Federal Reserve Bank of San Francisco

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Business & Financial Letter

Landlords and Tenants

Everyone is concerned about the high price of food these days, but over one-third of all households are also worried about paying the rent. (The other two-thirds—owners rather than renters—have other types of payments to worry about.) Rental payments recently have been rising faster than most other budget items except food, so pressures have been arising in Congress to freeze rents or even roll them back to earlier levels.

During the first two months of Phase III, the rental component of the consumer price index rose at a 5.4-percent annual rate—almost twice as fast as the rise for nonfood commodities and nonrental services, but of course considerably slower than the 24.6 percent rate of increase for food. This rise in rents far exceeded the 3.3-percent rate of increase for the Phase I-Phase II period, and it was also higher than the 4.3-percent rate recorded during the pre-freeze period of 1971.

Altogether, average rents have risen roughly 25 percent over the past decade, in line with the rise in prices of nonfood commodities, but significantly below the rise in prices of food and nonrental services. Nonetheless, with the acceleration in rents in the last several years—and especially in the last several months—the perennial struggle between landlords and tenants has become intensified. This means that rent is now increasingly a political issue.

One-third of a nation

The interested parties include 23.2 million renters that accounted for 35 percent of all households in the 1970 Census of Housing. (The tenants' share of the market declined over the previous two decades, down from 45 percent in 1950 and 38 percent in 1960.) In 1970, some 14.7 million renters lived in apartments and flats, but a sizable number occupied single-family housing.

In the quarter-century following World War II, rent-control laws were stricken from the books almost everywhere except in New York City, with its very vocal population of 1.3 million tenants in rent-controlled housing. Even there, the state legislature voted in the spring of 1971 to remove controls. But then a new chapter opened in August 1971—first the 90-day freeze, followed by the promulgation of Phase II standards.

Price Commission rules provided that a landlord could: 1) increase his rental charge by 2.5 percent annually above the base rental after 30 days' notice to his tenant; 2) also increase his rental charge by the dollar-and-cents amount of increase of state-local government taxes, fees and service charges allocable to the individual unit; 3) increase monthly rents by 1.5 percent of the total cost of major capital improvements made after August 15; and 4) in the case of

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leases which had not been renewed within 90 days prior to August 15, establish a new base rent 5 percent higher than that in effect on May 25, 1970.

Decontrol and recontrol?
The scope of these Phase II regulations was limited soon thereafter by amendments which effectively decontrolled about 45 percent of all rental units. The Cost of Living Council exempted all apartments or houses whose landlord owned four or fewer units, as well as all luxury apartments renting for $500 or more a month.

With the unveiling of the Phase III program this January 10, the Administration lifted controls from those units not already exempt, although it noted that "landlords are expected to exercise restraint." Some landlords apparently failed to get the message, and reports soon circulated of whopping increases in rents throughout the country. As a result, rent-control legislation soon appeared in the Congressional hopper.

The Senate acted first, passing a measure which would impose controls in areas where rental vacancy rates fell below 5.5 percent, the 1972 national average. The Senate measure also would permit landlords an automatic 2.5-percent increase and would permit passthroughs for higher taxes and costs. On the other hand, the House Banking Committee voted last week to roll back all rents to the January 10 level, and to permit only those increases needed to reflect higher taxes, operating costs and necessary capital improvements.

When lifting controls last January, the Administration argued that the recently expanded supply of rental units would act as a depressant on rent increases. Vacancy rates had been higher in the past, reaching 7.4 percent or more in every year of the 1960-65 period, but at 5.5 percent last year, the rate was considerably above the 1969 low of 5.0 percent. As another sign of easing, the percentage of new units rented within three months of completion dropped from 84 percent in the spring of 1969 to 69 percent in the fall of 1972. Thus, the median monthly rent for new units, which had jumped from $165 to $187 between early 1969 and early 1970, moved thereafter within a fairly narrow range and averaged $191 during the first three quarters of 1972.

