




Contractual Justice and the Index of Bargaining Power of Tenants in the Iranian Housing Sector

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Abstract

Contract theory is the study of how contracts develop among economic agents. The imbalance in the bargaining power of the contract parties causes a crisis in the market, particularly in the housing sector. Countries often adopt specific laws to support tenants and increase their bargaining power, thus improving the indexes measuring contractual justice. Islam also offers mechanisms that can prevent possible unfair consequences in contractual relationships. The present study used the method of analytic hierarchy process (AHP) to evaluate the mechanisms permitted by Islam to increase the bargaining power of tenants. The bargaining power index was calculated in three cases, before and after the COVID-19 pandemic and in the case of introducing new conditions based on Islamic rules. The results showed that the application of such mechanisms could considerably improve the index of bargaining power of tenants by increasing it from 0.407 to 0.981. The figure, which even exceeds the global average of 0.751, is considered a significant improvement in line with Islamic regulations.

Keywords: Bargaining Power, Contract Theory, Contractual Justice, Housing Sector, Islamic Perspective.

JEL Classification: K12, R31, D40, H11, R31.

1. Introduction

The so-called contractual justice¹ or commutative justice emerges due to the inequality in the bargaining power of contracting parties. Various factors can upset

¹. Contractual justice or commutative justice refers to the observation of equality of the contractual rights of contracting parties. It demands that the rights of contracting parties be equally balanced just like two pans of a balance scale. Whenever the equality of contractual rights is unsettled, the theory of contractual justice requires that such an imbalance be redressed through valid legal principles (Khandani, 2013). The contracts involving an exchange of an equivalent are called commutative contracts, which, as a type of possessory contracts, are distinguished from gratuitous contracts. Therefore, the possession in commutative contracts, such as sale (Bai) contracts, lease agreements, or compromise (Solh) contracts, is due to an exchange of an equivalent.

the equality and balance between two contracting parties, leading to the violation of contractual freedom and conventional contractual rights that are aimed at ensuring contractual justice.

Contractual justice is ruled out in the case of equality of opportunities and power in economic competition. However, when the putative equality is unsettled under some circumstances, such as a monopoly of goods and services, contractual justice shall be given special consideration. In such circumstances, speculators and powers of the capital scene impose heavy obligations on the contracting party by monopolizing goods and services and making additional or standard contracts, setting excessive and unfair terms to earn the benefit of the contract (Raei, 2014). Therefore, it becomes necessary to support the stability and durability of private contracts; it is also inevitable to support the vulnerable contracting party.

As time passed and great inequalities increased in some contracts, a return to previous concepts took place. Concerning contemporary legal systems, the condition of justice in contracts was first codified as a law in the Uniform Commercial Code (UCC) in the USA, which allowed courts to prevent or adjust the enforcement of contracts merely due to their failure to meet justice. The present study aimed to explore the status of the bargaining power of tenants in lease agreements in the Iranian housing sector. Moreover, it investigates the extent to which the application of supportive laws to increase bargaining power can affect contractual justice in the Iranian housing sector.

2. Contract Theory

Contract theory in economics concerns the study of how contracts and legal agreements develop among economic agents. The focus is on the contracts that often develop in situations with information asymmetry among economic agents. The issues concerning incentives and contract theory had largely been neglected by economists until the end of the 20th century. Up until that time, the economic theory used to focus on labor in markets and price-setting. Enterprises were seen as mere technologies of production, and the distinction between possession and control was overlooked. In the early 70s, the methodological revolution of game theory shifted the emphasis towards strategic interactions among a few players who faced information problems. From this new perspective, the allocation of resources is no longer controlled by the pricing system but by contracts among partners with asymmetrical information. Contract theory is aimed at analyzing the development of transactions in economics that are often more complex than the way analyzed in general equilibrium theory.

3. Bargaining Power

Bargaining power refers to the power an individual enjoys in negotiations with another party, which enables him/her to reach an agreement in a way that benefits him/herself. In other words, bargaining power means the relative capability of parties in a given state of affairs to influence each other. Two parties are said to have equal bargaining power whenever they enjoy equal status in the negotiation.

