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Updated economic analysis of Queensland residential renting reforms

Department of Communities, Housing and Digital Economy

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Deloitte Access Economics

Contents

Executive Summary

The share of private rentals in Queensland has risen steadily over the last decade – now representing over one-third of the Queensland housing market. As such, it is important to consider the regulations that govern the balance of rights and responsibilities between tenants and owners.

The **Queensland Government is currently considering regulatory changes to the state's private rental market, which seeks to balance the rights of tenants and owners.** The changes intend to provide tenants with greater certainty, safety and security with a stronger framework to negotiate and enforce rights, while preserving the rights of investors and owners. The proposed changes include setting housing quality and minimum housing standards for residential rental properties, strengthening domestic and family violence protections for tenants, improving the transparency around managing tenancies, and supporting parties to communicate and negotiate about renting with pets.

At the end of 2019, Deloitte Access Economics was engaged to determine whether the proposed rental reforms would materially impact supply and/or demand in the private rental market, and therefore rental prices and/or property market dynamics. The study found that overall, **the impacts of the reforms to the housing market were negligible, consistent with the intended small relative change in user cost for investors due to the proposed reforms.**

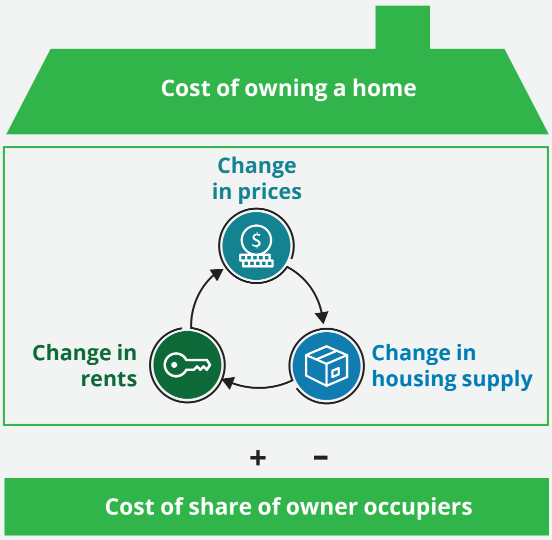
Since then, Queensland's relative attractiveness as a place to live and work has led to the **highest levels of net interstate migration to the state in decades.** This has led to **costs of purchasing a home and renting steadily increasing** due to high demand that is constraining supply in the market.

Given the recent changes to the property market in Queensland, Deloitte Access Economics was engaged to **re-evaluate the expected impact of the proposed rental reforms in the current context** of the Queensland housing market. This includes the removal of the 'minor modification' reforms that is no longer proposed as part of phase one implementation. The specific updates to the Deloitte analysis include:

- Analysis of the current housing market, including regional **changes in house prices and rents.**
- **Update of the impact modelling** on house prices, rents, and the share of owner-occupiers in the market.
- Assessment of the **vulnerability of low-income households to marginal rent increases,** as measured by the number of low-income households currently in rental stress (over 30% of household income is dedicated to housing costs).
- Discussion on the limitations of our analysis and the **constraints on quantifying the distribution of impacts** with these reforms.

To isolate the impacts of the proposed set of reforms, the costs of owning a home or **'user cost' is the applied framework to understand the complex dynamics within the housing market.** The concept of user cost captures how 'costs' impact the preferences and decisions a 'user' of housing (investors or owner-occupiers) can make. Costs include, for example, housing maintenance, administration and transaction costs; mortgage interest payments and property taxes.

The proposed reforms are expected to increase administration and/or maintenance costs for a small cohort of investors (i.e. those whose tenants uptake reforms). This increase in user costs is expected to flow through the housing market, based on a **general economic understanding of housing market dynamics** (below).



Increase or decrease dependent on price

Summary of relationships for an increase in user cost:

- An increase in user cost, flows through to a decrease in property prices
- This results in less housing supply, reducing the availability of *excess stock*
- Reduced supply means there is less availability of rental properties, resulting in higher rents (all else being equal)
- Higher rents, combined with lower house prices, increases rental returns
- The share of owner-occupiers increases, as investors withdraw and renters purchase houses instead

Noting, the estimated change in total user cost is an aggregate result and not every property would reasonably be impacted by the proposed reforms.

Broader benefits of proposed reforms

The analysis presented in this report does not explicitly consider any quantified benefits (rather seeking to understand any imposed costs and economic impacts). As with any policy reform, economic and social benefits will be felt. The growing number of renters in the Queensland market will benefit, and it will also provide certainty to all parties in the rental sector by better assigning and clarifying risks. Where the quality of private rental housing improves, owners also receive a greater benefit. Certainty, security and a balance of rights and responsibilities between tenants and owners can provide for a well-functioning, and efficient private rental market in Queensland – where everyone benefits.

Given the **degree of uncertainty around how each potential reform could reasonably take effect** across all locations, stakeholders and housing stock, a low/high scenario-based approach is taken to monetise the change to investor's user cost due to the proposed reforms. This gives guidance to the orders of magnitude of the potential impacts to inform if, on balance, the Queensland economy is better or worse off in aggregate.

As the minor modification reforms were removed from the first phase for implementation, the impacts of proposed reforms have a reduced impact on user cost, relative to previous results (reduced administration costs). As such, consistent with the last report– the impacts of proposed reforms (in aggregate) are negligible on the costs to investors of owning a property.

Before any reform in the market, the annual total cost for investors of owning a property in Queensland is around $9.4 billion. Under the proposed reforms, the relative change to this total investor user cost under the low and high scenarios are:

- In the **low scenario,** reforms increase the total user cost by 0.10% (or by $9.3 million), representing an average increase of $16 per investment property per year. See Table i.
- In the **high scenario,** reforms increase the total user cost by 0.64% (or by $60.2 million), representing an average increase of $107 per investment property per year. See Table i.

Table i: **Summary of changes to investor user cost in the low and high scenarios**

Measure	Low scenario	High scenario
Estimated user cost prior to reforms	$9.4 billion	$9.4 billion
Estimated change in user cost due to proposed reforms	$9.3 million	$60.2 million
Minimum housing quality standards	$4.5 million	$55.5 million
Administrative costs	$4.7 million	$4.7 million
Relative change to aggregate investor user cost	0.10%	0.64%
Estimated change in user cost per investment property per year	$16	$107

Source: Deloitte Access Economics

The key findings resulting from an increase in investor user costs (Table i) on the broader housing market in Queensland are:

- **Low scenario:** house prices decline by a maximum of 0.01% in the first two years of the policy and stabilise at this same rate in the longer term.
- **High scenario:** house prices decline by a maximum of 0.09% in the first two years of the policy before stabilising at a decline of 0.08% in the longer term.

Based on average house prices, a decline of 0.01% and 0.08% translates to a $71 - $462 decrease in value. This negligible decline would only be relevant for homeowners looking to sell or buy a property. Noting, in practice, a decrease in value of this magnitude is unlikely to materially change or influence the buying and purchasing decisions of an individual. It is also worth noting that this figure is the change in price as a result of the policy, and there are also other external factors which could influence house prices.

The increase in user cost for investors due to the proposed reforms is also estimated to put slight upward pressure on rents. Again, the estimated impacts are modest:

- **Low scenario:** rents increase by a maximum of 0.01% in the first two years of the policy before flatlining in the longer term (0.002% increase).
- **High scenario:** rents increase by a maximum of 0.05% in the first two years of the policy before stabilising at an increase of 0.02% in the longer term.

For those that rent a house that does not meet minimum housing standards, the direct impacts will differ based on the extent of the required repairs, and the choice of the owner to bear the full cost of the repairs or to pass on part, or all, of the costs to tenants in the form of higher rents. The **aggregate scenario modelling quantifies where the impact sits on balance, when factoring the complex dynamics of the housing market.**

In response to house price and rent adjustments across the market, the share of owner-occupiers also adjusts as the market absorbs the costs of the new reforms and general market dynamics play out. As property becomes a relatively less attractive investment (despite the impacts being negligible) to investors and purchasing a home becomes a relatively more attractive proposition for renters (marginally), the share of owner-occupiers increases:

- The **owner-occupier share is estimated to marginally increase** by 0.01% to 0.07% over the longer term, up from 63.6% prior to the reforms.

Part of the motivation for the report update was to provide the Department with a greater understanding of the impact of a marginal increase of rents would have on low-income households. As such, the update focuses on the impacts to rents, particularly the impact of the Minimum Housing Standard reform, as the largest contributor to the change in prices and rents.

By design, the introduction of **minimum housing standards creates a benefit for low-income households** through an increased cost to owners who do not meet the standard. Where the intent of the minimum housing standards is to ensure an improved quality, or the right to request improved quality, of housing stock in Queensland, owners will incur maintenance costs. As such, the **changes in the housing market are an indication of uptake of the reforms.**

Although there are an estimated 8.7% of households in rental stress across Queensland, **the negligible impact of the reform on house prices and rents is unlikely to increase this proportion.** However, this information may be used in monitoring risks to vulnerable cohorts during implementation.

These reforms are proposed to ensure safety and fairness in the Queensland rental market and as such, **provide a range of positive social outcomes for tenants and the broader community.**

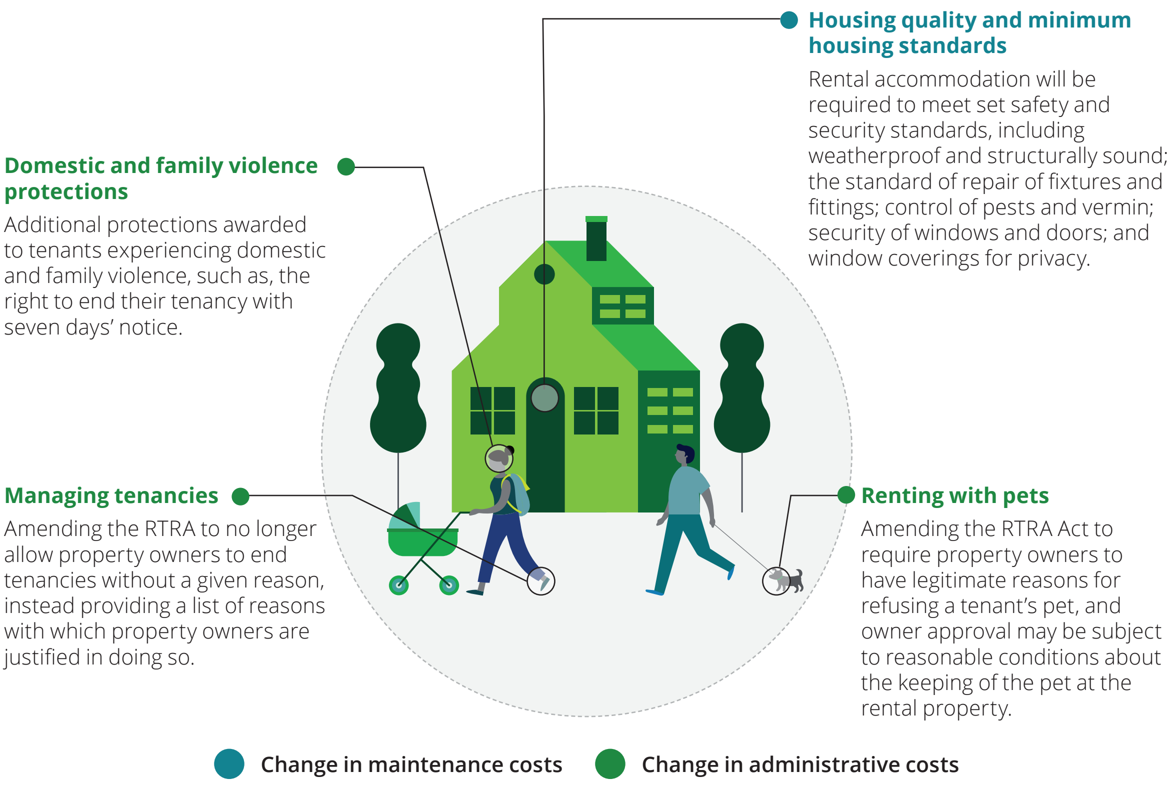
1 Overview

1.1 Economic impacts of proposed rental reforms in Queensland

The Queensland Government is currently considering regulatory changes to the state's private rental market, which seeks to balance the rights of tenants and owners. The proposed reforms of the Residential Tenancies and Rooming Accommodation (RTRA) Act 2008 intend to provide tenants with greater certainty and rental security, while preserving the rights of investors and owners. The objectives of the reforms are to **modernise laws around the rental market to improve protections, accountability and housing conditions,** and in doing so, improve the stability of the rental housing market – providing for a broad set of economic and social benefits to Queensland.

