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CHAPTER 5

The Market for Residential Leaseholds

THE market for residential leaseholds is a large one, and of considerable importance to the economy. As indicated in Chapter 3, the number of rented nonfarm homes has exceeded the number of owner-occupied homes at each census date since 1890; in 1940 there were over sixteen million rented homes with an aggregate annual rental estimated as approximately $4.7 billion.[1] Differences and similarities may be observed between the market in which leasehold estates are bought and sold and the market for homes in fee, and these differences are largely accounted for by the attributes of the rights represented by a leasehold estate. Accordingly, before examining the characteristics of the market for leaseholds and its behavior under different economic conditions, it will be useful to examine the attributes of leasehold estates.

Characteristics of the Residential Leasehold Estate

The outstanding characteristics of the residential leasehold estate are its short term, usually one year or less, the fact that the purchaser of the residential leasehold estate is ordinarily the direct user of the services which use and occupancy provide, and the fact that these services can be consumed only at the specified location. The short term of the leasehold and the fact that rental payments are made at intervals during the period of the lease agreement mean that in this market there is not likely to be a financing problem. From the financial viewpoint, the chief importance of the leasehold estate is its effect on the financing of other types of transactions, mainly the sales of homes in fee. The nature of the service conveyed means that the market, like the market for homes in fee, consists of numerous localized markets which, while they may overlap, are never identical.

[1] Bureau of the Census, 16th Census: 1940, *Housing*, Vol. 2, Part 1, Table 14, p. 45. The estimated aggregate rental includes estimated rent for units not reporting rent.

Characteristics of the Market for Residential Leasehold Estates

Since most residential leases, though written, are not recorded, the amount of information available about this market is greatly restricted. There are neither comprehensive data on the number of leasehold estates bought and sold nor on the prices and other terms characteristic of completed transactions. Furthermore, in most communities there are no counts of vacancies, except at census dates; no centralized facilities for listing vacancies or offers to lease, except during war emergencies; and no compilations of rents offered, asked, and agreed upon. The individual tenant or landlord, lacking comprehensive and reliable information, falls back on newspaper advertising, brokers' listings, and personal contacts.

The imperfection of the market is heightened by the fact that the services conveyed by different leaseholds cannot be directly and accurately compared. As in the case of the purchaser of single-family homes in fee, the prospective purchaser or seller must make rough comparisons of dissimilar, and not always discernible, things. A renter can only estimate the inconvenience of living another quarter of a mile from public transportation or from a school; he has to rely largely upon rumor or casual inquiry in judging the landlord's consideration for the tenant; he can never *know* very much about the kind of neighbors his landlord may select for him.

Likewise, the landlord cannot accurately compare his offering with his competitor's, and he can only guess at the significance prospective renters will ascribe to his competitive advantages or disadvantages. As a result of these market imperfections, the process by which rents are arrived at is based upon general impressions rather than on specific and detailed information.

The short lease term tends to make actual, if not nominal, residential rents more sensitive to changing market conditions than the prices of single-family homes in fee, but compared with some other prices they are very insensitive.[2] Inasmuch as rent is determined in

[2] An established rental tends, in practice, to be extended, and present tenants are less likely to be affected by changes in rental schedules than are new tenants; landlords, especially those living in two- to four-family structures which they own in fee, ordinarily have an intimate acquaintance with their tenants and frequently continue existing leases with little reference to changed conditions in the market; or they may be influenced by personal considerations as much as by market conditions. Differences in the behavior of nominal and actual rents will be discussed later in this chapter.

advance for the term of the lease, however, pricing is not continuous, and the rental, nominal or actual, for the leasehold in question does not respond to changes in market conditions that occur during its term.

This relative insensitivity is strengthened by the practice, prevalent in most urban communities, of having the major portion of residential leases expire on the first day of September or October, or on the first day of April or May.[3] During the last thirty or sixty days of their term, leases commonly permit the landlord to show the premises to prospective tenants, with the result that the pricing and marketing of residential leaseholds tends to be concentrated in the few weeks preceding "moving day"; significant changes are not likely to be made except during this period. Modifications in rents actually paid are more likely to appear during these intervals in the form of concessions than in adjustments of nominal rental schedules.

Another characteristic of the rental market is the dominance in it of structures containing only one, two, three, or four dwelling units. The major portion of these homes not occupied by the owner in 1940—7,544,193—was in single-family structures; the next largest number, 3,682,788, in two-family structures (Table 32). In structures containing dwelling units for four families or less, there were 13,850,294 units not owner-occupied, while there were only 3,826,731 in structures containing five or more dwelling units; that is to say, nearly 80 percent of all rented dwelling units were in structures housing four families or less.

Thus, there were almost as many dwelling units not occupied by the owner in two-family structures as in large apartment structures containing five or more dwelling units. And there were almost twice as many single-family houses rented or vacant as there were dwelling units rented or available for rent in structures for five or more families.

Complete information on the distribution of rental dwelling units by type of structure is available only for 1940, but these data provide a basis for estimating the proportion in other years of rental dwelling units in structures containing four dwelling units or less. In 1940 there were undoubtedly more single-family houses rented or

[3] While there are actually two moving days, one in the spring and one in the autumn, in most communities one or the other is the more important.

TABLE 32 — NUMBER OF URBAN AND RURAL-NONFARM DWELLING UNITS OWNER-OCCUPIED, TENANT-OCCUPIED, AND VACANT OR FOR SALE OR RENT, BY TYPE OF STRUCTURE, 1940 [a]

Type of Structure	*Owner-Occupied*	*Tenant-Occupied*	*Vacant, For Sale or Rent*	*Total*
Single-Family	*9,506,758*	*6,763,881*	*780,312*	*17,050,951*
Urban	6,116,999	4,145,797	330,105	10,592,901
Rural-nonfarm	3,389,759	2,618,084	450,207	6,458,050
2-Family	*1,236,310*	*3,529,585*	*153,203*	*4,919,098*
Urban	1,068,606	3,021,128	127,710	4,217,444
Rural-nonfarm	167,704	508,457	25,493	701,654
3-Family	*217,394*	*1,094,809*	*56,884*	*1,369,087*
Urban	201,579	1,015,683	51,216	1,268,478
Rural-nonfarm	15,815	79,126	5,668	100,609
4-Family [b]	*317,473*	*1,374,010*	*97,610*	*1,789,093*
Urban	228,885	1,219,277	84,043	1,532,205
Rural-nonfarm	88,588	154,733	13,567	256,888
5-Family or More	*75,302*	*3,485,767*	*340,964*	*3,902,033*
Urban	72,271	3,429,473	325,223	3,826,967
Rural-nonfarm	3,031	56,294	15,741	75,066
All Types	*11,353,237*	*16,248,052*	*1,428,973*	*29,030,262*
Urban	7,688,340	12,831,358	918,297	21,437,995
Rural-nonfarm	3,664,897	3,416,694	510,676	7,592,267

[a] Bureau of the Census, 16th Census: 1940, *Housing*, Vol. 2, Part 1, Table 4, p. 10.
[b] Includes one- to four-family dwellings with business use.

available for rent than at any other period, excluding perhaps the trough of a severe depression. Consequently, the proportion in 1940 of rental dwelling units in structures housing four families or less may be somewhat higher than the average over the cycle.

Assuming that the distribution of dwelling units by size of structure in 1940 is roughly representative of the distribution for other years and, though these assumptions are extreme, that all single-family houses are owner-occupied, that one dwelling unit in each two-, three-, and four-family structure is occupied by the owner, and that all dwelling units in structures containing five or more units are rented or available for rent,[4] then more than 4,600,000 dwelling units, or more than 50 percent of all those for rent or available for rent, would be in structures housing four families or less.

