Amy MacMahon MP
Member for South Brisbane

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Community Support and Services Committee
Parliament House
George Street
BRISBANE QLD 4000

Response to issues raised in submissions to the *Residential Tenancies and Rooming Accommodation (Rent Freeze) Amendment Bill 2022*

Dear Community Support and Services Committee,

I am writing to thank you for your work in conducting an inquiry into the *Residential Tenancies and Rooming Accommodation (Rent Freeze) Amendment Bill 2022* (the bill), that I introduced to Queensland parliament in August 2022. I am also grateful for this opportunity to respond to issues raised in the submissions to this inquiry.

About the bill

The Bill will enact a two-year freeze on residential rents in Queensland, in order to stop the rampant rent rises that are currently occurring in Queensland.

Queensland's housing crisis is well-documented. Brisbane has seen the steepest annual rent rises on record, and the regions have near-zero vacancy rates. Working families are sleeping in cars and tents. Meanwhile, developers are hoarding properties, driving up rents and stopping everyday Queenslanders from finding a secure, affordable home.

Queensland is in a housing emergency, and we need an emergency response.

The Bill achieves its policy objectives by enacting a rent freeze that ensures no landlord can increase the weekly quantum of rent with respect to a rental property, effective from the date of commencement of the bill for two years.

Rents will be frozen at no more than the amount agreed by a lessor and lessee, or publicly advertised by a lessor, on or before 1 August 2022. Failure to observe this will make a lessor liable for a fine of 50 penalty units. This fine will also apply for lessors who move a property from the private rental market to the short-term accommodation market during the rent freeze period.

For properties which have not been rented for over 12 months, rent will be set as the median rent for properties in that postcode which are comparable with respect to number of bedrooms and bathrooms, floor space and condition. This includes newly built properties.

After the two-year rent freeze period, rental increases will be capped at no greater than 2% every two years. Nonetheless, legislation which complements this bill by enacting a potentially more nuanced rent cap should be legislated before the expiry of the rent freeze period. Failure to observe rent caps will make a lessor liable for a fine of 50 penalty units.

This Bill requires the Residential Tenancies Authority (the RTA) to maintain a register of rents applicable to corresponding properties, as informed by the rental bond lodgement form which it already administers.

Where there has not been a rental bond lodged with the RTA, it will have the power to compel lessors to provide information about the amount of rent payable with respect to a residential tenancy agreement. Failure to provide this information will make a lessor liable for a fine of 50 penalty units.

Issues raised by submitters to this inquiry

The impact of out-of-control rental increases on people's lives

Many submitters told the inquiry about the impact of out-of-control rental increases on their lives. When governments allow landlords to charge renters whatever quantum of rent that they want to, this will always make people vulnerable to rental increases which have no regard to their personal circumstances, and are not supported by the actual costs of property investment.

One submitter in my electorate of South Brisbane said:

> 'When our rent renewal c[a]me around late last year, our owner wanted to put the rent up $100 a week. We negotiated a lower price, but we are terrified that at our next rent renewal we will not have that luxury due to the inflated rental prices and will be forced out of our rental. Our children go to BSHS, we absolutely love the school and for the children to remain at the school we have to remain in the catchment for the duration of their schooling. However, we are not sure with the current inflated rental prices if we will be able to afford to stay in catchment.'[1]

[1] Submission 135: https://documents.parliament.qld.gov.au/com/CSSC-0A12/RTRARFAB20-6200/submissions/00000135.pdf.

Where property investors can decide on a whim whether their tenants' children will be able to enjoy continuity of schooling, there has been a failure of government policy. To fix this, the government needs to regulate rental increases, starting with a two-year freeze on rents as proposed by this bill.

A submitter in the electorate of Greenslopes said:

> 'My husband and I are expecting a baby in November. As the main income earner that will be going on maternity leave with ½ pay, I am extremely nervous about any rent increase that I know are likely to happen when our lease is due to be renewed in December. Things will already be financially tight for us, but with the added pressure of a rent increase, this will certainly lead to us not being able to afford health insurance (which we both need as we have chronic conditions.'

The solution is clear. A submitter in the electorate of Murrumba said:

> 'A rent freeze would mean I can afford to live, feed my family and [build] my house before more costs come at me, and it would mean that thousands of other Queenslanders, including my friends and family, could sleep easier knowing the roof over their head won't be taken out from under them because of greedy landlords and property rental agents.'[2]

The Council on the Ageing Queensland (COTA) submission said that this bill should be given careful consideration.[3] They said there is clear evidence that many older people are currently in uncertain housing situations. A third of Queensland households are in housing stress, and COTA submitted that nearly a third of these are aged 75 or older. Importantly, they pointed out that '[t]he number of older women who are becoming homeless or in precarious housing situations is of particular concern.'

