

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

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Committee Secretary  
Community Support and Services Committee  
Parliament House  
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Dear Committee,

I am writing to you about the draft bill to amend the *Residential Tenancies and Rooming Accommodation Act 2008* (**Rent Freeze Bill**). This letter outlines risks which may not have been considered in the current draft of the Rent Freeze Bill, and suggestions for a more tailored way forward.

Rent control policy has a varied history. In the first half of the 20<sup>th</sup> Century, ‘first-generation’ rent controls (rent freezes) were initially used as a wartime measure. From the 1970s on, most efforts tended to move away from rent freezes in favour of second or third-generation rent controls.<sup>[1]</sup> These later policies typically involved rent increases in line with CPI, at a fixed percentage, and/or only applied to existing properties to maintain investment in new housing. The decision to choose a first-generation policy in 2022 is unusual, but understandable given many households have been shocked by rapid rent increases and cost of living pressures recently.

There are risks associated with rent control policy which need to be considered. Kholodilin (2022) recently reviewed the literature.<sup>[2]</sup> The intended outcome of rent control is a freeze on rent increases (or increases at a fixed rate), and the evidence shows this is generally the observed effect. Unintended consequences include:

- Rental increases in properties not subject to controls, particularly those bordering areas where controls are in place, or housing types not subject to controls.
- Decreased tenant mobility - there is a disincentive to change rentals given prices don't rise.
- Decreased mobility leads to less movement for a new job and increased commute times.
- Housing stock misallocation. Decreased mobility means changing life circumstances don't result in a change of housing choice.
- Decrease in housing supply and decreased vacancy rates.
- Reduction in property values as landlords seek to sell.

- Demographic effects like the delay of marriage.
- Reduction of social segregation because of decreased mobility.
- The incentive for other charges to account for lost revenue, for example 'key money'.
- Decreased rental quality due to landlords having less money to invest in their properties.
- Increased home ownership. This is mostly due to landlords selling their properties to new owner-occupiers, taking the house off the rental market.
- Decreased new home construction.

Kholodilin (2022) concludes that *"policy makers should consider the multitude of these effects and their interactions when designing an optimal governmental policy."* I would agree with this statement, and caution against an optimistic view of increased home ownership. Home ownership is only accessible to those with the means to secure a mortgage, while those with no savings for a deposit are likely to be exposed to decreasing rental supply in a tightening market.

Covid resulted in a radical rethinking of rental policy in some places. One rental market that was studied recently is Berlin, where in 2020 they enacted a rent freeze that was removed around a year later. Hahn et al (2022) analysed the impacts, finding a reduction in rents, a decrease in rental advertisements by more than half, and an increase in rents for properties not subject to rental control.<sup>[3]</sup> The authors conclude that *"rigorous price restrictions seem to be short-sighted, if they come without supplemental strategies to increase the supply of rental units."* Sagner (2022) finds similar unintended consequences, concluding that rent decreases were accompanied by decreases in supply five times as large.<sup>[4]</sup> Borck & Gohl (2021) also found that rent controlled areas of Berlin decreased rental supply. Counter to other studies in the literature, they found segregation increased due to higher income tenants being more capable of paying for amenity costs in central zip codes. Rent controls resulted in greater inequality in terms of welfare and 'equivalent variation' of costs in Euros per month across income bands.<sup>[5]</sup> Other submissions on the Rent Freeze Bill point out the risks of rent controls on housing supply, and their views are supported by the literature.

Is there a more nuanced way forward? Given the challenges of first-generation rent control, many jurisdictions have tried a more tailored approach. Gilderbloom (2007) highlights that while restrictive rent controls appear to have a negative impact on the quality and quantity of rentals in the market, moderate rent control may be able to avoid these problems. This study looked at the impact of rent controls in several cities in New Jersey – a jurisdiction that compromises between restrictive controls and the free market – and found no major changes in rent, rental quality or quantity when comparing control and test group cities over a 30-year period.<sup>[6]</sup> Another long-term study by Diamond, McQuade & Qian (2019) looked at the impact of rent controls in San Francisco where new developments were exempt. They found rent control limited renters' mobility by 20 percent. Landlords affected by rent control reduced rental housing supply by 15 percent by selling to owner-occupants and redeveloping buildings to avoid rent controls and command higher rents.<sup>[7]</sup> The authors concluded: *"This reduction in rental supply likely increased rents in the long run, leading to a transfer between future San Francisco renters and renters living in San Francisco in 1994."*

Results such as these should caution those involved in drafting rent control policies. The biggest risks for Queenslanders may be diminished quality and supply of rental options, with landlords neglecting maintenance or selling their rentals to owner-occupiers. Rent controls may result in housing

misallocation, worsening urban planning outcomes and traffic in our communities. Houses not subject to the freeze (on the border with NSW) are likely to see an increase in rents.

The Policy Objectives of the Explanatory Note for the Rent Freeze Bill mention near-zero vacancy rates. The evidence suggests that the Rent Freeze Bill is likely to worsen this situation. I urge those involved in drafting the Rent Freeze Bill to reconsider the approach we should take as a community. I believe the Policy Objectives should be reframed as “combating cost of living pressures.” Another option to explore may be rent assistance in the form of a subsidy or tax concession. I acknowledge that no intervention in the market is without its drawbacks, however a subsidy may help ease cost of living for those most in need, while avoiding a worsening supply outlook for in the short-term. It would also help avoid the long-term inefficiencies of rent control policies. I believe this philosophy of targeted support to those in need, in proportion to the problem at hand, should be front and centre in the mind of regulators and policy makers.

I thank you for your consideration of this feedback.

Kind regards,

Resident

## References

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- [7] Diamond, R, McQuade, T & Qian, F 2019 'The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco', American Economic Review 2019, vol. 109, no. 9, pp. 3365–3394. [Link](#).