Resources of bargaining power are of two types: general and specific. Concerning the former, the contracts lacking a balanced bargaining power originate from the abuse of rights, violation of goodwill, abuse of urgency on the part of the weak party, and unjust acts of influence. Considered somehow as a sub-category of the general type, the specific resources include physical threat or/and physical superiority, mental superiority, information inequality, and over-dependence of one party on the other. It should be noted that none of these resources can render a contract imbalanced on its own, but the conjunction of conditions and circumstances ought to be taken into account by juxtaposing the relevant factors at work.

According to Harding et al. (2003b), as a traded good or service becomes increasingly heterogeneous, markets become increasingly thin, and the “true” market value of the good or service becomes less well-known. Under these conditions, price is influenced both by the characteristics of the product or service in question and by the bargaining skills and power of the buyers and sellers (Harding et al., 2003b, as cited in Kuethe and Bigelow, 2018: 2–3).

In some cases, inequality of bargaining power is because a contracting party enjoys a dominant economic status. In other cases, inequality can originate not from the dominance of a party but from the weak and dominant status of the other party (Karami, 2016). Therefore, inequality of bargaining power can be categorized as either power-oriented or weakness-oriented.

Power-oriented inequality: In some cases, inequality of bargaining power is caused because of the superior economic power of one of the parties. The dominant economic status refers to the status in the market in which the power to determine the price, supply, and demand of goods and services and contract terms is vested in one or a few natural or legal persons. Economic enterprises are said to be in a dominant position when they enjoy the power and capability to behave independently, and such power puts them in a status in which they act without considering other rivals, buyers, and suppliers (Abdipour, 2009).

Weakness-oriented inequality: The inequality can sometimes originate not from the dominance of a party but from the profound weakness of the other party. For example, workers and employees are not able to make a living unless they are employed, so they have to give in to the conditions set by an employer who has set up a factory or a business not to meet the basic needs of life but to attain more and

more profit. According to the modern perspective, the employer-employee relationship is complementary, and the employee or worker is willing to provide a higher level of services if paid fairly. However, the weakness due to the necessity of having a job decreases the bargaining power of the employee in the employment contract.

4. Contractual Justice in the Islamic Perspective

The questions are what is the approach of Islam to the nature of justice in contracts? In addition, to what extent does the legislator give the sovereignty of human will validity and value? According to the Quran, the principle of justice is one of the main goals of legislation in Islam: “We verily sent our messengers with clear proofs, and revealed with them the Scripture and the Balance, that mankind may observe right measure” (Surah Al-Hadid, 25; translated by Pickthall). Justice, as a pivotal principle, is of utmost importance in Islamic jurisprudence (fiqh)-particularly in Imami jurisprudence-understood by Muslim scholars as a criterion for practicing Islamic jurisprudence (fiqh) and deriving jurisprudential deductions. Ayatollah Motahhari states that the principle of justice is one of the measures of Islam, and one must see what is compatible with it; justice is considered among causes, not effects, of Islamic rules (Qanawati, 2010).

Many Quranic verses refer to the necessity of observing equal value in the exchange of an equivalent and avoiding cheating at the measure and weight (e.g., Surah Al-Mutaffifin, 1–3; Al-Hujurat, 9; Ar-Rahman, 7–9; Al-Isra, 35; Hud, 85; Ash-Shu'ara, 181). In these Quranic verses, the Legislator has ordered justice in contracts in a way that He defines but not according to the will of the contracting parties. This means that the terms of any contract are not necessarily seen as just and fair merely based on the mutual content of contracting parties.

In Islam, justice is thus considered an ethical and axiological concept as well as one of the important goals of Sharia; therefore, some mechanisms can prevent the possible unconventional and unfair consequences in contractual relationships. In this respect, the maxims of *La Zarar* (no-harm) and *La Haraj* (no-hardship), prohibition of usury, the principle of equity, the sufficient level of subsistence (iieala), and the powers of the Islamic ruler enable the Islamic state to intervene in the extent of private contracts and prevent any form of oppression and injustice (Raei, 2014).