Finally, notwithstanding the large number of cases in which a

[4] In the census classification "one- to four-family dwelling units with business," it is assumed that the average structure contains three dwelling units, of which two are rental.

lease of one dwelling unit in the two-, three-, or four-family structure is almost automatically renewed from year to year, the rental market is greatly affected by the mobility of tenants. Surveys made by the Works Progress Administration (the predecessor of the Works Projects Administration) in the middle thirties, covering 190 places and over three million tenant families, indicated that 39.6 percent of the families studied had occupied their then present dwelling for less than one year, 57 percent for less than two years, and 82 percent for less than five years.[5] According to the 1940 Census of Housing, less than 24 percent of the tenant families enumerated in that year lived in the same house as in 1935.[6] Finally, reports from the sample Census of 1947 indicate that 58 percent of all persons living in the Akron area in 1947 had moved during the seven years since 1940, as well as 71, 56, and 44 percent of those living in the Denver, Minneapolis, and Boston areas, respectively (Table 33).

In summary, the residential leasehold is sold in a localized and restricted market; its term is usually short, and the price is fixed in advance; rents are relatively insensitive to changing market conditions, a sluggishness accentuated by the practice of concentrating lease renewals in a short period of the year, and by the predominant position in the market of the landlord of the small structure who, in many cases, has personal relationships with tenants. The relatively high mobility of tenant families, on the other hand, makes for greater sensitivity of rents, and a rather sudden appearance or disappearance of vacancies.

Behavior of the Residential Rental Market

The characteristics of the market for residential leasehold estates make it subject to wide fluctuations, like the market for single-family homes in fee. While it is seldom uniform in its behavior, there are certain changes in general economic conditions to which the market reacts in a manner that permits a generalized description of its behavior. This description is given below in terms of the reactions of the market to rising incomes, the characteristics of a "seller's" market

[5] Peyton Stapp, *Urban Housing*, Works Progress Administration (1938) p. 21. See also Citizens' Housing Council of New York, *Why Do Tenants Move?* (October 1940). This study of the moving habits of 1,219 tenant families in Manhattan and Brooklyn, 1933-38, revealed an average occupancy of approximately three years.

[6] Bureau of the Census, 16th Census: 1940, *Population and Housing: Families, Tenure and Rent*, Table 18, p. 126.

TABLE 33 — PERCENTAGE OF POPULATION OCCUPYING THE SAME DWELLING IN 1947 AS IN 1940 AND PERCENTAGE THAT HAD MOVED FOR THIRTY-FOUR METROPOLITAN AREAS [a]

Metropolitan Area	*Percentage of Population*		
	In the Same Dwelling Unit	Moved to Another Dwelling Unit	Moved from One County to Another
Akron, Ohio	42%	58%	19%
Allentown, Pa. [b]	53	47	11
Atlanta, Ga.	40	60	24
Baltimore, Md.	48	52	19
Birmingham, Ala.	42	58	18
Boston, Mass.	56	44	12
Chicago, Ill.	45	55	10
Columbus, Ohio	40	60	20
Dallas, Tex.	26	74	31
Denver, Colo.	29	71	37
Detroit, Mich.	42	58	17
Los Angeles, Cal.	29	71	31
Lowell, Mass. [c]	54	46	8
Memphis, Tenn.	33	67	25
Minneapolis, Minn. [d]	44	56	19
New Haven, Conn.	56	44	10
New Orleans, La.	44	56	17
New York, N. Y. [e]	47	53	15
Norfolk, Va. [f]	35	65	36
Philadelphia, Pa.	49	51	14
Pittsburgh, Pa.	51	49	8
Portland, Oreg.	30	70	37
Rochester, N. Y.	46	54	12
Salt Lake City, Utah	42	58	21
San Antonio, Tex.	33	67	26
San Francisco, Cal. [g]	33	67	38
Scranton, Pa. [h]	57	43	6
Seattle, Wash.	30	70	32
St. Louis, Mo.	42	58	16
Toledo, Ohio	45	55	15
Tulsa, Okla.	29	71	31
Washington, D. C.	38	62	35
Worcester, Mass.	57	43	7
Youngstown, Ohio	50	50	12

[a] Bureau of the Census, *Current Population Reports, Population Characteristics,* Series P-21, No. 35 (August 1947) Table 3, p. 8.
[b] Includes Bethlehem and Easton, Pa.
[c] Includes Lawrence and Haverhill, Mass.
[d] Includes St. Paul, Minn.
[e] Includes Northeastern New Jersey.
[f] Includes Portsmouth and Newport News, Va.
[g] Includes Oakland, Cal.
[h] Includes Wilkes-Barre, Pa.

for residential leasehold estates, the main features of the phase of transition to a "buyer's" market, and the salient characteristics of the latter. The unavailability of reliable data on market changes makes it impossible to give an adequate statistical demonstration of how the market responds to changing conditions of demand and supply. The following is necessarily based on fragmentary data and on general observation of market conditions.

REACTION TO RISING INCOMES

A rising standard of living, generally coincident with higher incomes, is reflected in the housing market by the occupancy of more space, by the enjoyment of better housing accommodations, and by the movement of some families to more attractive neighborhoods. These conditions, supplemented by a rapid rate of increase in the formation of new families, quickly expands the aggregate demand for housing. Some of this demand finds expression in the acquisition of a home in fee by those who have been renting; a large portion expresses itself in the rental of larger or better dwelling units, or in the rental of separate units by new families. To the extent that the increase in housing demand is not accompanied by an increase in the number of dwelling units, vacancies are reduced, and vacancy lists are transformed into waiting lists as landlords receive an increasing number of inquiries for space.

During this period, many single-family homes move from a rented to an owner-occupied status, some being purchased by former tenants and others by newly-formed or established families. Many owners withdraw their houses from the rental market by refusing to renew leases, or they insert a cancellation clause in the renewal contract which enables them to give prompt possession to a purchaser. In most communities, and especially in smaller cities, only a small proportion of all dwellings are in structures with more than one dwelling unit, and there is seldom a sufficient number of single-family dwellings for rent to give prospective tenants a wide choice in location and quality. Consequently, only a few withdrawals of dwellings from the rental market may bring about a situation in which the tenure of rented single-family houses is uncertain. Home ownership increases under these conditions as tenants must purchase a home in fee in order to protect their tenure or to secure suitable dwellings.

Many families dispossessed from single-family homes probably choose a dwelling in two-, three-, or four-family structures that provides the most nearly similar accommodations, and the vacancies in these structures are more rapidly filled than those in the larger buildings.

In the early stages of expansion of the rental market, increases in rents are modest and hesitant. The owner of a small structure wants to secure one or two tenants rather than to ask, and fail to receive, a higher rental. Landlords and managing agents dealing with a larger number of units are gratified with the higher gross revenue that comes with declining vacancies, and for a time do not want to run the risk of asking for substantial rent increases and failing to get them.[7] As waiting lists grow, this timidity disappears and rents rise more rapidly. They eventually reach a point where it appears "cheaper to own than to rent," and a considerable volume of single-family home building is induced. If high incomes continue, however, new construction is unlikely to provide dwellings for all who want them and are able and willing to pay the prevailing prices. Eventually vacancies for rent virtually disappear, and a housing shortage or a seller's market develops.

CHARACTERISTICS OF A SELLER'S MARKET

In a seller's market, the landlord is in a strong bargaining position with respect to both his present and prospective tenants. Any change by the present tenant is accompanied by the inconvenience of "moving day," and alternative accommodations, plus the cost of moving, are likely to prove as expensive over a short-term lease as renewal at a higher rent. He is likely, therefore, to accept a considerable rent increase rather than change dwellings.

The prospective tenant likewise has little choice. The lack of a central listing of offerings makes it difficult to compare available space and terms, and the task of finding a suitable dwelling increases his readiness to pay a rent increase. This willingness to accept higher rentals is strengthened, in both cases, by the fact that decisions are made under the pressure of an approaching moving day.