The reforms propose changes to the rental property market to improve the safety and security standards to which rental accommodation must reach; better enforce current tenancy rights; and improve access to pet-friendly rental accommodation. To meet these objectives, four reforms have been proposed – see Figure 1.1. A detailed summary of the reforms is provided in Appendix A.

Figure 1.1: **Proposed reforms of the Residential Tenancies and Rooming Accommodation (RTRA) Act 2008**



Initial costs and benefits for these proposed reforms were assessed as part of the consultation regulatory impact statement (RIS) released for public feedback in 2019. A Decision Regulatory Impact Statement has also been prepared for the proposed reforms.

At the end of 2019, Deloitte Access Economics was engaged to determine whether the proposed rental reforms would materially impact supply and/or demand in the private rental market, and therefore rental prices and/or property market dynamics. Deloitte Access Economics' approach analysed the proposed rental reforms in this context and **isolated the likely role of the proposed policy reforms in impacting the housing market in Queensland.**

The report found that the most material costs to property owners were expected to come from changes to the housing quality and minimum housing standards (via maintenance costs). As property owners can, in practice, choose to 'pass on' the costs of meeting the standards, the analysis focused on understanding the impacts that are most material in terms of affecting cost (i.e. supply and demand) in the Queensland private rental market. This analysis forms insights into what the net effect is to Queensland's economy and housing market, on balance.

1.1.2 Summary of previous report findings

The 2020 Deloitte Access Economics Economic Impact Assessment (2020 EIA) found that overall, the impacts of proposed reforms (in aggregate) are negligible on the costs to investors of owning a property – even under the highest impact scenario modelled (at a less than 1% change).

This minor change in costs to investors was modelled to flow through the Queensland housing market under a high impact and low impact scenario (see Appendix B). Overall, **the impacts to the housing market were negligible, consistent with the intended small relative change in user cost for investors due to the proposed reforms[i]:**

- **Dwelling prices were estimated to marginally decline** by 0.03% to 0.11% over the long-term, representing an average decline in house prices of $171-$554. In practice, a decrease in value of this magnitude is unlikely to materially change or influence the buying and purchasing decisions of an individual.
- The **owner-occupier share was estimated to increase** by 0.02% to 0.06%, up from 62.7% prior to the reforms.
- **Rents were expected to immaterially increase** at a maximum by 0.02%-0.07% in the first two-years, before stabilising between 0.01-0.02%. To put this number in context, the general increase in rents over the decade has averaged just over 2% (as measured by the consumer price index – rents).

The 2020 EIA also estimated the economic impact of the proposed reforms to the wider Queensland economy. The reforms were found to have a negligible effect on the Queensland economy, with an estimated change in real GSP of $4.3 to $13.6 million above the 'no policy change' baseline in 2029. Over a 20-year period, the cumulative impact of the proposed reforms in net present value terms was estimated to be $10 to $32 million above the 'no policy change' baseline, based on a 7% discount rate. This represents an average impact of $0.5 to $1.6 million per year.

When compared to the overall size of the Queensland economy, the economic impacts of the proposed reforms lead to a 0.08% to 0.26% increase in output.

i These results are in 2018 dollars

1.2 Characteristics of the current Queensland housing market

Over the last quarter, Queensland's relative attractiveness has led to the highest net interstate migration of any Australian state, beating out New South Wales and Victoria. This migration to the north is currently at a 20 year-high for Queensland and has not come without consequence to the housing market, as **house prices and rents have increased, and are expected to continue to surge this year.**

According to the Real Estate Institute of Queensland (REIQ), rental markets are tightening around most areas of the country, bringing the national increase in rental rates to 2.5% in the year to January 2021.[1]

Vacancy rates for rentals are tight across all regions in Queensland except for Brisbane inner city, where the vacancy rate sits at around 3.1%. All other vacancy rates sit below 2.5%, with the majority of the rates sitting below 1.5%.[2] These supply constraints have also increased rents across the board, with the average rent increasing from $359 in 2017-18 to $420 in December 2020.[3]

Investment in housing is expected to follow suit, supported by all-time low interest rates and the federal HomeBuilder grant. However, it will be some time before this new supply of housing stock comes online to soften some of these impacts. A more detailed analysis of the current rental market, including a regional summary, is provided in Chapter 2.

1.3 About this report

To understand the impacts of the reform in the context of the current supply constraints in the housing market, Deloitte Access Economics was engaged by the Department of Communities, Housing and Digital Economy (the Department) to update our analysis. The specific updates include:

- Analysis of the current housing market, including regional changes in house prices and rents.
- Update of the impact modelling on house prices, rents, and the share of owner-occupiers in the market.
- Assessment of the vulnerability of low-income households to marginal rent increases, as measured by the number of low-income households currently in rental stress.
- Discussion on the benefits of the proposed reforms.

The specific aim of the update is to provide the Department with a greater understanding of the impact of a marginal increase of rents have on low-income households. As such, **the update focuses on the impacts to rents, particularly the impact of the Minimum Housing Standard (MHS) reform, as the largest contributor to the change in prices and rents.**

2 Profile of Queensland's housing market

2.1 Investor activity in the Queensland market

This section discusses the composition of the Queensland housing market. The ABS Housing Occupancy and Costs catalogue is the most comprehensive data source for understanding the market composition. The latest release of this catalogue is 2017-18. As such, the information in this section and section 2.2 are consistent with the previous report. Deloitte Access Economics does not expect that recent changes in the Queensland housing market would significantly shift the composition of the market.

According to ABS statistics, in 2017-18 (latest release), Queensland had a residential housing stock of approximately 1.87 million households, accounting for around 20% of the national housing stock. As shown in Table 2.1, this housing stock is split almost 50:50 between the Greater Brisbane area and Regional Queensland, with both regions having a similar market composition in terms of renters and owner-occupiers.

Investor activity in Queensland's housing market has been increasing over time and is slightly higher than the national average. The share of private rentals in Queensland has risen steadily from just over 20% in 1994-95 to around 30% in 2017-18 – consistently tracking above the national average by around 2 to 7 percentage points.[4]

The regional distribution of residential investment properties corresponds to the key population centres in Queensland (see Table 2.1). The highest proportions of residential investment properties are located in the areas nearest to Brisbane, as well as those located in South-East Queensland, such as the Gold Coast.

2.2 Profiles of owner-occupiers and renters

There are key features that distinguish renters and private rental households from owner-occupiers. At the national level, private renters are distinguished by their youth. In 2017-18, 35% of private tenants in Australia were aged 25-34 years. By comparison, the largest majority of owner-occupiers (42%) were aged between 45-64 years.

Another distinguishing feature of renting is the dwelling structure. Where owner-occupiers purchase parcels of land and standalone houses, renters occupy higher-density dwellings such as semi-detached, row or terrace houses, as well as flats or apartments. In 2017-18, 88% of Australian owner-occupier households were standalone properties; whereas, 45% of private rentals were higher density dwelling types.

Although these characteristics are limited to the national level due to data constraints, it is expected that the Queensland market would broadly share the same trends. This assumption is consistent with our previous report.

Table 2.1: **Housing market composition – renters versus owner-occupiers, Queensland and Australia, 2017-18**

	Greater Brisbane	Rest of Queensland	Total Queensland	Australia
Owner-occupiers	63.6%	64.7%	63.6%	67.4%
Total renters	36.4%	35.3%	36.4%	32.6%
Private tenants	32.5%	29.9%	30.4%	27.6%
Public housing	3.9%	3.0%	3.4%	3.2%
Total households	**100%**	**100%**	**100%**	**100%**
Number of households (thousands)	880.1	991.4	1,873.3	9,270.4
% share of Australia	9.5%	10.7%	20.2%	100%

Source: ABS[5]; Deloitte Access Economics

Note: Private tenants and public housing may not add to 'total renters', as total renters also includes other landlord type.

2.2.1 The relative costs of owning and renting

In Queensland, renters typically experience higher housing costs in comparison to owner-occupiers – a trend that has remained consistent over time (in nominal $ terms).[6]

Not only is it the case that private tenants spend more per week in dollar value terms, they also commit a greater proportion of their disposable income to rent. Renters of private dwellings, in Queensland in 2017-18, typically spent 20% of their disposable income on rent. This is almost double the share of income allocated to the costs of housing by owner-occupiers – approximately 11% in 2017-18.

The lower cost of housing faced by owner-occupiers is partially explained by the share of owner-occupiers without mortgage repayments – approximately 44% of owner-occupier households in 2017-18. Mortgage-free owner-occupiers have much lower housing costs ($54 per week on average), in comparison to mortgaged owner-occupiers ($474 per week on average). However, even owner-occupiers facing mortgage repayments spent relatively less of their disposable income on housing costs than the average renter. In 2017-18, for example, mortgaged owner-occupiers in Queensland typically allocated 16% of their disposable income to repayments and other housing costs.[7]

2.3 Overview of the current rental market

Queensland's rental market has tightened as increasing interstate migration and other COVID-19-related factors have put pressure on Queensland's rental housing stock. Rental prices across many regions and dwelling types have increased in response to the surge in demand. This recent trend is expected to continue through 2021.

Rental property vacancy rates have tightened across almost every council or region in Queensland, with rental price increases being a product of the more competitive market conditions. Rental vacancy rates in most housing markets in Queensland are below 1.5%, which is easily in the 'tight' margin of <2.5%.[9] These supply constraints are expected to loosen overtime, as new housing stock comes online. All-time low interest rates and incentive programs such as the federal HomeBuilder grant are driving an increase in construction commencements of new dwellings; however, there is a common lag between an increase in construction activity and an increase in supply of housing stock in the market.

Queensland's relative attractiveness led to the highest net interstate migration of any Australian state or territory in 2020. Migration to the north is at its highest level since 2003, reaching net migration of nearly 10,000 arrivals from other Australian states and territories in December 2020. The majority of arrivals to Queensland came from NSW or Victoria, who both suffered from greater caseloads from the COVID-19 pandemic.[10]

The relative costs of borrowing in Australia following the worst consequences of the global pandemic

The COVID-19 pandemic brought Australia into its first recession since 1991 and the Reserve Bank of Australia (RBA) responded with inflationary monetary policy that saw the cash rate slashed to record low rates. The cash rate target has been at 0.10% since November 2020[8], and with commercial banks passing on similarly low borrowing rates to customers, the costs of borrowing have never been lower.

