

Dear {Salutation} {Lastname},

The Australian Institute for Progress is Queensland's foremost think tank concerned with individual rights, and we are particularly concerned at the special COVID-19 property proposals to come before the parliament next week.

This COVID-19 pandemic is a one in one hundred year health crisis, but that does not mean we can ignore basic questions of equity and economics.

The changes initially proposed by the government fail at the most basic level of equity because they **arbitrarily impose the cost of looking after a subset of the needy onto a group whose only connection with these needy is that they rent them a property to live in.**

In effect the government would be implementing a welfare program and forcing a small sector of the community to pay for it, without regard not only for the rights of this group, but their ability to bear the cost.

While these policies may serve a short-run desire to appear compassionate, the long-term consequences for the overall housing market will be to decrease the desirability of residential housing as an investment and a consequent deterioration in the affordability of the rental market.

The policies also discriminate against those unemployed who own their own home, whose occupancy costs will continue unabated.

The political consequences for any MLAs voting for measures like this are also likely to be dire. Our research into the last federal election showed that the "retiree tax", which was an omnibus term for Labor's proposed taxes on mostly older Australians' investments, was a key factor in Scott Morrison's victory.

The proposals originally floated by the Queensland Government were in essence another tax on the same group.

Principles to bear in mind when voting on the legislation

1. Landlords should bear the costs of any risks inherent in their investment, which include the creditworthiness of their tenant and their ability to pay.
2. Landlords should be expected to adhere to the terms of their lease agreement, including keeping the property in good repair.
3. Tenants should bear the costs of any risks inherent in their tenancy, including their ability to pay rent and outgoings.
4. Tenants should be expected to adhere to the terms of their lease agreement, including keeping the property clean and making good any damage on the expiry of their lease term.
5. If the state wants to improve the position of any tenants, in terms of ability to pay rent, or to vary the terms of their rental agreement, then it should either:
 - a. Place the tenant in a position at the state's expense in which the tenant can meet its own commitments to the landlord; or
 - b. Compensate the landlord for any cost imposed on them by the legislation.

6. Moral hazard – providing incentives which encourage actors to do things without bearing the consequences - should be avoided.

Policies we understand were to be embodied in the legislation

1. A right for a tenant to demand a rent reduction for six months without any proof of hardship, and the ability to extend for a further six months
2. A right for a tenant to break a lease with only one week's notice without any liability for damage caused to the landlord
3. A ban on landlords evicting tenants for the next 6 months, with an effective extension for a further 6 months if the tenant so desires
4. A right to refuse entry to the landlord for anything but emergency repairs

Is there a need for these policies?

We cannot see that there is a need.

For those people already in receipt of the pension, job seekers allowance, student allowances, disability pension, supporting parents pension and others there is either no change in payments, or an increase. So the Coronavirus pandemic will actually have a positive financial impact on these people.

People who lose their jobs can immediately access welfare payments at a rate of \$1,100 per fortnight.

People in all the categories above may also be eligible for rent assistance from the Commonwealth government.

Other Australians will be eligible for the job keeper payment of \$1,500 a fortnight.

Australians can also self-finance by withdrawing up to \$10,000 pa from their superannuation for each of the next two years.

As measures to help Australians cope with a temporary disruption to their lives, these measures seem to us to be adequate. If they are not, it is up to the state government to identify where they are not, and cure the problem by proposing a government-funded benefit to the affected people.

Hypothetical policies the state government could adopt

Without having identified any problems in the matrix of payments provided to COVID-19 affected Australians, it is not possible to be anything more than general in suggesting policy fixes.

However, any deficiencies in the federal arrangements, if the federal government could not be persuaded to cure them themselves, would most likely be cured by a means-tested state-based payment. It should not be based on the amount of rent being paid, or if it is, should be capped at a low rent. To relate it directly to rent would encourage moral hazard, and unfairly benefit tenants who had entered into an expensive lease at the expense of those who chose more prudently and modestly.

Another approach would be to offer short-term loans from the state, to be fully paid back over time. This again would guard against moral hazard and ensure that some beneficiaries did not gain a benefit at the expense of others.

The current proposals are unjust and discriminatory

The current proposals are an expropriation of private property without proper compensation. As such, they are unjust and inequitable, and would appear to be contrary to the *Queensland Human Rights Act*.

They seem to proceed from the idea that a tenant is in a weak position and a landlord in a strong position, so the landlord can be forced to help the tenant without needing to be compensated.

Landlords should not have to support tenants

The largest landlord in Queensland is the state government through the Department of Housing and Public works. Rent paid to the department is calculated as a percentage of income. Public housing tenants' ability to pay rent should be unaffected by the COVID-19 pandemic.

There are few institutional landlords in Queensland, and similarly to the rest of the country, most private residential rental property is owned by small investors, typically only owning one property. In Australia, in 2017-18 1,863,000 or 20% of Australians owned a property other than their usual residence, and 316,000 of them live in Queensland. 71% owned a single property, and 5% owned four or more.

Many landlords are only moderately well-off with 23.5% of them in the bottom 40% of households by disposable income. 16.2% are in the middle 20%, followed by 22.9% in the next 20% and 37.2% in the top 20%.