Construction of dwellings for rent increases rapidly as the evidence that rents will continue to rise becomes more convincing. The

[7] James C. Downs (*The Principles of Real Estate Management,* Chicago, 1947, p. 17) estimates that rent increases cannot be effectively asked for by landlords until occupancy has reached approximately 95 percent.

increase seems likely to appear first in the smaller types of structure—two-, three-, and four-family buildings—the major portion of which are constructed by operative or speculative builders and sold to owner-occupants. Sales appeal usually emphasizes the economy of ownership by showing that a large portion of the carrying charges can be met by the rental income. A relatively small commitment of capital is involved and, in a rising market, the builder's investment is for a short period only.

Some light is thrown on this pattern in the estimates of construction activity following World War I. Construction of two-family structures reached a peak in 1923 when some 175,000 such dwelling units were completed, while single-family home construction reached its peak in 1925 when 572,000 were built. Three- and four-family units are not separately reported, but they may have been responsible for the increasing volume of "more than two-family" structures constructed in the early twenties. The peak of construction activity was not reached in this category until 1927 when 257,000 dwelling units were built, but by that time the larger multi-family structures predominated and probably account for the continuation until 1930 of considerable volume of construction.[8]

Data are not sufficiently detailed and accurate to permit intensive analysis of the relationships that develop in this sequence of construction movements, but it appears that the building of large multi-family structures does not achieve great volume until a seller's market has prevailed long enough to have produced a considerable rise in rents. It is not clear whether rents must rise until they represent an acceptable rate of return upon the cost of developing large apartment projects, or whether they must rise until the expectation of a continued rise becomes general. At any rate, the production of a large volume of multi-family housing is slow to develop, compared with the increases that come in single- and two-family structures and probably in three- and four-family structures as well.

A seller's market prevails and rents continue to rise throughout the period of slowly increasing residential construction. In the period immediately preceding moving day the individual landlord makes up the rental schedule which he proposes to ask for his leases.

[8] Housing and Home Finance Agency, *Housing Statistics Handbook* (1948) Table 2, p. 6.

Present tenants are usually not notified of the schedule until the renting season has arrived, and the landlord has the right to enter and show the premises to prospective tenants, thus allowing the present tenant little time to accept or reject the landlord's renewal proposal. The landlord's competitive advantage is augmented by the fact that the tenant cannot shop earlier for other quarters, since other landlords do not then know what vacancies they will have.

The minimum rental increase is likely to be the approximate cost of moving plus some allowance for annoyance and inconvenience, but rents may rise in the same proportion as the increase in income, or to a greater extent.[9] When the latter happens, and numerous renters face the necessity of spending more for rent than previously, or of accepting a reduction in their housing standards, unrest may become so widespread as to result in some form of public intervention.[10]

As construction of multi-family structures increases, new structures are designed to embody the latest equipment and conveniences and are planned to attract prospective tenants, even though the rent schedule is higher than in older structures. It may be said that the new units are added at the *top* of the market.

For a time (provided rents do not increase more than incomes) leases on the new units will be satisfactorily negotiated, mainly with families who want to improve their housing standards. The dwelling units they vacate will be occupied for the most part by families with lower incomes who are improving their own housing standards. Thus, a general filtering-up occurs during such a period. The success with which higher rents are asked for and obtained on new dwelling units ordinarily induces the landlords of previously existing structures to ask for increases as leases are terminated. As long as incomes sustain these demands, they are on the whole successful.

[9] The data are not comprehensive or precise, but it is noteworthy that from 1916 to 1924, during most of which time a seller's market prevailed, per capita payments to individuals (excluding entrepreneurial savings) increased by nearly 55 percent, according to Simon Kuznets (*National Income and Its Composition*, Vol. 2, National Bureau of Economic Research, 1941, pp. 438 and 470) and rents by 61.8 percent, according to the rent index (1935-39 = 100) of the Bureau of Labor Statistics (*Changes in Cost of Living in the United States, 1913-41*, Bulletin No. 699, p. 43) and by 83.2 percent according to the index (January 1939 = 100) of the National Industrial Conference Board (Robert A. Sayre, *Consumers Prices, 1914-48*, pp. 35 and 36).

[10] During and after both world wars, this intervention came in all Western European countries and in the United States.

THE MARKET IN TRANSITION

With new units being fed in at the top of the market, it becomes more and more difficult to fill them; the time necessary to acquire a satisfactory level of occupancy increases, and heavy vacancies may be sustained in structures not completed in time to compete for occupancy prior to moving day. In order to meet this situation, concessions—most commonly in the form of one or two months' free occupancy—are made to obtain high occupancy and to maintain the appearance of a rent schedule well above that prevailing in the area.[11]

As provision is made in new structures for more and more tenant families, especially under the lure of concessions, landlords of older structures face the alternative of losing tenants or making their own offering more attractive through repairs, modernization and improvements, and by a reduction in rent schedules. The first alternative is often chosen as an inducement to tenants to renew leases, or to execute new ones at the same rent. Such inducements multiply rapidly as vacancies increase, but when they prove inadequate, rents are reduced by concessions.

As indicated, the use of concessions is partly to obtain a bargaining advantage and partly to give the appearance of high earnings to prospective purchasers of the fee, but it is in some measure a reflection of the landlord's opinion (or hope) that the situation is temporary and that soon concessions can be abandoned. The result is that the rental schedule survives essentially unimpaired until the approach of another moving day.

If incomes do rise or remain stable, the landlord may be able to reduce concessions or abandon them altogether; if not, he may have to increase concessions further or openly to reduce rents. In any event, the action has to be taken well in advance of moving day. The tenant, too, is obliged to make a hasty decision. The possibility of obtaining increased concessions or a lower rent if he delays signing a new lease until after moving day must be weighed against the chance that after his lease expires it may be automatically renewed on iden-

11 As early as 1925, this practice became so common in Chicago that, at the suggestion of the Chicago Real Estate Board, and in order to prevent fraud in the sale of apartment houses on the basis of a capitalization of swollen rent rolls, the Illinois Legislature made it a penal offense for a landlord to grant concessions unless he marked all leases in connection with which they were granted in letters at least one-half inch in height: "Concession Granted" (Jones' *Ill. Stat. Ann.*, 1935, 72.41 to 72.47).

tical terms for another equal period, or that he may gain nothing and be obliged either to move, or to accept the landlord's terms. Significantly, it requires an offer sufficiently lower than the landlord's to enable him to write off the cost of moving during the lease's term, or equal advantages to induce him to move.

In the meantime, the volume of construction of all types of structures increases. As already indicated, the construction of two-family structures was at its peak in 1923; the construction of single-family structures in 1925. In the latter year, these two types accounted for about 729,000 new dwelling units out of a total of 937,000. Rents rose rapidly from 1918 to 1925, making it appear more economical to own than to rent; at least ownership afforded an escape from further rent increases. In the short run this probably proved true, since during the period 1920-24 approximately two million single-family homes and 294,000 two-family structures providing 588,000 dwelling units were built. Assuming that half the units in the two-family structures and all the single-family homes were occupied upon completion by new owners, over two and a quarter million families became homeowners during this period.[12] This number is about 25 percent of the number of tenant families in 1920. Further, it may be assumed that the new homeowner families had higher-than-average incomes for their neighborhoods. In any event, it appears that while rental units are fed in at the top of the rental market, that market is simultaneously drained of its customers by their conversion to homeowners.

