | Vacant properties, number of premises | Total number of commercial premises | Vacant properties as % of total in each area | Area share of total vacancies |
|---|---|---|---|---|
| C | 477 | 4844 | 9.85% | 25.1% |
| NC | 150 | 1851 | 8.10% | 7.9% |
| NW | 213 | 2000 | 10.65% | 11.2% |
| SC | 251 | 3088 | 8.13% | 13.2% |
| SE | 813 | 8850 | 9.19% | 42.7% |
| Total | 1904 | 20633 | 9.23% | 100% |

Source. Dublin City Council

Table 3.2 presents details of the amount of vacancy related rates due for the five different areas and the city as a whole. The total 2016 annual rates amount levied on, or associated with, the vacant properties is €32.9800 million or 10.16% of the city total of €324.5018 million. Of course, only 50% of this is due for payment (55% in 2017) and all of this would not be collected.

In addition, the €32.980 million figure is the full annual rates due. A proportion of the vacant properties is not vacant for the full year and hence would have been due a smaller refund than 50% of the annual rates in 2016. The 50% 2016 refund for the full year would have been €16.490 million but the actual cost of the refund was €11.200 million in 2016.

The vacancy rates share is slightly higher than the vacancy share of premises which is surprising. This indicates that on a broad headline basis vacant premises are not smaller (based on commercial rates due) on average than the total population of commercial enterprises. In fact, they are slightly larger. The location specific totals range from €2.0878 million (North Central) to €17.4928 million (South East). The South East accounts for 53.0% of the vacancy rates bill. There is a relatively large geographic variation in the ratio of vacancy related rates levied to total rates. The highest is 13.44% in North West and the lowest is 8.95%% in Central.

**Table 3.2 Value and share of rates associated with vacant premises 2016**

| Local area | Vacant properties, number of premises Current annual rates € due | Total number of commercial premises Current annual rates € due | Vacant properties as % of total Current rates € due |
|---|---|---|---|
| C | € 7,554,953.19 | € 84,387,048.16 | 8.95% |
| NC | € 2,087,752.19 | € 15,639,288.32 | 13.35% |
| NW | € 2,469,952.90 | € 18,370,877.44 | 13.44% |
| SC | €3,374,479.36 | € 30,431,980.55 | 11.09% |
| SE | €17,492,847.62 | € 175,672,589.27 | 9.96% |
| Total | €32,979,985.26 | €324,501,783.74 | 10.16% |

Source. Dublin City Council

The sectoral mix of vacant and total premises is shown in Table 3.3. 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 largest shares are 40.5% in offices, 31.9% in retail shops and 19.1% in industrial uses. This compares with an office share of 38.3% in total commercial enterprises. 34.8% of all commercial properties are shops. 16.9% of all commercial properties are industrial uses.

**Table 3.3 Sectoral mix of vacant premises 2016**

| classification | Vacant properties, number of premises | Distribution of vacant properties % | Total number of commercial premises | Distribution of total properties | Vacant properties as % of total |
|---|---|---|---|---|---|
| Fuel depot | 1 | 0.1 | 69 | 0.3 | 1.45 |
| Health | 11 | 0.6 | 85 | 0.4 | 12.94 |
| Hospitality | 42 | 2.2 | 666 | 3.2 | 6.31 |
| Industrial uses | 363 | 19.1 | 3490 | 12.1 | 10.40 |
| Leisure | 7 | 0.4 | 213 | 1.0 | 3.29 |
| Misc | 91 | 4.8 | 920 | 4.5 | 9.89 |
| Office | 771 | 40.5 | 7911 | 38.3 | 9.75 |
| Retail shops | 608 | 31.9 | 7190 | 34.8 | 8.46 |
| Retail warehouse | 10 | 0.5 | 89 | 0.4 | 11.24 |
| Total | 1904 | 100 | 20633 | 100 | 9.23 |

Source. Dublin City Council

The distribution of the vacant and total commercial premises by level of rates due which is a proxy for size is outlined below in Table 3.4. The main conclusion is that, except for one category, the size distribution of vacant premises is much the same as that of total commercial premises. Vacant premises account for 9.23% of the total number of premises. In the lowest rates band category, vacant premises account for 9.13% of the total premises in that size category.

Vacant premises account for 8.81% of the €10k to €50k band and 9.95% of the largest rates band. The exception is the €50,001-€100,000 band in which vacant premises account for 14.44% of the total of commercial premises. Another way of noting the same feature is that premises in the lowest rates band were 75.8% of all vacant premises and 76.6% of all commercial premises. Care should be taken in interpreting the size distribution. While 75.8% of vacant rates accounts are in the smallest size category, this could also be consistent with a single large owner having several of these smaller premises., or with several small units being part of a singly owned business park or industrial estate

Premises in the €50001-€100,000 band rates band were 4.1% of vacant premises and 2.6% of all premises.

**Table 3.4 Distribution by rate band value, vacant and total commercial premises**

| Rate band € | Vacant properties, number of premises | Vacant properties, Share of each rates category % | Total number of commercial premises | Total number of commercial premises, Share of each rates category | Vacant properties as % of total |
|---|---|---|---|---|---|
| 1-10k | 1444 | 75.8 | 15815 | 76.6 | 9.13 |
| 10001-50k | 339 | 17.8 | 3846 | 18.6 | 8.81 |
| 50001-100k | 78 | 4.1 | 540 | 2.6 | 14.44 |
| 100001-500k | 43 | 2.3 | 432 | 2.1 | 9.95 |
| Total | 1904 | 100 | 20633 | 100 | 9.23 |

Source. Dublin City Council

Overall, the size distribution of the vacant premises is much the same as the size distribution of the total commercial premises. The main difference is the slightly higher average size of the vacancies.

The pattern of change between 2011 and 2016 is shown below in Table 3.5 for the full council area and for the five administration areas. We refer to the overall council trend first. Equivalent data are not available for earlier years than 2011. There is a problem in interpreting the changes over the full period. There was a revaluation of Dublin City effective from 1/1/14. Many properties that had numerous divisions were reclassified as one unit as they did not have multiple occupants. The number of individual ratings went from 24,000 to 20,700 approximately. 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.

**Table 3.5. Number of vacant commercial properties and total commercial properties 2011 to 2016, city and local administrative areas**

(V=vacant T=total. C, NC etc refer to local administrative areas)

| Area | C | C | NC | NC | NW | NW | SC | SC | SE | SE | Dublin City | Dublin City |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | V | T | V | T | V | T | V | T | V | T | V | T |
| 2011 | 422 | 5471 | 147 | 1854 | 221 | 2178 | 360 | 3853 | 815 | 10302 | 1965 | 23658 |
| 2012 | 519 | 5443 | 186 | 1888 | 231 | 2194 | 374 | 3871 | 993 | 10297 | 2303 | 23693 |
| 2013 | 553 | 5463 | 199 | 1887 | 269 | 2203 | 360 | 3858 | 1028 | 10206 | 2409 | 23617 |
| 2014 | 550 | 4882 | 220 | 1887 | 235 | 2026 | 333 | 3110 | 1019 | 8953 | 2327 | 20858 |
| 2015 | 479 | 4877 | 207 | 1864 | 263 | 2007 | 334 | 3095 | 954 | 8912 | 2237 | 20755 |
| 2016 | 477 | 4844 | 150 | 1851 | 213 | 2000 | 251 | 3088 | 813 | 8850 | 1904 | 20633 |
| % change 2011 to 2016 | 13.0 | na | 2.0 | na | -3.6 | na | -30.3 | na | -0.2 | na | -3.1 | na |
| % change 2014 to 2016 | -13.3 | na | -31.8 | na | -9.4 | na | -24.6 | na | -20.2 | na | -19.2 | na |

Source. Dublin City Council

The total number of vacant premises decreased from 1965 in 2011 to 1904 in 2016, a decrease of 3.1%. This full period change masks significant intra period changes and also reflects the methodology change in 2014. The number of vacant premises increased significantly from 2011 to 2012 by 17.2% or 338 premises. The total increased again in 2013 but by a smaller amount of 106 units. The largest number of vacancies was recorded in 2013. Since then the number of vacancies has decreased by 505, or 21.0%. There were annual decreases in each of the three years, 2014, 2015 and 2016. Some of the change between 2013 and 2014 is due to the methodology change. The biggest decrease was in 2016 with a change of 333 premises. This brought the 2016 number of vacant premises below the 2011 level.

To take account of the different methodology in measuring commercial units the 2014 to 2016 change is identified for each of the geographic areas. For the city as a whole the vacancy total decreased from 2327 in 2014 to 1904 in 2016, a decrease of 423 premises or 18.2%.

The individual administrative areas display a variable pattern of change in the number of vacant properties over between 2011 and 2016. Three of the five areas had decreases and two had increases. In the shorter 2014-2016 period all five administrative areas had decreases in the number of vacancies. The decreases ranged from 31.8% to 9.45.

South Central experienced a very large decrease, 30.3%. North West (-3.6%) and South East (-0.2%) also experienced declines in the number of vacant premises over the period but at a much lower rate than South Central. Vacant premises in Central increased by 13.0% and increased by 2.0% in North Central between 2011 and 2016.

In Central vacancies increased between 2011 and 2013 and from 2013 there was a decline each year. From the peak of 2013 of 553 vacancies there was a decline each year to the 2016 total of 477. The peak- to -2016 declines was 76 premises or 13.7%. The 2014/2016 changes were 73 premises or 13.3%.

In North Central the peak was 220 vacancies in 2014 and there was a decline each year to the 2016 level of 150. This was a peak "2014- to- 2016" decline of 70 premises or 31.8%.

North West's vacancy peak was 2013. It had a decline in vacancy numbers in 2014, an increase in 2015 and a decline in 2016. The peak to 2016 change was a decrease of 56 premises or 20.8%. The 2014/2016 change was a decrease of 22 premises or 9.4%.

South Central's peak was in 2012 with 374 vacancies and by 2016 this had declined by 123 premises or 32.9%. The 2014/2016 changes were 82 premises or 24.6%.

South East's peak was in 2013 with 1028 vacant premises and this declined to 813 in 2016, a decrease of 215 premises or 20.9%. The 2014/2016 decreases were 206 enterprises or 20.2%.

The changes in the vacancy rate over the 2011 to 2016 period are shown in Table 3.6 below. These should be interpreted in the context of the 2014 change in methodology/definition which resulted in a large decrease in the number of commercial units or ratings. The 2014 to 2016 data relate to the same methodology and we focus our comments separately on those years and on 2011 to 2013.

**Table 3.6 Vacancy rates 2011 to 2016, city and administrative areas**

| | C | NC | NW | SC | SE | City |
|---|---|---|---|---|---|---|
| 2011 | 7.7 | 7.9 | 10.1 | 9.3 | 7.9 | 8.3 |
| 2012 | 9.5 | 9.9 | 10.5 | 9.7 | 9.6 | 9.7 |
| 2013 | 10.1 | 10.5 | 12.2 | 9.3 | 10.1 | 10.2 |
| 2014 | 11.3 | 11.7 | 11.6 | 10.7 | 11.4 | 11.2 |
| 2015 | 9.8 | 11.1 | 13.1 | 10.8 | 10.7 | 10.8 |
| 2016 | 9.8 | 8.1 | 10.7 | 8.1 | 9.2 | 9.2 |

Source. Dublin City Council

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.

