

The Impacts of Rent Control on Chicago's Housing Market

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Commissioned by: Illinois REALTORS®

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I. Executive Summary

PURPOSE OF REPORT Illinois REALTORS® retained Anderson Economic Group to identify and quantify the impacts of a citywide rent control ordinance in Chicago.

The impacts we estimate include:

- Changes in rental housing supply if a citywide rent control ordinance is implemented;
- Changes in home values associated with a citywide rent control ordinance; and
- Savings to tenants from reduced rent increases.

Rent control in Illinois has been banned since the legislature passed the Rent Control Preemption Act (RCPA) in 1997. In February 2018, Senate Bill 3512 (SB 3512) was introduced to the legislature. It was one of several bills introduced last year that would repeal the RCPA. The bill would repeal the RCPA and institute statewide rent control. Separately, during the November 6, 2018 elections, voters in three of Chicago's wards in Logan Square, Uptown, and Rogers Park, voted in favor of lifting the statewide rent control ban in a non-binding ballot question.

This executive summary document provides an overview of our findings. For a full discussion of our findings and detailed description of our analysis methodology, please see the full report.

OVERVIEW OF APPROACH

We reviewed empirical studies on the impacts of rent control in other major cities in the United States and collected data on the Chicago housing market. We then applied empirical findings to a custom-built Chicago housing market model in order to estimate the impacts of a citywide rent control policy.

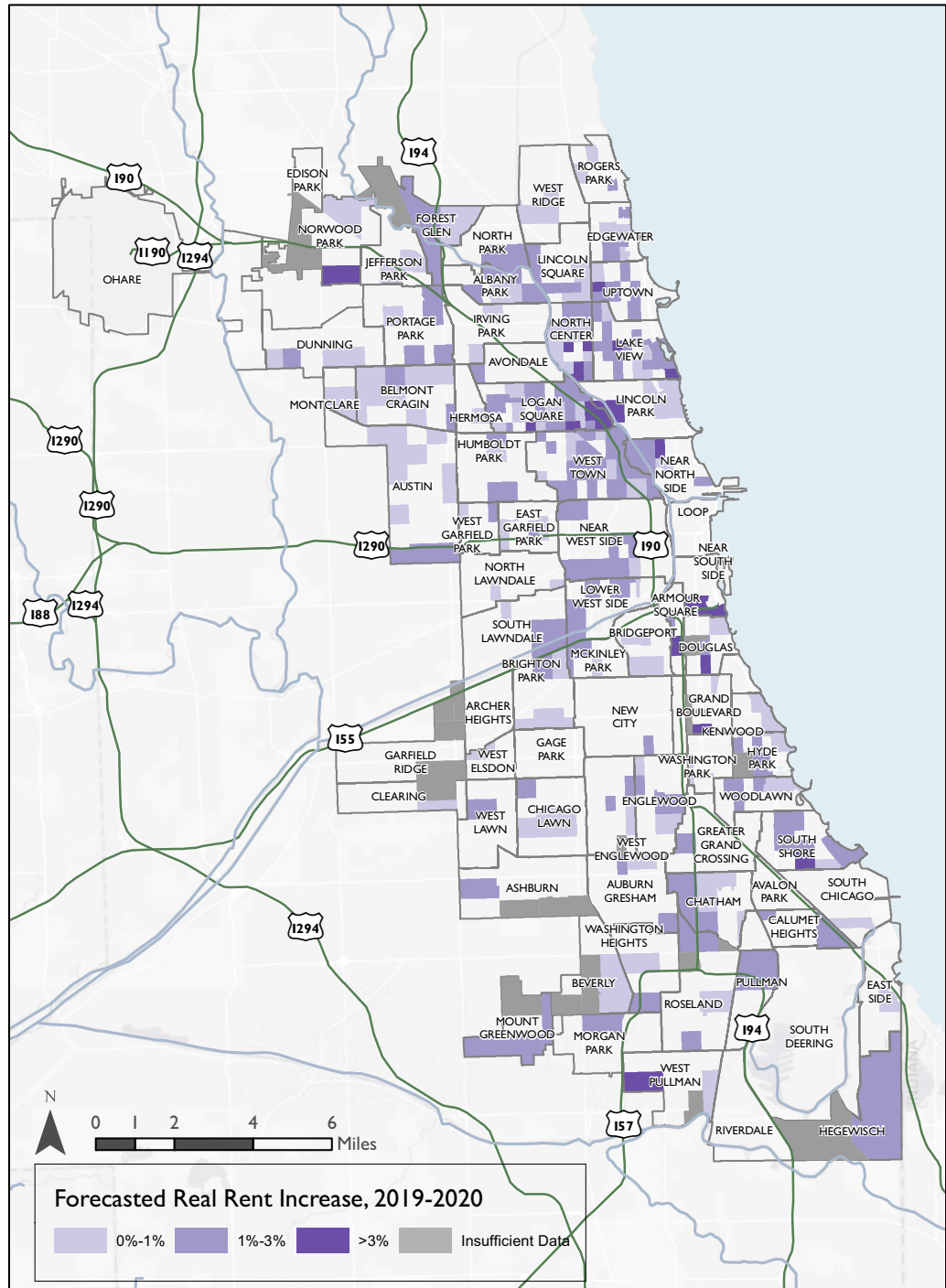
OVERVIEW OF FINDINGS

1. A citywide rent control ordinance implemented in 2019 would prohibit nearly 185,000 rental properties in Chicago from increasing rents to market rates between 2019 and 2020.