CHARACTERISTICS OF A "BUYER'S MARKET"

As an increasing number of families shift from a rental to an ownership status, competition among landlords, increasing in intensity as moving day approaches, leads to concessions and reductions in rental schedules. In the disorganized market process that develops, tenants are able to make favorable leases if they take full advantage of their position. When vacancies appear at high and sustained levels of income, rent reductions may increase occupancy but not during a

[12] Some would have been homeowners in 1920, but most of them would have sold their old homes to new owner-occupants. While it cannot be assumed that previously all purchasers of new homes were tenants, it may be assumed that the *number* of families becoming owner-occupants increased by at least two and a quarter million (Housing and Home Finance Agency, *Housing Statistics Handbook*, 1948, Tables 2 and 49, pp. 6 and 60, respectively). During these years, of course, the total number of families also increased, but there are no reliable figures measuring this increase.

period of declining income. Thus, the decline in rents between 1925 and 1929 tended to increase occupancy, although perhaps not by as much as was necessary to absorb the increase in dwelling units produced during that period, whereas after 1929 further rent reductions were unimportant as a stimulant to higher occupancy. Accordingly, competition among landlords becomes very keen in a period of falling income.

The ability of the individual landlord to reduce rents is mainly determined by the level of his operating costs and fixed charges, which vary substantially from one owner to another. Operating costs and taxes, which do not vary proportionately with occupancy, are not likely to differ greatly from one structure to another, but owing to differences in the amount and terms of debt carried by different structures, the debt service may become a crucial element in determining differences in competitive strength. Owners of small structures are frequently able to shift certain operating costs to the tenant, or to absorb them through self-operation, and where their structures are debt free, or carry very low debt charges, they can offer rentals that many competing landlords cannot meet. The competitive pressure on the owners of small structures is particularly strong since the vacancy of one unit results in a relatively large percentage reduction in total property income. Owners of large structures, on the other hand, are more likely to carry heavy debt service charges and, if they are unable to meet competition by cutting operating costs and deferring maintenance, their only course, after unpaid taxes and interest have accumulated, is to accept foreclosure or to give a voluntary deed to the creditor in lieu of foreclosure.

The mortgagee, frequently a financial institution, may pay accumulated taxes out of reserves, and set rentals at a level sufficient to cover only operating costs and current taxes. Since both of these charges do not vary proportionately with occupancy, it would seem likely, when there are vacancies, that some units would be offered at rents too low to cover all costs. The landlord's fear, however, that a knowledge of this preferential treatment will spread to other tenants and that on the next moving day it will be necessary to reduce all rents tends to discourage the adoption of this pricing policy. The landlord may prefer to continue vacancies rather than to achieve full occupancy at the cost of a drastic over-all reduction in rent schedules.

While the lowest level to which rents can fall is set by operating costs plus taxes, this level is not likely to be reached until after a few years of declining income, a sustained high level of vacancies, and widespread mortgage defaults.

There are some data to support these generalizations, though they are neither so comprehensive nor so precise as are needed for full proof. A Federal Housing Administration survey of apartment house experience reveals that total expenses, *exclusive of depreciation and debt service,* approached 100 percent of total income after several years of depression in the thirties but that total expenses, so defined, were never in excess of total income. In New York, for example, the operating ratio [13] of an elevator apartment building renting between $15 and $20 a room rose to a high of 98.3 percent in 1934; and an apartment building renting at $30 to $50 a room experienced an operating ratio of 97.7 percent in the following year (Table 34). These average ratios do not necessarily mean that no apartment house suffered an operating deficit during the period covered; many debt-free buildings were operated at a loss, and were held only in the hope of a market improvement, while others were boarded up or tax-abandoned. Taking all apartments as a group, however, rents appear to have been cut in the thirties to the point where rental income approached total annual expense, exclusive of depreciation and debt service.[14]

Throughout a period of declining rents it becomes more and more apparent that it is "cheaper to rent than to own." Being committed only for the short term of a residential lease, the tenant can take advantage of rent decreases, whereas the owner is usually committed to relatively inflexible fixed charges. As rents decline, fixed charges compare less and less favorably with current rents; many single-family homeowners find themselves unable to meet their fixed charges with the result that, together with owners of heavily debt-

[13] That is, the ratio of operating costs, exclusive of depreciation charges and debt service, to total rents collected.

[14] The Bureau of Labor Statistics index of rents *(loc. cit.)* paid by wage earners and lower-salaried workers declined from a high point of 152.6 in December 1924 (1935-39 = 100) to a low of 93.8 in March 1935, a drop of 39 percent. The National Industrial Conference Board index *(loc. cit.)* revealed a similar movement, a decline from a high of 123.3 (January 1939 = 100) in 1924 to a low of 74.0 in 1933, or 40 percent. While there are no satisfactory operating ratios for this period for the type of accommodations covered by these indexes, reference to the data on operating ratios in Table 34 suggests the conclusion that rent reductions and vacancy increases caused income to fall close to the level of operating costs plus taxes.

TABLE 34 — TOTAL EXPENSES AS A PERCENTAGE OF TOTAL INCOME FOR TEN NEW YORK ELEVATOR APARTMENT BUILDINGS, BY AVERAGE RENTAL PER ROOM, 1926-35 [a]

Year	*Average Rental per Room*				
	$10.00–14.99	$15.00–19.99	$20.00–29.99	$30.00–49.99	All Groups
1926	43.2%	56.0%	46.2%	50.8%	47.0%
1927	44.2	69.4	47.7	47.3	49.4
1928	47.2	68.9	50.2	61.3	52.0
1929	47.5	59.4	56.4	60.1	56.0
1930	49.1	72.7	55.6	72.1	57.1
1931	50.8	90.1	62.2	78.9	63.8
1932	52.9	78.8	67.3	85.9	67.3
1933	63.6	74.4	77.4	93.1	76.2
1934	70.4	98.3	82.6	91.8	82.7
1935	58.3	92.4	79.9	97.7	78.7
No. of buildings covered	1	1	7	1	10

[a] Federal Housing Administration, *A Survey of Apartment Dwelling Operating Experience in Large American Cities* (1940) Table A-1, p. 12. Total expenses exclude depreciation and debt service charges.

burdened rental structures, they face foreclosure or the execution of a deed in lieu of same.[15]

Rents of single-family homes acquired through foreclosure can fall to a lower level than rents of apartments in large structures, even though both are usually offered unfurnished; the former may frequently rent on terms that require the tenant to pay all costs of operation except repairs, maintenance, and taxes. This fact, in addition to the widespread preference for single-family homes, especially by families with children, may account for the relatively low vacancy rate characteristic of these homes during a buyer's market. With few exceptions, single-family homes showed the lowest vacancy ratio of any type of structure in vacancy surveys, and in the few time series on vacancies that are available.

Vacancy data are available for Denver by type of structure from 1930 through 1946 (Table 35). The highest level of vacancies for this

[15] A decline in the purchase price of single-family homes tends to reduce the discrepancy between renting and owning costs, but this correction occurs slowly, since real estate prices fall more slowly than rents. The lag is partially due to (1) the persistence with which individual owners hold on to properties, with the hope that their equity will not be so seriously reduced as current market conditions indicate, and (2) the fact that financial institutions, in their capacity as owners of real estate acquired through foreclosure, may postpone sales so as not to burden current earnings and accumulated reserves excessively over a short period of time. Also, there is hope that a price can be obtained in the future which will return the amount of their investment in the property at the time of foreclosure.

