

Are you a landlord looking to sell? Here are some costs to budget for



Joanne Hunt

With the end of the eviction ban looming, landlords can once again look at selling their properties

For many small landlords, the numbers don't add up. High tax, mortgage interest rate hikes, inflation and rent caps mean spiraling costs for dwindling returns.

Some landlords fear eviction bans, like the one that has been in place this winter that prevents them from selling a property they can't afford, may sink them.

It's no surprise, then, that of some 58,400 residential property sales last year, about 21,000 of them were landlords exiting the market, according to Sherry-FitzGerald estimates.

The Government's decision to end an eviction ban from the end of this March will be a relief for those landlords who are under pressure and were prevented from selling a property they could no longer afford.

Talk of possible tax credits for landlords aimed at encouraging them to stay in the market may be too little, too late. If you are a landlord hoping to sell this year, here are some of the costs you will need to budget for.

Should I stay or should I go?

Being a landlord right now is not an efficient use of money, says Jonathan Sheahan of Compass Private Wealth.

"It's the perfect storm, really," he says. "You have everything against you. You might be able to handle the 52 per cent tax on rental income, or 55 per cent in some cases, if you didn't have the 2 per cent limit on [increases in] rental income."

Landlords who kept rents down to retain good tenants were caught out by rent pressure zone rules. When those tenants moved out, landlords were then tied to annual rent increases of no more than 2 per cent.

"I'm meeting landlords who now have rent capped at 25 or 35 per cent below market rent," says estate agent Owen Reilly. Some 55 per cent of his sales last year were landlords exiting.

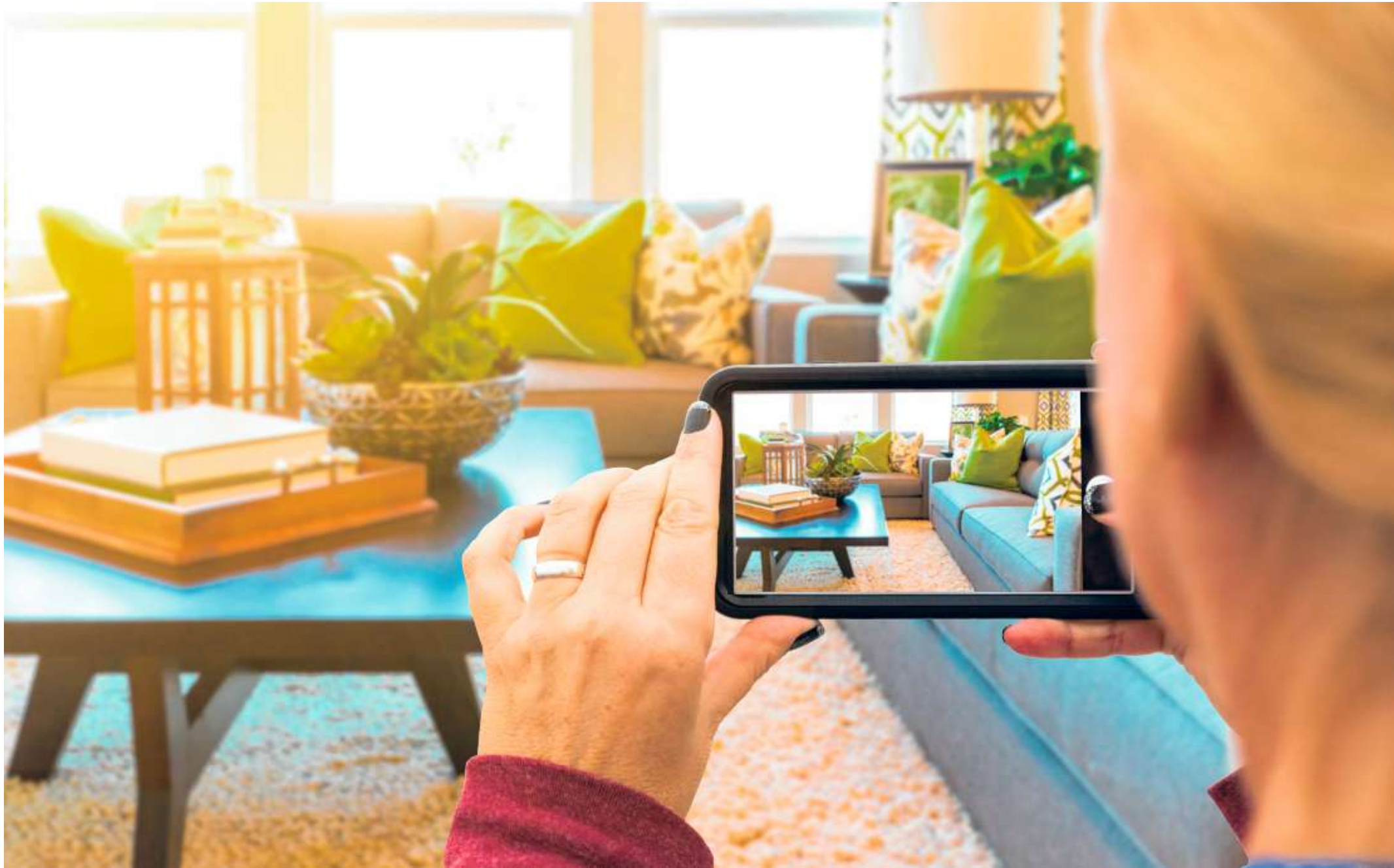
"Some of them were in it for the long haul. They are now selling much faster than any of them envisaged," he says.

