A ROUNDTABLE DISCUSSION

RENT CONTROL:

STAKEHOLDERS URGE CAUTION ON REPEALING STATE BAN

>>> Illinois is one of 37 U.S. states with a ban on rent control. The 1997 Illinois Rent Control Preemption Act prohibits municipalities from enacting, maintaining or enforcing measures that control the amount of rent charged for a residential property. A bill in the Illinois House proposes to repeal the ban; the much-discussed topic was an issue in the last Illinois governor's race, and most recently, among current Chicago mayoral candidates. Crain's Custom Media checked with four local experts to get their views on how lifting the ban and implementing rent control might impact Chicagoland renters, property owners, taxpayers and communities.

>>How do Chicago-area housing prices compare to other major U.S. metro areas?

Michael Mini: Chicago rents consistently rank well below those of other major U.S. cities; it typically doesn't even register in the top ten markets when measuring for rent levels and annual increases. Neighborhoods vary widely, but overall Chicago remains among the most affordable big cities in the country, contributing to our attractiveness as a center for job creation.

Hipolito "Paul" Roldan: Compared to larger U.S. cities with growing local economies, Chicago area home prices and rents are a relative bargain. However, working-class, for-sale and affordable rentals are becoming increasingly scarce.

Eric J. Kellogg: Housing in Harvey is affordable and brings individuals and families considerable value. While some portions of Chicagoland indeed struggle with affordable housing issues, Harvey and most of Chicago's Southland concentrate on different challenges, such as the home vacancies we're trying to fill.

>>What are your views on the Chicago area's housing supply vs. demand?

Roldan: Chicago has averaged more than 6,000 new rental units for the past four and one-half years, and there's another 7,000 units in the pipeline. However, most apartments are built and marketed to the top one-third income demographic, placing enormous financial and gentrification pressure on strong working-class neighborhoods surrounding the Loop and central business district. Meanwhile, the development of affordable housing has steadily decreased, even as neighborhood demand has grown.

Mini: While the number of families renting their homes is at an all-time high—and growing—the supply of new apartments is falling short of demand. The high cost of land, construction, capital, building codes and labor, combined with restrictive zoning laws, excessive government regulation and NIMBYism results in depressed development of market-rate and affordable apartments.

Kellogg: In Harvey, our housing is largely affordable and supply is outpacing demand from owners and renters. We welcome new, modern, affordable housing development, but our current supply of existing housing can also be rejuvenated. Investors should take note that opportunities in Harvey abound.

>>What's your industry's consensus regarding Chicagoland's need for rent control?

Dr. Michael S. Miller: As an academic economist, I can think of few other topics on which the discipline speaks with such a unified voice—that rent control is unwise, inefficient and ultimately leads to negative unexpected consequences. Not even those on the left embrace government intervention into the pricing of housing. As socialist economist Assar Lindbeck wrote several decades ago, "In many cases, rent control appears to be the most efficient technique presently known to destroy a city—except for bombing."

Kellogg: As part of a caucus of African-American mayors in the Southland, the majority of us oppose the concept of rent control because it would slow—or even stop—the economic rebound we see as a potential. Rent control would bring a patchwork of rules that would stifle our efforts to continue our community improvements.

Roldan: The market-rate rental sector is against rent control and the affordable housing industry seems to support it. I believe both sides are a reaction to self-interests without truly understanding the long-term operational dynamics of rent control, and the long-term physical impact on properties and communities.

Mini: We firmly believe rent control represents the biggest threat in decades to Chicagoland's thriving rental housing market. In a poll by the American Economic Review, 93 percent of economists agreed that a ceiling on rents reduces the quantity and quality of housing. Rent control is widely understood to be a misguided policy. That's why 37 states currently have some form of rent control preemption in place, and why it's critical that Illinois maintain its rent control preemption statute.

>>Who locally might be disproportionately affected by rent control?

Miller: Owners of rent-controlled units will have the rate of return on their investments lowered, while owners of uncontrolled units will face competition from units that are rent-controlled. The few lucky renters who get the controlled units will clearly, in the short run, get a quality unit at a lower price. But what about those who would be willing and able to pay more to get the unit, but are excluded due to the shortage of units at the rent-controlled price? This is inefficient, with one winner and three likely losers.