TABLE 35 — PERCENTAGE OF DWELLING UNITS VACANT IN DENVER, COLORADO, BY TYPE OF STRUCTURE, 1930-46 [a]

Year	*Type of Structure*				
	Single-Family	2-Family	Apartments	Terraces	All Types
1930	3.6%	8.1%	13.1%	16.5%	6.8%
1931	3.1	7.1	14.5	12.9	6.4
1932	3.9	10.4	16.9	16.0	7.7
1933	3.6	9.4	13.2	16.5	6.7
1934	2.2	4.1	6.7	9.4	3.8
1935	1.3	1.9	2.5	3.4	1.8
1936	.9	1.0	1.1	1.2	1.0
1937	1.1	1.0	1.7	1.2	1.2
1938	1.4	1.8	4.3	2.5	2.0
1939	1.3	1.9	4.7	1.9	2.0
1940	1.2	2.1	5.3	2.4	2.1
1941	1.3	1.1	4.0	1.6	1.9
1942	.5	.2	.1	.3	.4
1943	.3	.1	.1	.4	.3
1944	.4	.3	.1	.3	.3
1945	.3	.4	.0	.2	.2
1946	.3	.3	.0	.1	.2

[a] Bureau of Business and Social Research and College of Business Administration, "Real Estate Vacancies in Denver as of September 1946," *University of Denver Reports*, Vol. 22, No. 2 (University of Denver, December 1946) Table 1, p. 2. Vacancies are those reported for September of each year.

period came in the years 1930 through 1933, when the percentage of units vacant for all types of residences combined ranged between 6.4 and 7.7 percent, but during these years single- and two-family residences had a strikingly lower vacancy ratio than apartments and terraces. Vacancies in apartments, terraces, and two-family residences were, respectively, four, three-and-a-half, and two-and-a-half times as high as vacancies in single-family dwellings. Vacancies declined after 1934 and the differentials among various types of residences became less pronounced.

Denver data for the same period, covering vacancies in structures of different age, indicate that in the years 1930-33 older structures tended to have a higher ratio of units vacant than newer buildings (Table 36). This difference, however, also tended to disappear as over-all vacancy ratios fell in the late thirties and early forties. In a number of instances the vacancy ratios are highest for the last constructed houses (Table 36).

Vacancy data for Cuyahoga County (Cleveland, Ohio) for the period 1932-46 reveal basically the same differential pattern when

TABLE 36 — PERCENTAGE OF DWELLING UNITS VACANT IN DENVER, COLORADO, BY PERIOD IN WHICH PROPERTY WAS BUILT, 1930-46 [a]

Year	Period Built						
	Prior to 1901	1901–15	1916–25	1926–35	1936–45	1946	All Periods
1930	9.1%	6.3%	4.2%	4.8%	..	..	6.8%
1931	7.8	6.0	4.3	5.9	..	..	6.4
1932	8.5	8.6	5.4	6.8	..	..	7.7
1933	8.0	7.7	4.3	4.5	..	..	6.7
1934	5.3	3.6	2.3	2.2	..	..	3.8
1935	2.3	1.6	1.3	1.5	..	..	1.8
1936	1.2	.8	.8	.6	13.4%	..	1.0
1937	1.2	.9	1.4	.9	6.9	..	1.2
1938	2.3	2.0	1.4	1.6	5.7	..	2.0
1939	2.0	1.9	1.5	1.8	5.3	..	2.0
1940	1.9	2.1	1.7	2.1	3.9	..	2.1
1941	1.7	1.4	1.3	1.6	5.2	..	1.9
1942	.4	.3	.3	.3	.7	..	.4
1943	.4	.2	.2	.2	.2	..	.3
1944	.4	.3	.3	.2	.2	..	.3
1945	.2	.2	.2	.1	.5	..	.2
1946	.2	.2	.2	.2	.2	2.1%	.2

[a] Bureau of Business and Social Research and College of Business Administration, "Real Estate Vacancies in Denver as of September 1946," *University of Denver Reports*, Vol. 22, No. 2 (University of Denver, December 1946) Table 1, p. 2. Vacancies are those reported for September of each year.

examined by type of structure (Table 37). In the year 1932, when vacancies were 8.8 percent—their highest point in this series—only 3.3 percent of the single-family units were vacant, while 22 percent of large apartments and terraces were unoccupied. As in Denver, the decline in vacancies after 1932 was accompanied by a gradual reduction in the differences among the vacancy ratios for the different types of structures.[16]

Finally, it should be noted that while a buyer's market prevails the construction of homes for rent as well as for sale is negligible. Construction of two-family structures in the United States declined to a low of 5,000 units in 1933 (providing for only 2,500 rental units, on the assumption that one unit per structure was occupied by an owner) from a high of 175,000 in 1923, and construction of more than

[16] See S. B. Barber, "Urban Residential Vacancies, 1930-38," in the Bureau of Foreign and Domestic Commerce, *Survey of Current Business*, Vol. 18, No. 8 (August 1938) pp. 15-18, for additional comparisons of vacancies by type of structure for seventeen areas in the United States. In general the differences are the same as revealed by the Denver and Cuyahoga County data.

TABLE 37 — PERCENTAGE OF DWELLING UNITS VACANT IN CUYAHOGA COUNTY, OHIO, BY TYPE OF STRUCTURE, 1932-46 [a]

Year	Type of Structure								
	Single-Family	2-Family (side by side)	2-Family (up and down)	Row House or Terrace	Flats over Stores	4-Family Apts.	Large Apt. Houses	Other Dwellings	All Types
1932	3.3%	9.5%	8.0%	22.1%	17.6%	16.2%	22.2%	14.1%	8.8%
1933	2.6	7.5	6.0	18.6	16.2	15.5	16.1	13.9	7.1
1934	2.1	4.4	3.7	9.2	11.6	9.1	8.4	9.4	4.5
1935	1.7	2.9	2.1	6.1	7.6	4.7	5.0	6.4	2.9
1936	1.6	2.3	1.3	2.1	5.1	2.4	2.4	3.8	2.0
1937	2.0	2.0	1.4	12.4	4.6	2.4	3.9	3.0	2.5
1938	1.9	2.9	2.1	4.0	5.0	3.7	6.6	3.3	3.0
1939	1.7	3.0	1.8	4.0	5.6	2.9	7.1	3.3	2.8
1940	1.4	2.3	1.3	2.3	4.5	1.9	3.6	2.3	1.9
1941	1.1	.9	.8	.5	3.1	1.0	2.2	1.6	1.3
1942	.8	.6	.5	.5	2.7	.7	1.0	1.2	.9
1943	.3	1.1	.3	.8	1.5	.2	.4	.6	.4
1944	.3	.9	.3	1.9	1.5	.3	.5	.7	.5
1945	.3	.5	.2	.1	.5	.1	.1	.7	.3
1946	.3	.4	.2	.3	.6	[b]	.1	.5	.3

[a] Howard Whipple Green, *Family and Housing Characteristics,* Part 1, Report 24 (Cleveland Real Property Inventory, 1947) Table 5, p. 7. Vacancies are those reported for October of each year.

[b] Less than .05 percent.

two-family structures from a peak of 257,000 units in 1927 to a low of 9,000 units in 1932. Recovery in construction from these low points was slow for both types of structures; at the peak during the late thirties and early forties, when a buyer's market continued, only 28,000 units were provided in the two-family structures in the best year and 68,000 units in structures for more than two families.[17]

THE EFFECTS OF RENT CONTROL ON THE RESIDENTIAL RENTAL MARKET

Rent control in modern form appeared in Western Europe during World War I, first in France and subsequently in all neutral as well as belligerent countries.[18]

In all the Western European countries, and in the United States of America where it appeared first in 1919, it takes the form of a modification of rental contracts by public authority. The modifications consist of extension by public act of the term of lease by abrogation of the landlord's right to possession of the leased premises, and the fixing of a maximum rent which the landlord may demand or collect for occupancy of the premises.

During and after the first World War, measures were also taken by a number of municipalities and states, including action taken in the District of Columbia, to prevent rent increases. A statute was passed by the New York Legislature in 1920 under which rents were controlled for a varying period in the larger cities in the state and in New York City until 1929.[19]

During World War II, rent control was instituted in the United States under the provisions of the Emergency Price Control Act of

17 An exception is the dwellings provided in public housing. Data are from Housing and Home Finance Agency, *Housing Statistics Handbook* (1948) Table 2, p. 6.

