

# The Impacts of Rent Control



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# I. Who We Are

## About Anderson Economic Group

Anderson Economic Group, LLC, is a boutique consulting firm, with offices in East Lansing, Chicago, New York, and Istanbul. We specialize in strategy, business valuation, public policy, and market analyses.

Clients from across the political spectrum, and from the public, private, and nonprofit sectors, have relied on Anderson Economic Group analysis and expertise for decades to understand the economic and fiscal consequences of public policy. We use **cutting-edge methods** and **evidence-based analysis** to shed light on the most **complex public policy problems** of our time.

Our work is based on:

- Deep industry knowledge;
- Expertise in economic, geographic, and financial analysis; and
- Relationships with important institutions, such as trade associations, universities, economic development agencies, and governments.

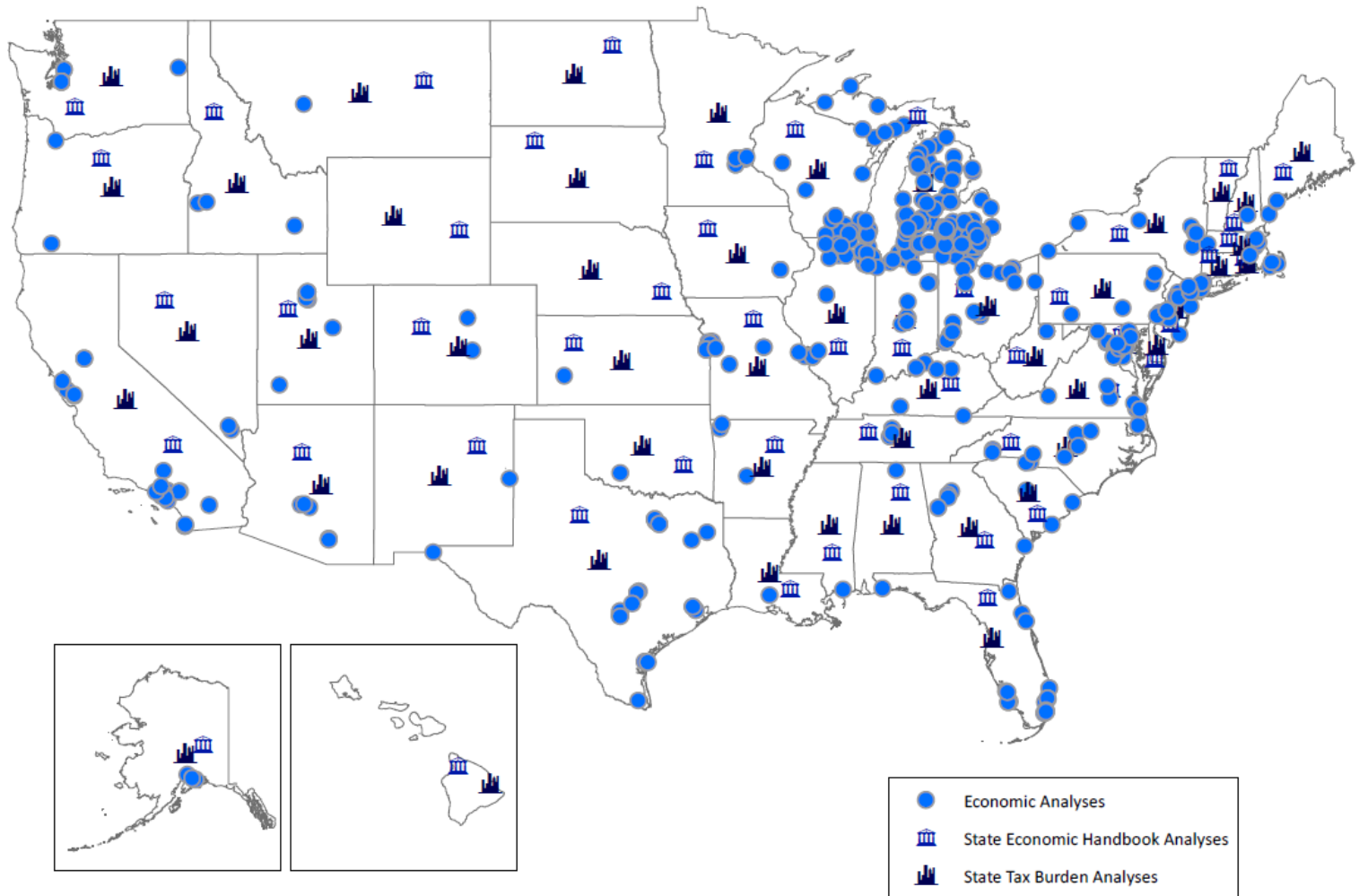
# I. Who We Are



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# I. Who We Are

