

*During the race for Illinois governor, candidate J.B. Pritzker stated that he supported repealing the statewide ban on rent control. Now after winning the election and recently taking office, Governor Pritzker could encourage the legislature to move forward with a reversal of the 1997 law that bans rent regulations across the state. Activists in the city of Chicago have stepped up efforts backing rent control as a way to ease rental rate increases seen in gentrifying areas of the city.*

### Rent Control Reduces the Supply of Rental Units, Increases Prices For Properties Not Covered and Prevents Those Most in Need From Benefiting

In just over 12 years, the United States has gone from being significantly overhoused to a situation in which the nation as a whole is not building enough housing. Limited construction of new single-family homes throughout the expansion and multifamily construction accelerating only recently in the face of strong demand have caused multifamily vacancy rates to plummet. In addition, the supply of existing homes for sale sits near the all-time low. The limited supply of available housing has spurred prices and rents to rise at rates exceeding inflation and has dramatically increased the cost of housing for millions of households.

The rising cost of housing has created calls for rent-control measures to ease the burden on middle- and lower-income households in states across the nation. The Joint Center for Housing Studies of Harvard University estimates that in 2016 almost 21 million renters or 48 percent were cost-burdened (spending 30 percent or more of their income for housing), which is up from 40 percent in 2001. Advocates of rent control see it as a means to mitigate the challenges experienced by lower-income renters to finding and paying for housing, especially in high-cost coastal markets.

Rent-control laws work in two ways: setting a rent ceiling and/or limiting rent increases. While these policies may seem like good ideas to reduce housing costs, there are significant issues that arise with rent control that economists nearly universally agree upon: Rent-control laws reduce the available supply of rental housing, particularly through the conversion to ownership of controlled building. Furthermore, rent-control leads to higher rents in the uncontrolled market and rent control does a poor job of targeting those most in need.

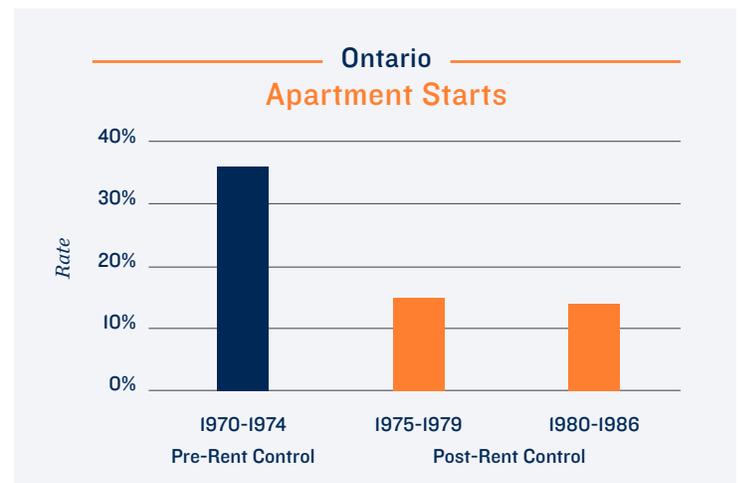
### Reducing Availability of Rental Housing

Rent-control laws generally reduce the inventory of available properties because landlords can increase their investment returns by converting properties into condominiums or redevelop the building into housing not subject to rent-control regulations. A study in San Francisco from 1995 to 2002 showed that landlords with properties under rent control were more likely than other property owners to convert their units to condominiums or redevelop the buildings, which reduced the supply of available rental units in the city. A similar finding was observed in Boston, where a number of landlords that owned rent-controlled buildings converted the units to condominiums. It was estimated that more than 3,000 rentals in Boston were lost due to the conversions.

### Uncontrolled Units See Rents Rise Significantly Faster

Studies show without a doubt that units subject to rent control have rents that are lower than market rents and thus provide a benefit to the tenants

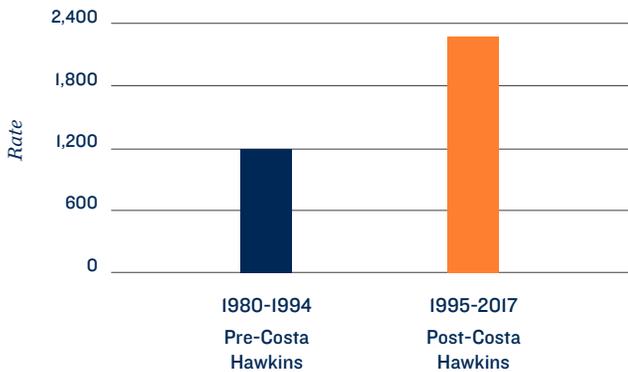
of those units. However, rent control leads to higher rents in units not covered by controls in the market. A study from 1993 showed New York City rents of uncontrolled units were between 22 and 25 percent higher than they would have been had rent control not been in place. This was illustrated after Los Angeles adopted rent-control measures as it was found that uncontrolled rents increased more than three times faster than rates at rent-controlled units. In addition, the researchers in the Los Angeles study concluded that it was the policy itself and not other characteristics of the market that led to the outsized rent increases.



