Residential Tenancy Law Reforms

by Lenny Roth

1. Introduction
On 4 November 2009, the Minister for Fair Trading, Hon Virginia Judge MP, released a draft Residential Tenancies Bill 2009 for consultation. The media release described this as ‘the most significant reform package to NSW residential tenancy laws in the last 20 years’.¹

The reforms have a long history. In 2005, the NSW Government released an options paper and in September 2007 it published a discussion paper with over 100 proposed reforms, which resulted in over 1,500 responses.

In 2009, the NSW Government acted on one of these proposed reforms by introducing laws to give more rights to tenants when a mortgagee (e.g. a bank) seeks to obtain possession of rented premises after the owner has defaulted under their mortgage.²

The consultation period on the draft bill closed on 18 December 2009 and it is expected that the bill will be introduced into Parliament early in 2010.

The Tenants’ Union of NSW has commented that:

Our overall assessment of the draft Bill is that most of the changes it would make are improvements on the current law.³

On the other hand, the Real Estate Institute of NSW considers that the draft bill would ‘shift the current imbalance further in favour of the tenant’ and make investment in NSW rental properties less attractive.³ It believes that the draft bill:

...has the potential to cause massive detriment to the NSW economy and will result in adverse outcomes not only to landlords, but also in the medium term to tenants.⁵

This E-brief outlines the main proposed changes, the views of the Tenants’ Union of NSW and the Real Estate Institute of NSW on each of these, and comparisons with laws in other States (but not the Territories). It updates a 2007 NSW Parliamentary Library Research Service briefing paper on residential tenancy law.

2. Tenant making minor alterations
The current position is that unless the landlord consents, a tenant cannot install any fixture or make any alteration or addition to the premises.

The draft bill provides that a landlord must not unreasonably withhold consent to a fixture, or to an alteration, addition or renovation that is of a minor or cosmetic nature.⁷ Such alterations are to be at the cost of the tenant unless the landlord agrees otherwise.

Landlords can apply to the tribunal for compensation where the alteration work is not done to a satisfactory standard, or if the work is likely to
adversely affect the landlord’s ability to let the premises to other tenants.⁸

Stakeholder views

The Tenants’ Union of NSW supports these changes.⁹ It also suggests that the provisions could be expanded so that a landlord could not unreasonably withhold consent to an alteration aimed at improving the energy and/or water efficiency of premises.

The Real Estate Institute of NSW argues that the changes ‘will significantly increase the levels of disputes’ and it points out:

- Landlords and tenants will have different views on what is a minor or cosmetic or change;
- Such changes may result in damage which is irreversible, regardless of the intent of the tenant that makes them;
- Tenants often leave after failing to pay rent equal to the bond and, in such cases, there will be no fund from which to pay for rectification costs.¹⁰

The Real Estate Institute states that if such a provision is to be introduced, the tenant should be required to top-up the bond by an agreed amount to cover any potential rectification costs; and the landlord should be able to prescribe conditions of consent such as requiring works to be carried out by a licensed contractor.¹¹ Note that the 2007 discussion paper proposed that landlords be allowed to impose reasonable conditions of consent.¹²

Position in other States

Only Queensland and West Australian laws state that a landlord must not unreasonably withhold consent to an alteration or addition.¹³ Note that in Western Australia the tenancy agreement may provide that a tenant cannot make any alterations.

3. Tenant subletting to others

Presently, a tenant must obtain the prior consent of the landlord if they wish to sub-let the premises or transfer the whole or part of their interest under the tenancy to another person.¹⁴

The draft bill provides that a landlord must not unreasonably withhold consent to the partial subletting of the premises, or to a transfer that will result only in one or more tenants in addition to the original tenant.¹⁵ It will be reasonable to withhold consent if the landlord would not have accepted the proposed tenant for a new tenancy agreement. If the landlord refuses consent, the tenant can apply to the tribunal for an order. In such a case, the tribunal may take into account the number of occupants allowed under the original tenancy agreement.