## Project Locations in the U.S.



## Presenter's background

Jason Horwitz is a Senior Consultant at Anderson Economic Group and the Director of the Public Policy and Economic Analysis practice area. He has provided research, analysis, and expert testimony on policy in a range of fields, including state and local taxes, housing, retirement benefits, business incentives, energy policy, and economic development for governments, trade organizations, and corporations.

He has managed projects and performed actuarial analysis on the impacts of housing regulation and taxation across the country.



## II. Purpose of Report



# II. Purpose of Report

Identify and quantify (where possible) the expected impacts of a citywide rent control ordinance for renters and property owners

Our report shows results using Chicago as a case study, but findings can be applied to many communities

## III. Overview of Approach

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## Methods

- Collect high-quality data on average rents, home values, and number of rental and owner-occupied units by census tract, zip code, and/or citywide since 2010.
  - American Community Survey from the U.S. Census Bureau
  - Proprietary data from Location, Inc.
- Develop a model that projects baseline average rents, home values, and number of rental units for the next ten years in Chicago by census tract under status quo.
- Perform extensive review of high-quality empirical studies on the impacts of rent control.
- Apply evidence from empirical studies to estimate effects relative to baseline of rent control in Chicago.

# III. Overview of Approach

## Rent Control Policy Analyzed

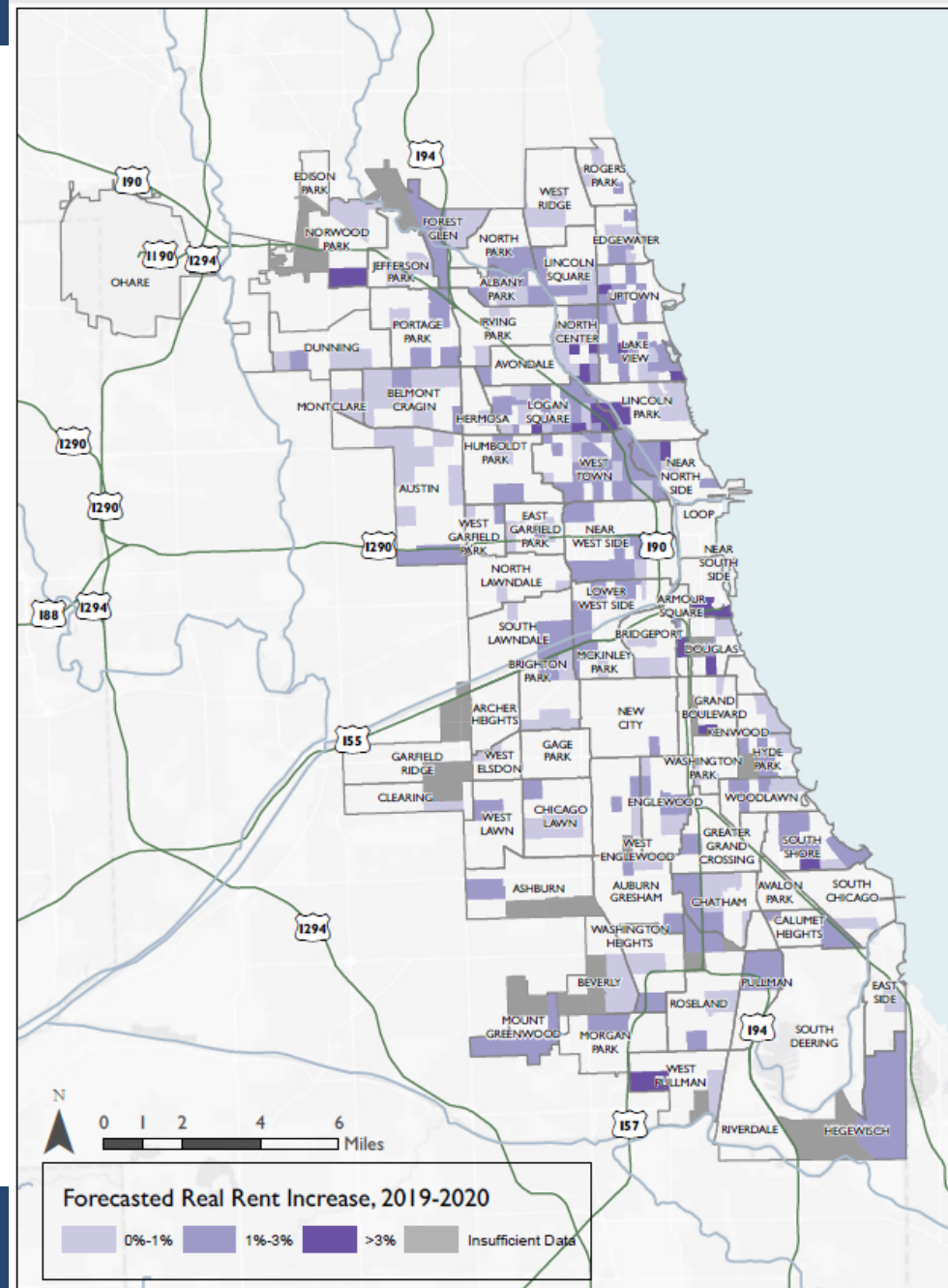
- Based on language in draft amendment of SB 3512, with some changes
  - Go into effect in 2020
  - Would apply only to rental properties built in 2019 or earlier
  - Would not apply to owner-occupied rental buildings with fewer than six units
  - Rent increases would be capped at rate of inflation
  - Vacancy control applies: can't reset rent even when tenant changes