TASC National, a provider of frontline legal and social justice services in Ipswich and South West Queensland, supported this bill.[4] They stated that '[r]ental law changes effective from October 2021 ha[ve] given little protection to "inevitable evictees" from unreasonable rental increases, seemingly driven by a property market overseen by real estate agents and property management services, who benefit the most from an over-inflated rental market.'

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[2] Submission 129: https://documents.parliament.qld.gov.au/com/CSSC-0A12/RTRARFAB20-6200/submissions/00000129.pdf.
[3] Submission 117: https://documents.parliament.qld.gov.au/com/CSSC-0A12/RTRARFAB20-6200/submissions/00000117.pdf.
[4] Submission 116: https://documents.parliament.qld.gov.au/com/CSSC-0A12/RTRARFAB20-6200/submissions/00000116.pdf.

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Tenants Queensland stated that tenancy law must be urgently changed, to stabilise rents in Queensland.[5] As Carers Queensland stated in its submission, '[t]he government has an ethical and moral obligation to act upon the rental crisis.'[6]

Rental increases do not reflect a commensurate increase in the costs of property investment

Submitters spoke of how wealthy property investors have increased rents well past what Queenslanders can afford, with increases of over 20% in Brisbane and over 30% in some regions, which are far higher than interest rates rises and inflation.[7]

The evidence is clear. At a time when property investment costs have been at a historic low, with interest rates lower since 2020 than they have been in well over a decade, rents have soared.

Mortgage interest is overwhelmingly the largest cost of property investment, and the Australian taxation system provides an enormous incentive for landlords to hoard property by making this cost a tax deduction. Usually, this costs the federal government billions of dollars per year: at its peak, negative gearing cost taxpayers $9 billion in 2007-08 when interest rates were high.[8] This fell to $166.5 million in 2019–20, the smallest amount in two decades, showing how low the costs of property ownership plunged in the wake of COVID.

The fact that this has coincided with massive surges in rental costs show that in an unregulated rental market, landlords will charge the absolute maximum possible based on supply and demand in the rental market. With vacancy rates being extremely low, as a direct result of Queensland government policy decisions encouraging interstate investors to buy up existing stock, and its refusal to build public housing in any meaningful amount, this has helped drive surges in rental costs.

The impacts of treating housing as a commodity, not a human need

For decades, successive Labor and conservative Queensland governments have treated housing as a commodity. Houses are treated as an investment for the government to secure and protect, rather than as homes for people.

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[5] Submission 63: https://documents.parliament.qld.gov.au/com/CSSC-0A12/RTRARFAB20-6200/submissions/00000063.pdf.
[6] Submission 88: https://documents.parliament.qld.gov.au/com/CSSC-0A12/RTRARFAB20-6200/submissions/00000088.pdf.
[7] Submission 134: https://documents.parliament.qld.gov.au/com/CSSC-0A12/RTRARFAB20-6200/submissions/00000134.pdf.
[8] https://www.smh.com.au/property/news/why-the-cost-of-negative-gearing-tax-breaks-is-likely-to-rise-20220810-p5b8qh.html

As long as we have a housing system that prioritises the profits of investors rather than everyday renters, we will continue to see this housing crisis worsen, with families evicted into homelessness and kids growing up in caravan parks.

The role of the real estate industry in this crisis needs to be named. One submitter mentioned how property managers will not consider applicants for rents that exceed 30% of their take-home salary.[9] As rents arbitrarily soar, people on lower incomes are left without housing, at the whim of landlords and real estate agents.

Uncontrolled rental increases add to the already huge expense of being a renter

While our state and federal governments make it easier for people to buy their fourth property than to buy their first, thousands of Queenslanders are locked into a lifetime of renting. High rents in addition to other costs associated with renting make it impossible for many to ever save for a housing deposit.

One submitter said:

> 'Rising rents mean I will have to move again for the 5th time in 3 years. I earn a good wage and pay all my bills but the relentless rises make it very difficult to maintain housing costs below 30%.'[10]

Research shows that it costs the average tenant thousands of dollars each time they have to move house.[11] In 2015, a survey by Fair Go Finance found the average tenant was paying $3402 to move homes. This includes the bond, cleaning to the impossibly high standard set by the real estate industry, moving furniture, canceling utilities bills, extra food expenses because of the disruption to normal household operations and missed work due to the time involved in finding a new home.