Building boom
The easing of the rental market has reflected the sharp upsurge in the construction of apartments and flats over the past decade or so. (Some units are owner-occupied, as a consequence of the condominium boom, but most are rental units.) Over one million multiple units were built last year—four

times the 1960 level—and the rapid 1972 pace was maintained in early 1973. A growing share of all new construction has been devoted to the building of multiples rather than single-family housing; the percentage was 21 percent in 1960 and 35 percent in 1967, but it has ranged between 43 and 45 percent from 1969 to date.

Most housing experts are on record with a forecast of a substantial decline in apartment building this year, because of the obvious easing of the market in a number of major areas, especially in the South and West. For example, the National Association of Home Builders expects a 12-percent decline in the multi-family sector as against a 7-percent drop in single-family housing. A decline of that magnitude reflects the delayed market impact of multi-family construction, resulting from the long lead time required between planning and completion. Starts apparently accelerated before the rental markets at the end of the line could flash back a slowdown signal. Completions until recently have been running below starts; in late 1972, units under construction were perhaps 30 percent higher than a year earlier, but those units are now reaching market and thereby relieving some of the pressure on rentals.

Long-run boom

Yet, over the longer run, heavy demand for multi-family units can be expected, particularly because of the sharp expansion in the number of young adults in the 25-34 year age-bracket. This group should increase about 46 percent in this decade—at least three times as fast as any other group in the nation's population. The demand for multiples also is likely to be stimulated by the increased preference for smaller family size, the improved amenities associated with development living, and other factors such as the rapidly rising price of land.

The favorable long-term prospects for the rental-housing market do not automatically guarantee a strong future for landlords, even if they should escape controls. Some substantial fortunes have been made in real estate over the past decade or so, yet landlords' rental income increased only about 55 percent, from $7 billion to $11 billion, between 1960 and 1972. (Of course, landlords have also taken advantage of substantial tax-shelter benefits.)
During the same period, dividend income doubled, from $13 billion to $26 billion, while interest income tripled, from $23 billion to $73 billion. It would appear that some landlords have left the field to their tenants and have shifted their investments to stocks and bonds instead.

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BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT

(Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 3/28/73	Change from 3/21/73	Change from year ago Dollar	Change from year ago Percent
Loans adjusted and investments*	71,075	—107	+8,963	+14.43
Loans adjusted—total*	53,536	—190	+9,645	+21.97
Commercial and industrial	19,398	+ 38	+3,336	+20.77
Real estate	15,555	+ 41	+2,553	+19.64
Consumer instalment	8,042	+ 44	+1,459	+22.16
U.S. Treasury securities	6,242	+ 71	— 366	— 5.54
Other securities	11,297	+ 12	— 316	— 2.72
Deposits (less cash items)—total*	69,147	+711	+8,391	+13.81
Demand deposits adjusted	20,791	+500	+1,312	+ 6.74
U.S. Government deposits	1,350	+ 91	+ 402	+42.41
Time deposits—total*	46,001	+211	+6,609	+16.78
Savings	18,155	+ 76	— 134	— 0.73
Other time I.P.C.	18,945	+129	+4,399	+30.24
State and political subdivisions	6,304	+ 29	+1,507	+31.42
(Large negotiable CD's)	8,417	+105	+3,543	+72.69

Weekly Averages of Daily Figures	Week ended 3/28/73	Week ended 3/21/73	Comparable year-ago period
Member Bank Reserve Position			
Excess reserves	1	31	58
Borrowings	109	235	2
Net free (+) / Net borrowed (—)	—108	—204	+ 56
Federal Funds—Seven Large Banks			
Interbank Federal funds transactions			
Net purchases (+) / Net sales (—)	— 91	+176	—259
Transactions: U.S. securities dealers			
Net loans (+) / Net borrowings (—)	+ 24	+283	+ 98

*Includes items not shown separately.

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