18 For a description of these measures, see International Labour Office, *European Housing Problems Since the War,* Series G, No. 1 (Geneva, 1924) especially pp. 17-37; League of Nations, Economic Intelligence Service, *Urban and Rural Housing* (Geneva, 1939) *passim*; Karl Pribram, "The Financing of House Building in Countries with Rent Restriction Legislation," in the International Labour Office, *International Labour Review,* Vol. 18, Nos. 3 and 4-5 (September and October-November 1928) pp. 360-74 and 509-28, respectively; Edith Berger Drellich and Andrée Emery, *Rent Control in War and Peace* (New York, 1939). See also A. A. Friedrich, "Rent Regulation," *Encyclopedia of the Social Sciences,* Vol. 13 (New York, 1934) pp. 293-95, and bibliography there cited.

19 For a description of these measures and their operation, including citations of court decisions, see Marcus Whitman, "The Public Control of House Rents," *Journal of Land and Public Utility Economics,* Vol. 1, No. 3 (July 1925) pp. 343-61; and also Hubert F. Havlik, "Recent History of the Control of House Rents," *Journal of Land and Public Utility Economics,* Vol. 6, No. 1 (February 1930) pp. 95-98.

1942 [20] and the regulations promulgated under the Act by the Office of Price Administration. The principal features of the regulations provided that landlords could not demand or accept payment of rent from tenants in occupancy in excess of the amount paid or payable on a date fixed in the regulation. Landlords were required to register with the local office of the OPA all residential accommodations under lease on the effective date of the regulation or at any subsequent date when premises were leased. Under the regulation, all the services provided had to be continued by the landlord and rents could not be increased except with the approval of the OPA. Possession of leased premises was also denied to the landlord except under certain specified conditions, and then only after the case had been submitted to the OPA and permission for ejection of the tenant had been received.

Many of the operations of the OPA were abandoned shortly after the termination of hostilities. The administration of the rent control features of the Act were continued by amendments passed from time to time by Congress as the original Act and its subsequent amendments or substitute acts were about to expire. No complete history of the Office of Price Administration and its successors has been written. The subject of rent control has been of recurring interest. With the scanty information available, it is possible only to review some of the major apparent effects of this legislation.

The effects of rent control on the residential rental market flow from the two major ways in which it alters rental contracts—namely, by the substitution of a maximum established by law or regulation for negotiation between landlord and tenant as a means of determining rentals, and by the automatic extension of the terms of leases through restricting the landlord's power to recover possession and occupancy of the premises. Its direct effect, of course, is on renting families and on the owners of rental properties; owner-occupant families are affected only indirectly, except where they choose to sell to take advantage of increased real estate prices. Rent control thus protects the housing standards and housing costs of only those families that are renting at the time of imposition of rent control and continue occupancy of the same quarters or that are fortunate enough subsequently to find quarters at the controlled rent. The size of this group is indicated by the fact that, in 1940, 41.1 percent of

[20] January 30, 1942, c. 26, 56 Stat. 23.

nonfarm families lived in houses they owned in fee and 52.6 percent in 1947; [21] this group, then, was in the minority in 1947.

The imposition of a maximum limit on rents during a period of rising incomes naturally reduces the proportion of tenant income expended on shelter; consequently, one of the early effects of rent control is likely to be a shifting of families into larger and better quarters and a rapid absorption of existing vacancies, especially in the better housing accommodations. Since the price of alternative quarters cannot be raised, they can be acquired for a rent that may be no more, and even less, than the proportion of family income previously absorbed by this item. Under these conditions residential leases become a conspicuous bargain and are rapidly bought up by newly-formed families, by households newly established, by "undoubling," by families' migrating from one area to another, and by the spreading out of families and households into more adequate space. Some families may choose to spend a declining proportion of income for rent, but in many instances the early stages of rent control witness a rapid rise in housing standards.

If the increase in income is widespread, a shortage of space seems likely first to occur in accommodations in the middle rent groups; space is sought after in this range by the large number of families moving into the middle-income groups and seeking to improve their housing standards. Concurrently, vacancies in the lowest rent groups are likely to increase. As vacancies disappear in the middle rent ranges, however, occupancy increases rapidly in both the higher and the lower rent ranges, and complaints of a shortage are more generally heard. Premises at the bottom of the rent scale are ordinarily the last to fill up and those at the top next to the last.

There is little statistical evidence on these developments under rent control, but some data on vacancy by rent range are available for New York and Boston in studies undertaken by the Office of Price

[21] Bureau of the Census, *Current Population Reports, Housing,* Series P-70, No. 1 (October 1947) Table 2, p. 10. This is probably a much larger percentage than prevails in Europe, where rent control originated during World War I. A discussion of the contraction in the number of homes available for rent resulting from the shift from tenancy to home ownership during the period of rent control is found in "Effect of Wartime Housing Shortage on Home Ownership" in the Bureau of Labor Statistics, *Monthly Labor Review,* Vol. 62, No. 4 (April 1946) pp. 560-66. This article presents the results of a survey of 122 areas representing one-fourth of the total occupied nonfarm dwelling units. In all but one of these cities, the ratio of owner-occupied to total dwelling units increased from 1940 to 1944-45. The median increase was 28 percent, while one-fourth of the cities revealed increases of more than 36 percent.

Administration.[22] In New York, after 1941, the vacancy-loss ratio declined consistently for all classes of apartment buildings where the average monthly rent was $30 or over (Table 38). On the other hand, the rent class under $30 revealed an increase in the vacancy-loss ratio during the years 1942 and 1943; the ratio for this lower rental group of apartment houses had declined to 6.6 percent in 1945, at which time the average ratio for all rent ranges was 1.1 percent.

TABLE 38 — VACANCY-LOSS RATIOS IN 1,527 APARTMENT BUILDINGS IN NEW YORK CITY, BY AVERAGE MONTHLY RENTAL, END OF YEAR, 1939-45 [a]

Average Monthly Rental	*1939*	*1940*	*1941*	*1942*	*1943*	*1944*	*1945*
Under $30.00	7.5%	7.5%	8.8%	10.3%	12.4%	10.6%	6.6%
30.00 – 39.99	5.6	6.8	6.9	6.6	6.1	2.0	.6
40.00 – 49.99	4.9	6.1	7.3	5.7	3.8	1.1	.6
50.00 – 59.99	9.1	10.2	10.9	8.3	3.8	1.1	.4
60.00 – 74.99	7.7	9.7	11.2	9.5	5.0	1.1	.6
75.00 – 99.99	9.9	9.5	11.3	10.8	5.0	.7	.5
100.00 and over	8.4	8.8	12.5	11.2	7.6	2.0	.7
All rent ranges	7.0%	7.9%	9.3%	8.0%	5.5%	2.1%	1.1%

[a] Office of Price Administration, Accounting Department, *Operating Cost Study, Apartments* (New York, September 9, 1946) Exhibits 1-8. Vacancy-loss ratio is scheduled income minus net actual rental income expressed as a percentage of scheduled income. The 1,527 apartment buildings include 47,273 apartments and 1,338 store units in the five boroughs.

The shift in the impact of increased demand from one rental group to another, as reflected in vacancy-loss data, confirms the statements made above. From 1939 to 1942, the lowest vacancy-loss ratios were in the two rental classes ranging from $30 to $50 a month. In 1943, however, when the over-all vacancy loss dropped from 8.0 to 5.5 percent, the lowest vacancy loss moved upward in terms of rental classes, including apartment buildings where average rent ranged from $40 to $60 per month. In the following year, low vacancy-loss ratios, and the absorption of available space by increased demand which these reflect, had been widened to include apartment houses with average rentals ranging from $40 to $100. In 1945 all apartments renting for $30 and over per month showed vacancy-loss ratios of between 0.4 and 0.7 percent, while the rent class below $30 reflected a loss of 6.6 percent.