Mini: Rent control would cause smaller landlords to sell their rental housing to owners who would live there, thus displacing residents. Developers may be unwilling to invest in rent-controlled markets, which could cause housing to fall further into decay. This would reduce

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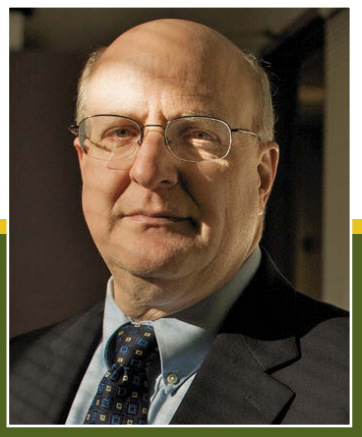

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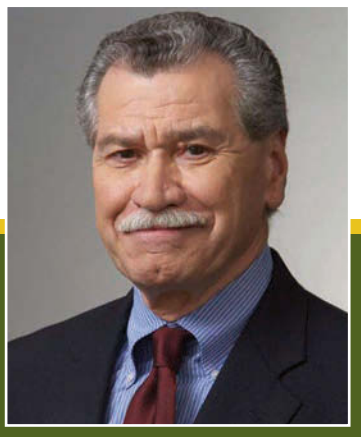

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property values, and the diminished property tax revenue would result in the need to raise property taxes on other taxpayers.

Kellogg: Harvey has never fully recovered from the housing crash that occurred just over ten years ago. As a result, we have too many vacant homes. One solution for the banks and title-holders of these properties has been to find market-rate renters. Rent control would eliminate the incentive to improve these homes. When considering statewide housing policies, one needs to realize places like Harvey have unique sets of challenges and opportunities.

Roldan: Mom and pop rental property owners of two to 10 units would be hard-pressed to operate viably in a rent-controlled environment. Keeping up with necessary capital improvements would become virtually impossible, properties would deteriorate, and property values would diminish over time.

>>What effect would rent control likely have on the supply and quality of Chicago-area housing?

Mini: The overwhelming consensus among economists is that price controls on rents are inefficient, counterproductive and lead to serious negative impacts for housing markets. A 2017 Stanford University study concluded, "Rent control has actually fueled the gentrification of San Francisco, the exact opposite of the policy's intended goal." It resulted in increased rents and fewer affordable units. Rent control negatively impacts the housing market by deferring maintenance of existing housing and discouraging construction of new housing. Owners of rent-controlled units are unable to adequately maintain and upkeep properties, expediting 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.

Kellogg: When an artificial price cap is applied, investment will be limited, plus the quality of rent controlled homes will deteriorate. Making matters worse, some renters in rent-controlled units cannot afford to move, being forced to live in homes where improvements are unaffordable.

Roldan: Rent control could begin to choke the golden goose, mitigating new investment in housing development and making it difficult to properly operate and improve existing housing. It fundamentally would increase risk and minimize profit, while choking off value growth.

Miller: The effect on supply must be considered from both a short- and long-run perspective. Remember that investors have multiple options as to the use of their investment dollars. In the short run, the quality of the existing units will likely decline. The owners have little incentive to reinvest in normal maintenance and upgrades, knowing that they will reap a sub-market, rent-controlled return. Why not just use the money to invest in equities, commodities or debt, where there's a level playing field for all? In the long run, housing stock will fall for a simple reason: Why would anyone invest in new real estate construction if it's known from the start that the return on that investment will be determined by the whim of a rent-control board? The desire to create affordable housing through rent control will be thwarted by market forces and human nature.

>>What effect might rent control have on the average Chicagoland neighborhood?

Roldan: Rent control could provide slightly lower rents for lower-income residents, but at an awful bureaucratic and regulatory cost.

Kellogg: Rent control would bring higher vacancies to Harvey, stopping our redevelopment in its tracks. Vacancies cause higher property taxes on existing homes, diminished safety in neighborhoods, and then even more vacancies. Rent control would be destructive.

Mini: Neighborhoods would risk falling into decay due to deterioration of existing housing stock and lack of investment in new construction. Rent control could induce owners to convert their buildings to condominium ownership or other uses, thereby taking rental units off the market, limiting housing choice for all and causing residents to seek housing in other non-rent-controlled communities. Lost property tax revenues from deteriorated and abandoned buildings would shift the tax burden to homeowners and other property taxpayers.

Miller: The quality and stock of housing in the neighborhood would fall. Assuming that real estate investors would act in their own self-interest—and that's a safe bet!—we could expect the quality of the existing rent-controlled housing stock to decline in the short run. No sensible owner would plow dollars into a unit that wouldn't provide a return consistent with the risk related to real estate investment and competitive with other possible uses of the money. In the long run, investors wishing to construct new units would shy away from the controlled market for exactly the same reason. Why build new units only to have the return on your investment be manipulated by a rent-control board that may see a landlord as an

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adversary rather than a partner in providing quality housing at a market-clearing price?