According to Martyr Sadr, the state should realize social justice through three principles: public Islamic insurance or social sufficiency (Takaful), the sufficient level of subsistence (iieala), and equity. In addition, many Islamic regulations that are concerned with financial contracts show the views of Islam about the development of contractual justice; they include the prohibition of *Gharar*

(deception), prohibition of *Zarar* (harm) and *Zerar* (reciprocated harm), prohibition of false acquisition or appropriation of wealth, prohibition of usury, prohibition of *Osr* and *Haraj* (hardship), prohibition of hoarding, etc.

5. Rent Control Laws and the Increase in the Bargaining Power of Tenants in the World

The global experience of housing sector development indicates that it is more than likely that the market will fail in its attempt to create a sustainable balance in the housing supply and demand. Even in free economies, there are thus sets of monitoring, control, and supportive laws concerning the housing sector. “Rent controls of one kind or another affect roughly 40 percent of the world’s urban dwellers” (Malpezzi, 2008). Although governments do not play a direct role in the private rental housing market, state intervention—whether at the local or national level—which is often aimed at supporting rental housing and adjusting the interests of the landlord and the tenant, has helped to organize the market mostly by adopting rent control laws.

As Malpezzi (2008) explains, controlled rents are adjusted for changes in other costs, such as inflation or cost pass-through, and the level of adjustment can vary according to the market conditions and classes of units. Moreover, some rent control laws insist that the rent remain fixed over time. In some US states, if owners demand that the tenant move without any reason or cause, owners will end up having to pay the recompense as relocation assistance (Farnam et al., 2019). According to Malpezzi, Other key provisions, which vary from place to place, include breadth of coverage, how initial rent levels are set, treatment of new construction, whether rents are reset for new tenants, and tenure security provisions. Rent control’s effects can vary markedly depending on these specifics, and on market conditions, as well as enforcement practices. (Malpezzi, 2008).

The benefits of rent control laws include the control of initial rent levels and the rate of annual rent increase, support for tenants in case of mandatory eviction, and stability of tenants. A study showed a decrease of 20% in the rate of moves in San Francisco because of rent control laws (Farnam et al., 2019). The second generation of rent control laws currently practiced in most countries is referred to as soft control, which is a response to the problems of the first generation. The laws belonging to the second generation specify some indexes, such as the inflation rate, and consumer price, instead of fixed rent rates to adjust the rent rate.

6. Literature Review

In an empirical study, Cho et al. (2019) examined the use of bargaining power and its impacts on supply chain financial performance. Their study intended to analyze “how benefits of resource dependence may be bargained away by supply chain

finance (SCF) costs incurred to upstream suppliers and downstream buyers through cash conversion cycles” (Cho et al., 2019: 1). According to their findings, a focal firm may be compensated for its resource contribution with an extra share of the financial gains by using the superior bargaining position over its supply chain partners. Nevertheless, the focal firm may proactively restrain its use of bargaining power when the need for a cooperative relationship with its supply chain partners prevails (Cho et al., 2019: 1).

Komura et al. (2019: 1) studied “optimal income taxation when couples have endogenous bargaining power”. The study investigated the optimal income taxation for a two-earner household, where the couple bargains over their private goods consumption and time allocation between work and leisure. In the model, bargaining power is determined endogenously by the income gap between the two earners (Komura et al., 2019: 1).

Unlike conventional studies, the research shows that the optimal tax rate on the household member with the higher productivity is lower than that of the individual with the lower productivity if the required tax revenue is relatively small and the influence of the gender income gap on the power balance of the couple is moderate (Komura et al., 2019: 1).