### Future Development Impeded

A major downside risk of rent control can also be seen in the high probability that new construction of apartments will decline significantly. Limiting or reducing the new supply of apartments will only deepen the issues associated with rising rents and shortages of available housing. Developers will not start new apartment projects if rent levels and potential growth rates do not justify the risks of not being able to cover the construction costs. A great example of the effect of rent control on new construction can be seen in Ontario, Canada, which enacted rent control measures in 1975. The four years prior to the adoption of rent control saw rental starts average 36,800 per year across the province. In the next five years, starts dropped more than 50 percent to an average of 14,500 annually. From 1980 to 1986, starts dropped even more, averaging just 13,400 units a year. The dramatic drop in construction starts highlights the impact of diminished returns for developers that results from rent controls reducing the incentive to build new supply, which then only exacerbates the overall lack of supply of rental units. The passing of the Costa-Hawkins legislation in California, which put limits on rent control across the state, had the opposite effect and saw increases in the construction of multifamily rental units. For example, San Francisco, which had rent-control measures in place before Costa Hawkins passed in 1995, saw the average number of multifamily permits double compared with the 14 years prior to the limitations on expanding rent control.

**Avg. Annual Multifamily  
City of San Francisco**



**Doesn't Target Households Most in Need**

Rent control creates a limited pool of below-market rent units and incentivizes landlords to be highly selective in tenant selection. Landlords can target higher income households or households without children, which then would not benefit those most in need of less expensive housing. Overall, the economic research shows that rent control does a poor job at targeting benefits to those with the most need. A study on New York City in 2000 confirmed that rent control and rent stabilization policies were poorly targeted and did not direct housing benefits to those most in need. Also, landlords gave preference to older and smaller households. These results were confirmed in three other separate studies and prevent larger households, typically families with children, to benefit from the program.

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Sources: Marcus & Millichap Research Services; CoStar Group, Inc; Moody's Analytics; Real Capital Analytics; Real Page, Inc.; U.S. Census; Canadian Mortgage and Housing Corporation

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\* Forecast

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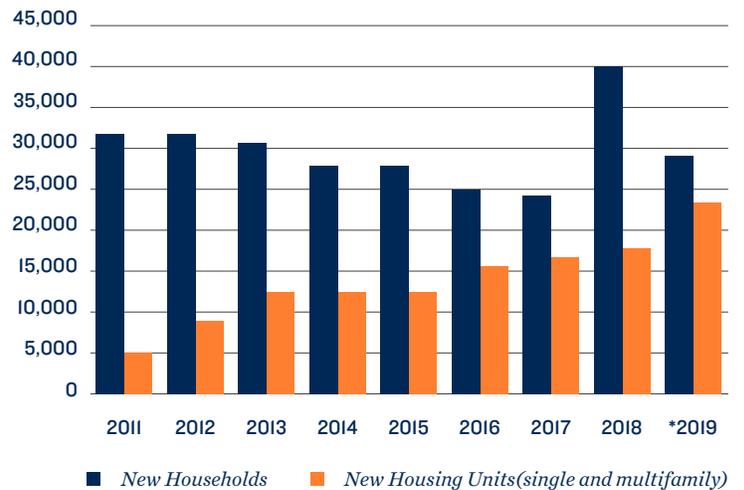
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**Rent Control Not the Answer**

In the end, rent-control measures do not effectively address overall housing cost concerns as shown in the empirical research. Rent control reduces the available supply of apartments, which limits the number of households that benefit from the lower costs. Additionally, non-rent controlled units actually become more expensive as rents raise much faster than if no rent control was in place, financially hurting those households not in rent-controlled units. Furthermore, just because a unit is rent controlled does not ensure that the benefit of that unit goes to a household most in need. And lastly, as can be seen in California and Canada, rent control reduces the number of apartments being added to inventory, thus exacerbating the underlying reason for rents rising at rates significantly faster than inflation: lack of supply. Adding apartment properties targeting specific income or using housing vouchers are more effective ways to address housing demand for lower-income households, not rent-control policies.