>>What about neighborhoods with a surplus of vacant properties?

Kellogg: The problems associated with vacancies would be exacerbated with more vacancies. Neighborhoods deteriorate when properties are vacant. As neighborhoods deteriorate, fewer people want to live there. This cycle is destructive and would be worsened by rent control.

Mini: The mere threat of rent control can have a chilling effect on apartment development, further delaying the economic recovery plans of those communities most in need of new investment and development.

Miller: Regardless of the neighborhood, investment in new housing units or upgrading of existing units will occur if and only if the rate of return the investor can get is commensurate with the risk inherent in the investment and competitive with other equally risky uses of the money.

>>What should real estate investors know about the potential impact of rent control?

Miller: Oh, they know exactly what rent control means and how they will respond. I feel certain that any real estate investor who's done due diligence in evaluating an asset in a market that is, or may soon be, rent controlled will do two things out of self-interest—avoid reinvestment in existing stock and undertake no new construction. To do anything else would be irrational.

Mini: Apartment investors are already burdened with excessive regulation that effectively increases development costs and often prohibits obtaining the capital needed to build quality rental housing for all market types. Despite these challenges, they've persevered and remained bullish on the Chicago-area apartment market. Enacting rent control could be the proverbial "straw that broke the camel's back," causing apartment owns to curtail or end investments here in favor or other non-rent-controlled communities.

Kellogg: The realities of rent control are well-understood by real estate investors. Simply put, they find other communities to build where the free market is allowed to operate. California discovered in the 1990s that rent control needed to be exclusively retroactive to existing buildings to bring investors back into key areas. Harvey is not Los Angeles, but the same principle applies—to attract investment, we need investors to know they can recapture market-rate rents. In Harvey, the City Council and I worked extremely hard to procure some outstanding projects, which have brought in much-needed economic development.

>>What impact might rent control have on local property taxes?

Miller: The slow decline in the quality of the existing housing stock will lead to market values below what would have been the case without the control. This means that taxes paid on that unit will fall over time relative to an uncontrolled unit. As for the long run, with no new construction of high-quality, high-value real estate, the tax base will be smaller than had the rent control never existed. In short, the real estate tax consequences of rent control are negative across the board.

Roldan: Chicago officials have already determined that the primary source of repayment of public pension liabilities is through the increase of property taxes. A direct effect of these increases is the reduction of property values and the personal wealth of its citizens. Layering rent control on this scenario would drastically reduce investor interest in Chicago, both in the real estate and corporate sectors. All of Chicago could be "red-lined" by the investment sector.

Kellogg: Rent control in my community of Harvey would cause a shift in property taxes, with the end result being a disproportionate effect on homeowners. Rent control causes the valuation of a rental property to decline, thus lowering its assessment level, and leaving a larger tax burden on others to pay for the city's necessary services.

Mini: In the late 1980s, New York City calculated the loss in assessed taxable property values attributable to rent regulation at $4 billion. At a time when governments are struggling to enact balanced budgets and manage unprecedented public employee pension debt, Illinois communities can least afford to risk the potential loss of tax revenue associated with rent control.

>>What role do incentives play in a rent-controlled housing market?

Miller: The fundamental precepts of economics are grounded in the belief that people act in self-interest, weigh costs and benefits across alternative uses of resources, and respond to incentives. If you want more of something, say housing, the market must provide the incentive for people to forgo other activities and invest in housing. We can never think of housing by itself, but must rather recognize the trade-offs investors will face when deciding how to place their money.