[22] The data refer to vacancy loss, that is, to the dollar difference between actual rental income and the scheduled income. This difference is expressed as a percentage of scheduled income and will be referred to as the vacancy-loss ratio.

In Boston, the pattern was similar but not identical (Table 39). The rent classes "under $30" and "from $50 to $60" revealed the

TABLE 39 — VACANCY-LOSS RATIOS IN 253 APARTMENT BUILDINGS IN BOSTON, MASS., BY AVERAGE MONTHLY RENTAL, END OF YEAR, 1939-43 [a]

Average Monthly Rental	*1939*	*1940*	*1941*	*1942*	*1943*
Under $30.00	9.0%	11.1%	7.6%	3.9%	6.1%
30.00 – 39.99	6.6	5.5	3.9	2.5	1.5
40.00 – 49.99	8.5	6.5	4.5	1.3	.9
50.00 – 59.99	13.3	11.8	9.6	5.0	.7
60.00 – 74.99	8.7	6.1	5.9	2.1	.2
75.00 and over	5.0	6.2	4.6	3.7	.5

[a] Office of Price Administration, Accounting Department, *Net Income Before Interest and Depreciation by Rental Ranges, Apartments* (Boston, July 17, 1944) Exhibits 1-6. For definition of vacancy-loss ratio, see Table 38, footnote a.

highest vacancy-loss ratios from 1939 to 1942; in 1943, however, the vacancy-loss ratios for apartments with average rentals under $30 almost doubled—rising from 3.9 to 6.1 percent, while vacancy losses fell in all other rental ranges.

Additional data on Manhattan apartment house vacancies, published by the Real Estate Board of New York, Inc., conform in general with the above. Vacancies in elevator and walk-up apartments (excluding "old law" tenements) increased from 1937 to 1941, declined abruptly after 1942 and disappeared in 1944. Vacancies in eleven typical tenement areas, on the other hand, continued to rise until 1944 and did not disappear until 1947 (Table 40).

Finally, data on vacancies in old and new law tenements in Manhattan during the years 1916 to 1924 suggest that during this period, when population was increasing in the area, the better apartments were absorbed more rapidly than those of low quality (Table 41). In 1916 the vacancy ratio was 4.0 percent in new law apartments and 6.5 percent in the old law type; vacancies were reduced much more quickly in the former group and fell to a low—0.1 percent—in April 1920, a year earlier than the low point of vacancies for the latter type. It is difficult to gauge the effect of the emergency rent laws in this situation, however, since they were not introduced until the spring of 1920, when the over-all vacancy ratio had dropped to 0.4 percent.

As vacancies decrease throughout the rental scale, the housing shortage is intensified and rental houses tend to be pre-empted by

TABLE 40 — PERCENTAGE OF DWELLING UNITS VACANT IN ELEVATOR AND WALK-UP APARTMENT BUILDINGS AND IN TENEMENTS IN MANHATTAN, 1937-47 [a]

Year	*Elevator and Walk-Up Apartments*	*Tenements*
1937	4%	..
1938	5	..
1939	6	6%
1940	7	7
1941	8	9
1942	7	10
1943	4	16
1944	0	16
1945	0	13
1946	0	3
1947	0	[b]

[a] Real Estate Board of New York, Management Division, *Survey of Competitive Apartments in Manhattan,* Apartment Series, Supplement No. 29 (June 15, 1947) and *Vacancy Survey of Manhattan Tenement Areas,* Tenement Series, No. 9 (March 1947). Data on walk-up apartments exclude "old law" tenements; data on tenements are for vacancies in eleven typical tenement areas in Manhattan.

[b] Less than 0.5 percent.

TABLE 41 — PERCENTAGE OF DWELLING UNITS VACANT IN OLD AND NEW LAW TENEMENTS IN NEW YORK CITY, 1916-24 [a]

Date	*Old*	*New*	*Total*
March 1916	6.5%	4.0%	5.6%
March 1917	4.9	1.8	3.7
March 1919	3.3	.6	2.2
April 1920	.5	.1	.4
February 1921	.2	.2	.2
March 1923	.2	.5	.4
January 1924	.5	1.2	.8

[a] *Report of the Mayor's Committee on Housing,* February 29, 1924, p. 4, as quoted in Edith Berger Drellich and Andrée Emery, *Rent Control in War and Peace* (New York, 1939) p. 104.

present tenants who can be forced to relinquish use and occupancy only for violations of the rent control law or regulations, or for such other reasons as the remodeling of the structure or the owner's need of the premises for his own occupancy and use.[23] As a result of these

[23] Where the landlord's interest has been pledged as security for a mortgage loan this impairment of his interest may cause the mortgagee to ask for full payment, or at least a heavy curtail, on expiration of the mortgage term. Therefore, it has sometimes been necessary to extend control beyond rents to the indebtedness underlying the fee ownership. See Carl M. Wright, "Housing Policy in Wartime," in the International Labour Office, *International Labour Review,* Vol. 41, No. 1 (January 1940) pp. 14 and 15, and also Karl Pribram, "The Financing of House Building in Countries with Rent Restriction Legislation," *International Labour Review,* Vol. 18, No. 3 (September 1928) p. 363.

restrictions, the whole rental market becomes frozen and renting families are unable to improve their housing because all the dwellings representing higher standards are taken; while those that are compelled to move, or happen to have entered the market after vacancies were absorbed, are unable to exercise choice as to their housing accommodations.

The rapidity with which vacancies may be absorbed in a period of expanding demand is indicated by studies of the Office of Price Administration covering the years 1939-46. Vacancy-loss ratios for apartment buildings in sixty-three cities averaged 8.6 percent in 1939, 2.8 percent in 1942, and 0.2 percent in 1944 (Table 42). Small structures had a similar experience; the vacancy-loss ratio fell from 9.1 percent in 1939 to 2.1 percent in 1942 and then to 0.4 percent in June 1946 (Table 43).

Variations in vacancy experience are found in different areas. In New York City apartment buildings, for example, the vacancy-loss ratio rose from 7.0 percent in 1939 to 9.3 percent in 1941 and then declined to 1.1 percent in 1945. This course is perhaps attributable to the fact that the industrial boom came to New York late in the defense program. In Macon, Georgia, and Tacoma, Washington, on the other hand, where defense activity started at an earlier date, vacancy loss was reduced to 1.3 and 2.1 percent, respectively, in 1941, dropping to virtually zero in 1942.

A further effect of rent control, tending to aggravate the residential rental market conditions described above, is the withdrawal of single-family homes from the rental market through sale. Some indication of the extent to which this takes place is indicated by the fact that, despite the construction of 3,726,300 dwelling units in the interim,[24] the number of nonfarm dwelling units rented or available for rent in 1947 was but 15,562,000 compared with 17,763,910 in 1940.[25] There was no control over sale price during this period with the result that transactions were made at prices reflecting the full impact of increased demand and reduced available supply.

The adverse effect of rent control on construction, particularly of rental housing, arises mainly from the fact that the cost of build-

[24] Home Loan Bank Board, *Statistical Summary, 1949,* Table 20, p. 24.

[25] Bureau of the Census, 16th Census: 1940, *Housing,* Vol. 4, Part 1, Table 1, p. 2, and *Current Population Reports, Housing,* Series P-70, No. 1 (October 1947) Table 1, p. 9.