Having low interest rates on mortgages encourages investment, as more people are willing to borrow money when the relative cost of doing so is lower. In a world of low interest rates, it is also not uncommon that the cost of owning a home on a mortgage can be cheaper than renting. When the costs involved in repaying a mortgage are similar or even lower than rental costs, owning a home on a mortgage becomes relatively more attractive.

It can be expected that as owning a home on a mortgage has become a more attractive option than pre-COVID-19 when interest rates were higher, there might be shifts in the market composition that are not yet reflected in data that is currently available.

The changes in the rental market resulting from the COVID-19 pandemic have not been uniform across Queensland's rental market. Preferences have shifted towards larger footprint housing, such as 3 or 4 bedroom houses or larger townhouses, as lockdown conditions have raised demand for more space and home offices.[11]

The Gold Coast and Sunshine Coast, which are each within commuting distance to Brisbane's CBD (albeit a long commute), have experienced some of the greatest increases in demand for rental properties potentially as a result of flexible remote working arrangements.[12]

2.3.1 Regional overview

The **Brisbane** region experienced a moderate increase in the median weekly rental price for a house[ii], with the median weekly rent having increased by $30 over the last 12 months, to $440 in March 2021 (Table 2.2). More disaggregated data available from the Queensland Residential Tenancies Authority (RTA) suggests that these price changes were not uniform across the Brisbane rental market, with the median weekly rent for a flat declining in a number of Brisbane's regions, while house prices within the region increased.[13]

Tight vacancy rates across **Brisbane's rental market indicate there are supply constraints in the market. Brisbane's Inner City region (0-5km from the CBD) is the only region in Queensland considered to have a 'healthy' vacancy rate** in December 2020 of 3.1%.[iii] All other rental markets are considered to be 'tight', with a rental vacancy rate of 1.5% in the remainder of Brisbane and 1.0% in Brisbane's surrounds.[14] When compared to December 2019, vacancy rates have tightened in all of Brisbane's regions – most notably Brisbane's surrounds, which had a vacancy rate of 1.9% one year prior.[15]

The **regions surrounding Brisbane** (comprised of Ipswich, Logan-Beaudesert, Moreton Bay – North, Moreton Bay – South, and Toowoomba) experienced more moderate rental price increases. From March 2020 to March 2021, the median rent for a house across these regions rose by between $15 to $25 per week (Table 2.2). The rental vacancy rate in December 2020 across each of these regions was between 0.8% and 1.2%. There is a tightening rental market, as in December 2019, these vacancy rates ranged between 1.5% and 2.8%. However, the supply constraints in these markets are not as tight as other regions in Queensland.[16]

The **Gold Coast** has experienced some of the steepest price increases in the Queensland rental market, as the COVID-19 pandemic has allowed more remote working to take place, enabling more Queenslanders to change their lifestyle and move closer to the coast. The median weekly rent for a house on the Gold Coast in March 2021 was $560, up from $510 one year prior (Table 2.2). Unlike Brisbane, the Gold Coast saw an increase in rental prices across the board, with the weekly rental price for a flat also increasing from March 2020 to 2021.[17] **The Gold Coast is experiencing severe supply constraints in its rental market, with a rental vacancy rate of 0.6% in December 2020[18],** down from 1.8% in December 2019.[19]

Similar to the Gold Coast, the **Sunshine Coast** has experienced steep increases in rental prices and low supply on the market, as Queenslanders (and interstate migrants) are choosing to move closer to the coast.[20] **The median rental price for a house on the Sunshine Coast increased more than all other regions in Queensland, with a house costing $80 more per week to rent on average.** The median rental price for a house in March 2021 was $580, up from $500 in March 2020 (Table 2.2). The rental price increases were notable across all dwelling types, though steeper for houses than for flats and townhouses. The Noosa region, which has historically been Queensland's most expensive housing and rental market, experienced the most dramatic price increases over the 12-months to March 2021, with a 3-bedroom house costing $78 more per week to rent, while a 4-bedroom house costs $200 more to rent per week.[21]

The rental vacancy rates on the Sunshine Coast suggest that it is one of Queensland's most supply-constrained rental markets. The wider Sunshine Coast area had a rental vacancy rate of 0.4% in December 2020,[22] while the Noosa region had an even tighter rental market, with a vacancy rate of 0.3%. Rental vacancy rates across the Sunshine Coast and Noosa were higher one year prior, with vacancy rates all above 1% in December 2019.[23]

ii The Domain Rental Report provides overall average rent figures for houses and flats and does not provide isolated figures based on the number of bedrooms in a property.

iii Vacancy rates between 2.5% -3.5% are deemed 'healthy' by the REIQ. These vacancy rates were released as part of the Queensland market monitor: March 2021. March 2021 data will be available in the June 2021 report (which will likely be released in July or August).

Rental prices across much of **Regional Queensland** are lower than in the more populated south-eastern corner, though the regions have not been immune to supply constraints and subsequent price increases. The regions of Queensland – Outback and Central Queensland saw the largest rental price increases from March 2020 to 2021, of $50 and $40 per week on average respectively. Most other regional areas saw price increases in the range of $30 per week on average (Table 2.2). Central Queensland had particularly low rental vacancy rates in the Rockhampton and Livingstone regions in December 2020[24], and while this data is not available for Queensland – Outback, it is likely that the rental price increases were also driven (at least in part) by a tight rental market.

Table 2.2: **Median weekly rental prices for houses by region, March 2020 and 2021**

Region	March 2021 median weekly rent	March 2020 median weekly rent	Year-on-year change (%)	Year-on-year change (absolute)
Brisbane	$440	$410	7.3%	$30
Cairns	$440	$410	7.3%	$30
Central Queensland	$360	$320	12.5%	$40
Darling Downs	$285	$270	5.6%	$15
Gold Coast	$560	$510	9.8%	$50
Ipswich	$370	$350	5.7%	$20
Logan – Beaudesert	$380	$365	4.1%	$15
Mackay – Isaac – Whitsunday	$400	$370	8.1%	$30
Moreton Bay – North	$400	$375	6.7%	$25
Moreton Bay – South	$430	$415	3.6%	$15
Queensland – Outback	$380	$330	15.2%	$50
Sunshine Coast	$580	$500	16.0%	$80
Toowoomba	$370	$345	7.2%	$25
Townsville	$380	$350	8.6%	$30
Wide Bay	$360	$325	10.8%	$35

Source: Domain Rental Report, March 2021

2.4 Quality of the private rental stock

As part of this report we undertook a desktop review to determine whether new information on the quality of private rental stock was available. There were no notable studies discovered in addition to those below.

There are a number of studies that have considered the quality of the housing stock in Australia. A summary of the key findings from notable studies is compiled in Table 2.3.

Table 2.3: **Summary of notable studies considering the housing quality**

Study	Key findings
Baker et al., 2019	Across New South Wales, Victoria and South Australia, the percentage of rental properties requiring essential and urgent repairs is 3.5%. The corresponding figures for properties owned with a mortgage and outright are 1.9% and 0.7% respectively.
Rowley and James, 2018	The proportion of private rental properties in poor or terrible condition in Australia is 6%.
CHOICE et al., 2017	The percentage of rental properties in need of urgent repair in Australia is 8%.
ARTD Consultants, 2019	The proportion of rental properties in Queensland in need of repairs or maintenance is 12%.
Liu et al., 2019	Structural problems tend to be higher among low income households.

Source: Baker et al., 2019; Rowley and James, 2018; CHOICE et al., 2017; ARTD Consultants, 2019; Liu et al., 2019

3 Impacts of reforms on Queensland's housing market

3.1 Overview of update

The updated economic analysis of the proposed Queensland rental reforms reflects the changes to the housing market that have occurred in the context of the current supply constraints. Table 3.1 provides an overview of the changes made to the economic analysis methodology since the 2020 EIA.

Figure 3.1: **Updates to the economic analysis methodology**

Economic framework	Change in user costs	Impact on housing market	Economy wide impacts
Goals of the 2020 EIA			
• Establish an economic framework to understand the Australian housing market. • Outline the economic concept of 'user cost' in the housing market. • Outline the relationship between user cost, house prices, rents, and housing supply.	• Estimate the increase in user cost for investors in Queensland due to the proposed policy changes.	• Using results from recent studies that model the Australian housing market to determine the range of impacts. • Estimate the impact of increasing user costs for investors on house prices, rents, and the share of homeownership across the broader Queensland housing market.	• Using economic modelling to estimate the potential impact to the broader economy from increases in user costs for investors due to the proposed policy changes.
Current analysis			
No updates	**Updated**	**Updated**	**No updates**
• The economic framework adopted in the previous analysis still holds true. No updates have been made.	• The estimated user costs as a result of the proposed policy have been updated based on recent changes to housing market characteristics (e.g. number of households, dwelling prices, weekly rents) and the 2021 price level.	• The impacts on the Queensland housing market have been re-estimated based on the updated change in user costs and updated housing market characteristics.	• Impacts to the broader economy have not been modelled in the updated analysis as the impacts were estimated to be negligible in the 2020 EIA.

Source: Deloitte Access Economics

The following section outlines the changes to the methodology used to estimate the change in user costs and the impact on the housing market.

Victorian reforms

The start date of the Victorian Residential Tenancies Amendment Act 2018 was delayed due to COVID-19, with the amendments introduced by 29 March 2021, rather than the original 1 July 2020. Due to this delay, there is limited information that the Queensland Government can leverage to provide insights on the adoption of impacts of reforms during implementation.

3.2 Updated data in methodology

The impacts of the reforms on Queensland's housing market are estimated by applying the housing market relationships to the relative change in user costs due to the reforms. A number of inputs have been updated from the prior report to better reflect the current Queensland housing market conditions. Additional details on the updated data and results since the 2020 EIA are available in Appendix B and C.

Both the **median house price in Queensland and the average weekly rent have been updated** to reflect the new market conditions. Both figures represent Queensland's post-COVID-19 market, with the median house price and the average weekly rent reflecting December 2020 data.[iv]

The **average compliance costs per property were also updated** to reflect current prices. The full set of updated assumptions is available in Table 3.2. A summary on how the updated assumptions differ from the 2020 EIA assumptions is available in Appendix B. The number of households, and share of renters and owner-occupiers in the market was kept consistent with the prior analysis, as not all of this data is available to be updated. Rather than assuming the share of renters and other characteristics remain the same in the current housing market, the 2017-18 Queensland housing market profile is used for the modelling, as this is the most recent complete data that provides a profile of the Queensland housing market.

Cost of owning a house in Queensland

'User cost' – or simply, the cost of owning a house – is the framework used for understanding the complex dynamics within the housing market. The concept of user cost for each property (or household) captures how 'costs' impact the preferences and decisions a 'user' of housing can make. In this report, we consider an owner's user cost to be determined by:

- Depreciation, maintenance, administration and transaction costs
- Mortgage interest payments
- The opportunity cost of holding equity in housing
- Expected annual capital gains (which reduce the user cost)
- Property specific taxes (e.g. land tax and stamp duties) and other unique tax arrangements

Considering these costs, people decide whether to rent or buy a property based on weighing up the relative costs and benefits of each option. In a perfect world, the price of a property equals the potential rental income, so the cost of ownership is equal to the cost of renting – essentially defining their 'user cost'.