Some of Queensland's landlords will be able to cope with reduced rental income (whether they should have to is another question), but many won't. They will have large mortgages to pay, and while even if banks offer deferments, they are capitalising rent into the outstanding amount and will expect it to be repaid (with interest) over the course of the loan.

Even if they have small or no borrowings, they themselves may have lost a job and be relying on the rental income to tide them over. They may be self-funded retirees who don't get a pension, have seen their share portfolio squashed, the companies in it suspending dividends and were therefore relying on their investment property to pay their living costs.

It makes no sense to ask them to use their moderate means to subsidise the living costs of someone who just happens to live in their property.

It should also be noted that a drop in gross rent of 50% will equal a drop of more than that in income for the owner. The owner is responsible for costs of management, rates, land-tax, maintenance, and loan repayments. These all need to be deducted to arrive at the money they actually receive in their hand and means they earn less than 100% of the rent to start with. A 50% reduction in rent can easily equal a 100% reduction in income.

In supporting these policies some MLAs, like the member for Maiwar, say that "everyone needs to share the burden". But why should it be landlords that make the sacrifice? MPs and members of the public service have generally good incomes, and the latter, security of tenure.

Why shouldn't they reduce their incomes so as to relieve pressure on the state budget and make it easier for the state to support needy Queenslanders? It's likely that a modest percentage drop in public sector salaries would fund any rent accommodation that would need to be made, as opposed to a more than 50% drop in the income of a small number of landlords. We are not suggesting that this happen. We are illustrating just how unjust these measures are.

Similarly, why is it that providers of accommodation are the only group being asked to provide assistance? Food is also an essential. It would make more sense to mandate that grocery stores have to provide a discount to COVID-affected Queenslanders than it does property owners.

What costs and risks is it right to ask landlords to bear?

Landlords should bear the usual commercial risks of renting a property. If a tenant can't pay rent, or breaks their lease, then the landlord can recoup their loss first from the deposit, and second through a personal action against the tenant. But if the deposit is too small, or the personal assets non-existent, or the costs of enforcing the landlord's rights too large to justify pursuing them, then the landlord will experience a loss.

The landlord also runs the risk of vacancy and the costs of finding a new tenant if the current one vacates at the end of their term. These costs can be quite considerable, and they have probably increased because of COVID-19 making it difficult to find and accommodate fresh tenants at the moment. It is right, that even though the risks have increased, landlords should bear them themselves.

We expect the housing market, and in particular the rental market, to be quite soft for the next few years. This is due to a number of factors:

1. A collapse in incomes leading to fewer people being able to rent.
2. Increased awareness of financial risk making those who can afford to rent keen bargainers
3. A drop in the population of Australia due to a decrease in temporary visa holders which *The Australian* [reports](#) will be around 610,000 by the end of the year.
4. An increase in people living at home or in share housing.

These factors will mean lower rents and longer vacancy periods.

Is there room for landlords to support tenants?

Given our analysis there is, but on a voluntary and commercial basis. Any landlord with a good tenant who cannot afford to pay rent as a result of COVID-19 has a vested interest in retaining them at the end of their lease. It may make sense for them to offer a lower short-term rent in return for a longer lease period, or a higher rent later.

In another situation it might be possible for a landlord to find another tenant now at the current rent, in which case it could be in both the landlord's interests, and those of the tenant, for the tenant's lease to be surrendered to allow the landlord to take a new tenant, while the old tenant is free to find accommodation that is affordable in their new circumstances.

The possibilities are endless, and one part of the government's response might be to sponsor a segment in the media publicising people who have reached these sorts of arrangements.

Consequences for the housing market

While rental housing will become much more affordable in the short term because of a surplus of stock, over time, as Australia's population grows, the surplus will disappear. Renters will then need existing landlords to invest in more housing, or new investors to enter the market.

If existing investors think that the government may arbitrarily strip them of their rights, they will be even less inclined to invest than they might otherwise be. New investors will likewise weigh other options, like equities and trusts, where the state government is less able to intervene, more favourably. Banks and other lending institutions will also place a higher risk rating on investment housing, and alter security ratios and interest rates to reflect this.

This will lead to an eventual rental housing shortage.

The return on residential investments is miserly, and it relies on small investors who gear to the maximum and do much of their own maintenance and management, to supply it with stock. Some of these investors are well-off, but a lot are average Australians trying to get on. They tend to be risk averse, and view a rental property as a low risk investment that they can understand, and manage themselves. They look at the investment as long term and intend to pay it off. The small returns are balanced against the Australian experience that in the long run real estate always appreciates in price. Arbitrary government interference can easily change the perceptions that the long-term gain will be worth the short-term pain.

Conclusion

This letter is based on changes proposed by the Minister for Housing, which we understand will be subject to change. Those proposals do not appear to be public yet. When they are we will offer more detailed commentary.

In the meantime the observations above should be taken into account in discussing any changes. We may live in unprecedented times, but that is no reason to abandon principles that have been proven to contribute to a just, equitable and wealthy community.

Yours sincerely,

**GRAHAM YOUNG
EXECUTIVE DIRECTOR
AUSTRALIAN INSTITUTE FOR PROGRESS**