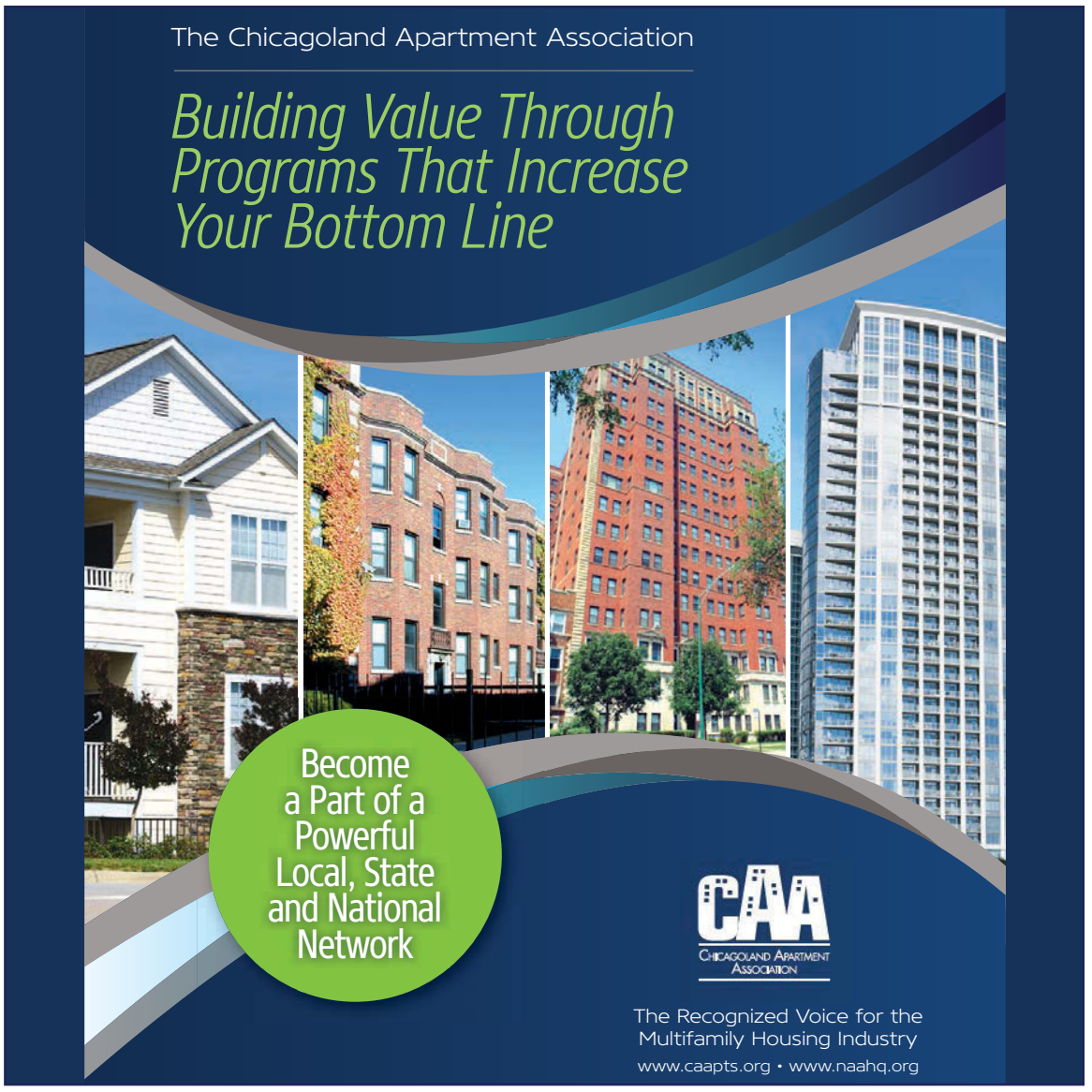
Mini: The need for developer incentives would be greater due to the capital constraints inherent in a rent-controlled housing market. Even in today's fiscal environment, incentives are a key component to underwriting affordable housing projects. The increased demand for incentives would further strain public budgets, making it increasingly difficult to achieve affordable housing opportunities for those most in need.

>>What are some current barriers to building new, affordable housing in the Chicago area?

Mini: The high cost of land, construction, capital, building codes and labor, combined with restrictive zoning laws, excessive government regulation and NIMBYism results in depressed development of market-rate and affordable apartments. Addressing housing affordability requires a partnership between the private sector and government, which has a tool box of approaches they can utilize to support affordable housing production. CAA is committed to working with policy-makers at all levels

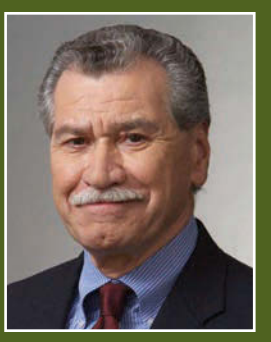
ABOUT THE PANELISTS

Eric J. Kellogg is the mayor of **Harvey, Illinois,** in Chicago's south suburbs, where he is a life-long resident. A 20-year educator, he took on the additional role of elected official in the late 1980s—first as a park district commissioner, then a two-term alderman. He holds a bachelor's degree in physical education, a master's degree in curriculum and is currently a doctoral candidate. He also is a state-certified police officer. Away from work, he is involved with local Little League, wrestling and football programs, the United Negro College Fund and numerous churches in his community.



Dr. Michael S. Miller is an associate professor of economics and associate dean for quality and compliance at **DePaul University.** His expertise is applied macroeconomics and business conditions analysis. In addition to teaching and research, he has served as department chairman and associate dean. He has twice been the recipient of the university's Excellence in Teaching Award. He is a frequent guest on Chicago radio and television, providing insights on macroeconomic conditions, fiscal policy and the Federal Reserve's monetary decisions. He holds bachelor's, master's and doctoral degrees in economics.