This framework is consistent with the previous analysis. The theory and assumptions that underpin the concept of 'user cost' is discussed in Appendix B.

iv December 2020 data was used in the model for consistency.

Table 3.2: **Summary of key assumptions used to estimate the low/high scenario in user cost due to the proposed housing quality and minimum housing standards**

Measure	Low scenario	High scenario
Median house price in Queensland	$556,500[25]	$556,500[26]
Average weekly rent in Queensland	$420[27]	$420[28]
Number of investment properties in Queensland	561,990[29]	561,990[30]
Proportion of rental properties requiring maintenance	3.5%[31]	8.0%[32]
Estimated number of rental properties requiring maintenance	19,670	44,959
Propensity of tenants to request maintenance post-reforms	50%[33]	80%[34]
Change in number of properties who will request maintenance	3,934	22,480
Average compliance cost per property	$1,155[35]	$2,468[36]
Estimated aggregate cost of reform per year	$4.5 million	$55.5 million
Estimated change per investment property per year	$8	$99

Source: Deloitte Access Economics, informed by various sources. Refer to endnotes.

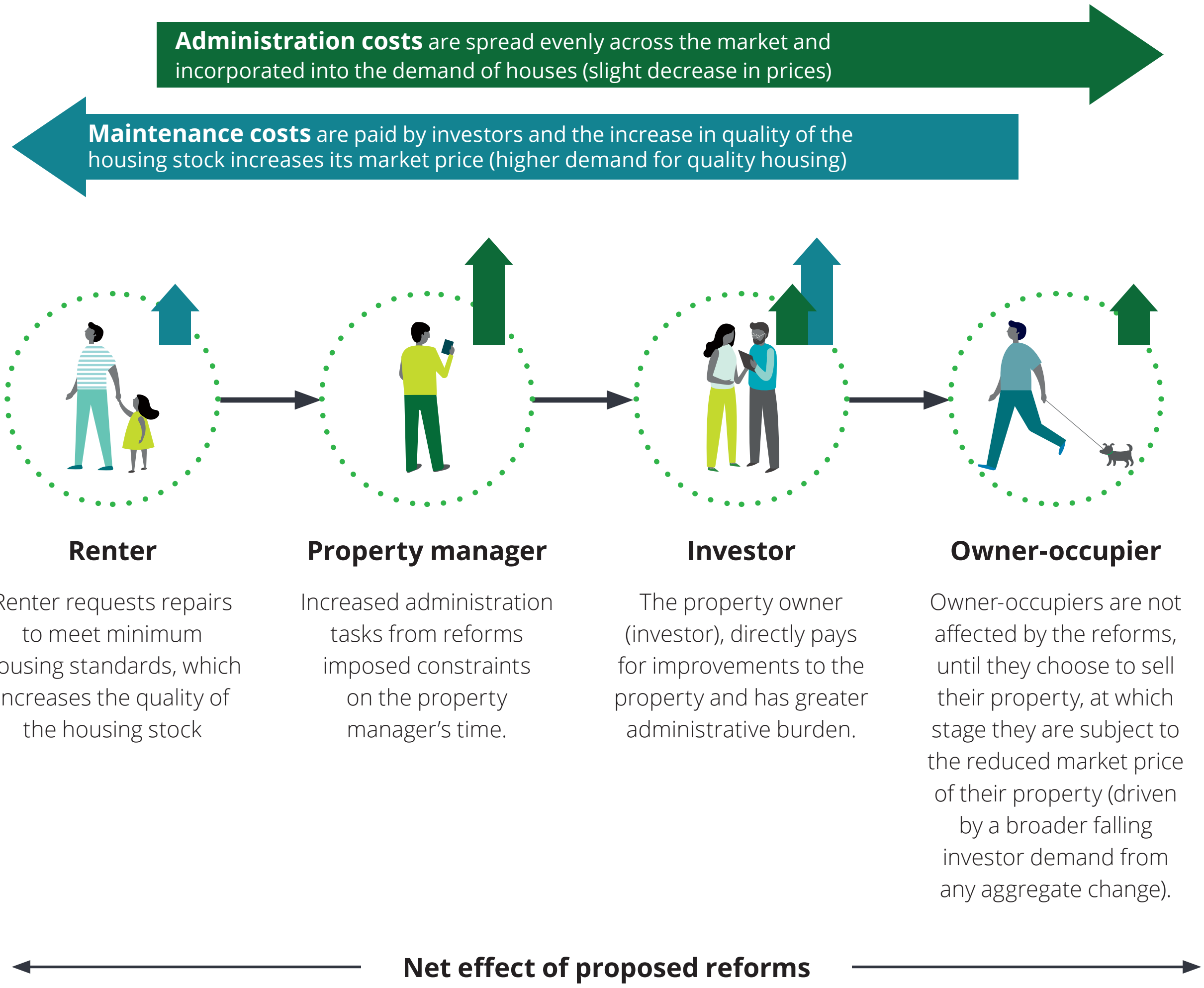
3.3 Estimated costs to homeowners

The proposed changes to the regulations governing Queensland's private rental market have the potential to change the cost of home ownership to investors in Queensland. The proposed refroms could increase costs for investors through two key channels:

1. **Changes to housing quality and minimum housing standards (MHS):** increase **maintenance and capital costs** associated with repairs to housing stock that does not meet the necessary housing quality and minimum housing standards set out in the reform. See Table 3.2.
2. **Other reforms:** increased **administrative costs** across all stakeholders associated with the other reforms, such as domestic and family violence protections, and renting with pets. See Table B.2.

Unlike most other market structures, however, the economics of housing markets are more complex, with relationships that extend beyond renters and investors. While a change in the cost of ownership for a property investor may affect their decision to buy and sell property, it also has an impact on market dynamics that affect all other housing market participants – renters, owner-occupiers, real-estate professionals, and residential property developers and construction workers.

Figure 3.1: **Illustrative example of how a person's user cost could change**



Source: Deloitte Access Economics

The relative change to investor user cost due to the proposed reforms for the assumed high and low scenarios are outlined in Table 3.3. While the overall changes in user costs to households are slightly higher due to the increases in the price level since the prior analysis, the higher house prices in the current market mean the ***relative* change to the user cost is marginally lower than in the prior analysis** (i.e. house prices experienced a higher price increase than the increase in maintenance and administration costs).

- In the **low scenario,** the average user cost for an investor is estimated to increase by 0.10%, or by $16 for each investment property per year. Across the entire Queensland housing market, this represents a user cost increase of $9.3 million each year.
- In the **high scenario,** the average user cost for an investor is estimated to increase by 0.64%, or by $107 per investment property each year. Across the entire Queensland housing market, this represents an increase in user cost of $60.2 million each year.

A comparison to how these results compare to the 2020 EIA, is presented in Appendix C.

Table 3.3: **Summary of changes to investor user cost in the low and high scenarios**

Measure	Low scenario	High scenario
Estimated user cost prior to reforms	$9.4 billion	$9.4 billion
Estimated change in user cost due to proposed reforms	$9.3 million	$60.2 million
Minimum housing quality standards	$4.5 million	$55.5 million
Administrative costs	$4.7 million	$4.7 million
Relative change to aggregate investor user cost	0.10%	0.64%
Estimated change in user cost per investment property per year	$16	$107

Source: Deloitte Access Economics

The estimated change in investor user cost is an average result across all households in Queensland. Investors will likely incur different maintenance costs, based on the extent of repairs required to meet MHS, while other investors may bear no cost if their property already meets the MHS.

These estimates of the relative (average) change in user cost to investors in the low and high scenarios are applied in the model to estimate how this cost will be borne by renters and property owners, and to estimate how the owner-occupier share in the market may shift.

3.4 Impacts on broader housing market

The reforms enact a small relative change in the user cost for property investors, which then flows through the housing market to impact property prices, rental costs, and the owner-occupier share. The following sections explore the impact of the change in user cost to each of these sectors of the housing market.

3.4.1 Effects on property prices for all homeowners

Property prices are a determining factor in the purchase of dwellings for both investors and owner-occupiers. As the user cost to investors increases, investing in property will become marginally less attractive than other investment opportunities, which may reduce demand for dwellings among this group. This reduction in demand from investors will flow through to the property market more broadly, impacting prices for investors and owner-occupiers alike.

In both the low and the high scenario, the increase in user cost causes property prices to decline, due to the lower attractiveness of the investment opportunity. This reduction in property prices in response to changes in the market is consistent with economic theory.

The key findings resulting from an increase in investor user costs on the broader Queensland housing market are:

1. **Low scenario:** house prices decline by a maximum of 0.01% in the first two years of the policy and stabilise at this same rate in the longer term
2. **High scenario:** house prices decline by a maximum of 0.09% in the first two years of the policy before stabilising at a decline of 0.08% in the longer term.

A comparison of these results against the 2020 EIA results, are presented in Appendix C.

Based on the average house price in Queensland of $556,500 in 2021 and a price reduction of 0.01% to 0.08%, the average decline in house prices in the longer term will range between a minimum of $71 in the low scenario and a maximum of $462 in the high scenario. The impacts from the policy are small in comparison to usual fluctuations in the property market as a result of supply and demand conditions.

These negligible changes in house prices are not likely to have a material impact on the buying and selling decisions of an individual. There will be a marginal increase in those wishing to purchase property and a marginal decline in those wishing to sell property as a result of the price changes occurring due to the policy.

These reductions in price will only impact those wishing to buy and sell in the market. It will have no impact on owner-occupiers who are not looking to sell.

An illustrative example of how an aggregate change in user cost could impact an investment decision…

John owns a three-bedroom investment property in the Brisbane suburb of Paddington. John currently rents this property to tenants, and while it is habitable, there are several maintenance requirements the house will need to undergo to ensure it meets the minimum housing standards under the new reforms.

While the median price for a three-bedroom house in Paddington is usually around $1 million with median weekly rents of $630, the poor state of John's investment property means it usually only fetches 90% of market values. John's house currently holds a value of around $900,000 ($100,000 below the median value of a three-bedroom house in the area) and yields a weekly rent of $565 ($65 below the market rate).

When John's current tenants' lease ends, John must decide whether to make upgrades to his investment property to ensure it meets the new minimum standards, or else sell the property or have no tenants.

After consulting with several trade workers, John's total maintenance and repairs bill is estimated to cost $5,775 to undertake all required maintenance for the property (there are several different repairs and maintenance works to be undertaken on different sections of the property). John must consider whether these repairs will raise the overall profile of the property enough to improve its market value and/or charge higher rents for the investment to be worthwhile.

The proposed rental reforms are estimated to raise the average user cost for investors by $16 to $107 each year (a relative increase of 0.10% to 0.64% across the entire Queensland market). This is expected to put slight downwards pressure on property prices, as property becomes a relatively less attractive investment opportunity due to the higher user cost. However, the price reduction across the average Queensland dwelling is only estimated to range from $71 to $462. These price changes make little impact on the overall investment decision.

John also knows that by raising the minimum standards, the overall Queensland rental market will see a marginal increase in rents, with John more likely to see a notable increase in rental yield if he invests in these repairs.

John eventually decides to undertake the repairs and rent the property to new tenants, as he estimates that even if they only led to a 1% increase in weekly rental payments and the eventual resale value, they would be worthwhile in the longer term. John was eventually able to re-let his investment property at a weekly rental rate fetching 95% of the median weekly rents in the Paddington area. His tenants are also able to enjoy better living standards, yielding a benefit for all parties.