Verbrugge and Gallian, (2019) dealt with the theory of sticky rents and the role of bargaining and incomplete information. The rental housing market offers an intriguing example to study price stickiness. They state that not only the tenant’s rent is impressively sticky, even if the repayment is set and expected, but the rent stickiness considerably depends on the housing structure type. For example, the rent stickiness for single-unit homes is more than for multi-unit housing structures.

Kueth and Bigelow (2018) studied the bargaining power in farmland rental markets. Focusing on cash rental agreements as the dominant contract in farmland rental markets, they estimated “a hedonic price model with bargaining power for Midwest fixed cash rental agreements using data from the USDA’s 2014 Tenure, Ownership, and Transition of Agricultural Land (TOTAL) survey” (Kueth and Bigelow, 2018). The results showed that some factors beyond agricultural productivity, such as market competition, absenteeism, and managerial control, had a great impact on the fixed cash rental rates.

Examining the inequality of bargaining power as a basis to control the contract, Karami (2016) believes that the principle of contractual freedom and conventional regulations governing contractual rights no longer suffice to achieve contractual justice due to the gross inequality in bargaining power of parties and the resultant abuse of power by the dominant party. It is thus necessary to reform the instrument of contract so that it can serve the cause of justice again.

7. The Index of Bargaining Power of Tenants and Contractual Justice

Estimating and comparing the costs and benefits of rent control in four cities in developing countries and four cities in the US, Malpezzi (1993) introduced an index for rent control laws, which is composed of nine elements: enforcement, coverage, fair rents, indexation, cost pass-through, treatment of new construction, rents reset on new tenancy, tenure security, and 0.1 of average inflation rate over the last 20 years—which is rated to increase the bargaining power of tenants. In this rating system, countries that have no rent control laws aimed at increasing the bargaining power of tenants receive 0 point. In other words, if a country receives at least 1 point for the first two elements, it can receive the points for other elements, too. Otherwise, the country will receive a rating of 0. The overall index is the algebraic sum of the eight elements and 0.1 of the inflation rate over the last 20 years. The larger the overall index, the more support is believed to have been provided for tenants alongside the improvement of contractual justice.

In the present research, the Malpezzi index is used to measure contractual justice in Iran. In addition, a number of other elements—validated by the expert opinion concerning their compatibility with Islamic regulations—that are influential in increasing the bargaining power of tenants were extracted and subjected to the expert opinion in order to determine the degree of importance of each in increasing the bargaining power of tenants.

8. Islamic Rules and Related Elements Added in the Contractual Justice Index

Prohibition of hoarding: From the point of view of Islam, private property is respected, but if it becomes an example of the conflict between the rights of the individual and the society, according to the rule of indemnification, the property that causes harm to another is not respected and is not recognized (Mousavi Bojnordi, 2010). One of these cases is the situation where the hoarder increases the price of goods, although the hoarder is the owner of his property, but he abuses the situation of shortage of goods and increases the price while it is to the detriment of the buyer or the society. Imam Khomeini (may Allah be pleased with him) believes that if the hoarder sells excessively and the price set by the hoarder is unfair, The ruler forces him to lower the price, and if he does not accept, forces him to sell the goods at the market price. The government can levy taxes to force owners to supply the property on the market. Based on this, an element can be considered under the title of "Vacant Residential Real Estate Tax" which is included in the symbol C9 in the index.

Prohibition of Osr and Haraj (difficulty and hardship): Some jurists have suggested the nullity of the contract regarding the excess amount over the normal price (Ibn Abdin, 1991). Based on Islamic jurisprudence and numerous Islamic rules, the Islamic government is allowed to intervene in such contracts and adjust

unfair conditions. Some jurists, referring to the rule of negation of hardship and hardship, have considered such contracts invalid when they lead to hardship and hardship, regarding the excess amount of conventional benefits in the market. This opinion is considered a kind of contract adjustment (Mohammadi, 2018). The government can impose a tax to control the surplus of the conventional price. This case was introduced in the housing market as a "tax on capital gains" with the aim of removing speculative demand from the housing market and was introduced in the model with the symbol C10.