Stakeholder views

The Tenants' Union supports this reform but submits that the provisions are too limited.¹⁶ On the other hand, the Real Estate Institute criticises the changes, stating that ‘a landlord’s absolute right to decide who occupies his or her property should not be abrogated’.¹⁷ It argues that the new provisions ‘will make residential properties less attractive for investors’.

Position in other States

All other States provide that a landlord must not unreasonably withhold consent to a sublet or assignment. Note that in Western Australia, the tenancy agreement may provide that subletting or assignment is not permitted (even with consent).¹⁸
4. Disputes between co-tenants
Where more than one tenant is a party to the tenancy agreement, the tenants are co-tenants and they are jointly and severally liable for any breach of the agreement. A co-tenant who vacates the premises can even be liable for future rental arrears or damage caused by remaining tenants. The current Act does not have specific provisions for dealing with disputes between co-tenants: e.g. where one co-tenant wants to leave the premises or wants another co-tenant to leave.

The draft bill introduces new provisions in this area including:

- If the fixed term of a tenancy has expired, a co-tenant would be able to terminate their own tenancy on 21 days notice;
- On the application of a co-tenant at any time, the tribunal would be able to make various orders including terminating the entire tenancy agreement or any co-tenant’s tenancy;
- If a co-tenant’s tenancy is terminated, the remaining tenants must pay to that co-tenant an amount equal to the bond paid by the co-tenant;
- There are special provisions for co-tenant situations where there has been domestic violence and an AVO has been made.

Stakeholder views
The Tenants’ Union is generally in favour of these reforms. The Real Estate Institute is concerned that if a co-tenant terminates their tenancy, the landlord may be left with tenants that are unable to pay the rent. It queries whether the remaining tenants would be able to add a new tenant to the agreement after a co-tenant leaves.

5. Evictions in cases of rent arrears
Currently, a tenant must be at least 14 days in arrears of rent before a landlord can issue a 14 day notice to vacate. If the tenant fails to comply with this notice the landlord can apply to the tribunal for a possession order.

If the case cannot be conciliated and the tenant is in fact 14 days in arrears, the tribunal will decide if the circumstances of the case justify making an order. If the tribunal makes a possession order and the tenant does not comply with it, the landlord can apply to the tribunal for a warrant, which is then enforced by the sheriff.

The summary of changes published by the Office of Fair Trading states:

The Bill will shorten the time it takes for a landlord to get their application heard by the Tribunal where the tenant is behind in rent. It also gives a guarantee to tenants that their tenancy can continue if their rent arrears is paid or if they follow an agreed repayment plan.

The draft bill provides that a landlord may apply to the tribunal for a possession order before the date specified in the notice to vacate (but the tribunal must not consider the application until after that date).
The draft bill also states that a notice to vacate must inform the tenant that he or she is not required to vacate if he or she pays all the rent owing or enters into, and complies with, a repayment plan agreed with the landlord. It also states that the tribunal must not issue a possession order if the tenant satisfies either of these conditions.

The draft bill did not adopt the proposal in the 2007 discussion paper that would have allowed the tribunal to make orders for possession without a hearing, in cases where the tenant does not request a hearing.

Stakeholder views

The Tenants’ Union of NSW supports these provisions but considers that clarification is needed on the consequences of a tenant failing to fully comply with a repayment plan.

The Real Estate Institute of NSW argues that the new provisions are a step in the right direction but they should go further to ensure that the process for evicting a tenant who is in arrears is not unfairly prolonged. It notes that ‘many landlords rely upon the regular receipt of rent in order to meet their own mortgage repayments’.

The Real Estate Institute submits that the draft bill should be amended to:

- Require the tribunal to list hearings within 7 days;
- Require the tribunal to make a termination order if the tenant is still in arrears and the parties have not agreed otherwise;
- Specify a period (up to 7 days) within which vacant possession must be ordered unless the parties agree otherwise;
- Allow the tribunal to issue a possession order and warrant without a hearing if the tenant is not contesting the matter;
- Require a tenant to apply to the tribunal if they wish to suspend a possession order (rather than simply paying arrears).

