



CHICAGOLAND APARTMENT
ASSOCIATION

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THE CASE AGAINST RENT CONTROL IN ILLINOIS

JANUARY 2019



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January 14, 2019

To whom it may concern:

On behalf of the Chicagoland Apartment Association, I appreciate this opportunity to provide you with information about an important public policy issue that may be considered during the upcoming session of the Illinois General Assembly. Some affordable housing advocates are expected to support **rent control** as a solution to gentrification and displacement. However, practical experience and academic research have demonstrated that rent control has the opposite effect, resulting in less affordable housing and increased rents.

Housing policy experts and economists from across the political spectrum overwhelmingly oppose the concept of rent control as means to create and maintain affordable housing. According to a poll by the American Economic Review, a resounding 93 percent of economists agree that a ceiling on rents reduces the quantity and quality of housing availability. That's why 37 states currently have some form of rent control pre-emption statute in place and others are pursuing it.

Price controls on rent negatively impact the housing market by discouraging maintenance of existing housing and construction of new housing. Owners of rent controlled units are unable to maintain and upkeep properties, expediting the deterioration and diminishing value, causing disinvestment, conversion to condominiums or other uses. When this decrease in rental housing stock coincides with increased demand, it leads to increased costs for all renters. A 2017 study concluded that rent control in San Francisco is responsible for rent increases of 5.1% over natural market growth.

Rent control discourages investment and development of new rental apartments, leading to housing shortages, and makes attracting new businesses and jobs more difficult. It also places a burden on local governments. The reduction in property values that results from rent control leads to a decline in

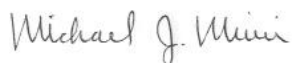
property tax revenue. The revenue decrease occurs while government expenditures increase as large bureaucracies are needed to administer and enforce rent control regulations.

Rent control typically fails to protect those residents it was intended to help. Since rent controlled apartments are not distributed by need, its effects are poorly targeted. It discourages residents from moving despite their economic situation. A better solution to aid low-income renters is to provide rental assistance directly to the consumer, which would allow prospective residents to choose housing that fits their needs.

We recently developed the **SHAPE Illinois** (*Support Housing Affordability, Progress and Equality*) campaign to educate our members, policymakers and the public about affordable housing issues and rent control. Visit www.shapeillinois.com for valuable resources and information about achieving affordable housing options for all Illinois residents. Some of those resource documents are included with this letter for your review.

We are committed to working with state and local policymakers on alternative approaches to provide affordable housing such as direct rental assistance to residents and tax incentives to keep rents affordable, and policies that streamline, incentivize, and reduce impediments to apartment development.