Also, in order to exercise the control power of the government in the housing market, the issue of a "progressive tax on residential properties with the aim of fair distribution of housing among citizens" was introduced and entered into the model with the symbol C11.

Prohibition of Zarar (harm) and Zerar (reciprocated harm): Zarar and Zerar means suffering and harming. One of the general rules of most chapters of jurisprudence - especially the chapter on transactions - is the rule of negation of harm. Islamic Sharia approves only that group of transactions and exchanges that the principle of the transaction or the conditions of the transaction do not cause harm. Otherwise, it either invalidates the transaction or imposes restrictions on the transaction to comply with conditions. In addition, where the damage is caused by the existence of some conditions, it cancels those conditions (Musavian, 2011). One of the conditions that the government can consider for this issue is the participation of the owner in the costs of moving the tenant which was entered in the model under the title "Landlords' share in tenants' moving costs as relocation assistance (in case of eviction without a legally justified reason)" and with the symbol C12.

The rule of supervisory and the principle of social balance: The theory of Islamic justice is the main element of the social school of Islam. Creating social justice requires the direct and maximum intervention of the Islamic State. When the oppression of social relations in the matter of distribution is eliminated, the basic problem of social life will be solved. In line with the circulation of wealth in the Islamic distribution system, according to the principle of social security, "Public Takaful" and the interventions of the Islamic government have been accepted (Sadr, 2014, B). If society is caught in some kind of social imbalance by not doing these duties, the Islamic government should decide according to its competencies, to restore the social balance. This means that the general balance in Islamic society is dependent on a set of Islamic laws in various fields, which the government must implement. Based on this, the issue of "provision of social rental housing under government supervision" was introduced and entered into the model with the symbol C13.

Items C9 to C13 were extracted from theoretical studies based on the following jurisprudential rules and then compiled in consultation with jurisprudential and economic experts. Then it was applied in the main Malpezzi model and then a survey was conducted from experts and managers in the field of housing for scoring based on the method of paired comparisons.

The method of analytic hierarchy process (AHP) was used for weighting, so the weighted average was used instead of the algebraic sum of the points given to every law. Then, the Malpezzi index was estimated and compared in Iran under three circumstances: before COVID-19, after COVID-19, and in the situation validated by the experts. To make an easier estimation of ratings of each law, the researchers used 0, 0.5, and 1 instead of 0, 1, and 2 as considered by the main model.

The laws specified in the Malpezzi model as well as the laws identified in the application of Islamic regulations in the rental market were combined to extract the rent control laws, which are defined in Table 1.

Table 1. Laws Affecting the Bargaining Power of Tenants

Symbol	Law
C1	Rents reset on new tenancy: Maximum rate of rent increase during the contract renewal.
C2	Term of the contract: Minimum of 2-year term of contract
C3	Fair rents: Fair rents are determined by the government according to the quality and area of residential buildings
C4	Indexation: Application of rent control laws, such as laws controlling the rate of rent increase, in new and old contracts
C5	Treatment of new construction: Enforcement of rent control laws for old and newly-built buildings
C6	Coverage: Country-wide coverage of rent control laws
C7	Enforcement: Strict monitoring of enforcement of rent control laws
C8	Tenure security: Laws supporting tenants in case of mandatory eviction
C9	Vacant Residential Real Estate Tax
C10	Capital gains tax aimed at removing the speculative demand from the housing market
C11	A progressive tax on residential buildings aimed at just distribution of housing among citizens
C12	Landlords share in tenants' moving costs as relocation assistance (in case of eviction without a legally justified reason)
C13	Provision of social rental housing under government supervision

Source: Research finding.

The elements C1–C8 were extracted from the Malpezzi model, and C9–C13 were added after the application of Islamic regulations. The Malpezzi model and the Islamic regulations overlap concerning C1, C2, C7, and C8. The laws were examined through the AHP method in pairwise comparisons to determine the weight of different elements in the Malpezzi model. The revised Malpezzi model,

which comprises 14 elements as shown in Table 2 (instead of nine elements in the original model), examines the degree of support for tenants in the rental housing market.

