

9 February 2017

Residential Tenancies Act Review
Consumer Affairs Victoria
GPO Box 123
MELBOURNE VIC 3001

Heading for Home: Residential Tenancies Act Review

To Whom It May Concern,

I write on behalf of the Institute of Public Affairs ('IPA') regarding the above Review, and in particular the following options (henceforth, the 'options'):

- Option 7.8A, a landlord or agent would not be able to request a rental bid or advertise a property in a way that invites rental bids (for example, a price range or \$X+).
- Option 7.8B, landlords and agents would face the restrictions as per 7.8A and would also be prohibited from accepting a rental bid.

Australia is a liberal democracy. We are founded on the classically liberal concepts of the rule of law, freedom of speech and protection of property rights. Both options suggest that government should coercively prevent individuals from selling their property to the highest possible bidder. Such an idea, especially when those trades present no discernible harm to others, is a fundamentally illiberal and economically destructive restriction on the right to free and voluntary exchange.

In the short term adopting these options may well see a fall in the cost of rental properties. However, on closer inspection, and over the longer term, these policies will distort the allocation of housing stock, and stymie the incentive for investment. Given that a restricted

housing supply, like any market, will increase prices in the long run, these policies may bring higher long term prices.

A free market for housing – including a bidding process that here is under attack – means buyers and sellers can voluntarily trade for their *mutual benefit*. What’s more, the process of negotiation between landlords and tenants enables prices to be discovered. Those prices represent the value of the underlying housing, which can only be determined through the process of a free market.¹

Prices are prevented from emerging when governments layer red tape and regulatory restrictions onto the rental process. Both options are prime examples of red tape applied to an already stifled housing market. Restricting Australians from revealing the price they are willing to pay through a bidding process will not only harm them and the potential landlord from engaging in trade, but in the long term will fundamentally hurt all Australians, including future generations.

Recent Institute of Public Affairs research calculated that red tape costs the Australian economy at least \$176 billion in foregone economic output each year.² That makes red tape the equivalent of our largest industry, and more than we pay in income tax. As such, we recommend this Review not only reject the options, but redouble efforts to alleviate other regulations driving up the cost of housing.

Policymakers must understand that the real task of increasing access to affordable rental housing is unlocking supply side constraints. The government should seek amendments to planning schemes which restrict the development of higher-density living, release land for residential development, and tackle the litigious planning approval regime which can add hundreds of thousands of dollars to the cost of residential developments. Cutting red tape

¹ see Hayek, F. A. (1945) The use of knowledge in society. *The American Economic Review*, 35(4):519-530.

² see Novak, M. (2016) “The \$176 billion tax on our prosperity.” Institute of Public Affairs, Melbourne.

<http://ipa.org.au/portal/uploads/The-176-Billion-Tax-On-Our-Prosperity.pdf>

on housing markets is the only long term solution to fixing Australia's affordable housing crisis.

We trust that our contributions will be of assistance to the Review. We would be pleased to answer any questions.

Please do not hesitate to contact me with any questions: in writing to Level 2, 410 Collins Street, Melbourne, 3000; by telephone on (03) 9600 4744; or by email to dallen@ipa.org.au.

Regards,

A handwritten signature in black ink, appearing to read 'Darcy Allen', followed by a period.

Darcy Allen

dallen@ipa.org.au

Research Fellow, Institute of Public Affairs