

RENT CONTROL

RENT control is a classic example of where government interference with the free price mechanism can do almost irreparable damage. Maintained long after the disappearance of the emergency conditions which justified its introduction, it has inflicted grave social injustice on a small minority, and has delayed the provision of adequate housing facilities for the great majority.

Some protection against unfair rents was provided under Victorian Law well before the Commonwealth began to enforce nation-wide rent-pegging under its war-time powers. As part of a comprehensive system of controls aimed at stabilising incomes and diverting resources to war purposes, rent control for a time worked tolerably well. In broad, rents in Victoria were pegged at 1940 levels, or, subject to appeal to rent tribunals, adjusted upwards to a maximum of 5% net of 1940 capital value of properties (i.e., after allowing for rates, insurance, maintenance, depreciation and other costs).

So long as prices ruling in the community and hence property values remained fairly steady, a ceiling on rents imposed little hardship on landlords. But the devastating effects of war-time finance on the price level could not be permanently deferred. With the return of peace, wage-pegging became politically untenable, subsidies were tapered off and a number of other checks on inflation were relaxed or removed. Although money national income started to rise rapidly, rigid rent control was retained and consequently landlords were prevented from sharing in the higher incomes being received by the rest of the community. Rents were kept at 5% net on a capital figure already 50% undervalued by the end of 1946. Between September, 1939, and September, 1946, building costs of three-bedroom dwellings doubled; they are now about five times pre-war levels. The capital valuation of dwellings and business premises let after 1945 was related to actual construction cost, but practically nothing could be built by private investors because of building controls and other restrictions.

After the defeat of the Prices Referendum in 1948 the Commonwealth retired from the field of rent control and

the problem of rents became one for the States. But the emotions aroused by rent control were too deep and too widespread to permit any possibility of an equitable solution. State politicians took the easy and popular course of disregarding the problem. The early war-time Commonwealth regulations were thus taken over almost in toto by the States despite the fact that they were utterly irrelevant to 1948 conditions.

The Easing of Control.

In 1950 the Government of Western Australia removed controls on all houses rented after December, 1950, altered the basis of capital valuation to current replacement cost less depreciation, and granted an all-round increase in controlled rents of 20% on housing and 30% on business premises. This ceiling was raised a further 10% in 1951. Rent control legislation in Western Australia lapsed on April 30th, 1954, but has since been restored, retrospective to May 1st.

Following the recommendations of a special public committee, Tasmania granted a 20% rise in dwelling rents and a 35% rise in business rents in 1950. Additional increases were permitted in 1952 and restrictions over the renting of business premises have been virtually removed.

South Australia set up an independent committee of enquiry in 1951, and, as a result of its report, abandoned the principle of pre-war capital valuations and authorised its rent-fixing authority, the Housing Trust, to grant increases in rents of up to 22½%. The controls were further eased in 1953 and all restrictions over the renting of business premises were removed. Queensland and New South Wales have taken minor steps towards the revision of their rent-fixing laws. However, probably as a result of a liberal interpretation of the existing provisions, there has been a gradual increase in the average rents paid in these States.

Victoria has been the laggard. The table on the opposite page shows increases in average rents of four and five roomed houses in the various States since 1939.

Whereas, since 1939, rents of pre-1945 houses have increased by 40% in Perth, and even by as much as 28% in Sydney, they have risen by only 4% in Melbourne. Apart from tightening up on sub-letting abuses, making it easier

WEEKLY RENTS OF FOUR AND FIVE ROOMED HOUSES.

	1939	June, 1954	Incr. %
Sydney	23/3	29/8	28
Melbourne	21/5	22/4	4
Brisbane	19/2	22/7	18
Adelaide	19/11	26/4	32
Perth	19/9	27/8*	40
Hobart	20/9	28/7	38

*March, 1954,

Note: Rentals of new houses completed since the end of the war—mainly Housing Commission homes—are not included.