Table 2. Elements in the Index of Bargaining Power of Tenants and the Rating System in the Revised Model

Element	0	0.5	1
1. Enforcement and monitoring of rent control laws	Not enforced or rarely enforced	Partially or selectively enforced	Rigorously enforced with strict monitoring
2. Country-wide coverage	Limited to a small part of the market	Covered a significant part of the market	Covered more than half the market
3. Fair rents	Not set rent levels for units	Set for some units or no information	Set precisely and stringently
4. Indexation	Rate of rent increase set to market	Partially indexed or no information	The rate of rent increase frozen or rarely revalued
5. Average term of the contract	A year or less	Two years	Three years or more
6. Treatment of new construction	Exempt from rent control laws	Temporarily exempt from rent control laws or no information	No exemption
7. Rents reset on new tenancy	Reset to market on new tenancy	Revalued but below market or no information	No change
8. Tenure security (in case of mandatory eviction)	Covered by private agreements (leases) and normal grounds for eviction	More stringent security of tenure or no information	Strict tenure security
9. Vacant residential property tax	Not passed or not enforced	Passed but not enforced precisely and fully	Enforced precisely with effective rates
10. Capital gains tax	Not passed or not enforced	Passed but not enforced precisely and fully	Enforced precisely with effective rates
11. Progressive tax on residential buildings	Not passed or not enforced	Passed but not enforced precisely and fully	Enforced precisely with effective rates
12. Landlords' share in tenants' moving costs	Not passed or not enforced	Not enforced with adequate monitoring and precision	Enforced precisely with effective rates
13. Social rental housing	Not provided under government supervision	Provided for a small part of the rental market with limited access	Provided for a significant part of the rental market

Source: Research finding.

The last part of the bargaining power index (i.e., the ninth element) is the average inflation rate over the last 20 years divided by 10 and added to the sum of the index. The overall inflation is accepted in many countries as a supporting element alongside the other eight elements to control the rate of rent increase. The real rent in a country with massive inflation that has adopted the policy to control the rate of rent increase is lower than the country that enjoys economic stability and an inflation rate near zero and has maintained the rate of rent increase at a fixed amount. Therefore, if the law on the maximum rate of rent increase is passed, the consideration of the market inflation, which is higher than the rate of rent increase, can function as a kind of support for tenants.

In the original model, if the support is provided fully and each of the eight elements receives 2, the overall index is calculated as 16. Weighting through the AHP method shows the figure of 1 as the maximum points earned in the eight elements. Therefore, 1/16 was used to add 0.1 of the inflation rate over the last 20 years to the overall index.

Enforcement is important for the laws (e.g., tax laws) to receive points since a law passed but not enforced has no impact on the bargaining power of tenants, hence no point.

9. Weighting Rent Control Laws by the AHP Method

The method of analytic hierarchy process (AHP) is useful in estimating the weight and degree of influence of each factor. In this research, estimating the Malpezzi index in the revised model requires that each rent control law in the model be weighted. Thus, the laws specified in the Malpezzi model and the laws resulting from the application of Islamic regulations were examined. Having collected the questionnaire data in pairwise comparisons, the study used Expert Choice software to analyze the laws through the AHP method.

10. Pairwise Comparisons

To compare the factors under question, the AHP method relies on pairwise questions and compares the relative importance of each comparison to the other on a 9-point scale (9=absolutely more important). The pairwise comparison initially begins by assigning ranks equivalent to the pairwise importance. Then, the corresponding figure is presented in the comparison table. Considering the 13 laws in the study, 78 pairwise questions were developed and distributed among the experts following a judgmental sampling. The experts were chosen from holders of PhD in economics who were mostly faculty members at top universities. Out of the 30 questionnaires administered online, 22 completely-responded questionnaires were used as the statistical sample. This study used the average to combine the judgment indexes concerning each pairwise comparison. Table 5 (see

Appendix) presents the average, standard deviation, and coefficient of variation derived from the responses to the questionnaires. The nearer the average is to 9, the more important is the first law in comparison to the second one.

