

## Eviction Moratoriums are Terrible Economic Policy

At the onset of the Covid-19 crisis, governments of all political persuasions in many countries enacted moratoriums on tenant evictions. The superficial narrative used to justify this is that poor tenants need to be protected from wealthy landlords who are likely to precipitously evict tenants that have defaulted on their obligations. Recent articles from [Noah Smith](#) and [Nathan Tankus](#) have taken the debate further, arguing that moratoriums are not only socially appropriate, but they are also good economic policy that protects landlords from harming themselves. Whilst these arguments and eviction moratoriums might be popular, they are terrible economic policy that ignores deeply negative consequences.

### A Classic Broken Window Fallacy

Those arguing for eviction moratoriums are committing a classic [broken window fallacy error](#). They ignore that what is good for one group can be negative for another group and for the economy as a whole. Eviction moratoriums allow tenants to stay in properties without paying the full rent that both parties agreed would be paid. This is obviously a good outcome for the tenant, but a terrible outcome for the landlord. For the wider economy there are also substantial negative externalities that result in rental accommodation being more expensive than it otherwise would be.

### The Property Rights Problem

For a government to step in and ban evictions is simply enabling one group of citizens to steal from another. If the logic of an eviction moratorium was extended to other areas of the economy this could include:

- People who meet certain government criteria can take food from supermarkets without paying
- People who meet certain government criteria can take clothes from department stores without paying
- People who meet certain government criteria can acquire medical care without paying
- People who meet certain government criteria can use taxis and public transport without paying

Food, clothing, medical care and transportation can be argued to be as essential as shelter. Singling out landlords to have their contractual rights overturned whilst supermarkets, department stores, hospitals, pharmacies and transportation providers retain normal property rights is illogical and capricious. The obvious solution to this inconsistency is to allow everyone to continue to rely on general property rights that have been accepted for centuries, rather than enabling theft.

### The Forgotten Options for Tenants

Another false narrative that underlies an eviction moratorium is that tenants who have (potentially temporarily) lost some or all of their income will immediately be homeless if landlords pursue eviction when the rent is not paid in full. This is an enormous simplification of a situation with many alternatives for tenants including:

- Negotiate a reduced rent or delayed payment arrangement with the landlord
- Move to a smaller or older property with a lower rent
- Move to a cheaper neighbourhood
- Move in with family or friends
- Share the property and rent with additional tenants
- Utilise existing savings, including superannuation/pension contributions
- Reduce spending on non-essentials creating more room in their budget to pay rent
- Take advantage of government programs including rent assistance and unemployment benefits

There's also the question of equity between landlords and tenants, where many wrongly assume that landlords are rich and tenants are poor. Whilst there's no doubt that the poorest citizens rarely own property, there are many who rent for a variety of reasons who have high incomes, material wealth or both. A growing group of people are "rentvesting", where they reside in a rented property that suits their lifestyle whilst renting out the property they bought for its investment potential. The narrative that all landlords are wealthy simply doesn't match the data. For Australia, most landlords own only one investment property, borrow to purchase the property and have taxable income of less than \$80,000 per annum. These people may also have lost some or all of their work based income, with most reliant upon the rent to cover their interest and other investment property expenses.

### **What Criteria Should Apply?**

The process for determining which people are eligible for protection from eviction is fraught, with numerous nuances that cannot be factored into a blunt government policy. The sorts of questions that need to be answered include:

- How much income must have been lost before a person is deemed to need protection from eviction?
- What if income was lost due to the person's own choices/actions (fired or quit)?
- Are luxury properties covered and if not, what is considered a luxury property?
- Are social factors (families with children, disabilities etc.) taken into account?
- Who determines whether a tenant has the ability to pay in full or in part?
- How much detail must the tenant provide to prove they have exhausted other options?
- Is there an appeals process or independent arbitration, and if so, who pays?

It very quickly becomes a messy process to determine who can be evicted and who can't. Some jurisdictions have chosen to have a blanket moratorium, which simplifies the process but creates a far greater scope for abuse. For instance, international students and working visa holders who expect to leave the country in the near term face virtually no consequences if they cease paying rent. Landlords could respond to a blanket moratorium by demanding greater security bonds or by refusing to rent their property. Landlords may also refuse to accept new tenants with a weaker financial position or may demand a higher rent to balance the additional risk.

### **The Short and Long Term Consequences of Moratoriums**

In the short term, whether a landlord receives rent or not, they continue to accrue expenses such as interest on loans, land and other property taxes, insurance, strata fees and the usual wear and tear related expenses. Few governments have provided moratoriums or assistance with these costs. For tenants, the accrual of rent arrears could damage their credit record and cut off their ability to obtain debt or make their future rent and/or loan repayments more expensive due to their previous defaults. In most cases, the rent missed is a debt that the landlord will have an ability to pursue through normal debt collection processes in the months or years ahead.

Failing to allow evictions to occur in the normal course also keeps rents inflated in the short term. When tenants respond to changed financial circumstances by moving in with others or having others join them in their current properties, the demand for rental housing decreases and the number of vacant properties increases. Through market forces, this will result in rents falling as landlords compete by lowering prices to obtain new tenants. Those arguing for moratoriums ignore that higher vacancy rates are the best thing for all tenants as rents will fall. This provides a benefit for all tenants, not just the ones who are gaining (in the short term) by failing to pay their existing landlords.

In the long term, moratoriums degrade the foundations of investment in an economy, particularly in property. If a government can override a contract on a property lease, what other unforeseen government interference may occur



and what additional return will investors demand for the additional risk? Moratoriums discourage new investment in properties that will be made available for rent, reducing future supply, thus putting upward pressure on rents.

Moratoriums also create an expectation that certain groups are entitled to free stuff, either from government or from other citizens. This further exacerbates the trend of individuals lacking financial independence, both from their lack of self-earned income and from a failure to save. Governments that respond to demands for free stuff, either by increased taxation and welfare or by allowing one group of citizens to take from another, are setting their people and economies on a road to poverty.

An obvious lesson from both the previous financial crisis and the current crisis is that individuals, governments and businesses with substantial savings and less debt are better able to deal with unexpected economic shocks. The policies of governments and central banks (low interest rates) to discourage savings and incentivise the use of debt are extremely short sighted and need to be reversed. The failure to reduce debt and increase savings guarantees that there will be more frequent and deeper financial crises, as well as lower long term productivity and economic growth.

### **The Real Problem with Rents**

What is missed by almost everyone in the debate about moratoriums is that they are being argued to be necessary because previous government interference has increased the cost of renting. In many developed nations government policies on densification, minimum apartment sizes, low cost building types (e.g. manufactured/mobile housing, granny flats) and many layers of taxation/levies have reduced the supply of new housing and increased the cost of building it. Government policies typically favour existing property owners at the expense of those trying to buy an affordable property and those trying to find a property with an affordable rent.

The long term solution to housing being unaffordable is to build more low cost housing. The private sector is willing and able to meet this demand if governments would get out of the way and let them respond to what people want. Governments should be encouraging high density housing to be built close to employment, transportation and amenities, not strangling it through zoning restrictions, delays, taxation and levies. Government "solutions" such as social housing and affordable housing programs are far inferior options as they are expensive to run and always fail to meet the enormous pent up demand for lower cost rental accommodation.

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