## IV. Projected Rent Increases

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**FIGURE.** Projected Average Increase in Real Rents (adjusted for inflation)

- Since rent increases will be capped at the rate of inflation, map shows the extent to which controlled rent will deviate from market rent, by census tract
- In typical year, 31% of rental units (185,000 in 2020) would see suppressed rents due to rent control



# IV. Projected Rent Increases

## Tenant Savings

- Tenant savings from rent control will grow over time, as gap between market rate and controlled rate widens.
- Total savings to Chicago tenants from rent control will be \$157 million per year within 10 years – average of \$27 per month per unit, but with wide variance among units.

## V. Supply of Rental Units

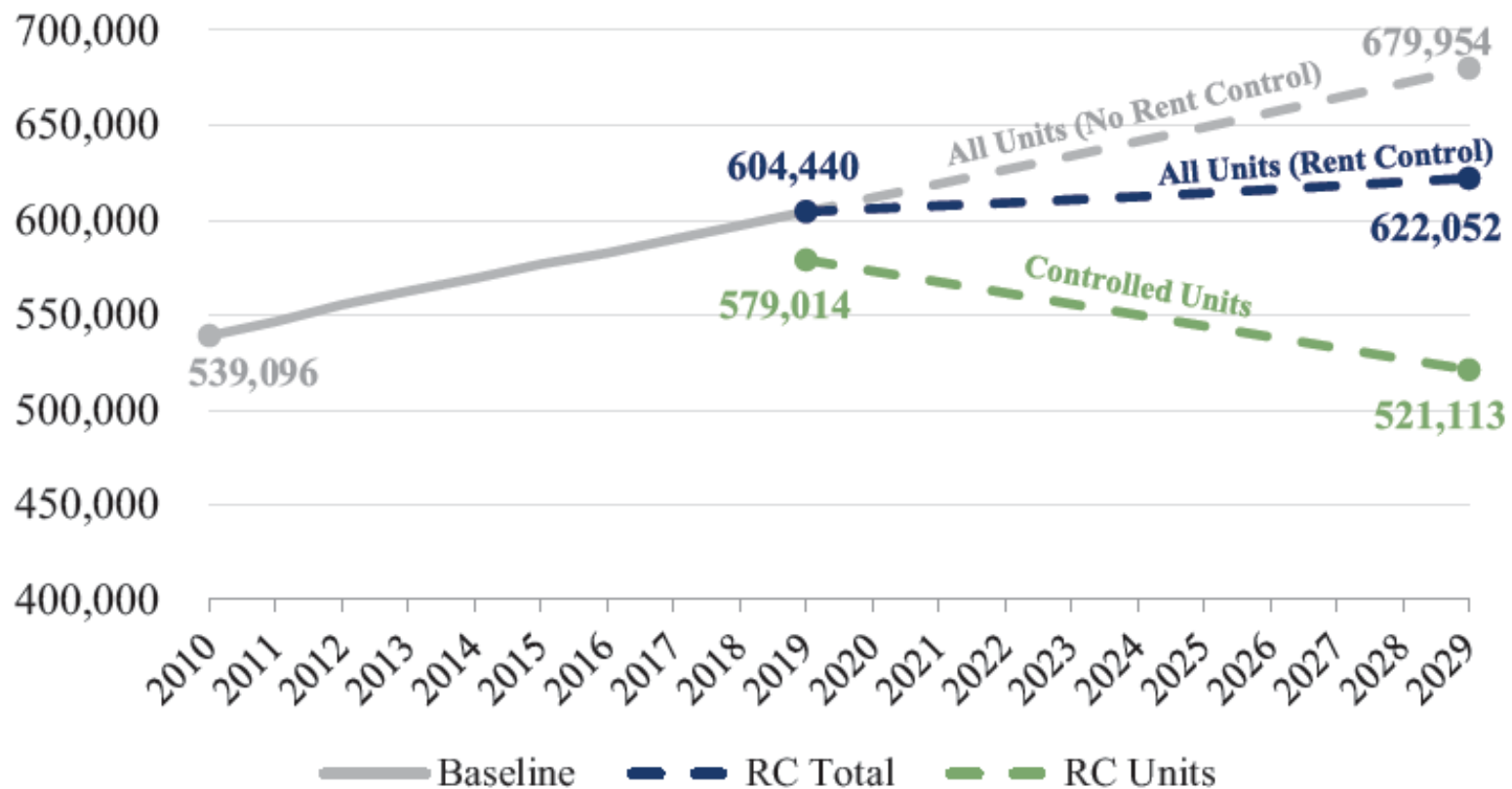


Several studies corroborate the following:

- Number of rent controlled units will **decline by approximately 10% within 10 years**, due primarily to condo conversions and removal from the market.
- Overall rental supply relative to counterfactual amount without rent control **declines by *even more*, because new construction of rental units also adversely impacted** by rent control. There is insufficient evidence to project a quantified effect on new construction in Chicago.  
[Note: This occurs even when new construction exempt from rent control.]

# V. Supply of Rental Units

**FIGURE.** Estimated Supply of Rental Units With and Without Rent Control, 2010-2029



Source: Anderson Economic Group analysis of base data from Location, Inc., Navarro, 1985.