All 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%.

The changes in the sectoral mix of vacant premises since 2011 are shown below. Comparisons over the full period are not possible because of the 2014 classification and measurement change. As with previous analysis we refer to the 2011/2013 and

2014/2016 changes. In the 2011/2013 period there was an increase of 444 in the number of vacant premises. 187 were in retail shops. 156 were in offices. 119 were in industrial uses. Of the three main sectors the proportionate increase between 2011 and 2013 was greatest in shops with an increase of 43.4%, vacant offices increased by 16.2% and industrial uses increased by 31.4%.

**Table 3.7 Change in sectoral mix of vacant commercial premises 2011 to 2016**

| Sectoral mix | fuel | health | hospitality | Industrial uses | leisure | misc | office | Retail s | Retail w | total |
|---|---|---|---|---|---|---|---|---|---|---|
| 2011 | 3 | 21 | 51 | 379 | 22 | 89 | 962 | 431 | 7 | 1965 |
| 2012 | 5 | 25 | 79 | 435 | 31 | 92 | 1139 | 491 | 6 | 2303 |
| 2013 | 1 | 4 | 33 | 498 | 11 | 115 | 1118 | 618 | 11 | 2409 |
| 2014 | 1 | 10 | 25 | 478 | 8 | 126 | 1049 | 616 | 14 | 2327 |
| 2015 | 2 | 6 | 40 | 456 | 7 | 90 | 969 | 659 | 8 | 2237 |
| 2016 | 1 | 11 | 42 | 363 | 7 | 91 | 771 | 608 | 10 | 1904 |
| Change 2014 to 2016 | -1 | -1 | +17 | -115 | -1 | -35 | -278 | -8 | -4 | -423 |

Source. Dublin City Council

Between 2014 and 2016 there was a decrease of 423 in the number of vacant premises. Offices accounted for 278 of these, Industrial uses accounted for 115 premises and retail shops accounted for 8 premises. The percentage decreases were industrial uses 24.1%, offices 26.5% and shops 1.3%.

The administrative area pattern of sectoral vacancy is now examined. The largest vacancy sector in Central is offices with 172 of 477 vacant premises, followed relatively closely by shops 145 and industrial uses 138.

In North Central shops account for 65 of 150 vacancies with second place held by industrial uses at 54 premises and there are 20 vacant offices.

In North West shops are 89 of the total vacancies of 213 followed by industrial uses, 64 and offices, 52.

In South Central, of 251 vacant premises, 89 are shops, 63 are offices and 54 are industrial uses.

In South East of 813 vacant premises, 464 are offices, 220 are shops and 53 are industrial uses.

**Table 3.8 Sectoral mix of vacant commercial premises by administrative area 2016**

| Administrative area | Fuel depot | health | hospitality | Industrial uses | leisure | misc | office | retail shop | retail wholesale | total |
|---|---|---|---|---|---|---|---|---|---|---|
| C | 0 | 0 | 8 | 138 | 2 | 11 | 172 | 145 | 1 | 477 |
| NC | 0 | 0 | 4 | 54 | 1 | 4 | 20 | 65 | 2 | 150 |
| NW | 0 | 0 | 5 | 64 | 1 | 0 | 52 | 89 | 2 | 213 |
| SC | 1 | 0 | 11 | 54 | 1 | 27 | 63 | 89 | 5 | 251 |
| SE | 0 | 11 | 14 | 53 | 2 | 49 | 464 | 220 | 0 | 813 |
| Total | 1 | 11 | 42 | 363 | 7 | 91 | 771 | 608 | 10 | 1904 |

Source. Dublin City Council

The summary of the administrative areas' share of vacant premises held by the three main sectors of industrial uses, shops and offices are shown in Table 3.9

**Table 3.9 % shares of main vacancy sectors classified by administrative area 2016**

| Administrative area | Industrial uses as % of total vacant in area | office as % of total vacant in area | retail shop as % of total vacant in area |
|---|---|---|---|
| C | 28.9 | 36.1 | 30.4 |
| NC | 36.0 | 13.3 | 43.3 |
| NW | 30.0 | 24.4 | 41.8 |
| SC | 21.5 | 25.1 | 35.5 |
| SE | 6.5 | 57.1 | 27.1 |
| Total | 19.1 | 40.5 | 31.9 |

Source. Dublin City Council

There is substantial variability between administrative areas in the sectoral mix of vacant premises. The industrial uses share varies between 6.5% (SE) and 36.0% (NC). The office share of vacant premises varies between 13.3% (NC) and 57.1% (SE). The retail shops share has the lowest degree of variability and varies between 27.1% (SE) and 43.3% (NC)

The pattern of vacancy is now examined. (Table 3.10) This refers to the exits and entries into and from the vacant category. The aim was to see if there were serial vacant premises or whether there were substantial movement in and out. The data refer to 1594 accounts due to methodological issues as opposed to the full 1904 total of vacancies. Of these 1594 vacant premises in 2016 there were 650 which were also vacant for 2015, 2014 and 2013. This is 40.78% of the total. 58.72% of the 2016 vacancies were vacant in three of the four years 2016, 2015, 2014 and 2013. 77.85% of the 2016 vacant premises were vacant for 2016 and at least one of the three years 2015, 2014 and 2013. 32.94% of 2016 vacant premises were vacant continuously from 2012.

A large proportion of the 2016 vacant premises have been vacant for longer than 2016. This is not surprising because of the economic collapse since 2007, the high levels of capacity and the major structural adjustments which have been taking place in the mix of economic activity. The economy has experienced a substantial structural adjustment as well as a deep and long lasting recession. 40.78% of the 2016 vacancies were vacant continuously between 2013 and 2016. 58.72% of premises 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 churn of movement between vacancy and occupation.

**Table 3.10 Previous vacancy profile of 2016 vacant premises**

| vacant premises 2016 | Number of 2016 vacant also vacant in 2015, 2014 and 2013 | Number of 2016 vacant in three of 2016 to 2013 | Number of 2016 vacant in two of 2016 to 2013 | Number of 2016 vacant continuously vacant 2016 to 2012 |
|---|---|---|---|---|
| premises | 650 | 936 | 1241 | 525 |
| % of vacant | 40.78% | 58.72% | 77.85% | 32.94% |

Source. Dublin City Council

The vacancy patterns in the nine local electoral areas are now identified. Central is comprised of the one local electoral area of North Inner City. The other four administrative areas each have two local electoral areas. Table 3.11 identifies the number of vacancies and the vacancy rate.

Central's North Inner City has a 9.85% vacancy rate and 477 vacant premises.

North Central's two electoral areas each have 92 and 58 vacancies with vacancy rates of 9.69% and 6.43% (Clontarf).

North West has vacancy levels of 89 and 124 and vacancy rates of 8.70% (Cabra-Finglas) and 12.69% (Ballymun).

South Central's two electoral areas each have 93 and 158 vacant premises. The vacancy rates are Ballyfermot-Drimnagh 6.23% and Crumlin-Kimmage 9.90%.

In the South East, Rathgar-Rathmines has 81 vacant premises and a vacancy rate of 5.68%. Pembroke-South Dock has 732 vacancies and a vacancy rate of 9.86%.

Overall 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%.

**Table 3.11 Local electoral areas, vacancy total and vacancy rate 2016**

| Local area | Electoral Area | Vacant properties, number of premises | Total number of commercial premises | Vacant properties as % of total |
|---|---|---|---|---|
| **C** | | **477** | **4844** | **9.85%** |
| | North Inner City | 477 | 4844 | 9.85% |
| | | | | |
| **NC** | | **150** | **1851** | **8.10%** |
| | Beaumont-Donaghamede | 92 | 949 | 9.69% |
| | Clontarf | 58 | 902 | 6.43% |
| | | | | |
| **NW** | | **213** | **2000** | **10.65%** |
| | Cabra-Finglas | 89 | 1023 | 8.70% |
| | Ballymun | 124 | 977 | 12.69% |
| | | | | |
| **SC** | | **251** | **3088** | **8.13%** |
| | Ballyfermot-Drimnagh | 93 | 1492 | 6.23% |
| | Crumlin-Kimmage | 158 | 1596 | 9.90% |
| | | | | |
| **SE** | | **813** | **8850** | **9.19%** |
| | Rathgar-Rathmines | 81 | 1425 | 5.68% |
| | Pembroke-South Dock | 732 | 7425 | 9.86% |
| Total | | 1904 | 20633 | 9.23% |

Source. Dublin City Council

The share of total vacancies in each area held by offices, shops and industrial uses are shown in Table 3.12 below.

**Table 3.12 Local electoral areas, distribution of vacancy properties by sector 2016**

| Local area | Electoral Area | number of properties | Offices share % | Retail shops share % | Industrial % |
|---|---|---|---|---|---|
| **C** | | **477** | **36.1** | **30.4** | **28.9** |
| | North Inner City | 477 | 36.1 | 30.4 | 28.9 |
| | | | | | |
| **NC** | | **150** | **13.3** | **43.3** | **36.0** |
| | Beaumont-Donaghamede | 92 | 8.7 | 45.7 | 38.0 |
| | Clontarf | 58 | 20.7 | 39.7 | 32.8 |
| | | | | | |
| **NW** | | **213** | **24.4** | **41.8** | **30.0** |
| | Cabra-Finglas | 89 | 28.1 | 19.1 | 48.3 |
| | Ballymun | 124 | 21.8 | 58.1 | 16.9 |
| | | | | | |
| **SC** | | **251** | **25.1** | **35.5** | **21.5** |
| | Ballyfermot-Drimnagh | 93 | 32.3 | 26.9 | 30.1 |
| | Crumlin-Kimmage | 158 | 20.9 | 40.5 | 16.5 |
| | | | | | |
| **SE** | | **813** | **57.1** | **27.1** | **6.5** |
| | Rathgar-Rathmines | 81 | 33.3 | 43.2 | 18.5 |
| | Pembroke-South Dock | 732 | 59.7 | 25.3 | 5.2 |
| Total | | 1904 | 40.5 | 31.9 | 19.1 |

Source. Dublin City Council

There are notable differences between the electoral areas. For example the shares of vacancies accounted for by offices range from 59.7% in Pembroke-South Dock to 8.7% in Beaumont-Donaghmede’s 8.7%. All other seven electoral areas have office shares between 20.7% (Clontarf) and 36.1% (North Inner City).

The retail shops shares range from 19.1% (Cabra-Finglas) and 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 industrial uses shares 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 16.9% and 18.5%.

The proportion of an electoral area's rates which are levied on vacant properties is shown in Table 3.13 below.

In Beaumont-Donaghamede, the vacancy share of rates (before credit) is 15.86%. This contrasts with Clontarf's share of 8.4%.

The Cabra-Finglas vacancy share is 15.4% compared to the Ballymun share of 11.4%

The Ballyfermot-Drimnagh vacancy share of rates is 8.4% and the Crumlin-Kimmage share is 13.4%.

The Rathgar-Rathmines share is 7.2% and the Pembroke-South Dock share is 10.1%.