The effect is that the landlord next door who was charging higher rent before the caps were introduced earns more for an identical property. This has devalued many landlords' investment. If both properties come up for sale, investor purchasers will not want the one with hamstrung returns.

Rents are high overall in this State, most particularly for new rentals. But rents in some properties in pressure zones are well below inflation.

"If you have inflation now running at 8 per cent, landlords are kind of guaranteed to be losing 6 per cent from a cash flow point of view," says Sheahan. "Even if inflation was 6 per cent, you are losing 4 per cent every year because you are paying so much tax and so much more on loan repayments, repairs and insurance; it just doesn't stand up as an efficient use of your capital."

Some 46 per cent of landlords here are PAYE workers, according to the Central Statistics Office, while about 15 per cent were self-employed in 2019. Those with tracker mortgages on their investment properties have seen repayments rise by



about €300 a month since the European Central Bank started raising interest rates last summer, with more to come. Some won't be able to absorb mounting costs and may tip into trouble, especially where an eviction ban means they have not been able to sell.

If you are covering your costs, however, or you have great tenants, or if selling would make you liable for a big capital gains tax bill, there is an argument to hang on to it, says Sheahan.

Vacant possession

From the tenants' point of view, the irony is that a vacant property that's well presented has the best chance of selling quickly, says Reilly.

Giving notice to terminate a tenancy due to sale is a formal process that needs to be done correctly in line with Residential Tenancies Board guidelines. It requires a statutory declaration witnessed by a solicitor, so landlords will need to factor in this cost.

If a tenancy has been in place for longer than a year but fewer than seven years, a tenant is entitled to a notice period of 180 days – about six months. And while landlords have been able to issue a notice of termination during the current eviction ban, they have been unable to act on it until the ban ends.

A vacant property means a loss of income during the sale period, of course. "There can be a conflict of interest between keeping your rent coming in and getting the best price," says Reilly.

Some landlords and tenants come to an agreement whereby the tenant facilitates viewings in return for reduced rent, he says. It has to work for the tenant, of course. "Typically, the rent might be re-

duced a little bit in return for that co-operation," says Reilly. "I've come across anything from a 10 per cent to a 20 per cent cut in rent."

"Quite often, it's agreed that the inducement is given at the end of the process. I recently sold a property in Ballsbridge and the inducement ended up being pretty much that the final month's rent was free."

Sale process

From start to finish, selling a property can take up to five months. The more you can do to shorten the process, the better, says Graham Murray, regional director of residential sales at Sherry FitzGerald. Sellers can speed things up by getting things in order before going to market.