All of these costs have increased since 2015 - in a squeezed rental industry where property investors and real estate agents hold a huge amount of power over tenants, even costs like a bond clean have soared to over $1100 for a 3-bedroom home.[12]

The submission by Tenants Queensland to the inquiry on the *Housing Legislation Amendment Bill 2021* cites research by Deloitte Access Economics which shows the higher housing costs experienced by renting households. It shows that private renters spend more in both dollar terms per week, as well as a proportion of

[9] Submission 124: https://documents.parliament.qld.gov.au/com/CSSC-0A12/RTRARFAB20-6200/submissions/00000124.pdf.
[10] Submission 123: https://documents.parliament.qld.gov.au/com/CSSC-0A12/RTRARFAB20-6200/submissions/00000123.pdf.
[11] https://www.savings.com.au/home-loans/buying-first-home/what-does-it-cost-to-move-rental-properties.
[12] Quote obtained from Oh My Cleaning in October 2022.

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disposable income in rent, than owner-occupiers. Further, using 2017/18 data, Tenants Queensland notes this research shows that over half of Queensland's renting households are low-income - in the bottom 40th percentile of incomes.[13] By maintaining this incredibly unfair system of housing, the government is ensuring that those who can least afford it are paying the most just for somewhere to live. This is a policy of deepening inequality in Queensland.

Impact on housing supply

Submitters such as the REIQ, the Property Council and the Property Owners' Association of Queensland claim that a rent freeze would drastically reduce the supply of residential property in Queensland.[14] This is not supported by evidence.

In fact, research commissioned by Tenants Queensland in 2018 found:

> 'Very little research has focused specifically on the impacts of tenancy regulation on the performance of private rental markets, or, more specifically, on rental property investor behaviour in Australia or elsewhere. Those who have considered this question conclude that neither tightening nor easing of tenancy regulation has any significant impact on investor behavior or overall patterns of expansion in the PRS.' [15]

This could be because despite regulation to make housing more fair and equitable, housing markets still remain appealing to investors due to the peculiarities of the housing market disproportionately benefitting landlords at the expense of renters compared to consumers and firms in traditional markets. Taken as a whole, there is some understandable ambiguity in the literature on the effects of rent controls due to its susceptibility to political bias (including from interest groups such as property-owner and real estate lobby groups) and the variety of methodologies used to implement rent controls as well as the economic circumstances in which rent controls have been implemented.

While some studies identify potential distortive side effects of rent controls that policy makers should be aware of, it is important that these are contrasted with the present housing crisis. The present housing crisis is an

[13] https://documents.parliament.qld.gov.au/com/CSSC-0A12/RTRARFAB20-6200/submissions/00000063.pdf.

[14] Submissions 94: https://documents.parliament.qld.gov.au/com/CSSC-0A12/RTRARFAB20-6200/submissions/00000094.pdf, 97: https://documents.parliament.qld.gov.au/com/CSSC-0A12/RTRARFAB20-6200/submissions/00000097.pdf and 33: https://documents.parliament.qld.gov.au/com/CSSC-0A12/RTRARFAB20-6200/submissions/00000033.pdf respectively.

[15] Tenants Queensland submission to the parliamentary inquiry on the *Housing Legislation Amendment Bill 2021*: https://documents.parliament.qld.gov.au/com/CSSC-0A12/HLAB2021-37A9/submissions/00000723.pdf.

abject failure of the market: Brisbane, as an example, has seen a 25% increase in rent over 12 months and has 0.4% rental availability at present, with similar figures across the state.[16] It is against this crisis that any potential risks of rent control need to be contrasted with. The Greens have long advocated for more nuanced rent controls, but the policy shift to a rent freeze/reversion to rates as at August 2022 is an emergency response to a crisis. The risk of market failures predicted by doomsayers amongst the landlord and investor groups are not particularly manifest when the market is already failing, especially when it is these groups that are benefitting from a failed market.

Much of the risks associated with rent controls are only apparent when rent controls are confined to certain areas or confined to rental agreements that began during a certain period. For example, undesirable reduction in housing mobility arises because of the aversion of renters to move from a lease under rent control to one which is not due to increased price and instability. This wouldn't be an issue within Queensland if rent control, like the one under inquiry, is broad acting, covering the whole of Queensland, and all rental properties.

