



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20551

August 16, 1976

TO: Federal Open Market Committee

FROM: Arthur L. Broida *ALB*

Attached for your information is a memorandum prepared in the Board's Division of Research and Statistics in response to a question raised at the July FOMC meeting.

Attachment.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date August 13, 1976

To Mr. Gramley

Subject: The Scope of Residential

From Albert M. Teplin *amT.*

Rent Control Laws

This memo, which you requested through Mr. Fisher, presents available information about the scope of residential rent controls in the United States.

Summary. As of mid-1976, rent controls were in effect in approximately 230 communities--nearly all on the east coast. These communities contained about 14 per cent of the U.S. urban population.

In terms of new residential building, multifamily housing permits in rent-controlled communities have accounted for a smaller proportion of total multifamily permits than would be suggested by the population coverage. Only 6 per cent of multifamily units for which permits were recently issued were located in rent-controlled areas. While this may suggest that rent controls have had some dampening effect on new multifamily construction, other factors could help explain the relatively limited number of permits issued in such areas. For example, population growth in most rent-controlled jurisdictions has been slower than growth in the nation as a whole.

More detailed information and comments are contained in the following text and tables:

1. Recently, state laws enabling local governments to enact rent control statutes have been passed in Connecticut (1969),

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Massachusetts (1970), Maine (1973), Maryland (1973), and Alaska (1974). Some local controls now exist in all of these states except Maine. Moreover, other jurisdictions with recently instituted rent control laws are Washington, D.C., Miami Beach, and approximately 100 localities in New Jersey. <sup>1/</sup> Also, New York, the only state to continue controls over the whole post-World War II period, expanded its statute in 1974.

2. Approximately 21 million persons, or 13.8 per cent of the total U.S. urban population, live in rent-controlled jurisdictions. The potential population that could eventually be covered by controls is much greater, however (Table 1). More than 42 million people, or about 28 per cent of all urban dwellers, reside in areas with state enabling laws or in areas where state or local governments have recently considered such legislation.

3. The share of all residential construction in rent-controlled areas is less than the population figures would suggest. Only 6.4 per cent of new multifamily units authorized by residential building permits during the 5-year span from 1971 through 1975 were in current rent-controlled areas (Table 2). Of course, a number of factors, besides rent controls, could explain the smaller

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<sup>1/</sup> A 1973 decision by the New Jersey State Supreme Court permits local jurisdictions to enact rent control statutes without a state law. The Miami Beach law, however, is being challenged in Florida state courts.

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share of multifamily permits relative to population in rent-controlled areas. Such areas, for example, are concentrated in the older Northeastern sections of the U.S., where growth has been slower than in other areas of the country. Indeed, total population in rent-controlled areas actually declined during the early 1970's.

4. The degree of regulatory authority provided in state and local rent control statutes varies significantly among areas. The Massachusetts Act, for example, allows local authorities to establish across-the-board controls, determining allowable rent increases or even ordering rent reductions. Connecticut's law, in contrast, only permits local authorities to make studies and to investigate and resolve complaints in order to eliminate excessive rental charges.

5. Several jurisdictions in Maryland, following more than 2 years of rent control experience, have recently reconsidered their statutes. Montgomery County has entered a phase of vacancy decontrol. Harford and Ann Arundel Counties and Baltimore City instituted voluntary controls. 1/ Prince Georges County eliminated rent controls altogether.

6. No comprehensive study has yet been made to quantify the short-run effects of these various rent control laws on new construction--in part because many such laws have been adopted

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1/ Under voluntary controls, building owners and local government officials usually agree on an annual percentage increase in rents for apartments located in the jurisdiction. A similar, but more informal, relationship between apartment owners and local officials has been tried in the Northern Virginia suburbs of Washington, D.C.

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only quite recently. 1/ In addition, recent rent control laws have possibly had only a marginal impact since they are quite limited in geographic coverage and, in many cases, in their degree of stringency.

However, there is widespread opinion that existing rent controls and the threat of additional laws in many other areas have inhibited the current housing recovery by reducing the return that investors can expect on new rental units. Also, it is believed that the rent controls have been a factor in conversions of many existing rental apartments to condominiums. Reluctance to invest in rental units may have been heightened in some cases by a feeling that the current controls will be more lasting because they were enacted during a period when no housing emergency existed. 2/

#### Attachments

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1/ However, in New York City, there are numerous indications of longer-run negative impacts of rent controls on residential construction and local economic activity.

2/ It is generally accepted, however, that Alaskan rent control was prompted by an emergency situation similar to that which resulted in national rent controls during and shortly after World Wars I and II.

TABLE 1

Extent of Rent Control  
(As of June 30, 1976 1/)

	Urban population in 1973 <u>2/</u> (Thousands)	Per cent of U.S. urban population
I. Areas with active rent control laws:		
Localities within--		
Alaska	101.3	
Connecticut	564.3	
Maryland	3,351.8	
Massachusetts	853.5	
New Jersey	3,338.3	
New York	11,108.5	
Other localities--		
District of Columbia	733.8	
Miami Beach	94.7	
	21,146.2	13.8
II. Areas covered by state enabling legislation, but no rent controls in effect:		
	14,114.6	9.2
III. Areas known to have proposed legislation or have had recent study commissions:		
Ann Arbor, Mich.	104.8	
Berkeley and Palo Alto, Calif.	165.9	
Boulder, Colo.	75.3	
Hawaii	698.9	
Lynn, Mass.	86.7	
Madison and Milwaukee, Wis.	860.4	
Minneapolis, Minn.	382.4	
New Orleans, La.	573.5	
Oregon	1,488.9	
Philadelphia, Pa.	1,861.7	
Rhode Island	842.3	
	7,140.8	4.7
IV. All of the above areas:		
	42,401.6	27.7

1/ As of July 1, 1976 several Maryland jurisdictions had changed to voluntary controls or vacancy decontrol. Prince Georges County's rent control law expired altogether.

2/ For some areas, population estimates were derived by applying 1970 decennial Census percentages of urban population to 1973 Census Bureau total population estimates. Source: Census Bureau and Monica Lett, Rent Control: Concepts, Realities, and Mechanisms, Center for Urban Policy Research, Rutgers University, (forthcoming), Chapter 3.

TABLE 2

Residential Building Permits Issued  
in Rent Controlled Areas (1971-75)

	All permit issuing areas (Thousands of units)	Rent controlled areas <u>1/</u>	Per cent issued in rent controlled areas
All types of units	7,962.0	368.0	4.6
Single-family	4,133.0	124.3	3.0
Multifamily	3,829.0	243.7	6.4

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1/ Those areas with rent control laws in effect on June 30, 1976.

Sources: Derived from Census Bureau data for rent controlled areas listed in:  
Monica Lett, Rent Control: Concepts Realities and Mechanisms, Center for Urban  
Policy Research, Rutgers University, (forthcoming), Exhibit 3-2.