Source: Commonwealth Statistician.

for home-owners to repossess, and freeing from control certain new tenancies and, in the case of business premises, all tenancies taken on leases of three years or longer, Victoria has made no attempt to remedy the glaring injustice to lessors who have to pay 1954 wages for maintenance and repairs, but barely recoup 1939 rents. Since pre-war the general price level in Victoria has increased by 151%, average nominal weekly wages by 216% and building costs by 400%.

The Effects of Rent Control.

Little statistical data is available on income from rents. *However, an analysis of information published in the National Income Estimates, suggests that the share of the national income attributable to private landlords for dwelling rents has fallen from about 4% in 1938-1939 to less than 1% today.*

Rents have lagged so many laps behind costs that few landlords are able to make repairs or improvements to their properties. The cost of this type of work has risen much more than other costs because of the dearth of skilled tradesmen and materials. Many tenanted houses and business premises are falling into disrepair for lack of proper maintenance. Whether driving down the main shopping block or side residential streets, in most of the older suburbs of Melbourne one is met with a picture of almost unrelieved dinginess and dilapidation. *Government attention is concentrated on the erection of new housing, oblivious to the fact that the stock*

of old houses is being hastened to premature decay through rent control.

Landlords are not by any means always well-to-do. An analysis of taxation statistics shows a far greater concentration of incomes from rent in the low income brackets than for any other type of property income. The truth of the matter is that many elderly people and others of small means have in the past invested their life's savings in house property to provide for their declining years. They now find that, because of rent control, they are obliged to live on a mere pittance and are also unable to "cash in" on high post-war property values because they have practically no rights of repossession. Owners, especially deceased estates, have in many instances been forced to sell at whatever price the tenant was prepared to pay since under the Act he has first option to purchase. Because of the high premium for vacant possession, tenants are often able to make a substantial gain through resale.

The continuance of rent control has a bad psychological effect on investment in house property for rental purposes. Although technically free from control, most investors do not relish building at the present high level of costs coupled with uncertainty about the future of rent control legislation. The provision of new houses for letting has virtually become a State monopoly, and under present conditions it is likely to remain so. Apart from the burden on the State budget and the inability of Government housing to keep up with demand, there is a strong case on broad social grounds for the retention of some degree of private letting of houses.

RENT control is bringing about a revolution in home ownership. The supply of privately rented houses is falling rapidly each year through sales to tenants and other owner-occupiers. Thus many people seeking to rent a home are being forced against their wishes and, ultimately possibly against their interests, to purchase on heavy mortgages. These people are often obliged to erect cheap weather-board homes on the outskirts of the metropolitan area, greatly adding to the community cost of providing sewerage, electricity and transport services.

At the same time as the outer areas are being uneconomically extended, rented housing in the inner suburbs is being under-utilised. The number of persons per dwelling is now substantially lower than before the war, and this is largely attributable to rent control. Protected tenants have a strong interest in remaining in their existing dwellings, even though their families may have grown up. Moreover, since rents are so low there is no great incentive to take a lodger to help out. Removal of rent control over private dwellings would pave the way to the equalisation of dwelling rents for houses of similar type, whether privately or government owned. *Rents now depend not so much on the size or location of dwellings but the date of their first construction or letting. This has created the greatest inequity between Housing Commission tenants whose rentals range all the way from 15/6 per week for dwellings let in 1939 to nearly £4 per week today.*

Business Premises.

Owners of property let for business purposes suffer equally with other landlords from inadequate rentals and inability to maintain and renovate their premises. Since the majority of business tenancies are on short term leases, rents cannot be adjusted without approval from the Fair Rents Court; nor can tenants be evicted to modernise premises or to demolish old structures and erect new buildings without its consent. Ramshackle establishments are thus permitted to remain on sites ideally suited to new office blocks, hotels and shops. The services which the city urgently needs are not likely to be provided under existing conditions. *To date not one single new building has been finished in Melbourne since the war.* With the removal of restrictions and the introduction of American cost-saving methods of construction, investors might again be prepared to turn their attention to city real estate. The longer this is delayed, the further will Australian cities drop behind the developments occurring in the main cities in overseas countries.