Position in other States

All other States follow a similar model to current NSW laws on evicting a tenant in a case of rent arrears. In most States, the landlord cannot take action unless the tenant is 14 days in arrears with rent. However in South Australia, Western Australia, and Queensland the landlord can issue a notice that gives the tenant only 7 days notice to vacate (compared to the 14 days notice required in NSW).

In Victoria if the tenant is 14 days in arrears, the landlord may apply to the tribunal for a possession order at the same time as issuing the tenant a 14-day notice to vacate. If the tenant wants to object to this, the tenant must lodge an objection otherwise the tribunal can make a possession order without a hearing. The Real Estate Institute argues for this model and (as noted above) the 2007 discussion paper supported this approach but it was not incorporated into the draft bill.

6. Access if landlord selling

The current position is that the landlord or their agent may show the premises to prospective purchasers on a reasonable number of occasions if the tenant has been given reasonable notice on each occasion.

Under the proposed changes, the landlord or agent must make all reasonable efforts to agree with the tenant as to the days and times when the premises are to be periodically available for inspection by potential purchasers. A tenant must not
unreasonably refuse to agree to days and times for such inspections.

A separate section in the draft bill states that the landlord may enter premises to show prospective purchasers if the landlord gives the tenant at least 24 hours notice. It seems (although it is not entirely clear) that this section is only meant to apply to those occasions when a landlord wants to access the premises outside the agreed periodic times.

The draft bill provides that the landlord and tenant may agree to a rent reduction during periods when access to the premises is required to show purchasers. This provision does not go as far as the proposal in the 2007 discussion paper to give tenants a right to a rent reduction during periods when the premises are being shown, and for legislation to set a minimum rent reduction in such cases.

Stakeholder views

The Real Estate Institute of NSW does not oppose the access provisions. The Tenants’ Union submits that tenants should be able to refuse to make premises available for periodic open inspection by purchasers:

…we believe it is fundamentally unreasonable to require tenants to open their homes up to strangers in this way. Tenants generally obtain no benefit from the sale of their homes, whereas landlords continue to obtain the benefit of rental income if tenants remain in place during the sale.

The Tenants’ Union contends that the new provisions:

…are probably the most disappointing and troublesome of the draft bill. It envisages landlords and tenants making agreements as to the days and times for access but then undermines any negotiations by giving landlords everything they could possibly want: access on 24 hours’ notice, without limit as to the number of visits, plus fines of $2,200 for tenants who refuse to give reasonable access.

The Tenants’ Union maintains that the access provisions in the current Act are more preferable to those in the draft bill. It submits that an alternative would be to only allow access on 24 hours notice where there is agreement about the days and times when access may be required; and to provide for tenants to receive a rent reduction to zero on days when a landlord has access after giving 24 hours’ notice.

Position in other States

Western Australia and South Australia have similar provisions to those that currently exist in NSW. In Victoria and Queensland a landlord can enter to show potential purchasers on giving 24 hours notice. In Queensland there is also a requirement that a reasonable time has elapsed since the last entry for this purpose. Queensland laws also prohibit the landlord from holding open house inspections without the tenant’s consent (i.e. an advertised period for any potential buyers to come and inspect the premises). In Tasmania, a landlord can only enter to show one purchaser at a time, 48 hours notice is required and entry cannot occur more than once a day or more than 5 days in a week.

7. Tenant breaking a lease early

The current position is that tenants with a fixed term tenancy do not generally have a right to break a lease during the term unless the landlord has breached the tenancy agreement. A tenant that breaks a lease early can be liable to compensate the landlord for lost rent and re-letting expenses. Note
however landlords have a duty to take steps to mitigate their losses.

The exception under current laws is that tenants can apply to the tribunal to break a lease early on grounds of undue hardship. If the tribunal ends the tenancy, it may require the tenant to pay compensation to the landlord.

The draft bill allows tenants to break a lease early in certain circumstances without having to pay compensation to the landlord. The circumstances are:

- The tenant accepts an offer for social housing accommodation;
- The tenant accepts a place in an aged care facility;
- The landlord is selling the property and did not disclose the proposed sale before entering into the tenancy;
- A co-tenant or occupant is the subject of an AVO.