Of the nine local electoral areas the highest vacancy share of rates is 15.86% (Beaumont-Donahgamede) and the lowest is 7.2% in Rathgar-Rathmines. Cabra-Finglas 15.4% and Crumlin-Kimmage 13.4% are also quite high. Ballymun 11.4% and Pembroke-South Dock 10.1% are at or just above the Dublin City average. The other three electoral areas are below the city average.

**Table 3.13 Local electoral areas, rates on vacant premises (before credit) as share of total rates**

| Local area | Electoral Area | Vacant properties, number of premises Current annual rates € due | Total number of commercial premises Current annual rates € due | Vacant properties as % of total Current rates € due |
|---|---|---|---|---|
| **C** | | **€ 7,554,953.19** | **€ 84,387,048.16** | **8.95%** |
| | North Inner City | € 7,554,953.19 | € 84,387,048.16 | 8.95% |
| | | | | |
| **NC** | | **€ 2,087,752.19** | **€ 15,639,288.32** | **13.35%** |
| | Beaumont-Donaghamede | € 1,648,704.00 | € 10,395914.24 | 15.86% |
| | Clontarf | € 439,048.19 | € 5,243,374.08 | 8.4% |
| | | | | |
| **NW** | | **€ 2,469,952.90** | **€ 18,370,877.44** | **13.44%** |
| | Cabra-Finglas | € 1,441,751.94 | € 9,338,188.80 | 15.4% |
| | Ballymun | € 1,028,200.96 | € 9,032,688.64 | 11.4% |
| | | | | |
| **SC** | | **€3,374,479.36** | **€ 30,431,980.55** | **11.09%** |
| | Ballyfermot-Drimnagh | € 1,194,470.40 | € 14,163,407.36 | 8.4% |
| | Crumlin-Kimmage | € 2,180,008.96 | € 16,268,573.19 | 13.4% |
| **SE** | | **€17,492,847.62** | **€ 175,672,589.27** | **9.96%** |
| | Rathgar-Rathmines | € 660,779.52 | € 9,211,274.24 | 7.2% |
| | Pembroke-South Dock | € 16,832,068.10 | € 166,461,315.03 | 10.1% |
| **Total** | | **€32,979,985.26** | **€324,501,783.74** | **10.16%** |

Source. Dublin City Council

Note. The total rates associated with the vacant premises are the annual rates due. The cost of the refund in 2016 was less than 50% of the annual rates due because some vacant properties were vacant for less than the full year.

As part of the research project the author undertook a visual inspection of Dublin City commercial properties and also reviewed the commercial properties for rent on the various estate agents' websites There is a wide range of types of vacant properties including retail units in stand alone shopping centres, retail units in streets and local neighbourhood centres, industrial units in industrial estates and business parks, occasional standalone industrial units, offices in streets, custom build offices and parts of former residences, offices in modern specialised office blocks and offices in business parks. While some units especially some industrial units and standalone shops and some offices in older former residences most are in good condition and ready for occupation. Some vacant units are part of a site assembly project and may be vacant for a long time

In an examination of retail units on the websites it was found that there is a wide variety of vacant shops which were for letting. This included shops in shopping centres, individual high and local street units of a traditional nature, small retail developments and both high and low quality neighbourhood shopping centres.

There is, or has been recently, a wide range of ownership patterns of vacant properties and industrial estates/ retail parks and centres which contain vacant properties such as NAMA, banks, companies, individuals, landladies/lords and entrepreneurs. There are various legal situations such as receiverships, debt positions and litigation processes. Resolution of outstanding debt is still an issue. Ownership of vacant units ranges from well resourced functioning companies who could afford to pay rates on vacant premises to the former operators of businesses, including self-employed and companies, in the vacant premises which went out of business due to the economic collapse and may have significant debt issues. These would have difficulty dealing with a reduction of the vacancy refund. It is notable from our inspections that many premises do not fit the stereotype of deliberate vacancy awaiting a higher paid tenant or occupier. This is particularly so for individual units which are part of a partially occupied building or commercial park or complex.

The high visibility element of the commercial vacancy population is the closed shops and other closed units such as offices on the streets of the city and suburbs. Vacant shops in shopping centres are also visible but individual offices in office blocks are less visible. The vacant premises in Dublin City are divided 40.5% offices, 31.9% retail shops and 19.1% industrial units.

The main cause of the vacancy level is the demand side of the supply/demand model. The demand for premises derives from the desire to provide goods and services to meet market demand. There is insufficient demand to draw larger portions of the commercial property stock into use. The excess supply is due to, legacy over supply of capacity in anticipation of continuing economic growth before the economic collapse, the substantial and prolonged decline in economic activity since the economic collapse and the continuing lower levels of retail and construction despite the level of GDP regaining its pre-collapse level and changes in retail structure including an increased internet share of sales.

## 4. Financial Aspects of the Refund Scheme

This section deals with the financial implications of the refund scheme. The cost of the vacancy refund is substantial. Currently Dublin City Council refunds 45% of rates levied for eligible vacant premises. The 45% applies from 2017. Before 2017 the refund rate was 50%. The actual cost of the vacancy refund is substantially less than the full annual rates on the vacant properties because many vacancy credits apply for less than the full year.

The actual cost of the credit, when adjustment is made for the duration of vacancy, over recent years was: 2014 €14.6 million; 2015 €13.5 million and 2016, €11.2 million.

In 2016 the annual rates levied on vacant commercial premises were €32,979,985. On a 50% refund, this would generate a total cost of the vacancy credit of €16,489,993, on the assumption of all refunds applying for the full year. A 45% credit would have cost €14,840,993 in 2016. This is equivalent to 5.1% or 4.6% of the 2016 total rates bill of €324,501,784. As noted above, the actual 2016 cost was €11.2 million with a 50% refund. The cost with a 45% refund assuming all else remains constant would be €10.08 million

As shown in Table 4.1 the average annual rates due per vacant premises in 2016 were €17,321 compared to €15,727 for the commercial premises population as a whole. As already noted in section 3 the vacant premises are on average, a little larger than the commercial enterprises population as a whole. There is a substantial variation between administrative areas in the average rates levied on vacant and total commercial premises. This reflects the different structure of the vacancy premises in each area. The lowest vacant average rates are €11596 in NW and the highest is €21516 in SE. In four of the five administrative areas the vacancy average rates per commercial unit is higher than the average rates for total commercial units.

**Table 4.1 Value of rates and average rates levied, vacancies and total commercial premises, 2016**

| Local area | Vacant properties, Current annual rates € due | Average rates due per vacant property before credit | Total number of commercial premises Current rates € due | Average rates due per commercial property | Vacant properties as % of total Current rates € due |
|---|---|---|---|---|---|
| C | € 7,554,953.19 | €15838 | € 84,387,048.16 | €17421 | 8.95% |
| NC | € 2,087,752.19 | €13918 | € 15,639,288.32 | €8449 | 13.35% |
| NW | € 2,469,952.90 | €11596 | € 18,370,877.44 | €9185 | 13.44% |
| SC | €3,374,479.36 | €13444 | € 30,431,980.55 | €9855 | 11.09% |
| SE | €17,492,847.62 | €21516 | € 175,672,589.27 | €19850 | 9.96% |
| Total | €32,979,985.26 | €17321 | €324,501,783.74 | €15727 | 10.16% |

Source. Dublin City Council

As already identified in section 3 there is a wide distribution of rates levied for vacant premises. 75.8% of vacant premises are in the rates band of up to €10k which is much the same as the share of this band in total commercial units. On the assumption that the average rates due in this size category is midway between the band, the average rates levied before credit for vacancy would be €5k. With a 50% credit for vacancy the rates due would be €2500 per premises in the small size category. In other words with a rates bill of €5k the burden from a rates perspective of staying vacant is €2500 per year. As Dublin City has operated a 50% refund for many decades and as its vacancy rate is not small compared to other councils, it can be readily seen that this rates related financial burden has not been sufficient in the past to “force” otherwise vacant properties into occupation or disposal. The decrease in the refund rate to 45% has an effect of increasing the annual rates due for a €5k rates levied vacancy by €250, or €4.81 per week. 75.8% of all vacant premises are in the €1 to €10k rates category (before refund) and the average rates in this category would probably be under €5k. For a €10k rates vacancy the impact is an additional €500 per year or €9.62 per week. About three quarters of vacant premises would be levied €10k rates or less. This large majority would be burdened by an additional rates demand from the 5% reduction in the refund rate of less than €500 per annum. This is most unlikely to have a strong push factor in forcing occupation.

Clearly, the rates burden and the impact of the change in the refund rate increase with the level of rates as shown below (Table 4.2). At a rates bill of €50k the impact of the 5% change is €2,500 per annum.

**Table 4.2 Rates to be paid for different size of vacancy at 50% and 45% refunds**

| Rates due before credit €k | Rates due after credit of 50% €k | Rates due after credit of 45% €k | Difference between 45% and 50% credits annual €k | Difference between 45% and 50% credits Weekly € |
|---|---|---|---|---|
| 5 | 2.5 | 2.75 | 0.250 | 4.81 |
| 10 | 5.0 | 5.5 | 0.500 | 9.62 |
| 15 | 7.5 | 8.25 | 0.750 | 14.42 |
| 25 | 12.5 | 13.750 | 1.250 | 24.04 |
| 50 | 25.0 | 27.50 | 2.500 | 48.08 |
| 100 | 50.0 | 55.00 | 5.000 | 96.15 |

Source. Author’s calculations

As considered in this report, there could be a gradual move to a 30% refund. The impact of this on vacancy ratepayers compared to the pre-2017 50% rate is shown in Table 4.3. This represents an increase of 40% in the rates to be paid. As already noted three quarters of vacant premises are in the “up to €10k” category. These would face an increase from a 30% refund of €2k per year. We estimate that the majority of vacant premises would face an extra bill of less than €1k. For these the increase is not likely to be the determining factor which moves vacancy to occupation. At higher rates levels the impact is more substantial with a €50k rates premises facing an increase of €10k annually from a 30% refund. The impact is more substantial in absolute money terms but the relativity is the same in all categories with an increase of 40%. A 40% increase is substantial and should be phased in gradually.

**Table 4.3 Rates to be paid for different size of vacancy at 50% and 30% refunds**

| Rates due before credit €k | Rates due after credit of 50% €k | Rates due after credit of 30% €k | Difference between 30% and 50% credits annual €k | Difference between 45% and 50% credits Weekly € |
|---|---|---|---|---|
| 5 | 2.5 | 3.5 | 1.0 | 19.23 |
| 10 | 5.0 | 7.0 | 2.0 | 38.46 |
| 15 | 7.5 | 10.5 | 3.0 | 57.69 |
| 25 | 12.5 | 17.5 | 5.0 | 96.15 |
| 50 | 25.0 | 35.0 | 10.0 | 192.31 |
| 100 | 50.0 | 70.0 | 20.0 | 384.62 |

Source. Author's calculations

It is reasonable to expect that reductions in the Dublin City vacancy credit would increase both the difficulty of collecting the additional rates and the cost of collection. By definition the vacant premises are not generating any revenue either as rent or business revenues. Some of those who would be liable for rates in the vacant sector will not be in a position to pay. It is not known to what extent the vacant rates could be collected. The difficulty of collecting rates from a significant proportion of the currently vacant premises has been emphasised by several people in the discussions associated with the project. However, empirical evidence is not available. On completion of the 2017 financial year it would be desirable to undertake an audit of the 2017 collection experience in light of the 5% reduction in the vacancy credit in 2017. Despite the uncertainty, it is beneficial to outline some scenarios of possible revenue/financial impacts. The impact depends on the level of the rates due on the vacant premises and the collection success.