If policymakers implemented a rent control system that limited property owners from raising rents beyond the rate of inflation in 2019, we estimate that 31% of rental units across the city would see rent increases lower than the market rate increase between 2019 and 2020. Market rate rent increases would be capped in neighborhoods across Chicago, with large portions of Logan Square, West Town, Near North, North Center, Lakeview, Uptown, Near West Side, and Hyde Park unable to increase rents in most units to market rates.

We show census tracts where average rents would increase faster than the rate of inflation in the absence of rent control in Figure 1 on page 2.

FIGURE 1. Census Tracts where Rent Increases would Exceed Rent Control Limit, 2019-2020



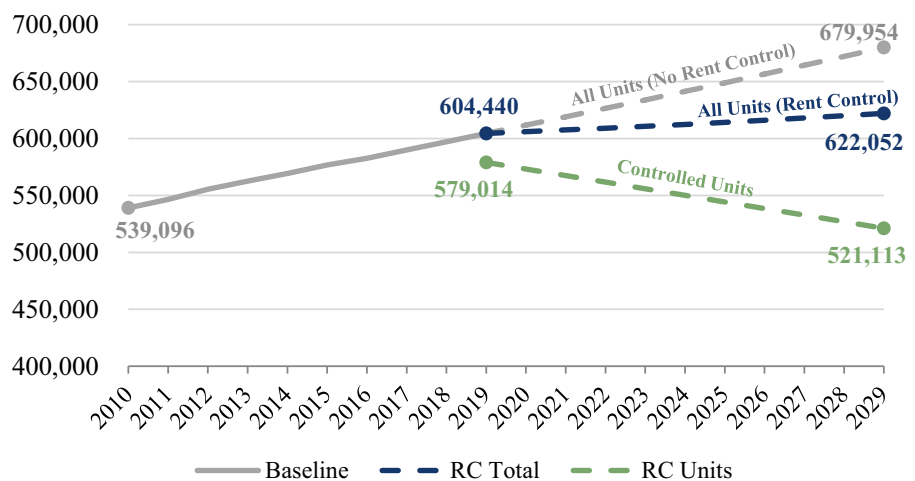
Source: Anderson Economic group analysis of base data from Location, Inc., U.S. Census Bureau.

2. A rent control ordinance would lead to a 10% decrease in the supply of rent controlled units between 2019 and 2029 as property owners convert rental units to condominiums.

Rent control creates an incentive for rental property owners to convert their rental units to condominiums.¹ We estimate that, if Chicago were to implement rent control, the supply of rent controlled homes would decrease by 10% over a ten-year period from 579,000 to 521,100 as rental unit owners convert controlled units to condominiums.

We also estimate that, by 2029, there would be approximately 58,000 fewer rental units in the city compared to a baseline growth scenario with no rent control. We show our estimates for the citywide supply of rental and rent controlled units in Figure 2 below. Note that, in 2019, there is a gap between the total number of rental units and number of rent controlled units, since some of Chicago's rental units are in owner occupied buildings with less than six units and would be exempt from rent control under the proposed bill.

FIGURE 2. Estimated Number of Rental Units in Chicago under Rent Control and No Rent Control, 2010-2029



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

Studies suggest that rent control has an adverse impact on new construction as well, even when rent control does not apply to new construction. We do not

1. Peter Navarro, "Rent control in Cambridge, Massachusetts," *Public Interest* 78(4), 1985, pp. 83-100.

David P. Sims, "Out of control: What can we learn from the end of Massachusetts rent control?" *Journal of Urban Economics* 61, 2007, pp. 129-151.

quantify that effect in this report, since the scale of the impact is uncertain. The figure above represents a likely ceiling on the overall level of rental supply.