In addition, any tenant who wants to break a lease early can do so by giving 14 days notice and paying a 'break fee'. For a fixed term tenancy of less than three years, the fee is an amount up to four weeks rent if more than half of the tenancy has expired (and six weeks rent if less has expired). The draft bill did not adopt the proposal in the 2007 discussion paper for the landlord to be able to recover re-letting and advertising fees if the tenant leaves in the first third of the lease.

Tenants would still be able to apply to the tribunal to end a tenancy on grounds of undue hardship.

Stakeholder views

The Tenants’ Union welcomes the new grounds for a tenant to break a lease early without penalty. It believes that this will ‘especially assist vulnerable tenants in difficult circumstances’. It also considers break fees to be ‘a very worthwhile reform that would simplify the settlement of a tenant’s liabilities where they have to end a tenancy early’. However, the Tenants’ Union argues that a fee of four weeks rent should be the maximum in all cases.

The Real Estate Institute takes issue with the provision that allows a tenant to break a lease early if the landlord proposes to sell the premises and did not disclose this before the tenancy. It argues that the section should be amended or deleted. It explains that the provision does not allow for a case where a landlord only decides to sell after the tenancy has been on foot for a long period of time (e.g. 3 years).

The Real Estate Institute is also highly critical of the provisions that allow a tenant to break a lease early by giving 14 days notice and paying a break fee. It comments as follows:

This single, dramatic change to current practice has the greatest potential of any of the proposed changes in the Bill to utterly destroy investor confidence in the residential tenancy market.

It maintains that the changes:

...give tenants all the benefits and protections of a fixed term tenancy, whilst removing the most essential rights of the landlord – the right to enforce the duration of the tenancy and receive rent.

The Real Estate Institute notes that the new provisions are not necessary because tenants can apply to break a lease on grounds of undue hardship. The Institute also submits that the break fees proposed in the draft bill are not equitable. It also suggests that any break fees should be claimable from the bond. However it notes that
the bond will not only be insufficient to cover break fees but it will then be insufficient to cover cleaning costs or damage to the premises.\textsuperscript{57}

**Position in other States**

Queensland is the only State that allows a tenant to break a fixed term lease early on one of the grounds set out in the draft bill. A tenant can break a lease early if the premises are being sold within two months of the start of the tenancy and this was not disclosed prior to the tenancy.\textsuperscript{58} While most States allow a tenant to apply to the tribunal to break a fixed term lease early on the grounds of undue hardship, no State allows a tenant to break a lease early by giving notice and paying a statutory 'break fee'.

**8. Landlord ending lease after term**

Currently, if a fixed term tenancy has expired and the landlord wants to end the lease, the landlord must give the tenant a notice to vacate.\textsuperscript{59} A notice to vacate without any ground must allow the tenant at least 60 days to vacate.\textsuperscript{60} If the landlord is selling the premises, the notice period is only 30 days.\textsuperscript{61} If the tenant does not move out, the landlord may seek a possession order. The tribunal will make an order if satisfied that it is appropriate to do so in the circumstances of the case.

Under the draft bill, a notice to vacate without any ground would need to allow at least 90 days for the tenant to vacate.\textsuperscript{62} If the tenant does not move out as required by such a notice the tribunal must make an order for the tenant to vacate, but it can take into account the circumstances of the case in determining the day on which the tenant is required to vacate.

The draft bill did not adopt the proposal in the 2007 discussion paper to expand the grounds upon which a landlord could request that the tenant vacate with less notice than 90 days: i.e. providing for only 60 days notice if the landlord needed to move into the premises or had an intention of doing major renovations.\textsuperscript{63} It was thought that this would make the landlord’s reasons for ending the lease more transparent.

The draft bill gives greater protection for tenants who have lived in the same premises for over 20 years. The above provisions would not apply to such tenants. Instead, a landlord could apply for a termination order and the tribunal could make an order if it is satisfied that it is appropriate to do so in the circumstances.\textsuperscript{64} If it were going to make an order, the tribunal could decide on the day when the tenant is to vacate but it must allow at least 90 days from the date of the order.