Regarding predictions of a loss of supply, a price cap impacting supply makes intuitive sense in markets with incremental cost increases to output because the marginal cost of production invariably rises above the price cap. For a number of reasons, landlords and the housing market don't operate like typical firms in a goods or service market. Rent controls do not reduce supply unless they reduce rents below the marginal cost of tenanting a property compared to leaving it vacant. This would not occur in the case of existing rental properties where existing rental rates, especially after recent price hikes, are well above the marginal cost of tenanting compared to leaving a property vacant.

The literature is ambiguous as to the effect of rent controls on construction in the long run, with the effect varying between the different instances of rent control introduction around the world. It is not necessarily the case that rent controls diminish the supply of new housing. Well designed rent controls do not result in a reduction in existing or new supply. A 2007 study of 76 New Jersey cities with rent stabilisation found there was little-to-no statistically significant effect of rent control on new construction after controlling for population, racial demographics, population change, income, the percentage of units that were renter-occupied, vacancy rates and unit age.[17] Similarly, rent controls in Catalonia had no impact on rental supply despite lowering rental prices.[18]

Where rent controls do impact the supply of rentals, due to landlords removing rent-controlled property from the market, this results in lower property prices, and any loss in supply is coincided with an equivalent reduction in demand as renters transition to owner-occupier status due to increased opportunity for renters to buy. This wouldn't be the case with the model proposed in this bill, under which the rent cap would apply to all rental properties.

[16] https://sqmresearch.com.au/weekly-rents.php?region=qld%3A%3ABrisbane&type=c&t=1
[17] https://dornsife.usc.edu/assets/sites/242/docs/Rent_Matters_PERE_Report_Web.pdf.
[18] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4159469

In addition, a critical shortage of housing is already manifest, irrespective of any implementation of rent controls. The market, and current policy settings, are already catastrophically failing Queenslanders. It is because of this, and not the exaggerated pessimism of those profiteering from the present crisis, that boosting supply alongside rent controls should be an important consideration. A sustainable solution requires tackling the rental supply problem at the same time we tackle price-gouging and bargaining power asymmetry.

To that end, it's worth considering why rental availability is already so low. Until the most recent supply shocks, construction costs relative to household income have been falling for decades. Despite this, less and less houses have been built relative to the need. The biggest barrier to housing construction is the value of land, which is over-inflated due to speculative investment in the land and housing markets, and investor incentives driving up demand and prices. This is because incentives, such as negative gearing, apply to land and existing stock, instead of being targeted just at construction or new builds. Speculative investment for capital gains also partially contributes to long-term vacant properties being taken off the market and land going unused. In fact, there are an estimated 87,000 long-term vacant properties going unused in Queensland. Over-inflated land costs also lead to higher mortgages, the cost of which are passed on to renters, and locks people out of ownership. Thousands of homes have also been taken off the rental market and turned into short stays which are advertised on sites such as Airbnb.

This is why the sitting week after I introduced this bill, I introduced another bill to enact an Empty Homes Levy on residential land in Queensland. The levy would be applied to long-term vacant properties, empty land, and homes used solely as short stays, which would otherwise be suitable for use as residential properties. This bill could bring an estimated 24,000 of the 87,000 long term vacant properties in Queensland back onto the rental market. Thousands of short-stay rentals would have also been returned to use by long-term tenants. Because the levy is also applied to empty land suitable for new homes, it would also lower the cost barrier to new constructions on empty land, and incentivise new constructions. Furthermore, the levy would have had a deflationary effect on the investment bubble which is driving higher land, housing and mortgages prices.

An Empty Homes Levy should also be combined with a reversal of the government's policy to sell off public housing and a revitalisation of public housing generally to drastically boost supply.

Some submitters stated it is unfair to impose rules on benevolent property investors

Some property investors submitted to say that rent rises only occur in extreme cases, and that they have always treated tenants fairly.[19] Unfortunately, the claim that rental increases aren't common is completely unsupported by the data about rental increases in Queensland. Further, while it is heartening to hear of landlords who have concern about their tenants' welfare, unfortunately when rental increases are not regulated, we see landlords overwhelmingly charging the rent they can, not the rent they should. In a system where the government permits

[19] Submission 121: https://documents.parliament.qld.gov.au/com/CSSC-0A12/RTRARFAB20-6200/submissions/00000121.pdf

this, this is an economically rational thing to do. We need the government to step in to ensure tenants' rights, not individual landlords by exception.

Summary of competing interests

Of the 409 individual submissions published by The Committee, **330 of these, more than 80%, were supportive of rent controls in some form or another**, in addition to other proposals to address the housing crisis. Five of the twelve stakeholder groups which made submissions also voiced support.