Based on the value of the mode of expert opinions collected from the questionnaires, the matrix of pairwise comparisons was measured, analyzed, and presented on a fuzzy scale as shown in Table 3. The diameter of the matrix is always equal to one unit since each law has equal importance in comparison to itself.

Table 3. Pairwise Comparison Matrix

	C1	C2	C3	C4	C5	C6	C7	C8	C9	C10	C11	C12	C13
C1		4	3	2	3	2	1	2	2	3	3	2	1
C2			3	2	2	2	0.5	2	2	2	2	2	1
C3				1	1	2	1	1	1	1	1	1	0.5
C4					1	2	1	2	1	1	1	1	0.5
C5						2	0.5	1	1	1	1	1	1
C6							1	1	1	1	1	1	0.5
C7								3	3	2	3	3	2
C8									2	2	2	2	1
C9										3	3	2	1
C10											2	1	1
C11												1	1
C12													2
C13													

Source: Research finding.

The figures in the table show the degree of importance and influence of each element in increasing the bargaining power of tenants. For example, C1 is four times more important than C2.

11. Weight and Ranking

The weight of the first-level evaluation is to measure the importance of each criterion about other criteria to identify the one with the most weight and importance. Table 4 presents the weight and ranking of the rent control laws. As seen in the table, the law of maximum rate of rent increase (C1) with the weight of 0.148 ranks first followed by the strict monitoring of enforcement of rent control laws, minimum of 2-year term of contract, provision of social rental housing under the government supervision, and vacant residential property tax.

Table 4. Ranking and Importance of the Rent Control Laws

Rank	Symbol	Law	Weight
1	C1	Maximum rate of rent increase during the contract renewal	0.148
2	C7	Strict monitoring of enforcement of rent control laws	0.128
3	C2	Minimum of 2-year term of contract	0.102
4	C13	Provision of social rental housing under government supervision	0.078
5	C9	Vacant residential property tax	0.072
6	C8	Tenure security: Laws supporting tenants in case of mandatory eviction	0.071
7	C4	Indexation: Application of rent control laws, such as laws controlling the rate of rent increase, in new and old contracts	0.069
8	C3	Fair rents: Fair rents are determined by the government according to the quality and area of residential buildings	0.061
9	C5	Treatment of new construction: Enforcement of rent control laws for old and newly-built buildings	0.060
10	C12	Landlords share in tenants' moving costs as relocation assistance (in case of eviction without a legally justified reason)	0.057
11	C10	Capital gains tax aimed at removing the speculative demand from the housing market	0.054
12	C6	Coverage: Country-wide coverage of rent control laws	0.053
13	C11	A progressive tax on residential buildings aimed at just distribution of housing among citizens	0.047

Source: Research finding.

12. Contractual Justice Index in Iran

According to the Landlord–Tenant Relations Law approved in 1997, there were not any rent control laws supporting tenants before the COVID–19 pandemic in Iran. There was neither an approved rate of initial rent nor a rate of rent increase, thus benefiting the bargaining power of property owners. In normal circumstances, the lease agreement is often set for a one-year term. According to Article (3) of the Law, when the contract term expires, the rented property shall be evicted by the order and action of the legal authority a week after the submission of the landlord's eviction request, and the landlord shall not need any admissible evidence or reason to evict the tenant.

Since the COVID–19 pandemic, Iran's National Headquarters for the Management of COVID–19 has introduced some temporary laws to support families in renting residential property. According to this law, the maximum rate of rent/mortgage increase is 25%, 20%, and 15% in Tehran, other big cities, and other urban areas, respectively. Given the persistence of COVID–19, the lease agreements of residential property to expire by the end of 2020 shall be automatically renewed for another year if the parties do not reach an agreement and by the will of the tenants. The laws shall be upheld temporarily and until three

months after the announcement of Iran's National Headquarters for the Management of COVID-19 concerning the end of the disease.