**Stakeholder views**

The Tenants’ Union states:

These increased notice periods are significant improvements for tenants. They must, however, be weighed against the draft Bill’s restrictions on the Tribunal’s discretion in proceedings for termination without grounds; on balance, these provisions of the draft bill do not improve tenants’ security.\textsuperscript{65}

The Tenants’ Union was disappointed that the draft bill would continue to allow landlords to issue notices to vacate ‘without grounds’; and it was even more disappointed that the draft bill does not introduce any reforms in this area: e.g. at least requiring landlords to state their grounds.\textsuperscript{66}

With regard to long-term tenancies, the Tenants’ Union submitted that:
...there are very few tenancies in the private market that have lasted 20 years or more, and we submit that a tenancy of 10 years or more should be regarded as a long term tenancy.

The Real Estate Institute of NSW submits that ‘the increased period of notice to 90 days is inequitable’.67

The Real Estate Institute also argues that the tribunal should not have any discretion as to the day when the tenant is required to vacate, or alternatively, the 60-day notice period should be retained and the tribunal must nominate a date that is not later than 30 days after the date specified in the notice to vacate. It submits that this would give investors greater certainty.

The Real Estate Institute opposes the special provisions that apply to tenants who have lived in the same premises for over 20 years.68 It queries the rationale for these provisions, noting that ‘a landlord has every right to end any periodic tenancy and regain possession of their premises for whatever purpose they wish’.

Position in other States

In Queensland and Western Australia the notice periods for terminating without grounds are two months and 60 days respectively.69 Terminating in order to sell the premises requires only 4 weeks or 30 days notice.70

In South Australia, the notice period for terminating without grounds is 90 days but a landlord can terminate with 60 days notice for certain reasons: e.g. premises to be sold or renovated or occupied by landlord or family.71

In Victoria, the notice period for terminating without grounds is 120 days but only 60 days notice is required for reasons similar to those specified in South Australian laws.72

In Tasmania, in the first 28 days after expiry of the fixed term, the landlord can terminate with only 14 days notice; after the first 28 days, the landlord can terminate with 28 days notice if the premises are to be sold, renovated or used for another purpose.73

9. Disposal of uncollected items

Currently, if a tenant leaves goods on the premises after vacating, the landlord is required to store the goods unless it would cost more to remove, store and sell the goods than the goods are worth.74 When goods are stored, the landlord must within 7 days send the tenant a written notice to that effect and the notice must also be published in a newspaper. Once goods have been stored for 30 days, the landlord is required to sell them by public auction and account to the tenant for the balance of the proceeds of sale after deducting costs incurred.

The draft bill allows the landlord to give the tenant a disposal notice and to dispose of the goods if the tenant fails to collect or arrange to collect the goods within 14 days of the notice (90 days for personal documents).75 The landlord may dispose of the goods in any lawful manner that the landlord thinks fit (including donating them to a charity) and is not required to account to the tenant for any sale proceeds. However, the tenant may apply for an order requiring the landlord to account for the proceeds or compensate the tenant for the value of the goods.

Stakeholder views

The Real Estate Institute does not oppose reforms in this area but has concerns about aspects including dealing with computer records.76 It
notes that ‘personal documents’ are defined to include ‘computer records containing personal information’; and it submits that a landlord should not be required to access a tenant’s private computer records to determine if they contain personal information.

The Tenants’ Union argues that a 14-day period for collection is too short, and should at least be extended to 21 days. It explains that when goods are left behind this is often because the tenant is in crisis. It also submits that goods worth more than $100 should be disposed of by public auction or private sale for fair value and the proceeds should be accounted to the tenant, less costs incurred.

Position in other States

In most States the law for dealing with uncollected goods follows a similar model to current NSW laws.

In most States the landlord is required to store the goods unless the goods are worth less than the costs of removal, storage and sale (in Tasmania, there is no requirement to store goods before applying to the court to sell them). In Victoria, the storage period for goods is 28 days, in Queensland it is one month, and in both Western Australia and South Australia it is 60 days. If the tenant does not claim the goods within these periods, the landlord is required to sell the goods by public auction.