Sincerely,

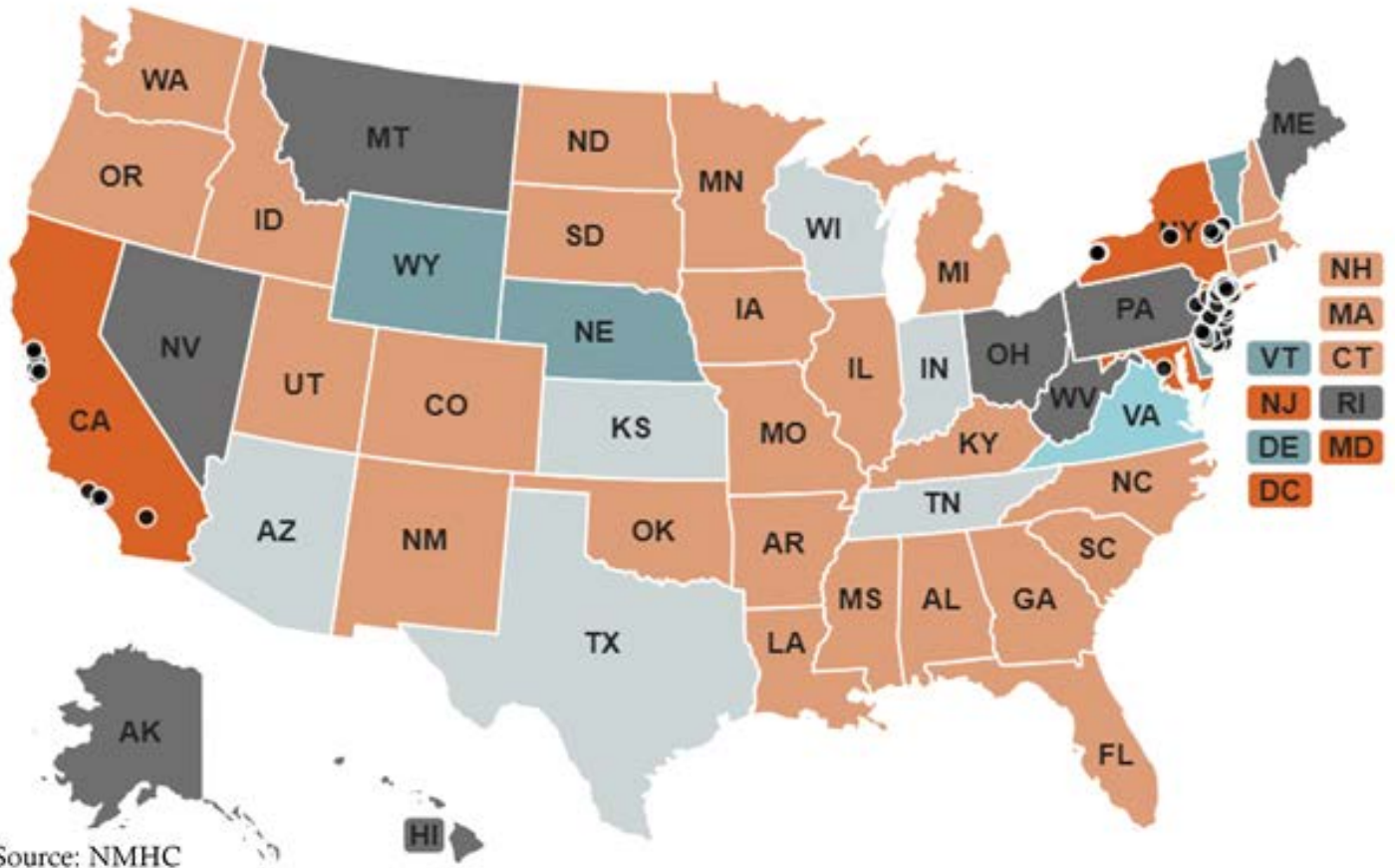


Michael J. Mini
Executive Vice President

I. Rent Control Preemption Laws: National Context

Legend:

- Has Rent Control
- Preempts Rent Control
- Preempts Mandatory Inclusionary Zoning & Rent Control
- Has no Rent Control nor Preemptions
- Dillon's Rule & Preempts Mandatory Inclusionary Zoning
- Dillon's Rule local government requires enabling legislation from state



II. Illinois Housing Shortage Analysis

SHAPE Illinois (Supporting Housing Affordability, Progress and Equality) recognizes an urgent need for the State of Illinois to develop strategies aimed at a balanced housing approach – policies that will encourage additional supply of market-rate, affordable, and workforce housing units.

According to a comprehensive 2017 study from the National Multifamily Housing Council and the National Apartment Association, Chicagoland is expected to require 48,000 new apartments by 2030 to keep pace with local demand. Driven by an aging population who favors rentals, international immigration, and fewer home purchases, the results are an increased need for new apartments. In Chicago, housing dynamics have shifted as more people are moving away from buying houses and opting for apartment rentals, especially single and two-person households.

Adding 48,000 new apartments would not only satisfy anticipated housing needs, but it would also increase economic activity across Chicagoland in related industries. Plus, there is a growing need for renovations and improvements on existing apartment buildings, which will also provide a boost in employment, because roughly half of the apartment stock was built pre-1980.

As housing supply increases, a balanced approach should be centered on providing more *affordable housing* and *workforce housing*, defined as homes for middle-class families, or more specifically those who earn between 50-120 percent of the area median income. Public policy solutions like rent control would be counterproductive, discouraging the construction of new homes and limiting the affordability of needed renovations.

Under a rent controlled environment – even one that is permitted rent increases at the modest rate of inflation – there is no room to account for increased property taxes, substantial renovations, or unexpected larger expenses. For example, the cost of water in the City of Chicago has doubled over the last six years to help pay public pension debt, so if rent control were already enacted, unforeseen fees such as higher water bills would significantly discourage the construction of new assets under the high-risk reality of artificial price caps established by rent control.

In the City of Chicago’s current regulatory climate, new apartment development is more often pursued only for higher-end units to justify construction costs because investment in rental housing is made too expensive by burdensome regulations, drawn-out approval processes, unstable state and local finances, high property taxes, increased fees, and aggressively litigious tenant advocacy groups. Adding to the affordable housing construction barriers, neighbors often protest even the consideration of new affordable developments when it is too close to their own backyard.

Instead of rent control, lawmakers should be focused on attracting more multifamily housing to be built, translating to lower prices through increased supply, while delivering needed units to keep pace with soaring demand. SHAPE Illinois would like a seat at the table to develop more viable, balanced, longer-term solutions.

