

A CITY THAT WORKS

A City That Works: We can't ease our housing shortage one neighborhood exemption at a time

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Two-flat apartment buildings in Logan Square. (Taylor Glascock/Bloomberg)


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In this year's State of the State address, Gov. JB Pritzker proposed an **ambitious set of reforms** designed to address Illinois' housing shortage. There's a lot to like about the bill. It legalizes accessory dwelling units, caps mandatory parking minimums and pre-empts local zoning to allow four-flats on a standard Chicago lot.

But if history is any guide, that last provision is likely to face opposition from some community groups on the Northwest Side. These groups fought the last round of housing reforms, due to concerns that upzoning existing low-cost housing could result in *more* development pressure in neighborhoods like Logan Square. That's an understandable concern. So it's worth taking a deeper look at the research on upzoning and the potential impact it might have on the Northwest Side's stock of less expensive two- and three-flats.

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Building housing leads to affordability

There is a very strong academic consensus that building more housing makes housing more affordable. In large part, that's because when we build market-rate homes, fewer renters have to compete for the remaining space in older and cheaper homes. In a 2023 [Journal of Urban Economics paper](#), Evan tracked the “moving chains” that occur when a new market-rate development is completed. In aggregate, for every 100 units of market-rate housing created, a city ends up freeing up 60 units of housing in census tracts below the city's median income.

Notably, this finding has been replicated in a number of cities and countries. [A](#)

study examining the moves triggered by a 512-unit market-rate condominium built in Honolulu found that it created 500 local vacancies in units that were 40% cheaper than the new condo building. Researchers have found similar results in **Helsinki** (where they can take advantage of higher-quality administrative data) and **Switzerland**.

Studies also consistently find that city or regional up-zonings, such as the one proposed by Pritzker, result in lower rents over time. And researchers at the **Pew Charitable Trusts** find these benefits are greatest for the lowest-cost units in the market, which face less competition when more units are built.

It's true that if you look hard enough, you can find a paper that challenges these findings. But policymakers should understand that among the field's leading researchers, this is a consensus. When researchers at New York University's Furman Center completed a comprehensive review of recent research on this topic, they reached an **unambiguous conclusion**:

"1) Increases in housing supply reduce rents or slow the growth in rents in the region; 2) In some circumstances, new construction also reduces rents or rent growth in the surrounding area; 3) While new supply is associated with measures of gentrification, it has not been shown to heighten displacement of lower income households; and 4) The chains of moves resulting from new supply free up both for-sale and rented dwelling units that are then occupied by households across the income spectrum."

Pushback on the Northwest Side

But even if the governor's plan is a good thing in the aggregate, it can still raise concerns in specific neighborhoods. Last year, a group of Northwest Side advocacy organizations opposed a similar bill due to concerns that denser zoning would encourage developers to redevelop existing low-cost two-flats into new, expensive three- and four-flats. In their view, that might mean marginally more housing, but it could speed up the destruction of lower cost "naturally occurring" affordable housing in the process.

