METROPOLITAN PLANNING COUNCIL

Key Findings from the Regional Rental Market Analysis

Development of Rental Housing

INTRODUCTION

Quality rental housing is a crucial part of a healthy housing market and is fundamental to the stability of families and neighborhoods throughout the region. Renters are a diverse group, from young adults starting out on their own to working families with children to households with special needs to senior citizens looking to simplify their lifestyles. A range of rental options is needed for the growing workforce in the region, whether hourly service employees or highly specialized professionals.

In November, 1999, the Metropolitan Planning Council published *For Rent: Housing Options in the Chicago Region*, prepared by the University of Illinois at Chicago, the Urban Institute, and Applied Real Estate Analysis, Inc., which summarizes seven technical reports and provides new information about the rental housing market in the six-county region, including demographic data, rent levels and vacancy rates, and qualitative information from focus groups and interviews. *For Rent* provides the baseline information necessary to craft innovative policies, programs, and investment strategies for the region's rental housing market. This is one of a series of briefing papers presenting highlights from the Regional Rental Market Analysis focused on particular geographic areas and subjects of interest.

BACKGROUND

- Approximately 1,024,00 households, representing 38% of all households throughout the six-county region, rented their home in 1999.
- The region's rental market is at a low 4.2% vacancy rate, well below the 6% measure of a tight market set by the U.S. Department of Housing and Urban Development (HUD).
- While the region's population has grown by close to 8% (over 500,000 people) between 1990 and 1999, the number of rental units has declined by more than 50,000 units.
- The region's renters are diverse in their economic status, with about 11% of all renter households earning annual incomes in excess of $76,000 and approximately 50% earning less than $32,000 per year.
- Between 264,000 and 395,000 entry-level workers regionwide earning less than $30,000 per year cannot afford to pay more than $750 per month for rent (the recommended 30% threshold for income spent on rent). In many parts of the region, including the high job growth areas of DuPage County and north suburban Cook, the average cost of a two-bedroom apartment ranges from $859 to $883. Commuting from lower-cost areas can take up to 90 minutes each way.
- Regionwide, there is a deficit of 153,000 units affordable to families earning less than $20,000 per year.

LACK OF CONSTRUCTION OF RENTAL HOUSING

Despite the extensive demand for rental housing in this tight housing and job market, an analysis of construction data from the last decade suggests that the Chicago region is adding fewer rental housing units than traditional economics would predict, especially when compared to other metropolitan areas in the Midwest.

While econometric forecasts estimate demand for approximately 40,000 new units per year, the region has been adding only about 31,000 units per year. Almost all new construction has been for-sale housing. The same formula which accurately describes activity in ten Midwest metropolitan areas overstates production in the Chicago region by 27% for Cook County, 52% for DuPage County, and 26% for Will County. Other non-market-driven factors seem to play a significant role in hindering rental development.

FACTORS LIMITING DEVELOPMENT OF RENTAL HOUSING

To understand some of the factors affecting development of rental housing, researchers conducted focus groups and interviews with developers, housing advocates, public officials, and others involved in the housing market. While these discussions cannot be viewed as statistically representative of the general population, they did generate common themes and in-depth data, and are thus useful to understand the perspectives shaping the housing market.

- Community resistance to apartments was consistently mentioned as the primary barrier to the devel---opment of rental housing.
- This resistance to rental housing is often reflected in local zoning ordinances that limit multi-family housing.
- Inflexible building codes, lengthy permit review periods, and high land costs are additional barriers preventing local developers from meeting the region's strong demand for rental housing.
- Cook County's property classification system taxes rental properties with more than six units at more than double the level of single-family homes. According to the Institute for Real Estate Management, real estate taxes on large multifamily buildings as a percentage of total expenses average 27.6% in Chicago versus 15.7% nationally.
- Condominium conversions have reduced the supply of rental housing in parts of the region.
- Limited public investment also makes it difficult to develop rental housing attainable for entry-level workers and other lower-income families.

These conditions limit rental housing development of any type - including apartments for middle-income or elderly people. Increasing the supply of rental units will increase housing options for all renter households.

HOW TO INCREASE SUPPLY

Focus group participants and key informants suggested:

- Conducting outreach and education to public officials and to citizens about the need for housing options.
- Creating project-based subsidies out of a portion of the region's tenant-based housing vouchers.
- Expanding the various housing trust funds that underwrite project costs and tenant rents.
- Making public and private dollars available for mortgage payments to support home ownership, thus reducing demand for rental housing.
- Increasing federal funding for public housing.
- Tying new initiatives to existing affordable housing production programs. For example, 10% of apart ments created using public funding could be earmarked for tenants needing an additional rent subsidy provided by Housing Choice Vouchers (HCV) or housing trust funds.
- Lowering the assessment level of rental housing in Cook County.
- Expanding exception rents to allow HCV participants to live in higher cost job-rich communities.

CONTINUING USES FOR THE DATA

The Regional Rental Market Analysis was designed to provide updated information so that a variety of stakeholders—from government officials and community leaders to housing providers and tenant advocates—can make informed decisions and better serve the region's housing needs. It has given new momentum to housing initiatives underway, both regionally and locally. These efforts include coordinated planning for sensible growth, employer-assisted housing models, rent subsidies linked to supportive services, and innovative private investment and development strategies.

Many initiatives using this information are already underway. Cook County Assessor Houlihan has proposed decreasing the tax assessment levels for rental buildings of more than 6 units to stimulate increased production of rental housing. The City of Chicago, in conjunction with the Metropolitan Tenants Organization and the Chicagoland Apartment Association, has initiated a RentsRight program to educate both renters and property owners and managers about their rights and responsibilities. HUD has begun piloting a program that allows housing vouchers to support home ownership. In addition, MPC has begun exploring the opportunities available to convert tenant-based vouchers to project-based vouchers, stimulating development of lower-cost apartments.

FOR MORE INFORMATION OR DISCUSSION

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