Details of the countrywide overall rates collection performance is shown below in Table 4.4.

The data are from the 2016 Service Indicators in Local Authorities report and the indicator refers to the amount of due rates collected at year end as a percentage of the amount due. Of the Dublin councils, Fingal was the best performer in 2016 with 93%.

Dublin City was close behind with 90%. The other Dublin performances were Dun Laoghaire-Rathdown 85% and South County 83%. It should be noted that the indicator refers to rates collected by year end, not rates due that are eventually collected. Roscommon and Kilkenny are the only other councils with a rate at or above 90%.

Dublin City's performance improved from 80% in 2012. Most councils have improved their rates collection rate over the past few years.

### Table 4.4: Commercial Rates Collection Rate 2016

| Local Authority | Amount collected at year-end as a percentage of amount due from commercial rates: 2016 |
|---|---|
| Carlow | 88% |
| Cavan | 83% |
| Clare | 84% |
| Cork City | 79% |
| Cork County | 88% |
| Donegal | 65% |
| Dublin City | 90% |
| DLR | 85% |
| Fingal | 93% |
| Galway City | 75% |
| Galway Co | 82% |
| Kerry | 81% |
| Kildare | 83% |
| Kilkenny | 94% |
| Laois | 75% |
| Leitrim | 81% |
| Limerick | 77% |
| Longford | 84% |
| Louth | 67% |
| Mayo | 81% |
| Meath | 89% |
| Monaghan | 81% |
| Offaly | 86% |
| Roscommon | 91% |
| Sligo | 76% |
| SDCC | 83% |
| Tipperary | 81% |
| Waterford | 80% |
| Westmeath | 81% |
| Wexford | 79% |
| Wicklow | 80% |

Source. Dublin City Council

Table 4.5 summarises the rates collection and write-offs/arrears details for Dublin City for the past few years. The data are from the Annual Financial Statement of the council.

**Table 4.5 Commercial rates collection 2013 to 2016 Dublin City Council €million**

| | Arrears at start of year | Levied in year | Vacant property adjustment | Write off | Total for collection | Collected | Arrears at end of year | |
|---|---|---|---|---|---|---|---|---|
| 2013 | 76.3 | 341.2 | | 37.8 | 379.7 | 305.7 | 74.0 | |
| 2014 | 74.0 | 342.2 | | 33.7 | 382.5 | 319.9 | 62.6 | |
| 2015 | 62.6 | 336.3 | 13.5 | 20.1 | 365.2 | 314.1 | 51.1 | |
| 2016 | 51.1 | 324.5 | 10.6 | 20.9 | 344.2 | 303.1 | 41.1 | |

Source. Annual Financial Statements, Dublin City Council

There is a substantial level of commercial rates arrears although the level has decreased significantly in recent years. In 2016 the opening arrears were €51.1 million (which had accumulated over previous years) and by the end of 2016 the total stood at €41.1 million. The closing arrears were 12.7% of the total rates levied in the year. There is a substantial rates write off each year which relates to rates which will not be paid. The 2016 write off was €20.9 million. This has declined from €37.8 million in 2013. A reduction in the vacancy credit is likely to increase the difficulty of collection and increase the cost of collection, increase the arrears level and eventually lead to a higher level of write off. However, even with these expectations, it is likely that net revenue would increase.

The rates collection/payment system is outlined below.

- Rates bill is issued late January/early February-depending on the date of the making of the rate.
- If nothing is paid by May/early June a green reminder is issued
- Green reminders are sent to others after 1st July (date 2nd moiety of rates becomes due) in cases where they have paid half or about half reminding them of outstanding balance.
- Red reminders then sent around July / August/ September to all cases where balances are outstanding
- If payment is still not paid legal proceedings begin and 6 Day Notice are issued via registered post.
- When all 6 Day Notices are sent, the Summons list is prepared
- Summons are then sworn on swearing date

- Summons sent by Solicitor via registered post to name on Summons and this informs them of the amount outstanding, costs and date of hearing.

- Various scenarios happen on the hearing date:(a) the ratepayer may have paid in full-in which case it is struck out.(b)they may have come to a payment arrangement e.g. post dated cheques/payment undertaking, in which case the council agrees to adjourn with liberty to re-enter(just in case cheques do not clear or the payment arrangement is not followed (c) they may have paid nothing-Decree sought

- Following granting of decree, a letter is then issued giving the ratepayer two weeks to pay or come to a payment arrangement.
- If still nothing is arranged re payment the Warrant of Execution is handed over to City Sheriff.

If a company is liquidated or ceased business, the rates arrears can be written off once there is notice from the liquidator/receiver as to likelihood of any payout to preferential creditors such as the Council.

There is a substantial amount of activity undertaken by the Council to collect rates due. The 2016 volume of actions after and including 6 day notices are listed in Table 4.6

**Table 4.6 Summary Proceedings - Rates Office 2016**

| **Number** | **Legal Process** |
|---|---|
| 3932 | 6 Day Notice Issued |
| 1920 | Summons Issued |
| 768 | Decrees obtained |
| 405 | Warrants to Sheriff |

Source. Dublin City Council

The financial implications on various assumptions of reducing the vacancy credit are shown in Tables 4.7 and 4.8. we present two scenarios. We use the 2016 rates data as the basis and assume two collection efficiency scenarios. We assume in Table 4.7 that the premises are vacant for the full year and the assumption in Table 4.8 is that the actual 2016 cost of €11.2 million is the starting point. It should be noted that a lower vacancy credit could reduce the collection rate of the existing vacancy commercial rates if ratepayers who previously paid the 55% rates due refuse or are unable to pay the higher rates bill. It would also most likely increase the cost of collection and increase recourse to the legal route of collection.

**Table 4.7 Impact on revenue of different collection rates and vacancy credits: based on annual vacancy rates levied**

| | **50% vacancy credit** | **45% vacancy credit** | **40% vacancy credit** | **35% vacancy credit** | **30% vacancy credit** |
|---|---|---|---|---|---|
| Rates levied | 32.980 | 32.980 | 32.980 | 32.980 | 32.980 |
| Rates due after credit | 16.490 | 18.139 | 19.788 | 21.437 | 23.086 |
| Assume collection rate 80%: rates collected | *13.192* | *14.511* | *15.830* | *17.150* | *18.469* |
| Assume collection rate 75%: rates collected | **12.368** | 13.604 | 14.841 | 16.078 | 17.315 |
| Assume collection rate 70%: rates collected | na | **12.697** | 13.852 | 15.006 | 16.160 |
| Assume collection rate 65%: rates collected | | na | **12.862** | 13.934 | 15.006 |
| Assume collection rate 60%: rates collected | | na | na | **12.862** | 13.852 |
| Assume collection rate 55%: rates collected | | na | na | na | **12.697** |

Source. Author's calculations.

A significant reason for lowering the vacancy credit is to raise additional revenue which can then be used for additional services and/or reductions in existing charges and rates. The most desirable outcome from a revenue generation perspective is that the increased rates would be paid without any change in ratepayer behaviour and without any reduction in compliance. In 2016 the vacant premises were associated with a full annual rates bill of €32.980 million. With a 50% credit €16.490 million would be collected on an unrealistic 100% collection rate assumption. The 45% credit increases the revenue on the 100% collection rate to €18.139 million. A 40% credit results in a rates bill of €19.788 million and a 35% credit results in €21.437 million. With a 30% credit the revenue is €23.086 million. Between the 50% credit and the 30% credit the increase in revenue is €6.596 million. This is a substantial sum and would be very useful for additional services or reduced charges.

However, a 100% collection rate is unrealistic. We have seen the performance indicator collection rate of 90%. The Annual Financial Statements refer to collection rates of 90% in 2016, 88% in 2015 and 84% in 2014. Given the characteristics of the vacant premises, it is likely that the vacancy rates collection would be lower than the overall collection rate. On the assumption of a collection rate of 80% and which does not change as the vacancy credit decreases, the change in revenue is from €13.192 million on 50% credit to €18.469 million on a 30% credit. This does not account for possible increased costs of collection. This is an increase of €5.277 million which is much lower than the 100% collection assumption. Nonetheless it is still a substantial sum. An unchanged 75% collection rate would increase revenue by €4.947 million between the 50% and 30% credits.

Table 4.7 shows the effect of a reduced rate of collection as the credit decreases. The model used is illustrative but reasonable. Different assumptions on the collection rate will give different results. The model assumes a 2016 vacancy collection rate of 75% and as the vacancy credit decreases by 5 percentage points the collection rate decreases by 5 percentage points. A 75% collection rate is associated with the credit of 50% and generates €12.368 million in vacancy rates revenue. As the credit drops to 45% the collection assumption is 70% and the vacancy rates revenue is €12.697 million, an increase of only €0.329 million. A 40% vacancy credit is associated with a collection rate of 65% and a vacancy related revenue of €12.862 million, compared to the 75%/50% €12.368 million. If the credit was reduced to 35%, using the model's assumption of a collection rate of 60% the vacancy related revenue would remain at €12.862 million. This arises from the increase in rates payable from 60% to 65% is directly offset by the collection rate decreasing from 65% to 60%. On the 30% credit and assumed collection rate of 55%, the vacancy-related revenue would be €12.697 compared to the €12.368 with the 75%/50% determinants.

While alternative scenarios can be used the broad conclusion is that lower credits could be associated with lower collection rates which reduce the gain in revenue compared to reduced credits and unchanged collection rates.

Table 4.8 contains the same exercise but with the actual cost of the credit of €11.2 million in 2016 as the starting point. The same collection rates as table 3.7 are used.
With a 100% collection rate the rates due on the 50% credit is €21.780 and this rises to €26.260 million on a 30% credit. On an 80% collection rate the rates paid by vacant premises increase from €17.424 million to €21.008 million, an increase of €3.584 million. On a 75% collection assumption the rates paid increase by €3.360 million.
As with Table 4.7, an assumption of a decreasing rate of collection reduces the revenue gain. If the collection rate declines with each reduction in credit there is an actual decline in revenue from vacancy rates. This arises because the gain from the lower credit is more than offset by the decrease in the collection rate of the rates due. Of course, if there is no reduction in the collection rate or a smaller reduction, as the credit decreases, the revenue impact will be different.

**Table 4.8 Impact on revenue of different collection rates and vacancy credits: based on actual 2016 cost of credit**

| | **50% vacancy credit** | **45% vacancy credit** | **40% vacancy credit** | **35% vacancy credit** | **30% vacancy credit** |
|---|---|---|---|---|---|
| Rates levied | 32.980 | 32.980 | 32.980 | 32.980 | 32.980 |
| Cost of vacancy credit | 11.200 | 10.08 | 8.96 | 7.84 | 6.72 |
| Rates due after credit | 21.780 | 22.90 | 24.02 | 25.14 | 26.26 |
| Assume collection rate 80%: rates collected | 17.424 | 18.320 | 19.216 | 20.112 | 21.008 |
| Assume collection rate 75%: rates collected | **16.335** | 17.175 | 18.015 | 18.855 | 19.695 |
| Assume collection rate 70%: rates collected | na | **16.03** | 16.814 | 17.598 | 18.382 |
| Assume collection rate 65%: rates collected | | na | **15.613** | 16.341 | 17.069 |
| Assume collection rate 60%: rates collected | | na | na | **15.084** | 15.756 |
| Assume collection rate 55%: rates collected | | na | na | na | **14.443** |

Source. Author's calculations.