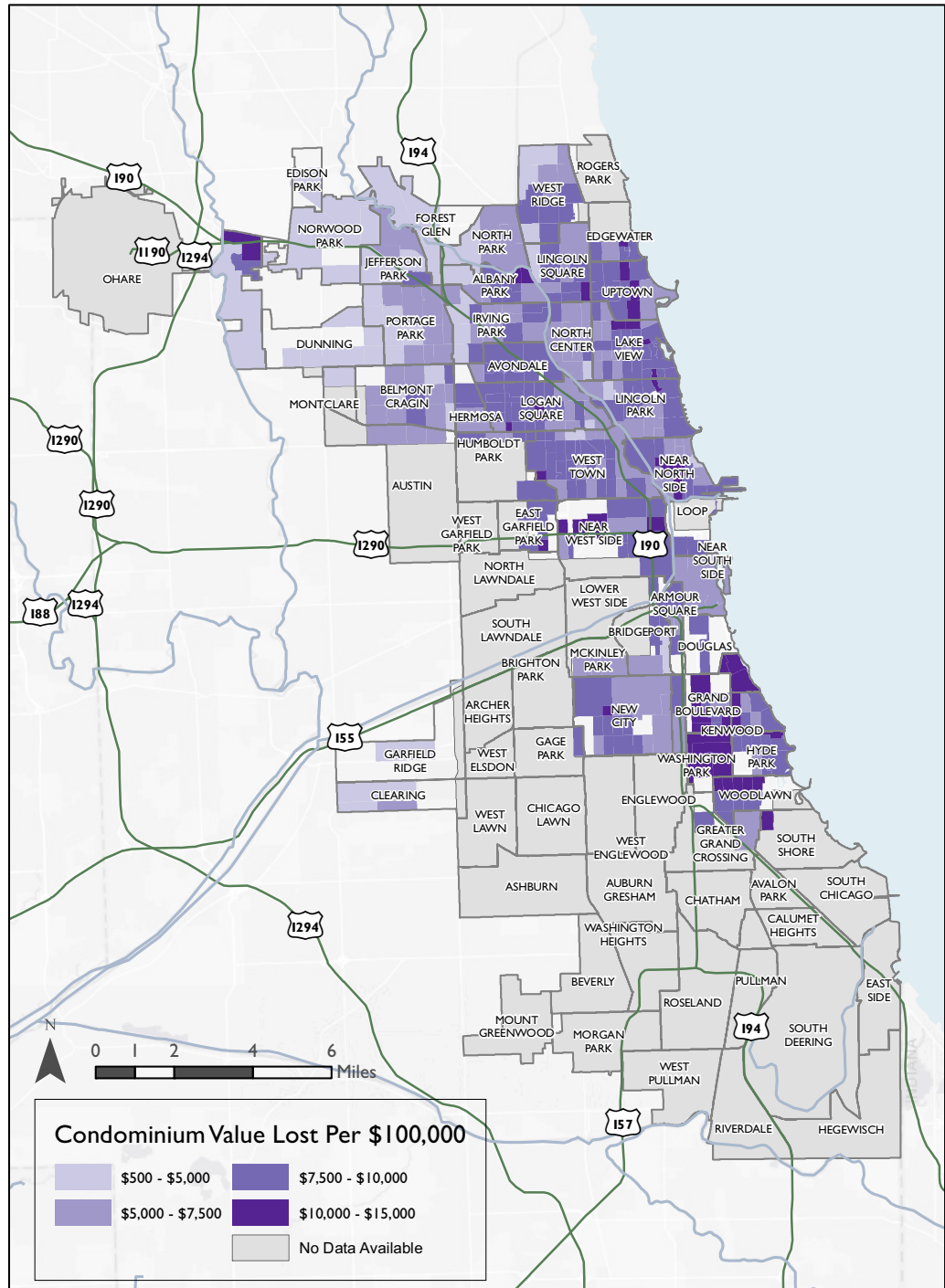
3. A citywide rent control ordinance would lead to savings to tenants of rent controlled units \$157 million annually by 2029.

If rent increases are limited to the rate of inflation in rent controlled units, the total savings to tenants from rent control would be approximately \$157 million annually within 10 years. Our estimate accounts for the fact that rental units in areas with the fastest growing rents would be among the most likely to be taken off the rental market and converted to condominiums.

4. After 10 years of rent control, the value of condominiums on Chicago's north, northwest, and near south sides could decline by \$2.8 billion as a result of rent control.

A citywide rent control ordinance would negatively impact the value of owner occupied condominiums across Chicago. Condominium values would be affected most in neighborhoods with the highest concentrations of rent controlled units. We estimate that, in neighborhoods for which we have data, the total market value of condominiums would drop by \$2.8 billion within 10 years. We show our estimates for value lost, per \$100,000 in condominium value, by neighborhood, in Figure 3 on page 5.

FIGURE 3. Estimated Condominium Value Lost due to Rent Control, per \$100,000 in Condominium Value, 2029



Source: Anderson Economic Group analysis of base data from Location, Inc., U.S. Census Bureau, Zillow Group, Autor, 2014.

LIMITATIONS

Our analysis is based on empirical research findings on the impacts of rent control in other cities, and applies these findings to Chicago. We reviewed dozens of studies on the impacts of rent control, and applied only the most robust empirical research findings to our models. Our future projections of rent and supply are based on trends since 2010. The results presented here are contingent on the continuation of those trends and external validity of experiences in other cities to Chicago.

ABOUT ANDERSON ECONOMIC GROUP

Anderson Economic Group, LLC is a research and consulting firm, with offices in East Lansing, Michigan and Chicago, Illinois. The experts at AEG specialize in strategy, business valuation, public policy, and market analyses. They have conducted nationally-recognized economic and fiscal impact studies for private, public, and non-profit clients across the United States.

The Public Policy and Economic Analysis consultants at AEG have extensive experience in advanced economic modeling techniques, and have produced reports on a number of housing market issues, including property taxes, lead paint abatement, and homebuyer savings accounts. Work by AEG is frequently used in legislative hearings, legal proceedings, and public debates.

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