TABLE 42 — VACANCY-LOSS RATIOS IN APARTMENT BUILDINGS FOR SIXTY-THREE CITIES COMBINED AND FOR FIVE SELECTED CITIES, END OF YEAR, 1939-46 [a]

City	*1939*	*1940*	*1941*	*1942*	*1943*	*1944*	*1945*	*1946* [b]
New York, N. Y.	7.0%	7.9%	9.3%	8.0%	5.5%	2.1%	1.1%	..
Buffalo, N. Y.	8.3	8.6	4.9	2.0	1.0	.8	.6	.4%
Macon, Ga.	12.7	6.2	1.3	.1	c	.2	.1	.1
Chicago, Ill.	5.9	4.5	3.2	1.6	.8	.3	.1	c
Tacoma, Wash.	7.6	6.5	2.1	.4	.1	.1	.2	.2
Avg. 63 cities	8.6%	8.1%	6.2%	2.8%	.9%	.2%	.2%	.2%

[a] Data for sixty-three cities are from U. S. Congress, House, Hearings before the Committee on Banking and Currency, on H. R. 2549: *Housing and Rent Control,* 80th Congress, 1st Session (1947) Table 1, p. 170. Individual city data are from Office of Price Administration, Accounting Department, *Operating Cost Studies,* as follows: New York, September 9, 1946; Buffalo, February 13, 1947; Macon, January 29, 1947; Chicago, February 14, 1947; Tacoma, February 11, 1947.

For definition of vacancy-loss ratio, see Table 38, footnote a.

[b] As of June 30.

[c] Less than .05 percent.

TABLE 43 — VACANCY-LOSS RATIOS IN SMALL STRUCTURES FOR SIXTY CITIES COMBINED AND FOR FOUR SELECTED CITIES, END OF YEAR, 1939-46 [a]

City	*1939*	*1940*	*1941*	*1942*	*1943*	*1944*	*1945*	*1946* [b]
Buffalo, N. Y.	5.0%	3.9%	1.5%	.7%	.2%	.2%	c	.2%
Macon, Ga.	4.9	3.5	1.0	.6	.5	.5	.5%	.6
Chicago, Ill.	6.3	5.3	3.3	2.0	.5	.3	.2	.2
Tacoma, Wash.	6.3	6.8	2.6	.5	.3	.4	.4	1.5
Avg. 60 cities	9.1%	7.0%	4.2%	2.1%	1.0%	.5%	.5%	.4%

[a] Data for sixty cities are from U. S. Congress, House, Hearings before the Committee on Banking and Currency, on H. R. 2549: *Housing and Rent Control,* 80th Congress, 1st Session (1947) Table 2, p. 170. Data for individual cities are from Office of Price Administration, Accounting Department, *Operating Cost Studies,* as follows: New York, September 9, 1946; Buffalo, February 13, 1947; Macon, January 29, 1947; Chicago, February 14, 1947; Tacoma, February 11, 1947.

For definition of vacancy-loss ratio, see Table 38, footnote a.

[b] As of June 30.

[c] Less than .05 percent.

ing, which soared in both belligerent and neutral countries during and immediately after World Wars I and II, made it uneconomic for new housing facilities to be constructed to rent at the controlled levels. The gap between prevailing rents in existing structures and those necessary in new ones becomes so large as to give prospective builders little opportunity to judge whether the market will support their operations. Realizing that they operate in a thin market, build-

ers are reluctant to commit their funds in large sums, and it is only through public intervention that a significant volume of rental housing construction can be secured until rents have become more equalized or events have proven the strength of the market.[26]

If and when rents are equalized between controlled structures and those newly built, renting families in the controlled structures must spend a considerably higher proportion of their income for rent. Resistance to this modification in the pattern of family expenditure is likely to be strong and frequently results in rent control's becoming a significant social and political issue.[27]

SUMMARY

Like the market for homes in fee, the market for residential leaseholds, involving approximately one-half of all American families, is restricted and localized. Under usual conditions, rents are fixed for a year in advance, with renewal limited by tradition to a brief period of weeks preceding one of several moving days. This makes for a stickiness of rents as compared with prices of goods and services continuously being traded. The condition is accentuated by the often personal relationship between landlord and tenant, but may be offset to some extent by the relatively high mobility of tenant families.

In periods of rising incomes families seek to improve their housing standards in terms of space and location; new families are formed, households undouble, and the market expands. Under these conditions vacancies contract and home ownership increases as single-family homes are withdrawn from the rental market. Rents rise as vacancies decrease, but new construction fails to aid the renter, except moderately, since it consists predominantly of single-family homes for sale to those to whom it appears cheaper to own than to rent. A point is reached where a housing shortage develops and the rental market swings into a seller's phase, in which the tenant is con-

[26] Karl Pribram, *op. cit.*, pp. 362 and 366.

[27] "Tenant protection, which began as a war emergency measure, became of the first importance as an instrument of social welfare with which the countries shattered by war could not dispense after the conclusion of peace. This development was the outcome of its far-reaching effects on the standard of living of the wage-earning classes. . . ." International Labour Office, *European Housing Problems Since the War*, Series G, No. 1 (Geneva, 1924) p. 26. Karl Pribram (*op. cit.*, pp. 367-68) attributes the extensive public housing programs in Western Europe after World War I partly to the effects of continued rent control.

fronted with the choice of accepting rent increases or moving to such alternative accommodations as are available.

As rents rise to high levels, the construction of new apartment houses increases, but these are added at the top of the market. So long as income levels are sustained, a general filtering-up occurs. As the number of new rental units fed in at the top of the market increases, however, it becomes progressively more difficult to fill them. To meet this situation landlords give rent concessions to obtain the appearance of high occupancy and maintain the prevailing rent levels. As the rent on new dwellings declines, landlords of older dwellings strive to meet the competition—first by modernization and improvement and later by rent reduction, either directly or in the form of a period of free occupancy.

At this point, a shift from a seller's to a buyer's market begins. To compensate for rising vacancies landlords begin to reduce rent in the hope of attracting additional tenants; but if this period is accompanied by a decline in income levels, such a move is ineffectual because occupancy responds more to declining incomes than to falling rents. Price competition for tenants becomes keen, and the landlords of the smaller structures have a competitive advantage inasmuch as their operating costs are lower. Similarly, the landlords with the lowest debt service are in preferred positions. After a time, these landlords reduce rents to such low levels that competing landlords find they cannot earn their operating costs, taxes, and debt service. They then face the alternative of making up the deficit from other funds or going into foreclosure. The mortgage institution taking over the structure can then set rental schedules at or above the level necessary to earn operating costs and taxes. Thus, the minimum level to which rents are likely to decline in large apartment houses is represented by the costs of operation plus taxes.

A buyer's market, then, is characterized by a sustained high vacancy ratio, falling rents, high rate of foreclosure, and virtual cessation of residential construction. The tenant has a wide choice of accommodations, and the landlord is caught between fixed operating costs and taxes and declining rents and increasing vacancies.

The above account of the development of a seller's market and eventual transition to a buyer's market applies in the absence of rent control. The effects of rent control upon the residential rental

market may be summarized as follows: in a period of rising incomes, vacancies are rapidly absorbed, first in the middle rent ranges, subsequently in the higher ranges, and finally in the lowest ranges; those families in a position to occupy better housing promptly are significantly benefited after the inauguration of rent control. As vacancies decline, however, rent control freezes the market, restricts the choice of tenants entering the market, and contributes toward a housing "shortage." This shortage of rental housing is intensified by the withdrawal of single-family homes from the rental market as landlords' rights are restricted. The rental element of the cost of living is held constant for renting families, but those that are homeowners when it is initiated are affected only indirectly, benefiting in the event that they sell subsequently at a higher price; latecomers in the housing market are placed at a distinct disadvantage, for they must buy at high prices or accept lower housing standards represented by rental market "left-overs." During periods of rising building costs, a wide differential between controlled rents in existing dwellings and rents necessary to induce a large volume of rental construction appears; heavy pressures for public action are created to protect the interests of renting families in the standards of housing available at controlled rent levels.