It is reasonable to expect that reductions in the Dublin City vacancy credit would increase both the difficulty of collecting the additional rates and the cost of collection but it is not known to what extent. By definition the vacant premises are not generating any revenue either as rent or business revenues. Some of those who would be liable for rates in the vacant sector will not be in a position to pay. It is not known to what extent the vacant rates could be collected.

The Dublin City vacancy rate and number of vacancies would be expected to continue the decline of the past three years in light of the expected national and Dublin economic environment and the property market as discussed in the next two sections. This would result in a smaller amount of rates associated with the vacancies and, therefore, a smaller revenue gain associated with a given refund credit.

The revenue gain from additional rates due to reduced vacancy credits will not have an equivalent positive effect on the council's finances due to the overall system of financing local government. Increased "own" financial resources could result in a subsequent reduction in central Government funding, thereby negating all or part of the revenue gain.

Local Government funding includes an element of cross subsidisation that is exclusively weighted in favour of rural counties. This process does not acknowledge the funding needs of Dublin City in the context of significant areas of deprivation and also the funding demands of being the capital and main city and the main engine of national economic growth. It has been the practice that increases in rates buoyancy within Dublin City Council has been countered by reductions in grants from central government thereby negating or reducing the benefit from the increased rates income. This feature of local government financing is demonstrated in the application of the local property tax funding. 20% of locally generated property tax revenue is retained by Government for redistribution to less well resourced councils, which has never been assigned to Dublin. The elected members may or may not then apply a reduction or increase. The remaining balance is then assigned by circular letter (i.e. on a statutory basis) to specific purposes that previously would have been funded by service specific grant allocations. The residual amount of €4m, from an initial yield of circa €80m, after this process that came to Dublin City Council as additional funding (in 2015 only) is substantially less than the funding gap necessary to support homeless services in Dublin City in that year alone.

This feature would further reduce the expectation that a reduced vacancy refund rate would result in additional funds for services, when in practice it is likely to be accompanied by a reduction of grants elsewhere thereby removing or reducing any incremental financial benefit to Dublin City Council.

## 5. National Commercial Property Situation

A range of property market reports, commentaries and analyse suggest a reasonably strong property market in 2016 and a positive outlook for 2017. These are discussed below. However, the DKM GeoView Commercial Vacancy Rates Report which provides a comprehensive national and local picture of vacant commercial property presents a picture of a weaker overall market with no decline in the overall number of vacant premises in recent years. Part of the resolution of this difference arises from the sectoral nature of the market. For example, the hotel sector and prime office sector in Dublin are performing well but the smaller industrial, office and retail shop sectors may not be matching the larger projects performance. The demand for prime office space in the centre of Dublin City, or the building of hotels in the city, are not necessarily indicative of the demand for the smaller premises in various locations of the city. One would expect an element of trickle down effect from the high end of the market to the lower end but this would take time and might ultimately not benefit many of the vacant premises which form the 1904 vacant premises in the city (as measured by the rates refund total).

The latest DKM GeoView Commercial Vacancy Rates Report refers to Quarter 4 2016. The national commercial vacancy rates for Quarter 4 of the four years of the analysis are shown in Table 4.1. The failure of the 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. In absolute numbers the vacant properties increased from 27,585 in 2013 to 28,796 in 2016. Again, in light of the improved economic environment one would have expected a decline in the number of vacancies. It should be noted that the main determinant of the increase in the vacancy rate between 2015 and 2016 is the decline in the number of commercial properties or premises (from 224k to 214k) rather than a big increase in the number of vacant premises (increase from 28,200 to 28,796). The report notes that in 2016…" special emphasis was placed on the small office home office sector resulting in a drop in the overall business premises." (Page 1)

On the assumption that there are no major issues with the basic data from which the report is derived (the GeoDirectory database), the data show that the national vacancy rate and number of vacant properties are relatively resistant to the improved macroeconomic environment. Achieving a significant reduction in these rates and numbers will be difficult.

**Table 5.1 National vacancy rates Quarter 4 2013 to 2016**

| | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|
| Vacancy rate % | 12.4 | 12.8 | 12.6 | 13.5 |
| Total commercial properties | 223,308 | 223,107 | 224,003 | 213,666 |
| Vacant commercial properties | 27,585 | 28,465 | 28,200 | 28,796 |

Source. DKM GeoView Commercial Vacancy Rates Report, Quarter 4 of each year

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. An individual property owning ratepayer may have several tenants who are not directly ratepayers.

As noted, the Dublin Quarter 4 2016 vacancy rate was 13.7% compared to the national total of 13.5%. In terms of the county vacancy rates, Sligo had the highest vacancy rate of 18.0% and the lowest was Kerry at 10.2%. Dublin had the fifteenth highest vacancy rate. The county vacancy rates for Quarter 4 2017 are summarised in Table 4.2. Increases in vacancy rates were recorded in 25 counties compared with Quarter 4 2015. There were no counties which had a decrease.

**Table 5.2 Summary of county commercial vacancy rates Quarter 4 2016**

| | | |
|---|---|---|
| Highest Sligo | 18.0% | |
| Lowest Kerry | 10.2% | |
| Dublin rate | 13.7% | |
| Dublin rank | 15th of 26 | |
| Number of counties 15% and above | 6 | Sligo, Leitrim, Donegal, Mayo, Galway, Limerick, |
| Number of counties 14% and above and below 15% | 8 | Longford, Offaly, Clare, Waterford, Louth, Roscommon, Laois, Tipperary, |
| Number of counties 13% and above and below 14% | 2 | Dublin, Carlow |
| Number of counties 12% and above and below 13% | 4 | Kildare, Monaghan, Wicklow, Kilkenny |
| Number of counties 11% and above and below 12% | 2 | Cavan, Cork |
| Number of counties 10% and above and below 11% | 4 | Wexford, Meath, Westmeath, Kerry |

Source. DKM Geo View Commercial Vacancy Rates report

The vacancy rates in the counties with the main urban centres were Dublin, 13.7%; Cork, 10.9%; Limerick, 15.3%; Galway, 15.45 and Waterford, 14.6%.

Many small towns have very high vacancy rates. Edenderry has the highest commercial premises vacancy rate at 31.0%. Second highest is Ballymore with 28.8%. Ballina is third with 24.7%. Kilrush is fourth with 24.2%. Castlebar has a 22.5% vacancy rate. Longford town's vacancy rate is 21.3%.

Vacancy rates are available for the 22 Dublin postal districts. Some districts have parts in more than one council area. The exclusively Dublin City districts are listed in bold. The range of vacancy rates is 19.2% (17) to 7.0% (16). After district 17 which includes Dublin City and Fingal, the next five highest districts are all in the City council area (2, 8, 10, 9 and 3). Of the 22 Dublin districts 10 had vacancy rates which were greater than the national rate of 13.5%. Only 5 districts had rates of less than 10%

The relatively high vacancy rates of some Dublin City districts should be noted in the context that Dublin City had a 50% vacancy refund while other Dublin councils had a 100% refund. While there are several determinants of a vacancy rate the lower Dublin City refund would have led to expectations of a lower vacancy rate. In Foley (2016), the 2014 Fingal vacancy rate was 12.4% compared to the 2014 Dublin City rate of 11.2% despite the difference in the vacancy refund.

**Table 5.3 Vacancy rates in Dublin postal districts Quarter 1 2017**

| Northside, district, council and vacancy rate % | Southside, district, council and vacancy rate % |
|---|---|
| **1 Dublin 14.3** | **2 Dublin 18.7** |
| **3 Dublin 14.6** | 4 Dublin, Dun Laoghaire Rathdown 9.5 |
| **5 Dublin 10.6** | 6 Dublin, Dún Laoghaire Rathdown 7.7 |
| **7 Dublin 11.3** | 6W Dublin, South Dublin 14.1 |
| **9 Dublin 15.1** | **8 Dublin 17.4** |
| 11 Dublin, Fingal 14.0 | **10 Dublin 16.1** |
| 13 Dublin, Fingal 12.0 | **12 Dublin 12.8** |
| 15 Fingal 7.4 | 14 Dublin, South Dublin, Dun Laoghaire Rathdown 8.1 |
| 17 Dublin, Fingal 19.2 | 16 Dún Laoghaire–Rathdown, South Dublin 7.0 |
| | 18 Dún Laoghaire–Rathdown 10.1 |
| | 20 Dublin, South Dublin 10.6 |
| | 22 South Dublin 13.1 |
| | 24 South Dublin 14.4 |

Source. Geo View

However, despite the GeoView figures not showing a reduction in vacancy numbers and rates nationally and in Dublin over the past few years over the past few years, we should note that the Dublin City Council vacancy figures do show a strong decline between 2014 and 2016 from 2327 to 1904 premises, a decrease of 19.2% and from a vacancy rate of 11.2 % to 9.2%.

It is notable that despite quite high vacancy rates in retail and offices in Dublin City and adjacent areas that there are also new office and retail developments underway and planned. Retail projects include the Green Reit's new development in Dawson Street, an intended extension to Frascati Shopping Centre in Blackrock and the redevelopment of Clerys. Planning permission may be lodged for Phase 3 of Blanchardstown Town Centre and for an extension to the Liffey Valley shopping centre. This reflects differences between the stock of vacancies and the needs and demands of the market. An increase in retail demand or office demand may not be met by the existing vacant facilities but by the building of new facilities. The same applies to offices and industrial units.

The Dublin property market will remain robust in 2017 and 2018 but with 2017 returning a weaker performance than 2016 on certain indicators.

The CBRE 2017 Real Estate Market Outlook regarded 2016 as an excellent year. It notes "take-up in all occupier sectors continued at pace in 2016." Strong rental growth was achieved in all sectors of the market. However, yields remained stable with most price appreciation due to rental growth. The pace of rental growth is expected by CBRE to slow down in 2017 but Dublin is still expected to exceed European average rental growth. As in recent years, some sectors will be better performers than others ( See Table 5.4).

**Table 5.4 CBRE Prime Rental Growth Forecast 2017 %**

| Sector | Office | High Street | Shopping centres | Industrial |
|---|---|---|---|---|
| Europe | 0.9 | 2.7 | 1.9 | 2.7 |
| Dublin | 1.6 | 7.9 | 4.0 | 13.9 |

CBRE Real Estate Market Outlook 2017

Industrial rent increases are expected to be the highest, followed by high streets, shopping centres and offices. Prime industrial rents increased by 25% in 2016 according to CBRE. Prime rents on Grafton St increased by 11% in 2016 and by 13% in prime shopping centres. Major retail transactions in 2016 included the sale of the Blanchardstown and Liffey Valley shopping centres. Many of the top retail schemes and certain high streets were close to full capacity in 2016. There is potential for rental growth in the retail market relating to high streets, shopping centres and retail schemes in 2017 but this will be significantly lower than the 2016 performance.
In all four sectors the Dublin forecast performance exceeds the forecast for Europe.