STATEWIDE HOUSING NEEDS

- INCREASED SUPPLY OF MARKET-RATE, AFFORDABLE, AND WORKFORCE HOUSING
- 48,000 NEW APARTMENTS IN AND AROUND CHICAGOLAND BY 2030
- RENOVATIONS AND IMPROVEMENTS TO OLDER APARTMENT STOCK
- WELCOMING NEIGHBORHOODS FOR NEW AFFORDABLE DEVELOPMENTS

BARRIERS TO HOUSING NEEDS

- RENT CONTROL PROPOSALS WITH ARTIFICIAL PRICE CAPS
- BURDENSOME REGULATIONS AND EXTENDED PERMIT PROCESSES
- HIGH PROPERTY TAXES AND UNEXPECTED NEW FEES
- NIMBY ATTITUDES BLOCKING NEW AFFORDABLE ALTERNATIVES

III. Rent Control Policy Analysis

OPPOSE: Overturning of the Illinois Rent Control Preemption Act

SHAPE Illinois (Supporting Housing Affordability, Progress and Equality) stands in opposition of any legislative initiatives which would overturn Illinois’ Rent Control Preemption Act, which currently prohibits local governments from instituting rent control policies. SHAPE Illinois, plus an overwhelming percentage of economists, believe rent control results in fewer affordable housing options while simultaneously reducing the quality of remaining affordable housing options.

Housing policy experts from across the political spectrum reject the notion that lower-income renters are the major beneficiaries of such policies. Consensus among these individuals remains that rent control policies actually work against affordable housing objectives because they often benefit an unintended demographic, discourage investment in new and existing rental housing, erode property values causing a tax shift, and ultimately lead to an overall shortage of quality, affordable rental housing.

Here’s how Nobel Prize-winning economist Paul Krugman of the *New York Times* describes rent control policies:

“The analysis of rent control is among the best understood issues in all of economics... a ceiling on rents reduces the quality and quantity of housing. Almost every freshman level textbook contains a case study on rent control, using its known adverse side effects to illustrate the principles of supply and demand.”

When market forces are artificially influenced by rent control policies, investment by real estate owners diminishes, leaving residents with fewer quality options. Adding to these universal concerns, the City of Chicago and State of Illinois present their own set of unique challenges to owners of properties from two-flats to high-rises, because investment in rental housing is discouraged by unstable state and local finances, high property taxes, increased fees, and aggressively litigious tenant advocacy groups.

Instead of rent control, lawmakers should be focused on attracting more multifamily housing to be built, translating to lower prices through increased supply, while delivering needed units to keep pace with soaring demand. A 2017 analysis forecasted demand for 48,000 new Chicagoland apartments by 2030 to keep pace with the anticipated need. Additionally, SHAPE Illinois supports policies that explore public/private partnerships to create housing vouchers which are designed to follow lower-income people, perhaps similar to the newly launched LIVE Denver program. Legislative proposals which incentivize affordable housing investment are also wise. But ultimately, the best solution is to create a greater supply of affordable housing, which can be incentivized by reducing unnecessary regulations, streamlining approval processes, and overcoming exclusionary NIMBY tactics employed in some neighborhoods.

RENT CONTROL PITFALLS

- DIMINISHED SUPPLY OF AFFORDABLE HOUSING
- DECREASED QUALITY OF AFFORDABLE HOUSING
- TAX SHIFT TO HOMEOWNERS DUE TO EROSION OF PROPERTY VALUES
- UNINTENDED, UNQUALIFIED OCCUPANTS

RENT CONTROL ALTERNATIVES

- VOUCHER SYSTEM THAT FOLLOWS LOWER-INCOME RESIDENTS
- STATE LEGISLATION INCENTIVIZING DEVELOPMENT OF AFFORDABLE HOUSING
- INCREASE AFFORDABLE HOUSING SUPPLY WITH LIGHTER-TOUCH REGULATIONS

IV. Rent Control's Effects on Neighborhoods

HOW RENT CONTROL HURTS NEIGHBORHOODS:



- Supply of affordable housing becomes reduced due to a lack of investment and condo conversions
- Quality is reduced after improvements and modernizations are deferred because they are unaffordable
- Studies indicate too many people without financial need draw rent control's benefits, leaving the neediest to sometimes search for housing options
- Property values decrease, shifting the property tax burden to home and condo owners

ALTERNATIVES TO RENT CONTROL:

- New and expanded housing vouchers to fill the affordable gap for those with financial need
- Legislation to incentivize renovations to modernize existing units and construct new affordable housing
- Lighter-touch regulations by local government entities making affordable housing simpler to build and maintain



V. Alternative Solutions to Rent Control

SOLUTIONS INSTEAD OF RENT CONTROL



SHAPE Illinois believes Illinois neighborhoods need an increased supply of multifamily housing, specifically 48,000 new apartment units in Chicagoland alone by 2030. Tax incentives to build affordable housing are helpful, especially when paired with reforms to simplify and accelerate the construction process. For a shorter-term solution to displacement issues, creative aid programs to fill the affordable gap are being implemented in other parts of the country and worth exploring here.

SPECIFICALLY, ILLINOIS SHOULD EXAMINE:

- New and expanded housing vouchers to fill the affordable gap, targeted specifically to those with demonstrated financial need.
 - LIVE Denver is implementing a public/private partnership to fill the affordable gap for low and moderate-income people
 - North Dakota offers tax credits for individuals and businesses to contribute to their Housing Incentive Fund
- State legislation to incentivize renovations to modernize existing units and construct new affordable housing
- Lighter-touch regulations by local government entities making affordable housing simpler to build and maintain

