

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

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Submission

Community Support and Services Committee,
Queensland Parliament

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As a private property investor, I oppose the proposed Rent Freeze Bill in its entirety.

The Problems of Rent Control

It has been suggested that rent controls including a rent freeze on residential properties would help solve the current housing crisis in Qld. The likely result of rental controls would be the exact opposite, it would discourage investors leading to a substantial reduction in rental house investment. This will in turn reduce the supply and quality of housing available and place even more pressure on public housing.

As in any industry, increasing the obligations and costs and or reducing the returns will discourage investment and lead to investors exiting the market. This is already occurring with property investment where new regulations reduce the owners ability to effectively manage their investment, adding significant risk and onerous obligations. At the same time investors are being met with substantial cost increases particularly repairs (materials and labour), insurance, finance, land tax and council rates. For their investment to remain viable, owners have no choice but to pass these escalating costs on to tenants. Any rent control where investors would be forced to make a loss would lead to owners selling or re-purposing their properties.

Some have argued that as investors sell their property, that property would likely be bought by first home buyers and thereby reduce the pool of people renting. This argument fails to consider some important factors. Firstly, those tenants who take advantage of sales by investors and of becoming first home owners are those with

higher incomes and have the means to buy with deposits and secure finance. It would provide no benefit to low income tenants experiencing rental stress. The second factor, the availability on existing homes will simply displace demand on new homes, while the ample demand for new homes will be by owner occupier buyers but no longer by investors in rental homes.

The other impact is owners re-purposing their property, where this meets individual circumstances. If residential rental is making a loss, owners would consider leaving properties empty, using as holiday homes or for family members, short term or holiday rental or home business use. There attempts of regulations to target this and in most cases intervention elsewhere has failed.

The Treasurer, Cameron Dick, made a speech at the Queensland Housing Summit on Thursday 20 October 2022. He showed Treasury figures highlighting 55,000 fewer rental properties than in 2020 (equivalent to the entire stock of public housing). The breakdown was:

- 1) 23,000 (or 40%) is due to conversion to owner occupied homes.
- 2) 12,500 is due to the slowing down of dwelling supply,
- 3) 14,500 are under "repair or renovation"
- 4) 20,000 (after accounting for adjusting factors) have left the housing market for unknown reasons "for reasons that cannot be explained by available data ... in my language that is we don't know", he pointed out "potential causes include using investment properties doing business at home, held for sale, for holiday homes." and "30,000 using for short rentals but that number did not increase over that period ... underpinning all of this is a lack of supply responsiveness in the housing system". This illustrates that private rentals are indeed being withdrawn from the market in addition to the owner occupied conversions.

An incorrect assumption being promulgated is that all landlords are wealthy and making large profits on the backs of suffering tenants, and that rent control will reign this in. While high land values and the hope of capital gains make owners look wealthy on paper, these can only be realised if there is sufficient investment yield or demand by owner occupier buyers. Rent that no longer covers escalating costs results in negative yield. Some investors can use tax tools such as negative gearing and deferring losses to later years to reduce impact, but ultimately making a loss is undesirable. This is in addition to property investment being time consuming and risky venture, particularly as there is no certainty that capital gains will materialise at the time when the property is sold.

There has been some comments citing rent controls in other parts of the world. Many of those schemes are very different to the ones proposed here, for example, some include subsidies by government to landlords, freezing taxes or other costs to those participating, or only relate to large corporate landlords. Rent control schemes have generally been far from successful. For example, in Sweden, tenants waiting an average of 9 years to secure a rental and other forced to move every 12 months.

Overall, rent controls present a very negative and ineffective approach to dealing with the housing crisis.

The Solution

What is needed are positive and effective solutions to address the housing crisis. Clearly more social and public housing can go some of the way but they face substantial problems. Over the past few decades, we have seen the privatisation throughout essential sectors such as energy, utilities, communications, transport, security, health and others. The main aim of privatisation include improving efficiency, more private investment and reducing cost. Why then would housing be so different that some wish to do the opposite and nationalise it in the form of public housing.

Expanding the private rental market can go much further. The start with providing incentives rather than disincentives for investment in rental and in particular low cost rental properties.

Each tenant and investor have their own unique set of circumstances, so rather than create onerous rules which apply to everyone, investors and potential tenants should be able to negotiate many of the terms of a rental agreement. Tenants are free to choose properties which best meets their needs, and investors would choose tenants who are best suited to what they have to offer.

All three levels of governments impose taxes on tenanted properties (which are lower or tax-free for owner occupied property) and include Capital Gains Tax, Stamp Duty, Land tax and Council Rates. These all get passed on to tenants. Clearly, for some rent-relief is provided to tenants than this is the easiest cost for government to waive as an offset. This was actually the case during the lengthy Victorian lock-down where landlords who provided rent relief were entitled to a equivalent relief in state taxes.

Reducing risks to investors is another key incentive. The biggest risk to many investors is the prospect of an undesirable tenant who may damage property or fails to pay rent. Providing an efficient and streamlined process to deal with undesirable tenants (through the RTA and QCAT) must be a priority, as the majority of desirable tenants are being adversely impacted by this minority. If the parties cannot reconcile then the eviction process must be fast and straightforward.

Legislation should treat tenants and landlords equally and fairly. Current legislation is heavily biased in favour of undesirable tenants. It imposes almost no penalty for tenants breaching legislation but many for landlords despite trying hard to follow the rules. A retaliation provision that only applies to landlords but not tenants. Also tenants allowed to leave anytime and, if they know how, without notice, penalty or reason, while landlords must adhere to strict rules, timeframes and reasons.

A key solution to the housing crisis is releasing more land and building more houses. More houses (plus more incentives for investors) means more rental stock, therefore more supply, more competition among landlords and therefore more competitive rents. Clearing up the mess in our current planning schemes and making the process of obtaining planning and building permits fast and inexpensive for smaller investors. Invest in building new satellite and regional cities where the transport, jobs, schools and other services all exist before selling the allotments. Open up more disaster resilient and sustainable land for development, or invest in disaster resilience to make other land suitable.

Rental Crisis vs Housing Crisis

It should be pointed out we are experiencing two overlapping crisis.

First, a housing crisis where there is too few available homes to meet population growth. It includes the need for owner-occupied homes, private investor rentals and public housing combined. This has led to high real estate prices.

Secondly, a rental crisis, where the needs of those seeking rentals and affordable housing is not met. The mere building of more homes and releasing of land will not go far at all to address the rental crisis. That is because there will be too few private investors (both individuals and corporate) prepared buy those new homes and then take the risk and potential loss of a rent freeze or other onerous controls.

On behalf of all those involved in the private rentals, both landlords and tenants, I strongly urge the committee to reject the proposed Rent Freeze Bill.

Yours Sincerely

Mark Ignativ