These advocates are not necessarily opposed to more density. But their efforts

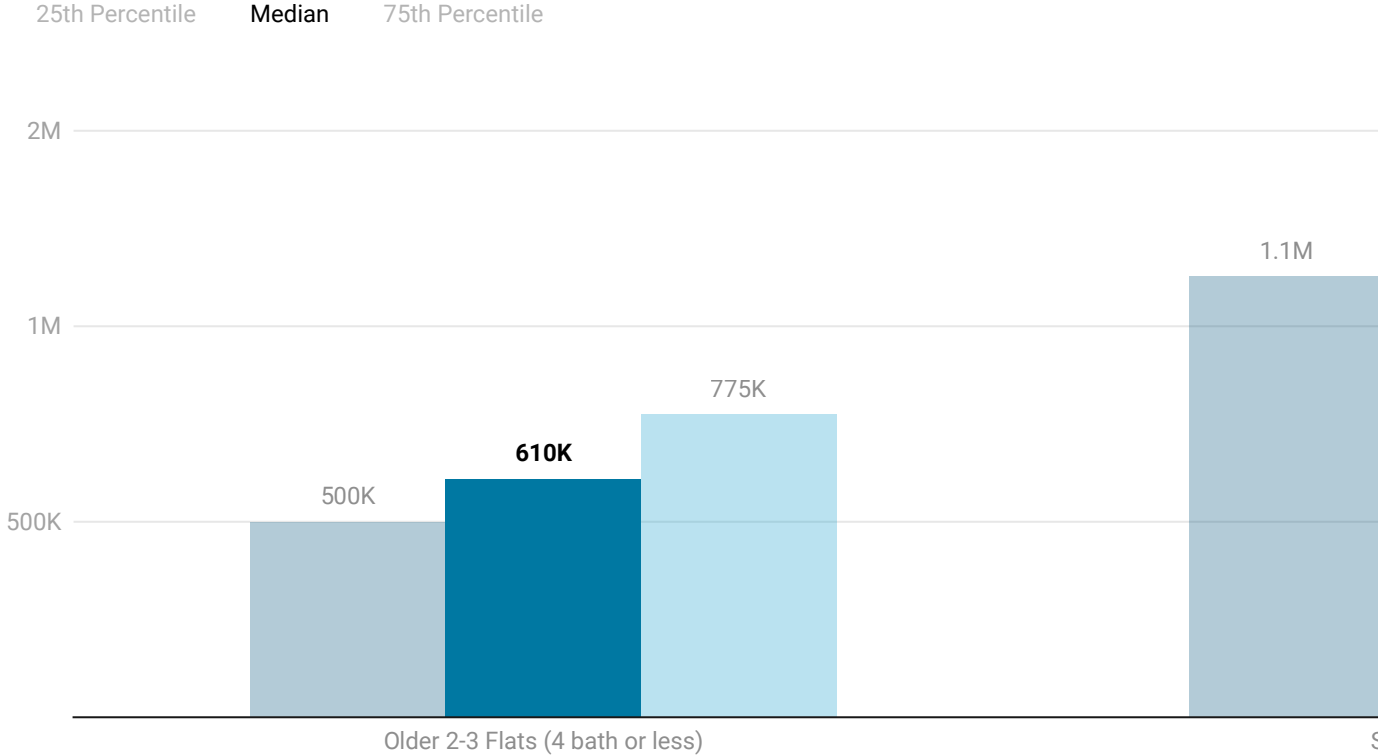
have been focused on restricting demolitions of existing naturally affordable housing stock, rather than building new market-rate housing.

Unfortunately, it's difficult to see how this approach will succeed. Logan Square and nearby neighborhoods like Avondale and Humboldt Park are on the front lines of a wave of displacement spreading across the North Side from east to west. As Bo McMillan **noted last year**, the zip code centered around Logan Square lost 45% of its low-income households between 2013 and 2023.

It's also worth noting the market pressures to demolish existing low-cost housing have already hit the neighborhood with ferocity. According to data from Redfin, over the last two years older two- and three-flats in the neighborhood sold for a median of \$610,000. The median single-family home sold for more than twice that: \$1.3 million. Even high-end older multifamily buildings are worth hundreds of thousands of dollars less than the cheaper new single-family units coming onto the market.

New single family home prices dwarf prices for older 2 and 3-flats on the Northwest side

Transaction price for new single family homes and older 2-3 flats, 2024-2026



Data covers sales of units built between 2024 and 2026 for Logan Square, Avondale, and Hermosa (bounded by North Ave, Western Ave, Irving Park Road, and Cicero Ave). Older 2-3 flats classified as multifamily properties built before 1970 with 4 or fewer units.

