



CoStar™

Products & Solutions

Login

Add a Listing ▼

News

Properties

Leasing

Sales

Owners

Tenants

Directory

Markets

TRENDS

In Chicago, city wants to give renters first shot at buying their buildings

Landlords worry about 'indefinite' delays as they try to sell or remodel



New construction abuts older houses in Chicago's Humboldt Park neighborhood. (CoStar)

By **David Holtzman**

CoStar News

October 31, 2024 | 9:24 AM

The city of Chicago was worried about a significant loss of rentals as property owners tore down some of the city's small residential buildings, converted them to single-family use,

or sold them amid a bustling housing market.

So the city council passed a law in September, applicable in a roughly 6-square-mile area on the Windy City's northwest side, where owners have to give renters a chance to buy their homes before selling them to someone else. The city is especially concerned about the loss of two-flat homes, or houses with two units, typically one above the other, and their three- and four-flat counterparts. But the law also applies to single-family rentals and apartment buildings with five or more units.

Homes in these smaller residential buildings have long been the most common form of rental housing in Chicago, according to a 2023 study from DePaul University. In the northwest side neighborhood of Humboldt Park, 57% of all homes were in two-to-four-unit structures in 2020, according to DePaul's data. But the makeup of housing across the city has been changing, with two-to-four flats making up 32% of apartment buildings in 2021, down from 38% a decade earlier.

"If you look at working-class families, where we live is in the two, three and four-flats," Carlos Ramirez-Rosa, an alderman who represents part of the northwest side, said at a council meeting before voting to approve the law. "These policies are working to preserve that housing where the vast majority of the people in the neighborhoods live."

But property owners trying to sell their homes are unhappy about the law. The Chicago Association of Realtors called it "disastrous." Two council members filed a bill to [postpone the date](#) the renters' right to purchase begins to apply to pending sales. The group also wants the renters' right to be temporary, with an end date in 2027.

The fine print

The law requires an owner to give renters notice that they plan to sell a building 30 or 60 days before putting it on the market, depending on whether it's a two-to-four flat or larger. Renters in two-flats then have 15 days to form a tenant association and let owners know they want to buy the property. They have 30 days to do so if they live in three-to-four-unit buildings, or 90 days in a larger structure. The association has to pay a deposit

of up to 5% of the contract sale price to move forward. Then the renters have 60 days to secure financing, or 120 days in a building with five or more units.

“By delaying transactions indefinitely, homeowners in this region will lose equity and liquidity, and property taxes will remain sky high,” the Realtors association said in a statement decrying the new law.

Many owners have tight deadlines within which they want to sell residential property that the law will disrupt, said Joe Smazal, a listing agent who also owns some small multifamily buildings in the city, in an interview.

Smazal said in addition to single-family rentals and two-to-four flats, there are at least 350 properties in the pilot area that have five or more rental units. He said most are owned by people who own one or two properties, not larger entities.

“These are individuals or families that own a building or two and often own them for a very long time,” he said. “This would be really punitive for a mom-and-pop owner. We’re often selling properties where there’s a time consideration, whether you have a loan maturing or there’s a divorce or death in the family or you’re trying to retire. It could be really problematic if you can’t control that timing.”

Concerns about the impact of rising home values in the northwest side neighborhoods of Logan Square, Hermosa and Humboldt Park first led the city council to take action in 2020 when it declared a six-month moratorium on demolitions. The development of an east-west bike and pedestrian trail through the area, while a positive in many ways, contributed to property owners’ interest in converting houses or selling to newcomers with deeper pockets.

From the Homes.com blog: [The 6 safest neighborhoods in Chicago](#)

“I think the challenge in these higher-cost neighborhoods is that there’s a cap on what a property can be worth because of the rent you can charge,” said Geoff Smith, executive

director of DePaul University's Institute for Housing Studies, in an interview. "And they're older buildings, with a lot of maintenance. You've got demand for \$1.5 million single-family homes in the neighborhood. Ordinances like this are correctly identifying one of the drivers of the loss of affordability."

The law the council passed in September also substantially increases the fee charged to owners when they demolish buildings, assuming the renters are unable to buy them. Owners may find it makes sense to tear down an older building rather than pay to maintain it, and build something new. It now costs an owner \$60,000 to tear down a two-flat. The council first set the fee at \$15,000 in 2021. The city imposed similar fees that year in the Pilsen neighborhood, southwest of downtown.

The city has raised \$225,000 from permits for 22 demolitions since May 2022, with the money going toward affordable housing in the affected neighborhoods, according to city spokesperson Rima Alsammarae. She shared data that shows the number of demolitions per year has declined since the city began collecting the fee. The number of homes converted from two-flat or larger to single-family homes has also diminished.

Laws elsewhere

Few large U.S. cities have a law that requires owners to give their tenants the first shot at buying a property. Washington, D.C., has had such a law, the Tenant Opportunity to Purchase Act, since 1980, with timelines for renters to try to buy their homes comparable to what was recently enacted in Chicago.

One factor in the success of some renters in Washington has been a related program, First Right to Purchase, that used city funding to help renters pay for earnest money deposits and financing. That program has not been funded in recent years, according to the Washington-based Fiscal Policy Institute. But in [a 2023 report](#), the D.C.-based Coalition for Nonprofit Housing and Economic Development found that the law has helped preserve more than 16,000 units of affordable housing, at a fraction of the typical cost to build new affordable homes.

Without a steady supply of such funding, Smazal wonders how renters in Chicago will be able to carry out plans to buy a property. Renters could also assign the contract to buy a property to another entity, such as a nonprofit organization that preserves housing.

“If the idea is to empower tenants to [buy their homes], I think that’s a wildly unlikely outcome, for folks who don’t know each other in a building to band together and get the funds together for earnest money, then march a deal through closing,” Smazal said.

Jessica Fuentes, alderman for parts of the area, said at the city council meeting in September that the city needed to take action. She commented that everyone on the block where she grew up in the neighborhood is at risk of being forced to move, noting that a residential building near her home recently sold for \$3 million. The threat isn’t just to renters, she said, it’s to longtime homeowners who face escalating property tax bills.

“Do you want to know the number one concern that I get every day in my office? ‘I can’t afford to live here anymore. I just got my tax assessment and I’m done. I have to sell because I’ve been priced out,’” she said.

Follow us on Social Media

Have feedback or questions? Email us at news@costar.com