Moreover, it is within the powers and tasks of the Islamic state to pass laws to manage lease agreements and reform the instrument of contract—according to the regulations and principles such as *La Zarar* (no-harm), *La Haraj* (no-hardship), prohibition of usury and *Gharar* (deception), equilibrium, and the sufficient level of subsistence (*ieala*)—to establish justice in the housing sector as an influential and important sector in the economy.

Table 5 shows the results obtained from the estimates in the periods before and after the application of supportive laws during the COVID-19 outbreak. Before COVID-19 in Iran, the obtained point is 0 since the overall index will be 0 if a country does not receive any point concerning the first two laws (see above).

During the COVID-19 pandemic, Iran received 0.407 points in the Malpezzi model given the temporary laws and the corresponding weights extracted from the AHP analysis. However, the figure, which shows the degree of support for tenants, is still the smallest among the selected countries before COVID-19, in which the Malpezzi index was 0.751. In other words, the degree of support for tenants in Iran during COVID-19 is smaller than the degree of support for tenants in the selected countries before COVID-19.

The application of Islamic regulations and principles consists of enforcement and strict monitoring of rent control laws concerning the rate of rent increase, the term of contract, tenure security, landlords' share in moving costs, provision of social rental housing, and effective taxes (i.e., vacant residential property tax, capital gains tax, and progressive tax on residential buildings). Because of the application of Islamic regulations, the Malpezzi index reaches 0.981 in Iran, which can rank the country among the top countries in the management of the rental housing market.

Table 5. Results of Revised Contractual Justice Index in Iran

Iran	Before COVID-19	During COVID-19	Application of Islamic regulations
1. Enforcement and monitoring of rent control laws	0	0	1
2. Country-wide coverage	0	1	1
3. Fair rents	-	0	0
4. Indexation	-	1	1
5. Average term of the contract	-	0	1
6. Treatment of new construction	-	1	1
7. Rents reset on new tenancy	-	0	0
8. Tenure security	-	0.5	1
9. Vacant residential property tax	-	0	1
10. Capital gains tax	-	0	1
11. Progressive tax on residential buildings	-	0	1
12. Landlords' share in tenants' moving costs	-	0	1
13. Social rental housing	-	0	1
14. Average inflation rate over the last 20 years	-	17.68	17.68
Overall Index	0	0.407	0.981

Source: Research finding.

13. Conclusion

This study not only dealt with contractual justice and the scope of government intervention in private contracts but also used the Malpezzi model to estimate the index of rent control laws, as a measure of the bargaining power of tenants, in the selected countries and determined the rank of Iran concerning the degree of support for tenants. The figure of the index was defined within the range of 0 to 1—the nearer it is to 1, the more support for tenants in the lease agreement. The average index was estimated at 0.751 for 24 countries in 2019, with the largest figure for Sweden (0.965) and the smallest for Australia (0.428). European countries use supportive laws more extensively than the rest of the world, with Sweden, the Netherlands, and France providing the most support for tenants, among the countries analyzed.

Concerning Iran, the results showed the figure of 0 for the Malpezzi model before COVID-19 because, as stated above, not receiving points for the enforcement and coverage would be tantamount to an index of 0. However, the adoption of temporary laws during COVID-19 led the index to reach 0.407, which proves the second hypothesis of the study regarding the effect of enactments of

Iran's National Headquarter of COVID-19 on the temporary increase in the bargaining power of tenants. Yet the comparison of the index with the pre-COVID-19-19 figure estimated for the selected countries showed a weak degree of support for tenants in Iran.

The Malpezzi contractual justice index would be 0.981 in Iran as a result of the application of Islamic regulations, which consists of enforcement and strict monitoring of rent control laws concerning the rate of rent increase, the term of the contract, tenure security, landlords' share in moving costs, provision of social rental housing, and effective taxes (i.e., vacant residential property tax, capital gains tax, and progressive tax on residential buildings). This indicates that the application of Islamic regulations in the rental housing market can increase the bargaining power of tenants.

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