That creates an extremely strong incentive for buyers to purchase two- or three-flats today and either demolish them or convert them into single-family homes. Between 2013 and 2019, **9.8% of Logan Square’s two- to four-flats** were lost to deconversions or new construction, according to the DePaul Institute of Housing studies. Given the existing price premium for a new single-family home, it’s highly unlikely there are many locations that are economically unfeasible to deconvert to a two-flat, but would be worth demolishing for a three- or four-flat. Instead, the question is whether an aging two-flat gets replaced by one unit or four.

And while ever-tighter rules against demolitions and deconversions may slow this trend, they can’t stop it entirely. The Northwest Side preservation ordinance **raised demolition surcharges** to \$60,000 for single-family homes and two-flats. That’s still a fraction of the difference between the value of an older two-flat and a newer single-family home. And even a demolition surcharge can’t prevent a gut rehab of an existing two-flat that results in significantly higher rents.

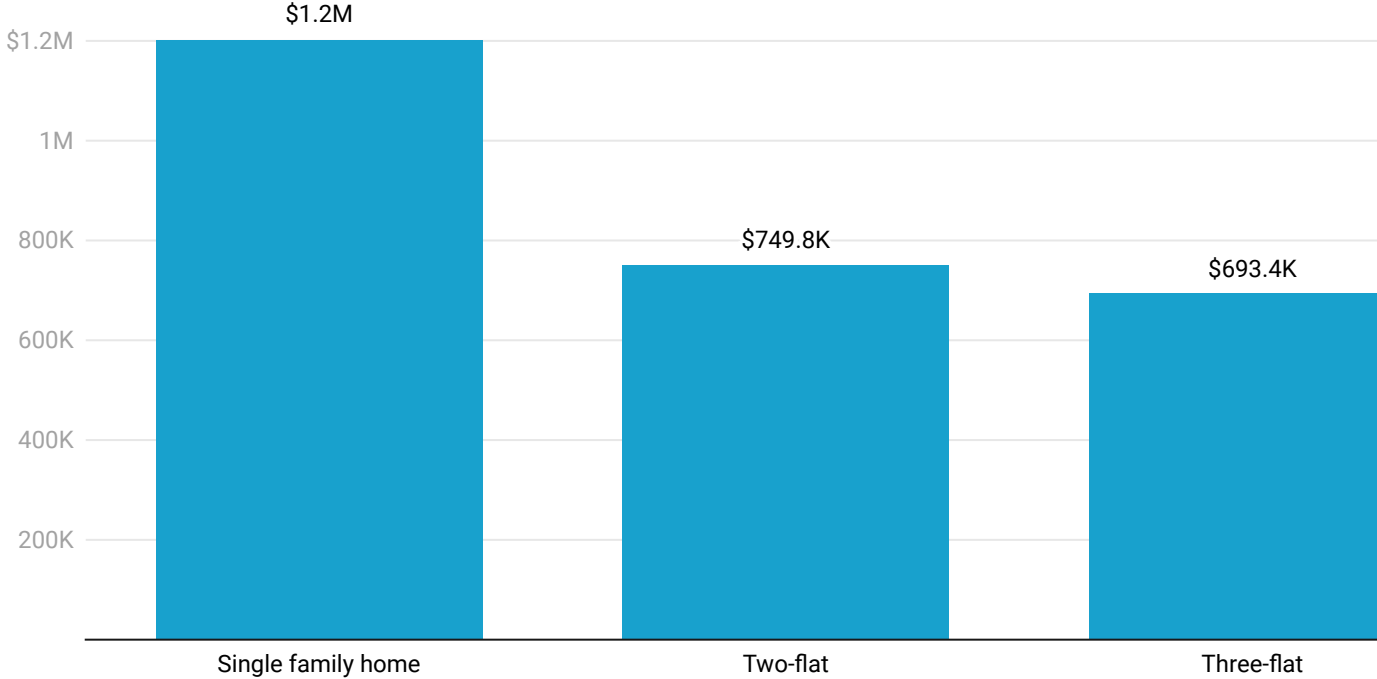
Finally, it's worth remembering that most of this naturally occurring two- and three-flat housing stock is over 100 years old. Over time, some combination of gut-rehabs, intensive maintenance or demolitions will still be required to maintain the quality and livability of these buildings. Without more units to go around, that will translate into higher rents as well.