Start things off by signing a service agreement with an estate agent, if you are using one. "You also need to have a BER [building energy rating] in place. They last for 10 years from the date they are given. It has to be there, you can't go to market without it," says Murray.

Getting title documents from your bank can take two to six weeks, he says, advising sellers to engage a solicitor early to get this moving. A solicitor will help you arrange a land registry map, too. The last thing you want is a six-week wait for documents after you have gone "sale agreed". Make sure any property management fees and local property tax are paid up to date, too. "Time costs money and preparation is key," he says.

A well-presented property will attract more interest online and generate more viewings. At a minimum, landlords need to budget for a deep clean, says Murray.

They should factor in the cost of a paint job, too. Online quotes for a two-bed apartment are about €250 for cleaning, includ-

ing carpets, windows and oven, and €1,300 for painting.

"Whoever the buyer is, if the property is in turnkey condition, they can either move in straight away or re-let it without having to do anything," says Murray.

Buyers are far more likely to be owner-occupiers and first-time buyers than investors these days. This is particularly the case for rent-capped properties. Investors just aren't looking at them, says Reilly. Indeed, for every one investor entering the private rental sector here, three are leaving, according to Sherry FitzGerald estimates.

Staging is increasingly popular, says Reilly. Painting and snagging, including things such as fixing door handles and re-routing bathrooms, and then renting soft furnishings for a viewing period of six to eight weeks, will cost about €6,000 to €7,000 for the average property, he says. If it speeds a sale and maximises return, it can be worth it.

The buyer landscape may be in flux, however. When ending the eviction ban, the Government set out measures that may impact landlord sales. Details are still sketchy. One is to require a landlord selling a property to first offer it to the tenant on an independent valuation basis for sale.

Under the 'first refusal' plans, tenants would be able to access shared equity through the First Home Scheme to help them buy the property. This will need changes to legislation that the Government hopes will be passed by the Oireachtas before the summer recess.

A second proposal is the development of a "cost rental backstop", where the Government is to work with Approved Housing Bodies (AHBs) and local authorities to develop a cost-rental model for tenants

who don't qualify for social housing supports – but who are at risk of homelessness – to continue to rent their homes.

If a tenant buys the property, this has the potential to eliminate some of the costs of sale incurred by landlords, such as estate agent fees and a period of vacancy.

Selling fees

Estate agent fees vary in terms of service offering and location, says Murray. "Very typically, it's 1.5 per cent, but you will have anything from 1 to 2 per cent of the sale price, plus VAT at 23 per cent."

There are marketing costs to pay, too. This entails professional photography, online and print advertising and social media. A property at the upper end will necessitate a bigger marketing spend than a one-bed apartment. "It can vary depending on the property from €600 to multiples of thousands," says Murray.

The average selling time at the moment is seven weeks, says Reilly. The average time to close is about 11 weeks, so landlords should factor in 18 weeks where their property is vacant, he says. He charges 1.25 per cent in agent fees, plus VAT. Marketing costs depend on the property.

The other cost when selling is capital gains tax (CGT). In short, if you are selling the property for more than you bought it, you will have to pay tax on the difference, says Marion Ryan, consumer tax manager at Taxback.com. The standard rate is 33 per cent.

You can deduct allowable expenses from the chargeable gain, including fees, and commissions for professional services, including a surveyor, valuer, agent, solicitor or accountant and advertising.

Take the example of the first-time buyer of yesteryear. He bought an apartment in

2004 for €340,000. He lived in it until 2012 before meeting his partner. The apartment was in negative equity then, so he became an accidental landlord and rented it out. He sold the apartment in 2022 for €420,000. In general, CGT is payable on the €80,000 gain, says Ryan.

The owner can claim relief for the period he lived in the property as his primary residence, plus the final 12 months of ownership. He lived in it for eight years from 2004 to 2011, plus the final 12 months, this adds up to nine years. His total ownership from 2004 to 2022 is 19 years.