In all States, the landlord may retain part of the proceeds of sale to cover costs for removal, storage and sale. In some States the landlord may also retain amounts owing by the tenant. The balance of the proceeds must either be paid to the tenant or to a prescribed body (e.g. in Queensland, the body is the public trustee).

Queensland and Victoria make special provision for personal documents left on the premises. In Queensland, the landlord must give the documents to the tenant or the public trustee and the public trustee must store the documents for 6 months. In Victoria, the landlord is required to store personal documents for 90 days.

10. Use of tenancy databases

There are a number of commercially operated tenancy databases that hold information about individual tenancy histories. They collect information mainly from real estate agents and large property managers. Most agents and property managers subscribe to one or more databases and use them to screen prospective tenants.

There are rules currently governing real estate agents’ use of tenancy databases. Agents must not list a tenant on a database unless they have informed the tenant and given them a chance to comment and, if the tenant disputes information, any objections are noted on the database. Agents may only list tenants for certain reasons. Agents must also not use a database for a listing if the database does not meet certain requirements such as allowing tenants to have free access to their listing, noting tenants’ objections to a listing, and removing listings within specified timeframes.

The draft bill proposes new rules:

- If landlords or agents use a tenancy database they must notify tenancy applicants of this and how applicants can contact the database operator;
- Landlords and agents must only list for particular breaches and must comply with certain requirements before listing;
• If a landlord or agent who lists information on a database becomes aware that it is inaccurate, they must notify the operator of the database who must amend or remove it;
• Landlords, agents and database operators must provide copies of listed information to listed persons;
• Database operators will not be able to keep a listing about a person for longer than 3 years or a shorter period if required by National Privacy Principles;
• The tribunal will now have powers to resolve disputes about database listings.

Breach of some of these new provisions will be an offence with a maximum fine of $2,200.

The Office of Fair Trading has stated that the new provisions ‘are consistent with draft national provisions being prepared by the Ministerial Council on Consumer Affairs’.

The Tenants’ Union welcomes new laws regulating the use of tenancy databases but submits that the framework adopted in the draft bill should be redesigned or individual provisions should be strengthened.

The Real Estate Institute has not yet commented on these provisions.

Position in other States

Queensland has laws regulating residential tenancy databases and South Australian fair trading laws include provisions relating to database listing practices. Victoria, Western Australia and Tasmania currently do not specifically regulate the use of tenancy databases. All States have recently consulted on implementing the national model provisions.

1 Office of Fair Trading, Minister launches public consultation on tenancy law reform, Media Release, 4 November 2009.
2 Residential Tenancies Amendment (Mortgagee Repossessions) Act 2009 (NSW).
5 Real Estate Institute, note 4, p13.
6 Residential Tenancies Act 1987 (NSW), section 27.
7 Draft Residential Tenancies Bill 2009 (NSW) (“Draft bill”), section 66; see also section 68 as to factors to consider.
8 Draft bill, section 69.
9 Tenants’ Union, note 3, p20.
10 Real Estate Institute, note 4, p41.
11 Real Estate Institute, note 4, p42.
13 Residential Tenancies and Rooming Accommodation Act 2008 (QLD), section 207; and Residential Tenancies Act 1987 (WA), section 47.
14 Residential Tenancies Act 1987 (NSW), section 33.
15 Draft bill, section 75.
16 Tenants’ Union, note 3, p22.
17 Real Estate Institute, note 4, p45.
18 Residential Tenancies Act 1987 (WA), section 49.
20 Draft bill, section 103.
21 Draft bill, section 104.
22 Draft bill, section 174.
23 Real Estate Institute, note 4, p58.
24 Residential Tenancies and Rooming Accommodation Act 2008, sections 312 and 430.
25 Residential Tenancies Act 1987 (NSW), section 57.
26 NSW Office of Fair Trading, Tenancy Reform Proposals, [Online].
27 Draft bill, section 88.
28 Draft bill, section 89.
Tenancy agreements are commonly for a fixed term of six or 12 months, after which the tenancy may continue until ended by either party providing the required notice.