A much better alternative

Four-flats are good for other reasons. There haven't been many three- and four-flats constructed and sold in the greater Logan Square area over the last two years. But over the last five, units in four-flats are going for \$683,000. That's a lot of money — but it's also just over half the price of a single-family home over the same period: \$1.2 million. It's also an attainable figure for a pair of public school teachers in the first five to 10 years of their career, making roughly \$100,000 apiece.

On the Northwest Side, new units in 2-4 flats are significantly less expensive than single-family homes

Average per unit new construction sales price, by building type 2020-2026



Data covers sales of units built between 2021 and 2026 for Logan Square, Avondale, and Hermosa (bounded by North Ave, Western Ave, Irving Park Road, and Cicero Ave).

These units also become a lot more affordable after a couple of years. Here's a freshly renovated four-bed townhome in Avondale **listed for \$455,000**. Just as the two-flats of the past have formed the bulk of our housing today, four-flats built now will help lock in affordability for future generations of Chicagoans.

And while a deconversion creates fewer units, upzoning adds supply. Remember the 60% rule noted above; it's reasonable to expect that every four new units of market-rate housing free up two or three units of low-cost housing on other blocks. If a young family moves out of an older two-flat or courtyard apartment into a new four-flat, we've just freed up a new, low-cost unit in the neighborhood.

Importantly, under the governor's plan, Logan Square would also benefit from greater housing construction in *other* neighborhoods. Right now, neighborhoods farther east are even more expensive, which is pushing high-income buyers further north and west. By adding more housing in wealthier neighborhoods, the governor's bill will reduce the number of people clamoring to buy a new single-family home or gut-rehabbed two-flat in Logan Square.

Evidence from other cities indicates the supply-side effects of building more housing everywhere dwarf the potential impacts of demolition. In **California**, displacement is twice as likely in low-income census tracts with low levels of market-rate housing construction. In **Seattle**, seven times more affordable units have been lost to rising rents than demolitions. And in **Salt Lake City**, just 1% of the housing stock lost between 2020 and 2022 was a result of demolitions for new development.

To put it simply, over time we can expect the governor's plan to translate into *more* naturally occurring affordable housing on the Northwest Side. Demolition pressures are already being driven by single-family homes. Greater three- and four-flat construction will free up more housing stock, create relatively more affordable new homes and seed the future stock of lower-cost housing. And broad-based increases in housing supply elsewhere will help reduce displacement pressures in Logan Square.

Caution on carveouts

Against this backdrop, policymakers should be careful about carveouts that could weaken the overall structure of the bill. It may be fine to maintain (or strengthen) penalties for demolitions and deconversions or add additional density or floor area bonuses for low-cost units. It might also make sense to re-program some of the proposed \$250 million in capital grants to rehab and preserve existing low-cost housing in neighborhoods like Logan Square.

But a wholesale exemption of the Northwest Side from the provisions of the act would make displacement *more* likely.

It would also create a loophole that other communities may try to exploit. To date, the loudest opponents of Pritzker’s Building Up Illinois Developments — or BUILD — Plan have been wealthy, exclusionary suburbs. The mayor of Barrington Hills, which currently maintains a five-acre minimum lot size, has declared that zoning for multi-family housing would “**destroy our town.**” You can bet that they’ll look to take advantage of any potential tools that would let them opt out.

Displacement is a serious problem on the Northwest Side and community leaders are right to be worried about existing low-cost housing stock. But the status quo isn’t working. We operate in a regional housing market and individual neighborhoods cannot regulate their way to affordability. Instead, broad-based upzoning coupled with targeted supports to avoid displacement offers our best chance to preserve affordability on the Northwest Side.

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