3.4.2 Effects on rents for investors and tenants

The increase in user cost for investors due to the rent reforms is also estimated to put slight upward pressure on rents, as investors pass some of these costs on to renters.

While the change in rents has been modelled as an average across the entire Queensland property market, it can be expected that a property that is in extreme disrepair that undergoes a high degree of maintenance will experience a greater increase in weekly rent than a property needing few or no repairs.

An increase in user costs for investors is expected to have the following impacts on the Queensland housing market on average:

1. **Low scenario:** rents increase by a maximum of 0.01% in the first two years of the policy before flatlining in the longer term (0.002% increase).
2. **High scenario:** rents increase by a maximum of 0.05% in the first two years of the policy before stabilising at an increase of 0.02% in the longer term.

A comparison of these results against the 2020 EIA results, are presented in Appendix C.

The relative change in rent is even more negligible than the relative change in dwelling prices. This suggests that rents are less elastic than dwelling prices. Those among the current renter cohort who are looking to purchase property may find they benefit well from the reforms, as the small increase in current rents coupled with the decline in property prices may enable more first home purchases.

3.4.3 Effects on the share of owner-occupiers across Queensland

The changes to user costs for investors also shifts the equilibrium number of owner occupiers in the market. For investors, investing in property becomes relatively less attractive due to the increase in user cost. For renters, purchasing a home becomes marginally more attractive due to the decline in house prices and increase in rents.

These market dynamics are expected to increase the share of owner-occupiers in the Queensland housing market as follows:

1. **Low scenario:** the share of owner-occupiers is predicted to increase by around 0.01% over the longer term, up from 63.6% prior to the reforms.
2. **High scenario:** the share of owner-occupiers is predicted to increase by around 0.07% over the longer term, up from 63.6% prior to the reforms..

A comparison of these results against the 2020 EIA results, are presented in Appendix C.

The reforms are expected to make purchasing a first home marginally more achievable for renters, leading to an increase in the number of owner-occupiers in Queensland's market.

3.4.4 Summary of broader economy-wide results

Overall, the impact of the rental reforms is expected to cause a marginal reduction in dwelling prices, increase in rents, and increase in the owner-occupier share. While the impact of the reforms is minor across the market on average, the changes will not be uniform across the market and some property owners or renters might be more greatly impacted than others.

Property investors and those who own homes and are looking to sell are among those who are negatively impacted by the reforms. For the most part, renters will also be negatively impacted (although minor); however, those renters who are looking to purchase a home (alongside current homeowners looking to increase their portfolios) may benefit from the reduction in dwelling prices.

Again, it should be noted that the **overall impacts from the reforms are very marginal and are unlikely to influence many buying and selling decisions.** Normal fluctuations in prices in the housing market generally exceed the changes from these reforms.

Of particular concern is the implications that these reforms might have on low-income households, who are more likely to inhabit dwellings that are below the proposed minimum housing standards. While the modelling cannot be completed explicitly for this cohort (refer section 3.5), the implications for low-income households are explored in additional detail in chapter 4.

3.5 Limitations to the modelling

To the extent that every economic modelling exercise is a simplification of reality, it is important to understand the limitations of the analysis:

- The analysis of the impacts on the housing market is informed by existing empirical evidence of relationships across the Australian housing market. Consequently, the analysis implicitly assumes that the Queensland market is representative of the Australian market.
- In addition, the econometric relationships captured in the Australian housing market model are considered at the mean or average.
- The predicted impacts of changes in user cost are better at capturing trends over the longer term, rather than short-run adjustments. Therefore, the short-run predictions may not adequately capture the potential behaviour and 'sentiment' effects that are likely to occur due to information imperfections and irrational decision making.
- Recent changes to the housing market, particularly due to the aftermath of the COVID-19 pandemic, have shifted market dynamics – most notably the average house price and weekly rents. Where possible, the most up to date data has been applied to the analysis; however, there are some instances where more recent data is not yet available. The data that cannot be updated is believed to be the more 'static' data such as the share of owner-occupiers and renters in the market, so the impact on the results is expected to be minimal.

Constraints to modelling distribution of impacts to low-income households

By measuring the impacts on the housing market at the 'average' level, the impact to the more extreme ends of the distribution are likely to not be fully reflected by the modelled results. For example, it is reasonable to assume that houses that are in extreme disrepair might experience greater increases in weekly rents due to the change in minimum housing standards (assuming repairs occur); however, there are several challenges in modelling these impacts.

As noted above, our modelling is constrained by assumptions on the econometric relationships of the Australian housing market, which are considered to be the mean or average. As such, **any analysis of impacts away from the mean at different points in the distribution are likely to under- or over-estimate what might occur.** [37]

Even in accepting this caveat, measuring impacts at a more granular level (i.e. low-income households) would require further field work and additional assumptions and/or proxies to be incorporated into the analysis. Further assumptions and proxies reduce the reliability of estimates and it is unlikely that a survey targeting low-income households would achieve a representative sample without using an incentive to garner a response. On top of these limitations, the estimated impact on rents is expected to be so marginal, that there is little motivation to explore these options. Potential implications of the reforms on low-income households is explored in Chapter 4.

3.6 Benefits from improved housing

These reforms are proposed to ensure safety and fairness in the Queensland rental market and as such, provide a range of positive social outcomes for tenants and the broader community. While the analysis presented in this report does not explicitly consider any quantified benefits (rather seeking to understand any imposed costs and economic impacts), the broader benefits will be felt among the growing number of renters in the Queensland market, but will also provide certainty to all parties in the rental sector, by better assigning and clarifying risks.

Certainty, security and a balance of rights and responsibilities between tenants and owners can provide for a well-functioning, and efficient private rental market in Queensland – where everyone benefits.

Improved housing standards deliver several benefits to tenants though improvements to health, safety and security, and social benefits. This section explores these benefits in further detail.

Health

Living in housing without adequate heating and insultation, quality running hot and cold water, adequate plumbing, airflow and cleanliness are all factors that can easily impact tenants' physical and mental health.[38]

For decades, housing reforms and construction codes have been altered to protect the health of Australians, with the ban of products containing any form of asbestos or lead, being some of the best-known examples of such reforms. However, there has been a lack of understanding on the link between housing quality and health outcomes, likely because only a small proportion of Australian housing stock is of very poor quality (e.g. below minimum housing standards) that it directly effects health outcomes.[39]

A systematic literature review of international literature on the health impacts associated with housing improvements, found that there is substantial evidence to suggest that **improvements in housing can be linked to increase in health improvements.**[40] Poor housing quality has been linked to several health issues, including respiratory illness, cardiovascular disease, obesity, and mental health concerns.[41]

In Australia, Baker et al. (2016) found that l**iving in poor-derelict quality housing has a negative impact on resident's mental, physical and general health,** when compared with those living in good- excellent quality housing (controlling for key demographic and socio-economic characteristics.).[42]

There are limited Australian studies that specifically look into the impacts of a reform such as increasing minimum housing standards, however, Rodgers et al. (2018) undertook a retrospective longitudinal study into the health impact, and economic value, of meeting housing quality standards. The study found that that hospital admissions could be avoided through improving (Welsh) housing quality standards.

For reference, an Australian Institute of Health and Welfare (AIHW) study found that across major public hospitals, the average cost to treat acute admitted patients was $4,680.[43]

Safety and security

The proposed rental reforms will also deliver benefits in the form of improved safety and security for Queenslanders. These benefits are expected to result from changes the reforms will generate such as, the requirement to fix structural damage to homes based on the changes to the minimum housing standards, better policies surrounding domestic violence, the provision of adequate window coverings, and the requirement to have adequate locks and security on doors and windows.

Delivering improvements to safety and security through these reforms could reduce the number of household accidents, security breaches (such as break-ins) and assaults occurring in Queensland homes. A study of household safety found that for each additional hazard in the home, the likelihood of injury increased by 22%.[44] As such, bringing a house up to meet MHS, may reduce the likelihood of injury among Queensland tenants.

Community

By improving the minimum standards of rental housing in Queensland, the social disparity between demographic groups that are more likely to inhabit low and very low-quality housing may reduce. Among those that are more likely to inhabit low and very low-quality housing are low-income earners, Aboriginal and Torres Strait Islander peoples, people with disabilities and/or ill health, unemployed people, and younger people.[45]

4 Potential implications on low-income households

4.1 The prevalence of renting among low-income households

An important characteristic of the Queensland rental market to consider is the high proportion of low-income households (i.e. households in the bottom 40th percentile of incomes). **Over half of households renting in Queensland in 2017-18 were low-income households**, with owner-occupiers in the same income bracket making up just 35%. By comparison, roughly 47% of medium and high-income households (those in the top 60% of household incomes) rent properties, while 64% are owner occupier households.[46]

The higher prevalence of renting among low-income households partially explains why the relative housing costs for renters in Queensland is so much greater than for owner-occupiers (see Section 2.2). While the average weekly rent is comparable to the average weekly housing costs for owner-occupiers (and less when compared against the average weekly costs for mortgaged owner-occupiers), **the higher proportion of low-income households that rent suggests that a larger share of disposable income is allocated to rent** – making the cost of renting relatively higher.

4.2 Quality of rentals for low-income households

Housing quality affects the quality of life for renters by impacting health and comforts, and through functionality with maintenance needs. The challenges associated with living in poor quality housing can be difficult to identify in Australia, as the majority of the population live in good quality housing. **Those living in poor quality housing endure measurable impacts on their mental, physical, and general health,** and a large proportion of those living in these households are low- income or otherwise disadvantaged Australians.[47]

According to the Australian Housing Conditions Dataset (AHCD), all rentals with 'essential and urgent repair needs' were rented by low-income households, suggesting that **renters from lower income households are more likely to be living in properties that do not meet the proposed minimum housing standards.[48]**

Of the very low income renters (bottom 20% of Australia's household incomes) that were surveyed, 11% stated that their rental required essential and urgent repairs, with 4% of low income renters (20th to 40th percentile of household income) having the same essential and urgent repair needs.[49] None of the medium to high income households surveyed stated that they had essential and urgent repairs.

The AHCD also suggests that low income households remain in this state for some time, with 28% of very low-income households and 14% of low-income households having essential and urgent repair needs, had **no repairs done in the previous 12 months.** This could be for a number of reasons, such as the tenants didn't request the repairs or the owner did not have an obligation to undertake the repairs.

The proposed rental reforms will strengthen the repair and maintenance obligations of owners, which will ultimately raise the quality of housing stock overall. This will have the biggest impact on lower income households, with this being the cohort with the most urgent repair and maintenance needs. The reforms also require approved reasons for a tenancy agreement to be ended, which is expected to reduce hesitancy to request repairs for fear of retaliatory rent increase or eviction.[50]

4.3 Rental affordability

Due to the high prevalence of renting among this cohort and the proportion of this cohort that rents properties that require essential and urgent repairs, **it is expected that low-income households will benefit most from the reforms, but they may also be vulnerable to the marginal increases in rents,** described in Chapter 3.

The expected average increase in rents is \$0.01-\$0.21 per week. Although this is a marginal change, it would be felt more harshly by those that already dedicate a high proportion of their income to pay their rent.

Households are generally considered to be in rental stress if they are in the bottom 40% of household income earners and they pay more than 30% of their income in rent – known as the 30:40 indicator.[51] Those in the top 60% of household income earners who pay more than 30% of their income in rent are considered to do so by choice, and it is not considered to limit the household's ability to buy necessities.