The principal private residence relief is calculated as the €80,000 gain from sale, divided by the 19 years he owned it and multiplied by the nine years he lived in it – that's €38,000. The chargeable gain is then €42,000. Subtracting the annual exemption of €1,270, the 33 per cent tax owed is €13,440.

His friend who bought an apartment in 2006 for €400,000 expects to sell for €265,000, a €135,000 loss. This loss can be set against other chargeable gains in the same tax year, or carried forward and set against other gains in future years.

"In general, if you don't have any other chargeable gains in the same tax year you made a loss, you will not have to include the loss in a return for that tax year," says Ryan. "I would recommend you report the loss, however, either via a CGI return if you are a PAYE worker or a Form 11 if you are self-assessed."

Me and My Money Clare Barrett, actor

Clare Barrett is an award-winning actor who recently appeared in *Medicine*, written and directed by Enda Walsh. She is appearing in *Gold in the Water*, Project Arts Centre, Temple Bar, Dublin, until March 26th.

Are you a saver or a spender?

I have grown into a saver but a saver with a penchant for frequent dipping into my savings, so realistically I'm probably not one or the other but a combination of both.

What has been your most extravagant purchase?

Apart from our house, the most extravagant or expensive item I ever bought was a bracelet at a jewellery fair in Thailand during a 24-hour layover. I thought I had treated myself to a gorgeous bracelet for €100 – a bit extravagant, I thought, but something to mark the end of a successful job and tour. However, between the heat

and the jet lag (that's my excuse and I'm sticking to it), I did the currency conversion wrong and I had actually spent €1,000.

Thank goodness it was on a credit card. It is a long time paid off now, though, and has become a much-loved item with a good origin story!

What purchase have you made that you consider the best value for money?

I'm slightly embarrassed to say I shed. I don't know whether it's my advancing age or the fact that I had to store/fall over the contents of a shed indoors for 10 years that made me so excited, but organising and filling that shed gave me inordinate joy. Worth every penny.

Do you haggle over prices?

No, but deep down I wish I had the skills to haggle in certain circumstances. I have a friend who is brilliant at it.

“My husband has dabbled in the stock market, and he lucked out with some Tesla shares which meant we could afford a new kitchen. So Elon Musk was good for something!”

Do you invest in shares?

I'm a nervous investor and would need to research something very deeply to take the plunge – even my pension is very conservative and low risk. My husband has dabbled, though, and he lucked out with some Tesla shares which meant we could afford a new kitchen. So Elon Musk was good for something.

Cash or card?

Card, but only since Covid. I've become far too "tap-happy" in the past couple of years and the ability to store cards on phones these days has made that worse.

I like to always have some cash on me if I can, but in recent times it seems to stay in the wallet significantly longer.

What was the last thing you bought, and was it good value?

Leggings for *Gold in the Water* rehearsals. They are an Irish brand I like, and I got them for

half-price during an offer so I was delighted.

Have you ever successfully saved up for a relatively big purchase?

Yes, I wasn't really a saver, but in my 20s I worked with a woman who was an avid saver and, with her encouragement, I opened an account. Once I got going, I managed to buy my first car and pay for my insurance, and since then I've saved for various things successfully over the years.

Have you ever lost money?

Physically, yes, but not from investments. I have lost money, however, on bad products I have bought and getting the wrong people for repairs.

Are you a gambler and, if so, have you ever had a big win?

I would take a gamble on a new product or a situation but I'm afraid I'm a very disappointing gambler. Despite going to the

Galway races every year as a child, I've probably only progressed from 50p each way to €2 each way. The most I ever won on a bet was €80, which realistically might be the most I'll ever win. You'll not be asking me for gambling tips.

Is money important to you?

I'd really love to say it's not or that I don't care about it but that's not a reality. In our job, you must become very skilled in budgeting and making the money you earn stretch and last for leaner times. Where money is concerned, my wish would be that I would have enough not to worry or think about it as much as I do.

How much money do you have on you now?

I have €42 and a £2 coin.

See goldinthewatermusical.com

In conversation with Tony Clayton-Lea