## VI. Home Values

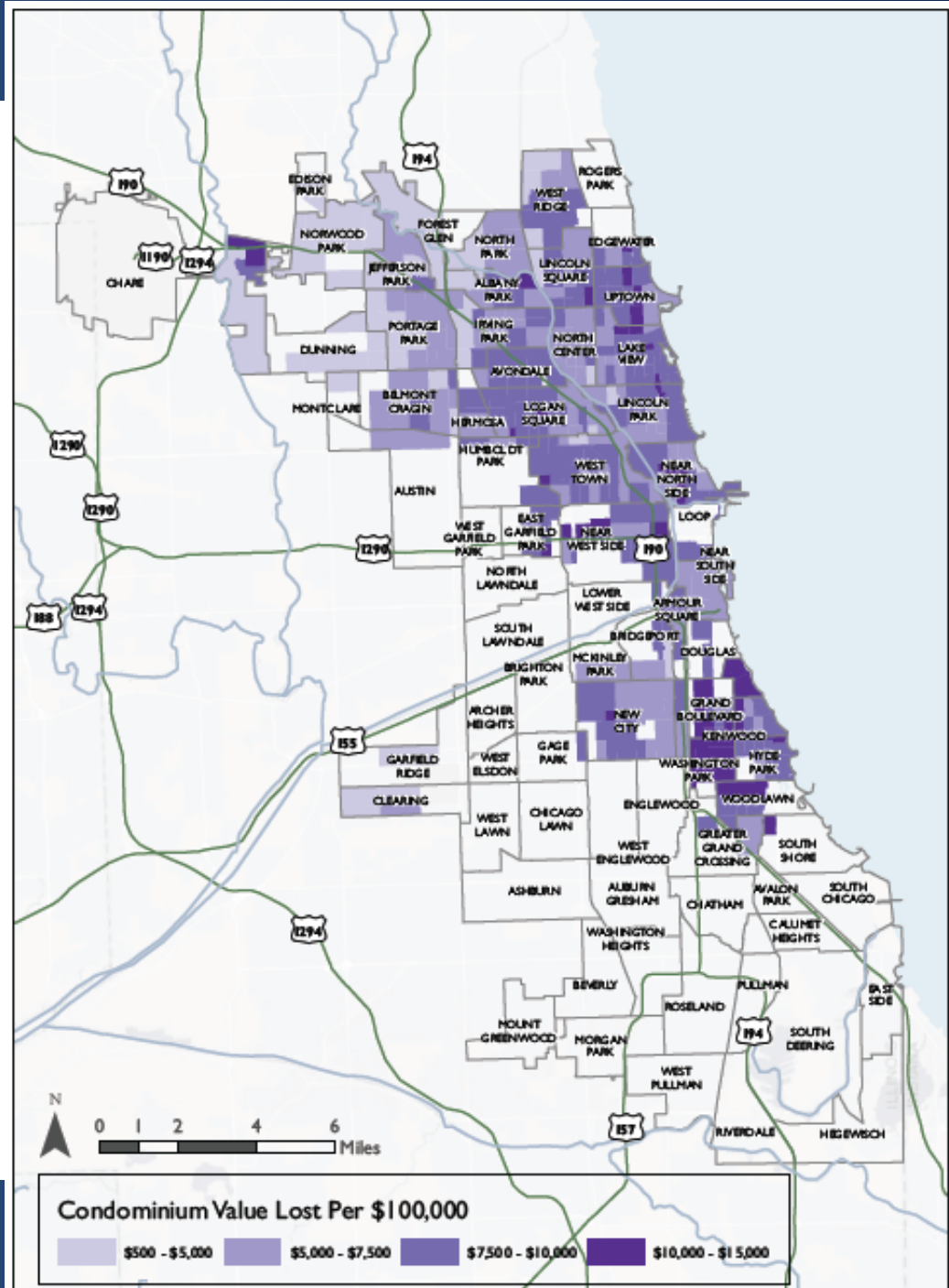
# VI. Home Values

- Research on Cambridge, Massachusetts, showed that rent control decreased value of owner-occupied condominiums. The effect was magnified in areas with larger concentration of rent-controlled apartments.
- Mechanism is unclear, but could be combination of two things:
  - Option value of converting condos to apartments has declined
  - Market flooded with condos from conversions
  - Rent control results in less aesthetic upkeep by landlords
- There was no statistically significant effect found for the impact on single family homes

# VI. Home Values

**FIGURE.** Condo Value Lost per \$100,000 by 2029

- Aggregate decrease in owner-occupied condo values of \$2.8 billion by 2029. This is equivalent to \$21,700 per condo.
- Largely concentrated in North, Northwest, and South Loop, but we lack data for large portions of South and West sides.



## VII. Other Effects

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## Housing Quality

- In Boston, rent controlled units were shown to have higher rates of aesthetic problems, such as broken paint/plaster, holes in walls or floors, or loose railings, than non-controlled units.
- After rent control was banned statewide, the rate of aesthetic problems in previously controlled units declined
- Major problems (beyond aesthetic) are not more common in rent-controlled units, as they are still subject to other regulations

# VII. Other Effects

## Property Values

- Adverse effect on property values for rental properties.
- Adverse effect on condo values, as described in previous section.



# VII. Other Effects

## Resident Migration

- In Boston, tenant duration dropped from 6.8 years to 4.3 years following elimination of rent control.
- Effect may not be as severe under policy that includes vacancy control

Questions?



East Lansing | Chicago

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