Michael Mini is executive vice president of the **Chicagoland Apartment Association**, a nonprofit trade association comprised of more than 190 companies managing over 200,000 apartment homes. In his current role, he promotes the interests of the apartment industry to elected officials, government agencies, civic organizations and the media. He previously held executive roles with the Chicagoland Chamber of Commerce, the National Association of REALTORS®, the Chicago Association of REALTORS® and the Institute of Real Estate Management. He holds a bachelor's degree in political science, and early in his career worked as a legislative aid.



Hipolito "Paul" Roldan is chief executive officer of **Hispanic Housing Development Corp.**, a 44-year-old nonprofit organization that creates affordable housing in Chicago's Latino neighborhoods. He is credited with developing more than 4,300 affordable apartments and townhomes, more than 82,000 square feet of retail space, and forming a division to manage nearly 4,000 residential units throughout the Midwest. Earlier in his career, he developed low-income housing in Brooklyn, New York. He holds a bachelor's degree in social studies and a master's degree in urban studies. He received a bronze star for combat duty in Vietnam.

of government to explore and implement policies and programs to help fix the affordable housing problem.

Kellogg: In Harvey, we work diligently to remove any perceived barriers to the construction of new affordable housing. Understanding the time value of money, we incentivize the developers of affordable projects by streamlining the permitting and zoning processes, attempting to grant occupancy and see residents move in as soon as possible. Secondly, in some parts of Chicago, including some areas of the Southland, local governments experience backlash from neighborhood residents when an affordable housing project is proposed for their area. That type of NIMBYism is too often based on shameful discriminatory attitudes, but please note, that's not the Harvey I have grown up in all my life. We're a welcoming community where people from diverse backgrounds are celebrated and warmly invited.

Roldan: Every nail, brick and two-by-four costs the same for market-rate and affordable housing and often so does the cost of land, capital and development team services. Ironically, the largest item on a development pro forma is construction, and affordable housing is saddled with a huge competitive disadvantage, namely Davis-Bacon, a federal law requiring union-scale wages which currently exceed "neighborhood" wages by 40 percent.

>>What other alternatives are available to help low-income Chicagoland renters?

Roldan: An infinitely better solution to the affordable housing crisis in Chicago would be to pass legislation—at the state or county level—that would waive property taxes for affordable housing. Wisconsin, Florida, Texas and California have successfully implemented laws that have eliminated the tax burden from existing and future affordable development. If affordable housing truly provides a fundamental benefit important to our society, then why tax it?

Kellogg: I support state and federal tax credits for those who build new affordable housing and for those who renovate and improve existing affordable housing. Policies such as the Low-Income Housing Tax Credit result in more private investment helping to boost communities like Harvey.

Mini: The Affordable Requirements Ordinance mandates inclusion of affordable units in market rate developments. However, we believe incentives like the federal Low-Income Housing Tax Credit and Opportunity Zone programs are more effective. We support expansion of rent subsidies provided by Housing Choice Voucher and Low-Income Housing Trust Fund programs. And we should consider additional measures like a new state tax credit for affordable housing, property tax relief for owners who agree to keep rents affordable, and the inclusion of affordable housing projects in a state capital bill. We're committed to working with local, state and federal policymakers to develop and implement alternative approaches to prevent gentrification and displacement and expand the supply of affordable housing.

>>What's your view on statewide rent control preemption?

Kellogg: I support the state's current preemption of local rent control ordinances. Studies show that rent control shrinks the supply of affordable housing, increasing demand, and then raising prices of market-rate properties. When policymakers are compelled to place their thumb on the scale of housing prices, they should incent a larger supply of affordable housing built with private investment, not set artificial price caps resulting in fewer quality properties.

Mini: The Illinois Rent Control Preemption Act should remain in place. Rent control will fail to provide more affordable rental housing for all; in fact, the opposite is true. It's important to manage this issue at the state level to avoid a patchwork of different rent control policies across the state that pit neighboring communities against one another. As the assessed value of rent-controlled multifamily buildings drops, a larger burden of property taxes will shift to other homeowners. We believe the unintended consequences of rent control are so severe, and the potential for economic harm to the state so great, that Governor Pritzker and the General Assembly should continue to demonstrate leadership on this issue by keeping the statewide ban on rent control in place.

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-Hipolito "Paul" Roldan, President & CEO, Hispanic Housing Development Corporation, Tropic Construction Corporation, Affordable Community Energy (ACE)

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