The bottom 40% of income earners is broadly considered by literature to define Australia's low-income group, however other definitions such as an annual income of less than \$60,000 (\$1,154 per week)[52] have also been used. In 2015-16 (the year for which rental stress was calculated in Table 4.1), the 40th percentile of income earners in Australia received \$1,258 per week (\$65,416 per year).[53] An estimated 34.3% of Queensland's households are considered to be in Australia's bottom 40% of household income earners, indicating Queensland's overall income profile is more distributed towards the top 60% of household income earners.

Rental stress occurs to varying degrees in Queensland's regions, with an estimated 173,200 households considered to be in rental stress in Queensland in 2016 (Table 4.1). The rate of rental stress was generally higher in lower-income areas such as Moreton Bay – North, Logan – Beaudesert, Ipswich, and the Gold Coast. Brisbane's inner-City region is one exception, as it has the lowest rates of low-income households, yet a relatively higher proportion of households in rental stress due to the inner city rental market characteristics. Wide Bay has only moderate levels of rental stress despite having the highest proportion of low-income households in Queensland, due to lower weekly rents in the market.

Table 4.1: **Rental stress and low-income households by region, 2016**

Region	Households in rental stress	% of total low-income households in rental stress	Low income households	% of total households that are low income
Brisbane – East	6,400	7.1%	28,600	31.9%
Brisbane – North	7,400	8.5%	27,400	31.4%
Brisbane – South	10,900	8.3%	39,800	30.2%
Brisbane – West	4,400	6.5%	17,400	25.6%
Brisbane Inner City	11,500	9.6%	28,500	23.9%
Cairns	10,100	9.2%	40,900	37.2%
Central Queensland	3,400	5.7%	22,600	38.5%
Darling Downs	6,400	6.2%	31,900	31.4%
Gold Coast	25,800	10.5%	83,000	33.8%
Ipswich	11,900	9.9%	43,600	36.0%
Logan – Beaudesert	11,800	10.2%	40,800	35.3%
Mackay – Isaac – Whitsunday	4,900	6.3%	23,300	29.9%
Moreton Bay – North	11,300	11.5%	40,500	41.4%
Moreton Bay – South	5,300	7.3%	20,200	28.1%
Queensland – Outback	1,400	3.6%	12,400	32.4%
Sunshine Coast	13,900	8.8%	58,900	37.4%
Toowoomba	5,600	8.9%	23,700	37.7%
Townsville	8,600	8.5%	34,200	34.0%
Wide Bay	12,000	8.8%	64,900	47.4%
Total	173,200	8.7%	682,800	34.3%

Source: Deloitte Access Economics, ABS Census of Population and Housing (2016). Household numbers are rounded in table.
Note: These estimates are based on the most recent ABS Census data and this is the most comprehensive data source to reliably apply the 30:40 indicator to Queensland regions. Deloitte Access Economics expects these estimates to be understated, as wages have grown at a slower rate than house prices from 2016 to the present. For the purposes of this analysis, however, it remains instructive.

4.3.2 Vulnerability to increased rents

The regions that were estimated to have higher rates of rental stress in 2016[v] are expected to be the most severely impacted by the current rental market challenges, notably the steep price increases evident in certain regions. It is good news that only moderate rental price increases were observed in the lower income regions of Moreton Bay – North, Logan – Beaudesert, and Ipswich, however the Gold Coast may be at a greater risk.

The median rental price for a house on the Gold Coast increased by $50 in the year to March 2021. The region already had an estimated 10.5% of households in rental stress in 2016, which is likely to have increased with the recent changes in the rental market.

Similarly, the Sunshine Coast, while only estimated to have a moderate degree of rental stress in 2016 at 8.8% of households, experienced the steepest changes in the median rental prices in the year to March 2021 (Table 2.2), and will be at risk of greater incidence of rental stress.

Queensland – Outback also experienced a steep increase in the median rental price of $50 in the year to March 2021; however, with lower rents prior to this increase and a low incidence of rental stress in the region of 3.6% in 2016, the region is not likely to be suffering a rental stress crisis. It is, however, reasonable to assume that the incidence of rental stress may now be higher than 3.6%.

Although there are 8.7% of households in rental stress across Queensland, the negligible impact of the reform on house prices and rents is unlikely to increase this proportion. However, this information may be used in monitoring risks to vulnerable cohorts during implementation.

4.4 Impact on low income households

These reforms are intended to protect Queensland's most vulnerable tenants, who are pushed to the corners of the rental market where they often feel obligated to accept poor-quality and unsafe housing due to their financial situation. Providing both tenants and owners with a clear understanding of what the minimum housing standard (MHS) of rentals is, ensures that owners understand their obligations around housing quality and tenants can request repairs with dignity.

By design, the MHS creates a benefit for low-income households through an increased cost to owners who do not meet the standard. Where the intent of the MHS is to ensure an improved quality, or the right to request improved quality, of housing stock in Queensland, owners will incur maintenance costs. As such, the changes in the housing market discussed in Chapter 3 are an indication of uptake of the reforms.

Although the **Deloitte analysis does not quantify the distribution of impacts, it is expected that the impact on low income households would not be statistically different from the average price impacts in the rental market.** This is because the price impact of the MHS reform would predominantly flow from uptake by low-income households. It is also important to note that most low-income households will not be directly impacted from this reform, it is only the proportion that currently rent out a property that does not meet MHS, that could be directly impacted.

A qualitative discussion on how different low-income households may be impacted by the reforms is discussed in 4.4.1.

4.4.1 Distribution of impacts – Low income renters

Hypothetical cases studies are used in this section to provide an illustrative example of the impact the potential reforms may have on individual low-income households who rent. This cohort was selected for these case studies as we expect that they will experience the greatest variation of impact, based on the nature of the reforms.

The impact of the MHS reforms on low-income renters will differ per household, based on whether the tenant requires repairs, the extent of the required repairs, and the choice of the owner to bear the full cost of the repairs or to pass on part, or all, of the costs to tenants in the form of higher rents.

v ABS Census data is the most comprehensive source for assessing rental stress in Queensland regions.

This means that some renters will experience a greater positive/negative impact than others, based on the nature of the reforms, which aims to balance the rights and responsibilities between tenants and owners. As discussed in Section 3.5, the distribution of impacts are difficult to identify when modelling aggregate impacts (which is required to effectivity determine a change in house prices, rents and owner-occupier shares).

As such we have undertaken a few hypothetical case studies to demonstrate how a change in user cost could impact on particular housing structures. Although these are not based on real case studies, they are realistic scenarios, based on our understanding of the characteristics and the prevalence of renting among this cohort.

An illustrative example of how a change in user cost could impact on a low-income household in rental stress...

Sarah and Brian rent a house in Logan, while the property is habitable, it is in a state of extreme disrepair due to its age, requiring maintenance to meet minimum housing standards.

Sarah and Brian rent a house in Logan, while the property is habitable, it is in a state of extreme disrepair due to its age, requiring maintenance to meet minimum housing standards.

Sarah works as a casual employee at a local cafe, while Brian works as a forklift driver for a distribution company. Like other households that rent in Queensland, Sarah and Brian allocate 30% of their gross weekly income to their rental costs.

The median rental price for the area is $380. However, Sarah and Brian pay $342 due to its poor condition (around 90% of the market price for similar rentals in the area).

As the pair are about to have their first child, they have requested that the owner conduct repairs on the property so that it will meet the MHS.

The repairs cost the owner $1,155 (average compliance cost per property under the 'low scenario'). As the owner was charging Sarah and Brian reduced rent to compensate for the low-quality of the rental in comparison to other rentals in the area, the owner wishes to slightly increase the cost of rent to recognise the change in quality (pass on around half of the costs over 12 months).

As Sarah and Brian come up for a rent renewal, the real estate informs them that the new price of rent on the renewal form is $348 ($6 increase per week). This increase would put the couple under increased 'rental stress'.

Sarah and Brian tell the real estate agent that they will only renew the lease for their usual price of $342 per week, as it is all that they can afford and is consistent with the rents of similar products in the area.

In weighing up additional advertising costs she would have to pay to find a new tenant, the owner decides to let the couple renew their lease at $342.

In this scenario the tenants receive the full benefit of the reforms and wear none of the direct costs. The owner bears the costs of maintenance to bring the house up to MHS and is benefited by having a higher quality investment property.

An illustrative example of how a change in user cost could impact a low-income household in rental stress...

Bridget and Courtney rent a house in Brisbane Inner City, while the property is habitable, it is in a state of extreme disrepair due to its age, requiring maintenance and pest control to meet MHS.

Both women are currently studying at university and rely on a combination of wages from their casual jobs, contributions from their parents and concessions to pay for their living expenses. Bridget and Courtney allocate almost 35% of their gross weekly income to their rental costs.

The median rental price for the area is $440. However, Bridget and Courtney pay $370 due to its poor condition. The women request to have their house brought up to MHS, so that it is structurally sound, secure, and free of pests and vermin.

The repairs cost the owner $2,468 (average compliance cost per property under the 'high scenario'). The owner wanted to avoid spending money on the house, because he feels that the land holds the most market value and any prospective buyer in the future will likely demolish the house to develop the land.

As such, the owner doesn't feel that he benefits from improving the quality of his property and intends to pass on the full cost of the repairs to Bridget and Courtney in the form of higher rents over the next 24 months.

As Bridget and Courtney come up for a rent renewal, the real estate informs them that the new price of rent on the renewal form is $394 ($24 increase per week). This increase would put the students under increased 'rental stress'.

Bridget and Courtney research other rentals in the area and find a similar rental that meets MHS for $370 per week and decide not to renew their lease with their current owner and move into a new rental.

The owner advertises the rental for $394 per week and then decides to reduce the rent to the old price of $370, after the property is on the market for several weeks. The house gets rented out by a new tenant at $370 per week.

In this scenario the new tenants receive the full benefit of the reforms and wear none of the direct costs. The owner bears the costs of maintenance to bring the house up to MHS and additional costs of advertising the property. The old tenants receive the benefits of living in a new property that is of MHS but incurs the cost and inconvenience of moving to a new house.

An illustrative example of how an aggregate change in user cost could impact rents…

Samantha rents a house in Rockhampton with her three children. The house is of poorer quality and requires maintenance and window coverings for privacy.

Samantha works casually as a cleaner in the area and relies on concessions, welfare payments and child support payments to pay rent and other living expenses.

Due to the poor quality of the house, Samantha pays $365 per week, which is 10% below the median rental prices for similar houses in the area.

Although she wishes she had more privacy and improvements to the house, it is a lower-priority for her and she does not request that the owner improve the quality of the house to meet the MHS at this current point in time.

The increase in rent in the rest of the market is so marginal (maximum of 0.05% under the high scenario) that the owner holds Samantha's rent payments constant at $365 when she renews her lease.

Although there is no change in Samantha's rents, she is no better off under this scenario as she is renting a house that does not meet minimum housing standards.

