

Residential Tenancies and Rooming Accommodation (Rent Freeze) Amendment Bill 2022

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## Rent Control.

Economists are virtually unanimous in concluding that rent controls are destructive. In a 1990 poll of 464 economists published in the May 1992 issue of the *American Economic Review*, 93 percent of U.S. respondents agreed, either completely or with provisos, that “a ceiling on rents reduces the quantity and quality of housing available.”<sup>1</sup> Similarly, another study reported that more than 95 percent of the Canadian economists polled agreed with the statement.<sup>2</sup> The agreement cuts across the usual political spectrum, ranging all the way from Nobel Prize winners MILTON FRIEDMAN and FRIEDRICH HAYEK on the “right” to their fellow Nobel laureate GUNNAR MYRDAL, an important architect of the Swedish Labor Party’s WELFARE state, on the “left.” Myrdal stated, “Rent control has in certain Western countries constituted, maybe, the worst example of poor planning by governments lacking courage and vision.”<sup>3</sup> His fellow Swedish economist (and socialist) Assar Lindbeck asserted, “In many cases rent control appears to be the most efficient technique presently known to destroy a city—except for bombing.”<sup>4</sup> That cities like New York have clearly not been destroyed by rent control is due to the fact that rent control has been relaxed over the years.<sup>5</sup> Rent stabilization, for example, which took the place of rent control for newer buildings, is less restrictive than the old rent control. Also, the decades-long boom in the New York City housing market is not in rent-controlled or rent-stabilized units, but in condominiums and cooperative housing. But these two forms of housing ownership grew important as a way of getting around rent control.

Economists have shown that rent control diverts new INVESTMENT, which would otherwise have gone to rental housing, toward greener pastures—greener in terms of consumer need. They have demonstrated that it leads to housing deterioration, fewer repairs, and less maintenance. For example, Paul Niebanck found that 29 percent of rent-controlled housing in the United States was deteriorated, but only 8 percent of the uncontrolled units were in such a state of disrepair. Joel Brenner and Herbert Franklin cited similar statistics for England and France.

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## Rent Control: It’s Worse Than Bombing

NEW DELHI—A “romantic conception of SOCIALISM” ... destroyed Vietnam’s economy in the years after the Vietnam war, Foreign Minister Nguyen Co Thach said Friday.

Addressing a crowded news conference in the Indian capital, Mr. Thach admitted that controls ... had artificially encouraged demand and discouraged supply.... House rents had ... been kept low ... so all the houses in Hanoi had fallen into disrepair, said Mr. Thach.

“The Americans couldn’t destroy Hanoi, but we have destroyed our city by very low rents. We realized it was stupid and that we must change policy,” he said.

—From a news report in *Journal of Commerce*, quoted in Dan Seligman, “Keeping Up,” *Fortune*, February 27, 1989.

When Governments introduce legislation to control a industry it leads to under investment and eventually rorting of the system.

The Foreign Minister of Vietnam in 1989 says that controls had encouraged demand while discouraging supply.

In New York the controls have left demand high but investors undertaking investment elsewhere.

What is required for the stabilisation of rents is that supply by the private sector is encouraged and supply by the public sector is also increased.

Up until recently the rental market in Brisbane has been steady, it is only in the last 12 months that we have seen the large increase in rents, but we have also seen a very large increase in property capital, this has meant that investors are looking for a reasonable return on their investments so rents had to go up. This will stabilise in the near future. We have also seen renters desperate to find a place that they have induced the landlords with incentives like paying more than the asking rentals, and this became the norm as other landlords also demanded of the agents to find a better return.

What this committee should be looking at is why has the current demand outweighed supply not only in Queensland but around the Australia. A couple of options to consider:

1. Is it because we cannot repair the properties from flood damage and so we have a shortage of property and more people looking for property?
2. Is it because the recent Covid pandemic reduce the building works so new product is not coming onto the market?
3. Is it because up until recently we had a glut of units built in Brisbane city area which meant that investors were reluctant to purchase units even in the suburbs because of the oversupply of units and a possible reduction in capital for units? For ten years property values of two bedroom units in the inner southern suburbs did not move. Some investors were selling for less than the buy in costs when all stamp duty and legal costs were included. What this has

meant that investors looked at other places to gain a return on their investments?

4. Is it because the state Government has not spent its allocated funds on social housing over the last number of years?
5. Is it because for the last 5+ years the talk has been about getting rid of the tax incentives that landlords have so are reluctant to invest not knowing the future?
6. Or a combination of all the above?

Rent controls are not the answer as Vietnam and New York can attest to. What needs to be looked at is how to increase supply back to the equilibrium that allows a market to operate with benefits to both landlords and tenants.