Rents and the Cost of Living.

The main argument advanced against any relaxation of rent control is that it would mean a sharp rise in the cost of living and, unless this were passed on through basic wage ad-

justments, the living standard of wage-earners would be reduced. If it were passed on, the price spiral would be generated afresh.

For the purpose of compiling the "C" Series Index, the Statistician takes into account only four- and five-roomed private houses completed prior to 1945. These houses whose rents have been subject to rigid control comprise probably not more than 10% of accommodation occupied by wage and salary earners in Melbourne. This explains why the Index shows an increase in rents of a mere 4% since 1939, whereas the rise in costs of housing accommodation for the majority of people would be substantially greater.

At present less than half of the accommodation of wage and salary earners in Greater Melbourne is being rented. Over half is owned or being purchased on terms. Possibly one-quarter comprises tenanted one-family private houses and flats whose rentals can be effectively policed under the Landlord and Tenant Act. The remainder consists of Housing Commission homes (possibly 5% of all employee homes) exempt from the Act and a great variety of shared and miscellaneous accommodation, most of which, though within the scope of the Landlord and Tenant Act, is in actual practice more likely to be the subject of private arrangements. Both the South Australian and Tasmanian committees of enquiry draw attention to the high rents being paid for shared accommodation due to the ineffectiveness of the controls. The Tasmanian committee points out that tenants sharing accommodation do not avail themselves of their legal rights through ignorance, insecurity of tenure or just plain desire to live in peace and harmony with the co-sharing landlord or head tenant.

This means that the cost-of-living of the great majority—about two in every three—of those wage and salary earners who have to pay for housing accommodation, would in actual fact not be increased by relaxation of rent control, even though the "C" Series Index—because of the peculiar nature of its compilation—showed a rise in living costs. If women, juniors and others bearing little or no direct responsibility for housing costs are taken into account, the proportion of wage and salary earners whose living expenses would be unaffected by relaxation of control would be about four in every five.

This majority would therefore have no moral or economic claim for an adjustment in their incomes should rent control be eased.

At the moment the average controlled rent on four- and five-roomed houses is 22/4. *An increase of 50% in rents would mean that the minority enjoying the benefits of these rents would still be paying only 33/6 a week compared with the £3 or £4 paid by Housing Commission tenants and others.*

If the cost-of-living index were allowed to affect wages, a 50% rise in controlled rents would increase wages all-round by 12/- a week in spite of the fact that the living costs of the majority would remain unaffected. *It would surely be the height of folly to disturb general price and cost stability on the flimsy ground that a favoured minority—already paying far less for their housing than everyone else—would be adversely affected.*

A New Policy for Rents in Victoria.

The complete removal of rent control would overcome the principle economic difficulties—the shortage and waste of rented housing facilities, the inequitable diversity of rents, unsightly business premises, retarded city development and the premature decay of valuable national assets through inadequate maintenance—and in the long run would be highly beneficial. However, with housing rentals it is not suggested that this should be done at one fell swoop. But an immediate rise in Victorian rents of something like 40% to 50% would be justified as a first instalment towards the eventual elimination of control.

FOOTNOTE:

Rent Control in Great Britain.

Between 1938 and 1953 dwelling rents in Britain increased by 25% compared with an increase of 85% in the cost of living (excluding rent.) Rents were pegged fairly rigorously in Britain because of the inability of landlords, except in extremely urgent cases, to secure permits to execute improvements or other than trivial repairs to their properties, and hence file a justifiable claim with Rent Tribunals for an increase in rent to cover extra costs.

However, following a report by an independent committee, the British Parliament passed a Housing Repairs and Rents Bill last May, authorising increases in rents for all landlords whose properties were in good repair, as both regards structure and decoration, or who spend money on property in repairs or otherwise to the tenant's advantage. (Controls over building repairs and improvements have been lifted.) A new maximum rent ceiling was set at twice gross rateable value—rating valuations are now universal and uniform in England, to give broadly an 8% return on capital. It is estimated that this measure will result in rent increases of 30% to 40% for most landlords.