These scenarios illustrate that there are many ways in which the costs of the reforms differ. The scenarios do not portray a view to probability or likelihood in their occurrence. The aggregate scenario modelling in Chapter 3 quantified where the impact sits on balance, when factoring the complex dynamics of the housing market

5 Summary of findings

5.1 Background

- The Queensland Government is currently considering regulatory changes to the state's private rental market, which seeks to **balance the rights of tenants and owners.**
- The proposed reforms of the Residential Tenancies and Rooming Accommodation (RTRA) Act 2008 intend to **provide tenants with greater certainty and rental security, while preserving the rights of investors and owners.**
- The **reforms propose changes to the rental property market** in order to: improve the safety and security standards to which rental accommodation must reach; better enforce current tenancy rights; and improve access to pet-friendly rental accommodation.
- At the end of 2019, Deloitte Access Economics was engaged to determine whether the proposed rental reforms would materially impact supply and/or demand in the private rental market, and therefore rental prices and/or property market dynamics.
- Overall, the **impacts to the housing market were found to be negligible,** consistent with the small relative change in user cost for investors due to the proposed reforms.
- In April 2021, Deloitte Access Economics was engaged by the Department of Communities, Housing and Digital Economy (the Department) to update the analysis. The specific updates include:
  - **Analysis of the current housing market,** including regional changes in house prices and rents.
  - **Update of the impact modelling** on house prices, rents and the share of owner-occupiers in the market.
  - **Assessment of the vulnerability of low-income households** to marginal rent increases, as measured by the number of low-income households currently in rental stress.
  - **Discussion on the limitations of our analysis** and the constraints on quantifying the distribution of impacts with these reforms.
  - Identify **potential benefits of the proposed reforms,** with a focus on minimum housing standards

5.2 Characteristics of the current housing market

- Since the height of the COVID-19 pandemic, **Queensland has experienced its highest rates of internal migration since 2003,** that have contributed to a shortage of vacant rental properties in the market.
- Queensland's average weekly rent has reached approximately $420, while the mean dwelling price across the state is around $556,500 as of December 2020. These **costs are greater than when the 2020 EIA was conducted.**
- The coastal regions of the Gold Coast and the Sunshine Coast have experienced some of the greatest increases in price, driven by the desirability of coastal locations, and the decentralisation of working in CBDs. These are also some of the most supply-constrained markets.
- Brisbane and its surrounds have experienced more modest increases in price in the year to March 2021, ranging from median price increases of $15 to $30. These regions are less supply-constrained than the Gold Coast and Sunshine Coast, though rental vacancy rates are still considered 'tight' (vacancy rate of <2.5%) in all areas except Brisbane's inner city.
- The rental price increases are not exclusive to the south-east corner, with the average weekly rent having increased in every SA4 region in Queensland in the year to March 2021. The largest increase in regional Queensland was in the Queensland – Outback region.

5.3 State-wide impacts of the proposed reforms

- The **proposed rental reforms are expected to have only a marginal impact on rents, dwelling prices and the owner-occupier share in Queensland.**
- The reforms are expected to increase the total user cost by 0.10% (low scenario) and 0.64% (high scenario), representing an average increase of $16 - $107 per investment property per year.
- The proposed reforms are estimated to increase rents in the longer term by 0% (0.002%) in the low scenario and 0.02% in the high scenario.
- The proposed reforms are estimated to decrease the average house price in Queensland in the longer term by 0.01% in the low scenario and 0.08% in the high scenario. Based on the average Queensland house price of $556,500, the long-term impact on price as a result of the reforms will range between $71 and $462 – an amount that is expected to have a negligible impact on investment decisions.
- The proposed reforms are estimated to increase the share of owner-occupiers in the longer term by 0.01% in the low scenario and 0.07% in the high scenario.

5.4 Benefits of improved quality housing

- These reforms are proposed to **ensure safety and fairness in the Queensland rental market** and as such, provide a range of positive social outcomes for tenants and the broader community.
- Improved housing standards deliver several benefits to tenants through improvements to health, safety and security, and social benefits.
- A systematic literature review of international literature on the health impacts associated with housing improvements, found that there is **substantial evidence to suggest that improvements in housing can be linked to health improvements.**
- Baker et al. (2016) found that **living in poor-derelict quality housing has a negative impact on Australian resident's mental, physical and general health,** when compared with those living in good- excellent quality housing (controlling for key demographic and socio-economic characteristics).
- Delivering improvements to safety and security through these reforms could reduce the **number of household accidents, security breaches (such as break-ins) and assaults occurring in Queensland homes.**
- Certainty, security and a balance of rights and responsibilities between tenants and owners can provide for a **well-functioning, and efficient private rental market in Queensland – where everyone benefits.**

5.5 Potential implications for low-income households

- These reforms are intended to **protect Queensland's most vulnerable tenants,** who are pushed to the corners of the rental market where they often feel obligated to accept poor-quality and unsafe housing due to their financial situation.
- The **prevalence of renting in Queensland is higher among low-income households,** with over half of Queensland's renters in 2017-18 coming from the low-income cohort (below the 40th percentile of household income).
- According to the Australian Housing Conditions Dataset (AHCD), all rentals with 'essential and urgent repair needs' were rented by low-income households, suggesting that renters from **lower income households are more likely to be living in properties that do not meet the MHS.**
- Although there are 8.7% of households in rental stress across Queensland, **the negligible impact of the reform on house prices and rents is unlikely to increase this proportion.** However, this information may be used in monitoring risks to vulnerable cohorts during implementation.
- By design, the MHS creates a benefit for low-income households through an increased cost to owners who do not meet the standard.
- As such, the **changes in the housing market are an indication of uptake of the reforms.**

Appendices

Appendix A: Proposed rental reforms in Queensland

A.1. Broader context and the need for reform

There has been a shift towards renting over the past couple of decades. In 1994-95, 26.8% of Queensland households were renting, while in 2017-18 this proportion has increased to 35.9%.[54] This demonstrates a change in the nature of the housing market, with a growing proportion of people opting to rent rather than buy.

Despite this trend, tenancy laws have not adapted, largely remaining the same over the period. The proposed reforms aim to improve protections for tenants while safeguarding property owner's interests and improving housing stability in the Queensland rental market.

Queensland is not the only state exposed to this challenge. Victoria, for example, has experienced a similar increase in households choosing to rent and have recently implemented a range of rental market reforms in the *Residential Tenancies Amendment Act 2018*. The reforms are similar to those proposed in Queensland, banning no-fault evictions, providing added protections for tenants regarding housing quality, allowing for pets, as well as other reforms relating to rent increases, bond repayments, and more.[55]

Similar changes have also been implemented in March 2020 in New South Wales,[56] and Western Australia has also begun to review its tenancy laws.[57] This indicates that the proposed changes to rental laws in Queensland are a part of a wider national trend towards modernising and ensuring laws are fit-for-purpose.

A.2. Objectives of the reforms

The objectives of the proposed reforms are to modernise laws around the rental market to improve protections, accountability and housing conditions, and in doing so improve the stability of the rental housing market. The reforms are broken down into three objectives:

1. Safety and security to ensure rental accommodation is safe, secure and functional;
2. Managing tenancies to ensure existing tenancy rights are enforced without fear; and
3. Renting with pets to improve access to pet friendly rental accommodation.

The first of these objectives is attached to two reforms which are built to improve the safety, security and functionality of rental accommodation and provide protections and rights for those experiencing domestic and family violence.

The second of these objectives is attached to one reform, designed to improve the bargaining power of tenants in order to provide more secure accommodation while also empowering them to request repairs, maintenance, and the like without fear of losing tenancy.

The final objective includes one further reform designed to increase the scope by which tenants can keep pets, allowing them to be more in line with those who own houses.

These reforms were informed by feedback received through extensive consultation processes in 2018 and 2019 that attracted over 150,000 responses, including on detailed reform options outlined in the Consultation Regulatory Impact Statement.

The **reforms ultimately seek to strike a balance:** measures which protect the rights of tenants, while ensuring the rights of owners are equally not infringed. This balance then provides for security and stability in Queensland's private rental market overtime.

A.3. Proposed reforms

In recognition of the growing number of Queenslanders who rent, reforms of the *Residential Tenancies and Rooming Accommodation* (RTRA) Act 2008 have been proposed to improve the living experiences of this group based on the community feedback process. This first stage of reforms is built to introduce immediate changes, with a second stage intended to build upon foundations laid in the first stage – incremental step changes.

The reforms propose changes to the rental property market in order to: improve the safety and security standards to which rental accommodation must reach; better enforce current tenancy rights; and improve access to pet-friendly rental accommodation. To meet these objectives, four reforms have been proposed:

- **Safety and security:** housing quality and minimum housing standards, domestic and family violence protections
- Managing tenancies
- Renting with pets

A.3.1. Safety and Security

A.3.1.1. Housing quality and minimum housing standards

The Queensland Government's objectives are to ensure the safety, security and functionality of rental accommodation as well as to enforce existing tenancy rights to repairs and maintenance. To achieve these objectives, the proposed reforms suggest implementing minimum housing standards for rental accommodation and restrictions on the requirements for approval to undertake repairs and maintenance. In practice, this means rental accommodation will be required to meet set safety and security standards, including: weatherproof and structurally sound; the standard of repair of fixtures and fittings; control of pests and vermin; security of windows and doors; and window coverings for privacy.

Additionally, functionality standards are proposed to be applied to ensure adequacy of plumbing and drainage; supply of clean hot and cold water; bathroom facilities; and cooking and food preparation facilities where provided. Regarding emergency repairs, the proposed reforms suggest that a property owner should provide contact information for a representative and nominated repairers to streamline the process, and accessible funds with which tenants can organise these repairs should increase from two weeks' rent to four weeks' rent. These changes would be enforced by QCAT, which would facilitate tenant requests where necessary and restrict/penalise property owners for failing to meet these new requirements in a timely way.

A.3.1.2. Domestic and family violence protections

In response to, Not Now, Not Ever: Putting an End to Domestic and Family Violence in Queensland report, the Queensland Government is committed to addressing problems of domestic violence wherever they appear. To address the problem in rental accommodation, the reforms propose that additional protections should be available to tenants experiencing domestic and family violence (DFV). The reforms propose that, if the tenant experiencing DFV provides evidence, they can end their tenancy with seven days' notice, meaning once this type of notice is given, they are obligated to pay no more than an additional seven days' worth of rent. Additionally, tenants vacating due to experiencing DFV can request a refund of any contribution they made to the rental bond held for the tenancy early. In this case, the property owner could request remaining tenants make supplementary bond payments to minimise the effect on the property owner. Finally, tenants experiencing DFV can improve their safety while continuing their tenancy by changing the locks of a house, and the only requirement from the tenant is that they inform the owner and provide keys/access codes where required.

A.3.2. Managing tenancies

Through the feedback received via the consultations, a range of issues regarding the management of tenancies were exposed to the Queensland Government. Policy options have been investigated to allow tenancies to be ended fairly and with reasonable and workable notice, where tenants are supported in enforcing their rights without fear of retaliation, and uncertainties around tenancy can be alleviated. The proposed reforms will change the RTRA Act to no longer allow property owners to end tenancies without a given reason, instead providing a list of reasons with which property owners are justified in doing so. Justifications range from family living arrangements through to development, repair and sale of property, among a list of other grounds. Additionally, tenants must be given at least two months' notice for most new termination grounds.

Additional reasons for tenants to end a tenancy are also proposed, including: the rental property is not in good repair, is unfit for human habitation, or does not comply with Minimum Housing Standards; the property owner has not complied with a QCAT Repair Order to undertake repair or maintenance of the rental property within the specified time; as well as if a co-tenant is deceased. Additional reasons by which the Queensland Government can end tenancies of Queensland Government owned rental properties are also proposed. This ultimately prescribes the flexibility and control with which property owners can operate in the rental market, while improving the security of tenants and reducing costs associated with changing accommodation.