Overall property yields will decline a little but will still be competitive internationally and with alternative investments. Returns from Irish property generally have been slowing following the excellent performances in 2014 and 2015. The hotel sector will perform well in 2017.

Take-up in the office sector in 2016 was higher than expected and exceeded the 2015 record performance. Notable lettings included City Quay to Grant Thornton, Cherry wood to Zoetis, Grand Canal Square to Citadel, City West to Infosys Technologies. It is expected that in 2017 and beyond demand for office space in secondary and suburban locations will increase

Take-up in the industrial sector was down in 2016 compared with 2015 but this was primarily due to a lack of high quality supply. Demand has been strong from a range of distribution and logistics operators. Industrial returns are now sufficient to encourage speculative development. 2017 is expected to be the peak of the current office rental cycle. Substantial improvements in office supply will emerge in 2017 and continue in 2018. Brexit relocations from London will boost demand for prime office space.

The Quarter 1 2017 analysis of the industrial market by Cushman and Wakefield/ Sherry Fitzgerald reports that transactions activity in the opening quarter of 2017 was 13% lower than the same period in 2016, mainly due to the shortage of good quality facilities. The Dublin industrial space vacancy rate (which was 28.7% in 2015) increased from 14.8% in Quarter 1 2016 to 15.5% in Quarter 1 2017. Contrary to the

CBRE 2017 forecast of 13.9% for growth in industrial prime rents, this analysis reports no change in these rents between Quarter 1 2017 and Quarter 1 2016.
While there are many vacant industrial units in Dublin, many of these do not meet the market requirements and additional construction is underway.

Cushman and Wakefield/ Sherry Fitzgerald (2017) report that €17.7 billion was transacted in the Irish commercial and residential property market in 2016. €10.9 billion of this was in the Dublin market. This was an increase of 12% on the 2015 level. €6.1 billion of this was in commercial property. This commercial investment was lead by the retail, office and hotel sectors.

The strength of the commercial property situation is also shown in the Savill's 2017 Investment Report. Nearly €4.5 billion of income producing property assets were traded in 2016; an increase of 20% on the 2015 level and just below the record 2014 level. However, when some exceptional items are considered such as the presence of the Blanchardstown and Liffey Valley transactions in 2016 and the exclusion of Project Jewel from the 2015 figures, the report notes that 2016 felt like the start of a return to normal trading.

The Annual Commercial Property Review and Outlook 2016 published by the SCSI, reported that that the Irish commercial market continued to perform strongly in all sectors in 2016 but that the 2016 growth was lower than 2015. The property market generated a 12.4% return in 2016 which was better than equities and bonds. According to the SCSI, office rents in Dublin are expected to increase by between 5% and 7% in 2017 compared to 2016; retail rents are expected to increase by between 5% and 8% depending on type and industrial rents will increase in 2017 by between 7% and 9%

The Quarter 2 Lisney Rental Index gives a comprehensive picture of the change in commercial rentals (Table 5.5) over the past few years and the past year. Rents have increased between 2016 and 2017 between 2% and 4% for overall property, retail and offices. Industrial rents increased by 19.7%. Between 2013 and 2017 office rents increased by 95.5%, while rents for retail increased by 33.4% and for industrial units 46.9%.

**Table 5.5 Rental increases June 2013 to June 2017**

| | June to13 | June 2017 | % change 2013/2017 | % change 2016/2017 |
|---|---|---|---|---|
| Composite index | 60.89 | 95.26 | 56.5 | 3.4 |
| Overall retail | 65.50 | 87.36 | 33.4 | 4.2 |
| Overall office | 56.23 | 109.93 | 95.5 | 2.3 |
| Overall industrial | 56.52 | 83.04 | 46.9 | 19.7 |

Source. Lisney Rental Index

Overall, the property market in Dublin is expected to perform well in 2017 but with lower growth in rents than in 2016 in some cases. However, as discussed and as shown by the GeoView data a well performing property sector does not directly result in substantial declines in vacancy rates at the lower end of the office, industrial and retail sectors.

## 6. Economic Growth: National and Dublin

Economic activity is a significant determinant of the demand for and utilisation of commercial premises. Following several years of very weak economic performance national economic growth performance over recent years has been excellent and short and medium-term economic growth prospects remain good, despite significant negative international and internal risks including Brexit, USA economic policy, housing and competitiveness. The usual international measure of economic growth is change in the volume of GDP. The national economic growth rate will moderate from 2018 compared with recent years but will still be good. However, this indicator has ceased to be an accurate measure of the performance of the Irish economy especially since 2015, when various aspects of multinational enterprise activity greatly increased the value of GDP without an accompanying increase in "real" domestic economic activity. The CSO has devised a new measure of economic performance, "Gross National Income Adjusted". Other indicators such as employment and consumption are free of the multinational related distortions.

The performance of the national and Dublin economies as illustrated by the changes in employment are shown in Table 6.1. Employment in the national economy was 2.1106 million persons in Quarter 1 2007. It was 2.1464 million persons in quarter 1 2008 and declined each year to 2012 Quarter 1 to a level of 1.8250 million persons a decline of 13.5% or 285,600 persons. Employment increased each year since 2013 and reached 2.0451 million persons in quarter 1 2017. The current national employment level is at 95.3% of the peak pre-economic collapse level. Employment is almost back at the pre-collapse level. Since 2012 national employment has increased by 220.1k persons or 12.1%.

Dublin's employment peaked at 636.3 k persons in Quarter1 2008 and declined each year to 2012 when it reached 541.5k persons. Since then it increased each year to reach 627.1k in Quarter 1 2017. The Dublin increase between 2012 and 2017 was 15.8% which is higher than the national increase. Dublin's current employment is at 98.6% of its peak in 2008.

In 2008 Dublin had 29.6% of the total national employment. In 2017 this share had increased to 30.7%.

**Table 6.1 Employment Quarter 1 2007 to Quarter 1 2017, National and Dublin, k persons**

| Quarter 1 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Dublin | 628.2 | 636.3 | 598.4 | 565.2 | 546.3 | 541.5 | 547.1 | 572.9 | 584.9 | 611.7 | 627.2 |
| National | 2110.6 | 2146.4 | 1996.4 | 1891.9 | 1841.8 | 1825.0 | 1845.6 | 1888.2 | 1929.5 | 1976.5 | 2045.1 |

Source. CSO

However all sectors have not benefited equally from the aggregate increase. The different sectoral employment performances are shown in Table 6.2 below. While Quarter 1 total employment in 2017 is lower by 4.7% than Quarter 1 2007, construction employment in 2017 is 142.5k compared with 255.8k in 2008, a decline of 44.3%. Industry employment which is mainly manufacturing declined between 2008 and 207 by 7.1%. Services employment increased by 2.8%.

| Table 6.2 Person aged 15 years and over in Employment (Thousand), NACE Rev 2 Economic Sector and Quarter | 2008Q1 | 2012Q1 | 2017Q1 |
|---|---|---|---|
| **State** | | | |
| Agriculture, forestry and fishing (A) | 116.3 | 80.5 | 107.7 |
| Industry (B to E) | 284.1 | 236.0 | 263.8 |
| Construction (F) | 255.8 | 103.3 | 142.5 |
| Services (G to U) | 1,482.0 | 1,403.3 | 1,524.0 |
| Wholesale and retail trade, repair of motor vehicles and motorcycles (G) | 319.6 | 271.3 | 276.5 |
| Transportation and storage (H) | 94.8 | 90.2 | 95.4 |
| Accommodation and food service activities (I) | 132.3 | 117.6 | 152.2 |
| Information and communication (J) | 72.2 | 78.5 | 92.7 |
| Financial, insurance and real estate activities (K,L) | 104.7 | 101.0 | 100.4 |
| Professional, scientific and technical activities (M) | 111.7 | 98.0 | 116.5 |
| Administrative and support service activities (N) | 83.1 | 62.5 | 72.2 |
| Public administration and defence, compulsory social security (O) | 103.4 | 99.5 | 100.7 |
| Education (P) | 139.7 | 146.6 | 158.1 |
| Human health and social work activities (Q) | 222.0 | 239.6 | 256.2 |
| Other NACE activities (R to U) | 98.4 | 98.5 | 103.1 |
| Not stated | 8.1 | .. | 7.3 |
| All NACE economic sectors | 2,146.4 | 1,825.0 | 2,045.1 |

Source. CSO

Within services, over the 2008 to 2017 period, wholesale and retail employment decreased, accommodation and food services increased substantially. Employment in information and communications also increased substantially as did employment in human health and social work activities and in education. Financial sector employment decreased as did public administration and administrative activities.

The sectoral pattern of the Dublin employment change are shown in Table 6.3 for 2008 quarter 1 which is the end of the previous boom, quarter 1 2012 which is around the  time when employment started to increase and quarter 1 2017 which is the latest data available.

**Table 6.3 Persons aged 15 years and over in Employment (Thousand) , Dublin, NACE Rev 2 Economic Sector and Quarter**

| | 2008Q1 | 2012Q1 | 2017Q1 |
|---|---|---|---|
| **Dublin** | | | |
| Agriculture, forestry and fishing (A) | .. | .. | .. |
| Industry (B to E) | 57.9 | 40.5 | 49.4 |
| Construction (F) | 58.3 | 21.0 | 34.1 |
| Services (G to U) | 516.5 | 477.8 | 537.0 |
| Wholesale and retail trade, repair of motor vehicles and motorcycles (G) | 94.2 | 75.7 | 79.6 |
| Transportation and storage (H) | 35.8 | 33.7 | 37.9 |
| Accommodation and food service activities (I) | 37.4 | 31.3 | 47.1 |
| Information and communication (J) | 36.1 | 38.4 | 49.1 |
| Financial, insurance and real estate activities (K,L) | 57.4 | 51.8 | 55.1 |
| Professional, scientific and technical activities (M) | 46.9 | 41.3 | 50.7 |
| Administrative and support service activities (N) | 32.5 | 21.5 | 28.6 |
| Public administration and defence, compulsory social security (O) | 34.0 | 29.1 | 33.4 |
| Education (P) | 37.8 | 43.3 | 42.9 |
| Human health and social work activities (Q) | 70.5 | 75.6 | 78.9 |
| Other NACE activities (R to U) | 33.9 | 36.0 | 33.7 |
| Not stated | 2.6 | .. | 3.7 |
| All NACE economic sectors | 636.3 | 541.5 | 627.2 |

Source. CSO

Overall services employment in Dublin in 2017 is above the 2008 the boom level. Industry and construction employment is still below the 2008 level, especially in the case of construction. Within services, the Dublin sectors which still have lower employment than in 2008 are wholesale and retail, finance, administrative and public administration (slightly). Several sectors have higher 2017 employment than the 2008 level including transport and storage, accommodation and food services, information and communications, professional, education and human, health and social work and “other” activities. In 2008 there were 58.3k construction jobs in Dublin. The 2017 figure is 34.1k, a decline of 41.5%. The 2017 figure is a substantial increase on the 2012 construction employment of 21k. Wholesale and retail employed 94.2k persons in 2008 in Dublin. The 2017 figure is 79.6k, a decline of 15.5%.