Those that were unsupportive were, by and large, landlords and investor lobby groups such Real Estate Institute Queensland. Supporters of the bill were typically renters and groups such as Council on the Ageing (COTA Queensland) and Carers Queensland, who represent vulnerable people who are already suffering the effects of the housing crisis and at risk of a worsening crisis.

When weighing up the interests of these two groups, consideration must be given to the disparity in their existing positions, the vulnerability of renters to a worsening of this crisis and the consequences of such, and how the existing status quo, which disproportionately benefits investors, has contributed to the present housing crisis.

There is an obvious gap in the present economic standing and welfare of investors compared to renters. Investor incentives and governments which act to ensure investors are guaranteed returns irrespective of the prevailing economic conditions, not only generates further inequality but results in less new housing builds, supply shortages, increased costs to renters, declining rates of home ownership, and redirection of investment from other parts of the economy into a housing bubble. Much of the value of contemporary mortgages is not tied to the use value or cost of creating the asset, but is artificial value created by speculative demand, and is economic deadweight. This investment bubble distorts the market and contributes to an overvaluation of housing assets, prevents construction of new housing. Overvalued land presents a barrier to new builds, while the overvaluation of existing stock means higher mortgages which puts owner-occupiers in stress, as well as renters when these costs are invariably passed on by landlords.

The housing bubble is also driven by the exploitative nature of the housing market. The bargaining asymmetry between renters and investors is much greater than in typical markets. Renters who cannot outbid investors have no alternative to renting. Increases in rents can mean renters become displaced from their places of work, education, and communities, if not homelessness. In a tight market with next to zero rental availability, landlords can set rents well above the marginal cost of providing housing, as we have seen occur across Queensland. This means that those with the existing wealth to outbid renters for available housing can then charge rent above what it costs to maintain housing, such that renters are paying for the investor's over-valued mortgage or passive income. Instead of working peoples' incomes contributing to their own cost of living and home ownership, the wealth inequality and bargaining asymmetry inherent in our housing system means they will have their income siphoned into someone else's nest egg or vacation fund. By virtue of having less existing wealth, working people are locked out of the housing market and are economically coerced into paying more for housing than it costs to provide. This system disproportionately benefits those with existing wealth and assets, and the banks. In addition to government incentives for investors, the peculiarities of the housing market, which disproportionately benefit investors compared to consumers and firms in typical markets, drives up investor demand, leading to further overvaluation and inflation of the housing bubble, exacerbating existing bargaining asymmetry as higher prices lock more and more workers and families out of home ownership.

Numerous landlords made submissions that a rent freeze might mean some landlords cannot make repayments on their mortgages. When rental income is above the cost of maintaining housing such that it goes towards landlords' mortgage repayments, renters are effectively paying for someone else to own the asset. It is renters who provide landlords housing, not the other way round. That a rent freeze might mean that some landlords could have to sell-up, while disappointing to those investors, will mean a greater supply of housing for sale. This will have a deflationary effect on the housing bubble and provide more opportunities for renters to transition to home owners. This will have a cooling effect on the value of future mortgages such that they are more sustainable for both investors and renters than they otherwise would be. Furthermore, these investors are much more capable of enduring the cost-of-living crunch and rate rises. Investors who cannot pay for the mortgages on their property portfolios without exploiting the incomes of working people, pensioners, and families, have the ability to sell their assets. Conversely, the outcomes are much more disastrous for those who are not able to afford record high rental increases.

Numerous landlords made submissions that a rent freeze would jeopardize their lifestyles or retirements which were dependent on the passive income provided by tenants. This only highlights the issue with the present system. If rents are above the cost of maintaining housing such that landlords are earning passive income, this exemplifies how bargaining asymmetry and wealth inequality baked into the housing system funnels money from renters to those with existing wealth and assets. Landlords who earn a passive income from tenants are effectively living off the backs of hard working people, pensioners and families, and converting renters' incomes into landlords' nest egg. Landlords do not have a right to these exploitative gains, and nor does the government have a duty to allow exploitative and economically irrational markets to remain unregulated. As one landlord, sympathetic to the position of renters despite his own interests, said

> 'I would be happy for my rent to be frozen. We have done well with property price rises and those renting are doing it tough currently. The well off should not get even better off at the expense of the battlers.'[20]

[20] Submission 11: https://documents.parliament.qld.gov.au/com/CSSC-0A12/RTRARFAB20-6200/submissions/00000011.pdf

Again, I thank you for your work on this inquiry, and for this opportunity to respond to the issues raised in submissions. Please do not hesitate to contact my office on 3724 9100 if you would like to discuss this matter in more detail.

Kind regards,

[redacted]

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