A.3.3. Renting with pets

While nearly six out of ten Queensland households have pets, very few rental properties are pet-friendly, largely due to the freedom with which property owners can govern these rules on their property. These reforms propose amending the RTRA Act to require that property owners have legitimate reason for refusing a tenant's pet.

Tenant requests for pets must be responded to within fourteen days or the owner's consent is assumed, and the owner can suggest reasonable conditions, such as pets staying outside or that tenants pay for professional pest control and carpet cleaning at the conclusion of their tenancy.

Acceptable reasons for property owners to refuse the keeping of pets include: unacceptable risks to the condition of the property or to health and safety; rental property is unsuitable for the type of pet; keeping a pet would contravene a law or managed community by-law or rule; or tenants do not agree to reasonable conditions proposed by owner. Importantly, any household damage as a result of pets is not considered wear and tear, so must be paid for by the tenant.

A.4. Key stakeholders

The suite of proposed reforms described above will impact a range of different stakeholders, in a range of different ways, summarised below.

A.4.1. Tenants

Within the tenant demographic exists a broad spectrum of groups, comprising of young people, families, low-income households, regional residents, and vulnerable individuals. These reforms will rebalance power within the rental market as each proposed policy addresses and alleviates a different problem experienced by tenants.

The proposed minimum housing standards improves the quality of dwellings, thereby improving the standard of living of tenants. DFV protections provide for improved ease by which affected tenants can escape dangerous personal environments. Renting with pets policy will encourage more pet-friendly rental accommodation and provide a framework to assist tenants negotiate keeping a pet at the rental property with the owner or manager. Finally, the managing tenancies reform shifts bargaining power more in favour of tenants by reinforcing the rights they were already intended to have such that they can be more secure in their housing.

For tenants, these reforms are likely accompanied by increased time spent liaising with the property owner, as well as increased financial costs required in order to exercise the additional tenant rights. Noting, where owners feel they can pass on a perceived or real cost increase, this may cause rental accommodation to increase in price. However, despite these potential costs, the overall impacts of these reforms are expected to significantly benefit tenants.

A.4.2. Property owners

On balance, the reforms lead to property owners maintaining less autonomy over their leased houses. The reforms offer a rebalancing of owner autonomy, with tenant's rights. As part of this rebalancing, there may be additional time spent in communication with tenants regarding pet and repairs requests.

For some owners, reforms will make leasing houses a more expensive process due to the requirement to meet minimum housing standards – noting that owners may have scope to receive tax deductions when meeting these requirements.

Additionally, with clearer expectations of tenant and property owner costs, it is expected that expenses can be better planned, and the increased security and housing standards are expected to improve revenue streams for property owners as tenants stay longer. The overall impact of these reforms on property owners may be costly for them if significant compliance is required, however this may equally be offset by increased rental prices.

A.4.3. Property managers

Due to the increased communication requirements from tenants in order to enforce their added rights, property managers are expected to have increased time costs spent managing tenancies. These requests will relate to properties maintaining their required standards and any maintenance or repairs. There may also be some short-term retraining costs to ensure staff understand the new policies, however this stakeholder is not expected to experience any significant change in costs.

A.4.4. Queensland Government

The Queensland government will incur additional c osts in enforcing the new laws. These will primarily be allocated towards the Residential Tenancies Authority and QCAT which will manage requests, refusal orders, as well as any complaints regarding the failure of properties to meet the new requirements. There may be indirect benefits, however, such as improved physical and mental wellbeing of the population leading to reduced health costs due to better quality housing and the allowance of pets, as well as potentially less police callout costs as victims of DFV are better facilitated in their escape from dangerous home environments.

A.4.5. Community

There are expected to be a range of indirect benefits to the community from the reforms. Increased housing security may lead to increased social participation in communities, leading to improved overall health, safety and wellbeing outcomes. For example, improved repair and maintenance laws may increase employment among small businesses and tradespersons and DFV laws may reduce homelessness and accounts of violence. Overall, while they may be minor, the reforms are expected to benefit the wider community.

Appendix B: Assumptions used to monetise the costs of the proposed reforms

B.1. Housing quality and minimum housing standards

The proposed housing and minimum housing standards reform will have an impact on user costs through increased maintenance costs for properties that are not currently meeting minimum housing standards.

Given the uncertainty around the scale of the potential impact of this reform, a scenario-based approach is taken. Estimates for the low/high scenarios are presented using assumptions for:

1. the share of rental properties affected by the proposed minimum housing standards
2. the propensity of tenants in affected properties to request maintenance
3. the estimated average price of repair to comply with the proposed minimum standards.

A summary of the key assumptions and results are presented in Figure B.1. These assumptions are consistent with previous unpublished economic research commissioned by the Department in 2019.

Table B.1: **Summary of key assumptions used to estimate the low/high scenario changes in user cost due to the proposed housing quality and minimum housing standards**

	Low case	High case
Number of investment properties in Queensland	562,000	562,000
Proportion of rental properties requiring maintenance	3.5%[58]	8.0%[59]
Estimated number of rental properties requiring maintenance	19,700	45,000
Propensity of tenants to request maintenance	50%[60]	80%[61]
Estimated number of properties who will request maintenance	4,000	22,480
Average compliance cost per property	$1,160[62]	$2,470[63]
Estimated aggregate cost of reform per year	**$4.5 million**	**$55.5 million**
Estimated change per investment property per year	**$8**	**$99**

Source: Deloitte Access Economics; various other sources

Note: Totals may not sum due to rounding.

Table C.2: **Detailed summary of estimated change in administrative costs due to other reforms**

Other reforms	Administrative cost
Domestic and family violence protections	$1.3 million
Renting with pets	$3.4 million
Estimated aggregate costs of reforms per year	**$4.7 million**

Source: Deloitte Access Economics

Note: Totals may not sum due to rounding. It is assumed that the administrative costs are fixed across the low/high scenarios.

B.2. Other reforms

The user cost for investors are also anticipated to impact through a uniform increase in administrative costs associated with the other proposed reforms, including:

4. domestic and family violence protections
5. renting with pets.

The assumptions used to monetise the increased administrative burden associated with the proposed reforms are based on previous economic research commissioned by the Department in 2019. These assumptions are explored further below.

Unlike the reform to minimum housing standards, it is reasonably assumed that these other reforms will impose fixed administrative costs on investors uniformly across the market. This is because these reforms will likely affect the time cost of property managers across the real estate industry (rather than investors on an individual basis), affecting the cost base of the entire industry. It is assumed that the property management industry in Queensland is competitive and that property managers will reflect the additional marginal cost of these reforms in their prices paid by investors in equal measure.

Figure B.2 summarises the change in aggregate user cost for investors that are expected to arise from the other reforms as administrative costs.

B.2.2. Domestic and family violence protections

The domestic and family violence protections reform is expected to result in a greater administrative burden for property managers including additional time to readvertise properties, as well as managing any changes to tenancies and bonds.

It is reasonably assumed that 1% of all private rental properties will be affected by the policy change – approximately 5,620 properties. This is based on the evidence that 1.5% of the population experience domestic violence[64], and the assumption that around two-thirds of cases result in relocation.

Based on advice from the Residential Tenancies Authority, relocations typically require an additional 8 hours of administrative time. It follows that the increase in administrative time is expected to be around 45,000 hours annually.

Based on the reasonable assumption that the opportunity cost of time for the average property manager is approximately $30 per hour, the increase in user cost for investors due to this reform is estimated at $1.3 million annually.

B.2.3. Renting with pets

The renting with pets reform is also expected to increase the administrative burden for property managers, including the additional time required to review and submit requests, along with communicate responses.

For the purposes of this analysis it is assumed that this applies to 10% of all private rental properties.

While currently around 2% of rental households with pets are unable to find pet-friendly homes, it is assumed that there would be some induced demand for renting with pets following the implementation of the reform. The additional time to process requests is estimated to be around 2 hours for each affected property based on advice from the Residential Tenancies Authority.

This equates to an increase in the administrative time of around 112,000 hours annually. Applying the same opportunity cost of time for the average property manager as before ($30 per hour), this reform is expected to increase the user cost for investors by **$3.4 million annually.**

Appendix C: Comparison of results

The prior analysis was updated with new model assumptions whenever more recent data from a trusted source was available. The goal of the updated analysis is to reflect the current housing market, particularly the market characteristics impacted by the COVID-19 pandemic. Updated assumptions reflect estimates from late 2020 or early 2021.

Several assumptions in the underlying model did not have updated data available, though for the most part, the data that could not be updated was not expected to have undergone a significant change since the prior analysis. For example, the share of renters and owner-occupiers in the Queensland housing market still reflects 2017-18 ABS data, however these market characteristics are generally more 'static' and do not undergo significant changes in the short term.

The key assumptions that have been **updated** in the modelling are outlined in Table 5.1. Both house prices and rents have been updated to reflect the recent housing market, while the costs of repairs and maintenance and the cost of capital works have simply been updated to reflect the 2021 price level. The full set of assumptions underlying the modelling is available in Table 3.1.

It should also be noted that the 2020 EIA included minor modification in the 'other reforms' that had an estimated administrative cost of $12.6 million each year. The removal of this other reform has had perhaps the most impact on the updated analysis – more so than the tighter property market.

Table C.1: **Updated model assumptions**

Measure	Updated analysis	2020 EIA
Average house price in Queensland	$556,500	$508,600
Average rent in Queensland	$420	$359
Cost of repairs and maintenance	$1,155	$1,100
Cost of capital works	$2,468	$2,350

Source: Deloitte Access Economics

The updated modelling assumptions had only a marginal impact on the relative change in user cost, dwelling prices, rents, and the owner-occupier share. A comparison of the estimated impacts of the rent reforms in both the prior analysis and the updated analysis is available for the low scenario in Table C.2 and for the high scenario in Table C.3.

Table C.2: **Comparison of results: Low scenario**

Result	Updated analysis	2020 EIA
Relative change in user cost	Change in user cost of 0.10%	Change in user cost of 0.25%
Relative change in dwelling prices	• Maximum change of -0.01% in the first two years • Long term change of -0.01%	• Maximum change of -0.04% in the first two years • Long term change of -0.03%
Relative change in rents	• Maximum change of 0.01% in the first two years • Long term change of 0% (0.002%)	• Maximum change of 0.02% in the first two years • Long term change of 0.01%
Relative change in owner-occupier share	• Long term change of 0.01%	• Long term change of 0.02%

Source: Deloitte Access Economics

Table C.3: **Comparison of results: High scenario**

Result	Updated analysis	2020 EIA
Relative change in user cost	• Change in user cost of 0.64%	Change in user cost of 0.82%
Relative change in dwelling prices	• Maximum change of -0.09% in the first two years • Long term change of -0.08%	• Maximum change of -0.12% in the first two years • Long term change of -0.11%
Relative change in rents	• Maximum change of 0.05% in the first two years • Long term change of 0.02%	• Maximum change of 0.07% in the first two years • Long term change of 0.02%
Relative change in owner-occupier share	• Long term change of 0.07%	• Long term change of 0.06%

Source: Deloitte Access Economics

Limitation of our work

General use restriction

This report is prepared solely for the internal use of the Department of Communities, Housing and Digital Economy. This report is not intended to and should not be used or relied upon by anyone else and we accept no duty of care to any other person or entity. The report has been prepared for the purpose of updating the previous economic analysis of Queensland residential renting reforms. You should not refer to or use our name or the advice for any other purpose.

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