Retail has not yet reached its 2007 position despite the good overall economic performance of the recent few years.  As shown in Table 6.4 the 2016 retail volume has just about returned to the 2007 level. In value terms 2016 is still below the level of 2007 in both the total retail classification and in retail excluding the motor industry. Retail value in 2016 for the total sector is 14.3% below the 2007 level. In volume terms it is 1.1% below the 2007 level. Excluding the motor industry, the 2016 value is 11.5% below the 2007 level and in the volume terms the 2016 level is 1.2% above the 2007 level. The better performance in value relative to volume is due to the price reductions which have characterised the retail sector over the past several years.

**Table 6.4 Retail Sales Index (NACE Rev 2)(Base 2005=100) Year and NACE Group**

| | **All retail businesses** | **All retail businesses, excluding motor trades** |
|---|---|---|
| **Retail Sales Index Value Unadjusted (Base 2005=100)** | | |
| 2007 | 116.0 | 115.8 |
| 2008 | 110.8 | 114.9 |
| 2009 | 90.9 | 102.1 |
| 2010 | 90.8 | 99.5 |
| 2011 | 88.5 | 96.0 |
| 2012 | 87.9 | 96.4 |
| 2013 | 87.7 | 96.3 |
| 2014 | 91.3 | 97.8 |
| 2015 | 95.8 | 100.4 |
| 2016 | 99.4 | 102.5 |
| **Retail Sales Index Volume Unadjusted (Base 2005=100)** | | |
| 2007 | 114.2 | 114.4 |
| 2008 | 107.4 | 111.5 |
| 2009 | 92.7 | 104.1 |
| 2010 | 93.9 | 103.0 |
| 2011 | 93.1 | 100.3 |
| 2012 | 92.1 | 100.1 |
| 2013 | 92.7 | 100.9 |
| 2014 | 98.6 | 104.6 |
| 2015 | 106.7 | 111.0 |
| 2016 | 113.0 | 115.8 |

Source. CSO

As shown below in Table 6.5 consumption measured in constant prices in 2015 was still below the level of 2007, €92.7 billion compared to €93.2 billion. However, the growth rate of 3.3% in 2016 resulted in the 2016 level of consumption of €95.7 exceeding the levels of 2007 and 2008. The consumption growth of the past few years was substantially less than the GDP growth. Consumption volume declined each year between 2008 and 2013 except for 2010. In 2014 it increased by 2.0% and also increased in 2015 (4.2%) and 2016 (3.3%).

**Table 6.5 Personal consumption expenditure in constant market 2015 prices (Euro Million)**

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| **92. Personal consumption of goods and services t** | 93,191 | 93,653 | 89,278 | 90,110 | 88,620 | 87,837 | 87,240 | 88,989 | 92,721 | 95,743 |

Source. CSO

Economic growth projections for both the short and medium-terms are reasonably good. The Government has published short and medium term economic forecasts in the Stability Programme Update and its Summer Economic Statement as shown below in Table 6.6.

**Table 6.6 Government economic forecasts for 2017-21 % change year on year**

| | 2016 (outturn) | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|
| GDP | 5.2 | 4.3 | 3.7 | 3.1 | 2.7 | 2.5 |
| GNP | 9.0 | 4.2 | 3.5 | 2.8 | 2.3 | 2.1 |
| Consumption | 3.0 | 2.8 | 2.7 | 2.5 | 2.2 | 2.0 |
| Government | 5.3 | 2.6 | 2.1 | 2.0 | 1.9 | 1.8 |
| Investment | 45.5 | -17.1 | 5.4 | 4.3 | 3.3 | 2.9 |
| Exports | 2.4 | 5.0 | 5.1 | 4.2 | 3.9 | 3.8 |
| Imports | 10.3 | -2.0 | 5.3 | 4.5 | 4.2 | 4.0 |
| Employment | 2.9 | 2.7 | 2.4 | 1.9 | 1.5 | 1.4 |
| Unemployment rate % | 7.9 | 6.4 | 5.8 | 5.5 | 5.5 | 5.5 |
| Total employment million | 2.020 | 2.075 | 2.125 | 2.165 | 2.195 | 2.225 |

Source. Stability Programme Update 2017 and Summer Economic Statement 2017.

The growth performance will moderate from 2018 onwards compared to the growth rates of recent years but the growth rate will still be good. GDP will grow annually by about 3% between 2017 and 2021 and GNP growth will be about 2.5%. As for previous years the growth of exports and investment will exceed consumption growth. Consumption volume will grow by about 2.5% on average each year from 2017 to 2021 with a slowing to 2% for the last year of the period.

Employment will increase by almost 2% each year with a lower growth of 1.5% towards the end of the forecast period. The unemployment rate will fall to below 6% by 2018. The numbers employed will grow from 2.075 million in 2017 to 2.225 million in 2021, an increase of 150k jobs over the five years. Dublin has 30.7% of the national employment in 2017. Allowing for a more active regional policy over the next few years, if Dublin retained its 30.7% share up to 2021, Dublin employment would increase by 46k.

These forecasts take into account the negative effects of Brexit. The forecasts would be higher if Brexit was not occurring. The Department of Finance/ESRI have estimated the medium and long term effects of a hard Brexit. The expectation is:

- Relative to no Brexit. GDP will be 3.5% lower after 5 years and 4% after 10 years
- Employment will be 2% lower or about 40k after 5 years
- Unemployment rate will be up 1% point
- Deficit up by 1% point per year leading to additional national debt of about €20b after 10 years
- Exports decrease by 4%
- Exports to UK decrease by about one third, especially bad for food exports

These are very significant negative effects, especially on exports. In assessing the impact it is useful to understand the research methodology. For example, the estimates assume no policy reaction such as measures to improve export competitiveness. It is assumed that the UK will operate the same tariff levels as are currently operated by the EU. This may not be the case. In addition while 3% to 4% is broadly equivalent to one year's economic growth, some sectors will have a much larger negative effect such as the agri-food sectors. Despite Brexit, as noted above, the Irish economy is expected to grow over the medium to long term by 2.5% to 3% per year. Brexit reduces the rate of growth by the cumulative 4% over the ten years or an average of 0.4% per year. To put it into perspective, in our recent economic decline period, GDP volume declined by 6.9% between 2007 and 2013 and employment declined between Q3 2007 and Q3 2012 by 328k jobs.

The Dublin region had the highest average disposable income per person in 2014 of the eight regional authority areas. 2014 is the latest data available. At €21,963 it was 14.5% higher than the State figure of €19,178 and 5.4% higher than the 2013 Dublin figure of €20,834. Of the other seven regions, only the Mid West, at €19,021 had an average disposable income per person close to the State average The Border region with €16,601 and the Midland region with €17,035 fared worst among the eight regions at approximately 13 and 11 per cent respectively below the State average.

The gap between the maximum and minimum value of per capita disposable income per region, increased from €4,524 in 2013 to €5,362 in 2014, due to Dublin regional incomes increasing by €1,129 (5.4%) while those of the lowest region, Border, increased by €291 (1.7%). Dublin continues to remain the only region with higher per capita disposable income than the State average during the entire 2006-2014 period while the Midland, Border and West regions continue to have less than the State average.

Viewed from this longer term perspective (i.e. from 2006 onwards) the divergence in income between the regions and Dublin was at its lowest in 2010 but has continued to widen in 2011, 2012, 2013 and 2014, indicating the growing strength of the Dublin economy.

The scale of the Dublin economy relative to the national economy is illustrated by Dublin’s share of National gross value added. In 2007 the Dublin share was 39.6% and by 2014 it had risen to 45.2%.

Dublin's unemployment rate is the second lowest of the eight regions. The state unemployment rate was 6.7% in Quarter 1 2017. The Mid-East rate was 5.0%. Many of those living in this region work in Dublin. The Dublin unemployment rate was 6.3%. The Dublin maximum unemployment rate in 2011 was 13.1% while the maximum national rate over the economic crisis period was 15.1%. The regions with the highest unemployment rates were South-East 9.3%, Midlands 7.8% and Border 7.5%.

FI and the Grow Dublin Tourism Alliance has an ambitious target to achieve a 7% growth in visitor numbers every year over the seven year period from 2013-2020. This would bring the total number of visits to 6.2 million by 2020, with international tourist spending almost doubling to some €2.5billion from the initial base of €1.4 billion. The Grow Dublin Tourism Alliance aims to reposition Dublin as a Top 10 European City destination. This requires many inputs including adequate availability at reasonable prices of Hotel rooms.

The April 2017 Dublin Economic Monitor notes that "*Dublin's economic resurgence continues despite international threats"* (page 4). It presents a picture of a strong and growing Dublin economy but with some concerns.

It notes several of the features already discussed above including

- Considerable drop in Dublin unemployment rate
- Improvement in Dublin consumer sentiment in Quarter 1 2017 following previous weakening
- Positive findings from the Dublin IHS Markit Purchasing Managers Index suggesting that the Dublin economy is" set to perform well in coming months"(page 4)
- Robust employment growth and mix performance
- Residential property prices and rents increased
- Office rents increase despite a small increase in the office vacancy rate
- On the negative side passenger trips on the Dublin public transport system declined in Quarter 4 2016 for a third quarter in a row
- Arrivals at Dublin Airport continued to increase to new record levels

- Robust trade volumes at Dublin Port but concerns about a decline in passenger numbers

The more recent July Dublin Economic Monitor continues with the positive assessment of the Dublin economy. Page 4 states "*The latest Dublin PMI data suggest no signs of a let-up in the strong performance of the Capital's private sector with output growth accelerating from the first three months of the year.*" It also notes that…"*economic activity in Dublin has continued to gather pace*". (Page 4)

The most recent features of the Dublin economy include:

- Unemployment rate in Quarter 1 remaining unchanged from quarter 4 2016 at 6.3%
- Moderation in residential rents quarter on quarter
- Continued growth in residential property prices
- Dublin office rents stable Quarter 2 relative to Quarter 1
- Office demand is high in high tech and financial sectors with a decline in the vacancy rate
- Public transport trips in Quarter 1 rebounded from a slowing down in Quarter 4 2017 which reflects positive employment and tourism performance
- Quarter 1 year on year Dublin Airport arrivals increased by 7.8%
- High hotel occupancy rates
- High and growing hotel average daily rates

The national economy is continuing to grow and growth is expected for the next several years albeit at a slower rate than previously providing the international economic and political environment does not deteriorate. Dublin is a critical engine of growth in the national economy. Each council area within Dublin will perform differently but Dublin City is particularly well positioned to benefit from the impact of major multinational and other office developments and the growth in tourism.

However, as already noted, renewed economic growth over the past few years does not imply that the losses of the economic collapse have already been reversed for all sectors. However, Dublin employment is almost back to peak levels and Dublin services employment is now above pre-economic collapse peak levels.

## 7. Conclusions and Refund Options

***Conclusions***

The pertinent 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) for property owners who, for whatever reasons, are not trading at the premises themselves nor have rented the premises to others to trade from. This report outlines options on that issue. 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.

The 2014 Act provides no guidance as to the considerations which should determine the policy decision on the refund level or the balance between leniency and efficiency. Such guidelines from Government would be desirable. 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 and also implicitly contains the view that vacant premises are deserving of amelioration of the rates burden in specific circumstances.

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.

**Table 7.1 Possible vacancy priority targets and selected local electoral area**

| **Priority target vacancy indicator** | **Selected area** |
|---|---|
| Largest number of vacancies | Pembroke-South Dock |
| Highest vacancy rate | Ballymun |
| Largest vacancy share of rates | Beaumont-Donaghamede |
| Lowest % decrease in vacancies 2014-16 (administrative areas only) | North West |
| Highest proportion of shops in total vacancies | Ballymun |
| Highest proportion of offices in total vacancies | Pembroke-South Dock |
| Number of continuously vacant premises for past 5 years (largest number) | North Inner City |
| Number of continuously vacant shops for past 5 years (highest number) | North Inner City |

There is a case for the geographic differentiation of the refund scheme to reflect the particular local area vacancy issues and strategic objectives. Paradoxically, the differentiation could be to penalise the selected area to a greater extent that other areas. The greater urgency of having these premises occupied would indicate that a lower refund would be available than elsewhere to speed up the process. This is best done as part of an integrated and comprehensive strategy to deal with specific locations and areas. A sectoral differentiation would be better but the scheme refers only to geographic differentiation. All sectors within the area would suffer from an area being designated for a lower refund even if the target was one specific sector. Alternatively, the strategy might require a designated area to get a higher vacancy rate than other areas as a measure of support to reduce the risks of establishing a business.

At present there should be no geographic differentiation in the refund rate. Currently there is no specific strategic or vacancy related aspects which justify a decision on geographic differentiation. For example, it is unclear if a high credit should be used to reduce concerns of commercial operators about future vacancy burdens (effectively reducing the burden of future business failure) or if a low credit should be used to assist in forcing occupancy or mobility. There is also no stated Council objective on vacancies which would be a determinant of the choice of designated area or areas. However, in the context of future overall strategies for dealing with local development and specific aspects of the vacancy situation geographic differentiation should be utilised where there is a clear geographic-based strategic rationale and objective.

Overall, the assessment of the report is:

- Vacant premises which satisfy the scheme's criteria can reasonably expect to be charged less than full rates. This is embodied 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.
- 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 where clearly premises are kept vacant as the site is assembled over time.
- 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. Selectivity, in trying to identify ability to pay, would generate a very large administrative burden and is not part of the rates framework. 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

***Vacancy refund options***

At present, the legislation allows for refunds between 0% and 100% in cases of inability to obtain tenants and closure for refurbishment. Dublin City also has the court determined eligibility of a refund for vacant premises awaiting significant redevelopment. The "incentive to force occupation" argument would direct councils to a low or zero refund level. But the legislation recognises that vacant premises are deserving of amelioration of the rates burden through the presence of a refund provision. Consequently, the decision on the appropriate level of vacancy refund is a policy determined balance between leniency towards landladies/lords who are unable to generate rent and penalties or incentives to force occupation.

The choice of a particular refund rate is a balance between the objective of encouraging occupancy (resource tax argument) and recognition that a vacant unit does not generate rent (leniency argument). In addition it also reflects considerations of equity between owners of occupied and unoccupied premises and possible additional revenue generation. The choice also reflects the legislative intention that the increased freedom on refund rates given to councils allows the reduction of "perverse" incentives to keep property vacant or to be less active in generating occupancy.

The choices of possible refund rate are within 0% to 100%. 0% or close to it does not take into account the provision in the legislation for leniency for vacant premises through vacancy refunds and the historic approach. 100% or close to it provides no incentive in terms of promoting occupancy even if this has a limited effect. In reality, the actual choice of refund rate lies within a narrower band. Generally councils which have used the increased freedom in setting refund rates have reduced them from 100% to less.

Dublin City's refund rate has always been 50% until the decision for Budget 2017 reduced it to 45%. There is little evidence of a desire to reverse that reduction in the refund rate or to introduce a refund rate which is above 50%. The realistic choice of future refund rate in terms of greater use of the measure (level of vacancy refund) to promote occupancy is between 0% and 45%.

The choice by the council of a lower refund rate than 45% would reflect a desire to use the instrument to a greater extent than previously to support the resource tax/land use objective and/or to raise additional revenue. Small changes in the refund rate will have more limited effects than larger changes.

The impact of any reductions to the vacancy refund rate should meet challenges from an economic, equity, political and reasonableness perspective.
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

***Leniency/equity relating to property owners not generating an income***
The rationale for the original vacant commercial property rates refund principle in the rating legislation is not clear but seems to have reflected the view that a vacant property uses less of a council's services than an operating one. This is still a reasonable principle but it is difficult to objectively identify the magnitude of the difference. In any event, commercial rates revenue is now less of an earmarked source of funds as a commercial property tax source of funds for overall council services. Also, the principle of a less than 100% refund for urban areas such as Dublin City was included in the early legislation. Other areas had a 100% refund. It is notable that the new local property tax for residential premises does not contain a refund provision for vacancy except for long term illness.

The refund provision also reflected the view that rates were related to the actual or implicit rent that a premises could generate. A vacant property would not generate a rent return. Apart from the vacancy refund provision, there is no reference explicitly or implicitly in the commercial rates framework to an ability to pay in the case of commercial rates.

However, the principle of a substantial refund for vacant property under certain conditions in Dublin City, originally 50% and now reduced to 45%, is a long term and deeply rooted element of the commercial rates system up to the new legislation in 2014. It could be argued that ratepayers have a reasonable expectation that a refund rate would apply to vacant property which meets the eligibility criteria. Ratepayers should be given good notice of any intended changes.

***Incentive to occupy/increased penalty for vacancy***

A low or zero rate refund would be an additional economic incentive to force vacancy premises into occupation. The new 3% levy on vacant and unutilised urban sites is another illustration of this "incentive to action" thinking.

The report showed that there is a very high level of commercial vacancy nationally and in Dublin City. However, the vacancy rate and number of vacancies in Dublin City have declined significantly between 2014 and 2016 according to the council vacancy data. According to the GeoView data there has not been a Dublin decline. While offices are the largest category of vacant premises, the issue of vacant retail premises is a more visible issue. Solutions to the vacancy problems are difficult. For example, it is questionable that retail unit occupation can be restored to previous levels of retail structure and activity in light of market and economic trends and structural change. Despite high vacancy rates some demand for particular types of facilities is met only by new building. There are substantial numbers of properties which have been vacant for several years and there are vacant properties which have very poor prospects of commercially based occupancy. Reduction in the vacancy rate would have limited impact on forcing these properties into occupancy.

The national and Dublin City commercial property markets are improving and will continue to improve as the expected medium term economic growth occurs. However, market and economic improvements will not provide a full and direct medium-term solution to the vacancy problem.

Based on the analysis we do not have an expectation that reductions in the rate of the commercial rates refund scheme will significantly alter the vacancy problem but there are some grounds for expecting that reductions could contribute to the solution. The main reason for lowering the refund level is to incentivise or force owners of vacant properties to put them into use or to more actively attempt to put them into use. The main cause of the high vacancy rate is lack of demand, followed by probable historic over provision of supply to meet historic and unrealised market conditions. There are not enough customers for the vacant premises in the present economic conditions who want to rent or buy the vacant premises. Property owners also do not have sufficient economic incentive, or capabilities and skills, to use the vacant properties for their own businesses.

However, 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.

A proportion of the vacancy situation is linked to the legacy commercial property debt issues which have not yet been resolved and which impede the sale and renting of some property.

***Increased revenue possibility***

The lower refund could generate additional revenue for the council. Extra revenue would be welcome in meeting the needs of the Dublin City economy and society. However, as discussed in the report in Section 4 and especially Table 4.8, 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 ware €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, 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.

***Impact on collection rate and relationship with ratepayers and impact on council's standing in the community***

Consideration of lowering the vacancy rate should take into account possible negative effects on the council's standing in the community and its relationship with ratepayers. It should also take into account the perception of Dublin City having a lower refund rate than other councils. However, this has been a longstanding feature of the refund framework with the Dublin City 50% compared to 100% refunds in almost all other councils. A significant reduction in the vacancy refund rate is likely to increase collection difficulties and generate increased use of the court system to ensure collection, especially for properties for which there is little or no possibility of rent generation and for individuals such as former small traders or self-employed. Increased use of the legal system could have a negative impact on the council's relationship with ratepayers and the wider community.

***Competitiveness of Dublin City vacancy refund relative to adjacent councils***

A lower refund reduces the existing competitiveness of Dublin City for the attraction and retention of enterprise relative to adjacent counties but the scale of this is relatively small and it has a very small effect on the overall competitiveness of the city. Over the past longer-term period Dublin City had a lower vacancy refund than adjacent Dublin counties (50% versus 100%) without it significantly affecting its property and enterprise development.

The objectives of the report are

1. **Undertake an empirical analysis/review of the vacant commercial property framework in Dublin City Council.** This is mainly done in section 3 and reports a decline in vacancies from 2014 and significant differences between areas within the council. The longevity of continuous and semi-continuous vacancy period is a notable feature and merits additional attention. The three largest shares of total vacancies are 40.5% offices, 31.9% retail shops and 19.1% industrial uses. Together these three account for 91.5% of all the vacant premises. The council vacancy data most likely understate the true vacancy rate in the city.
2. **Examine the views of relevant stakeholders.** This done throughout the report and identifies strongly held views on different sides of the “force occupancy” versus “perverse subsidies to remain vacant”. Our assessment is that reductions in the vacancy rate would not lead to a significant reduction in vacancy rates but would, in certain cases, help to reduce vacancy. We agree with the view that additional revenue might be small.
3. **Assess the short and medium term economic and commercial property market position and prospects at national, regional and Dublin Council levels.** This is done in section 5 and presents 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.

4. **Assess the arguments for and against vacancy rates refunds, notably the resource tax incentive argument and the additional negative impact on the commercial sector and apply these to Dublin City Council.** This is done in section 2. Of particular note is the difference in thinking behind measures such as the vacant sites levy which attempts to force action and the rates vacancy refund which supports inaction. There were strong opinions that the lack of market demand is the main determinant of vacancy rather than the comfort of getting a 50% or 45% refund on rates. Our overall assessment as noted under objective 2 is repeated here. "Our assessment is that reductions in the vacancy rate would not lead to a significant reduction in vacancy rates but would, in certain cases, help to reduce vacancy".
5. **Assess the viability and cost of the collection of rates on vacant properties and financing implications of the refund measure**. This is done in section 5 and concludes on different assumptions that the collection rate for vacancy rates would be lower and more costly than for rates as a whole and that additional revenue might be very limited or even lower under specific conditions. On very optimistic assumptions of a high and unchanging collection rate the additional revenue is significant.
6. **Assess the efficacy of targeted vacancy refund rates across different electoral areas.** This is not recommended in the absence of a specific area level strategic focus.
7. **Outline options on the level of refund and possible differentiation between areas within Dublin City Council.** The options relating to possible vacancy refund rates were outlined and discussed. As noted in objective 6, a geographic differentiation is not recommended at the present time.

**Additional comments**

The following comments are in addition to the consideration of the objectives. 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**.** In addition, the legislation could provide additional guidelines for vacancy rate determination.

Reduction of the vacancy refund rate will not solve the overall Dublin City, local area and sectoral vacant commercial premises problems. 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.

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.

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