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# The Impact of Short-Term Rental Regulations on Community Associations

## IN THE CHICAGO AREA

Yici (Angela) Wang  
University of Chicago  
2022–23 Byron Hanke Fellow  
December 21, 2023

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### **Yici (Angela) Wang, Researcher**

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# The Impact of Short-Term Rental Regulations on Community Associations in the Chicago Area

## I. Introduction

Short-term rentals have gained popularity in the U.S. and are still growing. The national short-term rental supply reached record levels in 2022, swelling 20% year-over-year to 1.3 million listings. Chicago is an attractive spot for investing in these properties — available listings rose nearly 13% from May 2022 to May 2023, while occupancy ticked up to 66%.<sup>1</sup> Homeowners reacted differently to the surge of short-term rentals. Some were thrilled about this opportunity to earn extra cash, while the rest complained about the noise and damage to the properties. In fact, their complaints became so rampant that they triggered regulatory changes. Amid the opposing views, how should community associates (CAs) deal with STRs? Encourage or regulate? How much regulation is enough as government is also tightening its grip of STR?

Regulations on STRs started mounting in Chicago a few years ago. In 2016, the Shared Housing Ordinance banned around 1,000 buildings from hosting short-term rentals. It means short-term rentals cannot be hosted in at least 91,000 of Chicago’s apartment and condo units, about 7.6 percent of all housing units in Chicago.<sup>2</sup> The Ordinance allowed the city to track rental units, nuisance complaints, and violations. It gave community associations leverage to request being added to the “Prohibited Building List”.<sup>3</sup>

In 2020, the Chicago government issued a new short-term rental (STR) ordinance to target ‘party houses’ and banned single-night rentals. Residents held more power to oppose STRs in their neighborhoods. Neighbors could petition to have these arrangements banned in their precincts if they’re in certain low-density areas (typically, zoning districts 1, 2 and 3). Residents could also create Restricted Residential Zones, a right that was expanded to zoning districts 3.5 through 5.<sup>4</sup> Property owners would lose their license – which is given by the city for operating short-term rentals – after a single “egregious” incident at a rental property or two complaints within a year. It was made possible by the city requiring property owners who list their units for rent on home-sharing platforms to submit registration information directly to the city, rather than to the home-sharing platform firms.<sup>5</sup>

While short-term rentals can disturb communities and risk gentrification, they also increase the potential economic return to residential properties and stimulate neighborhood investment.<sup>6</sup>

1 Axios Chicago. “Chicago Airbnb hosts make bank.” 2023. [Link](#).

2 DNA Info. Here Are The Buildings Where Airbnb Is Banned In Chicago. 2017. [Link](#).

3 KSN. “4 Considerations with Short-Term Rentals and Associations (Illinois).” 2019. [Link](#).

4 Chicago Agent Magazine. “Chicago targets ‘party houses’ in new STR ordinance.” 2020. [Link](#).

5 WTTW. “New Rules for Chicago’s Home-Sharing Industry Set to Kick In.” 2021. [Link](#).

6 SSRN. What Happens When Airbnb Comes to the Neighborhood: The Impact of Home-sharing on Neighborhood Investment. 2022. [Link](#).

Studies have shown that the increase in Airbnb listings raised the number of residential renovation projects and the value of retail renovation investment.

Facing the complex dynamic of STRs, little is known on the community-side. There is little research on how STRs and their regulations affect community associations (CAs). Providing this analysis in the context of surging STRs and mixed responses from residents will help CAs across the U.S. The hope is that CAs can make more informed decisions on addressing STRs.

To fill this gap of knowledge, I will investigate the current approaches of community associations in Illinois in dealing with STRs. Through surveying residents and managers of CAs, the research can help community associations and local governments design policies with the right degree of regulation upon STRs and maximize the well-being of the residents.

## II. Background

Community associations, as defined by the Community Associations Institute (CAI), are non-governmental organizations with participating members living in a community that is based on mandatory membership. They provide a communal platform for the preservation and enhancement of one's home and/or property through ownership and governance.

In Illinois there are four types of restrictions placed on short-term rentals.<sup>7</sup> Quantitative restrictions include limiting the amount of STR accommodations, the number of allowed visitors or days rented, and the number of times a home or unit can be rented out per year. Locational restrictions confine STRs to specific locations, while density restrictions limit the number of STRs in certain neighborhoods. Lastly, qualitative restrictions define the type of accommodation, for example, a complete apartment versus a room or commercial-style Airbnb. Specific requirements for safety such as the installation of a smoke detector also fit this category. These restrictions are often combined with the obligation for hosts to get a permit or license for renting out their house.

The regulations impact community associations on three levels.

On the economic level, regulations may make housing units more affordable. That is because the introduction of STRs tends to increase housing prices and cause rents to increase. According to a recent study, 1% increase in Airbnb listings leads to a 0.02% increase in rents and a 0.03% increase in house prices. The Airbnb effect is due to the reallocation of the housing supply. The effect is also stronger in zip codes with a lower share of owner-occupiers. Airbnbs cause more landlords to reallocate housing from long-term rental to short-term rental, pushing up prices and rents in the long-term market, and the effects are attenuated in areas with more owner-occupiers because owner-occupier usage of Airbnb is less likely to represent true reallocation.<sup>8</sup>

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7 T&F. Regulating Airbnb: how cities deal with perceived negative externalities of short-term rentals. 2017. [Link](#).

8 Wharton. The Effect of Home-Sharing on House Prices and Rents: Evidence from Airbnb. 2019. [Link](#).

Neighborhoods can profit from increased attention and income, but STRs can also be disruptive to the traditional lodging industry and trigger gentrification processes; housing affordability and availability are jeopardized when housing units are turned into vacation rentals. Commercial investors are buying up residential properties, turning them into permanent (and often illegal) Airbnb accommodations. As residences are taken off the market and rented out to tourists, housing availability and affordability for local residents become an issue.

STR owners will still find STRs lucrative and may move somewhere with fewer restrictions. Chicago Airbnb hosts made 32% more than the typical host in the U.S in 2022. The typical host in Chicago earned approximately \$18,500 in 2022, compared to the national median of \$14,000, per Airbnb data. Community association restrictions on STRs may lead to a loss of members - both current and potential, who want the possibility of being an Airbnb host. Communities need to allow a certain percentage of STRs to accommodate these owners.

On the social level, complaints arise from residents about noise and tidiness of renters. Excessive noise, more traffic coming through the neighborhood, vandalism, and even small things such as leaving trash out on the street are issues that cannot be taken lightly. A CA’s primary job includes keeping their residents happy. These issues build over time, especially if someone is constantly renting out their home.<sup>9</sup>

On the legal level, CAs’ ability to govern according to the interests of their owners and board will be jeopardized if CAs are unable to regulate STRs. Due to the promise of great profits, some homeowners have chosen to bypass the rules set forth by associations. That hinders the legitimacy of associations’ bylaws.

There are three types of associations: Condominiums, Cooperatives, and Planned Communities (also commonly referred to as homeowner associations, property owner associations, and townhouse associations). Depending on the type of CA, the level of engagement among residents also differs, which is important to consider when assessing the impact of STRs. In Condominiums, residents share the ownership of common areas and amenities.

**Three Major Types of Community Associations**

TYPES OF CAs	PROPORTION IN CAs	OWNERSHIP
Condominiums	35% to 40%	Units owned by members; common elements owned by members in the form of undivided interest (aka “tenant in common”)
Cooperatives	2% to 4%	Units owned by association; common elements owned by association
Planned communities	58% to 63%	Units owned by members; common elements owned by a separate nonprofit corporation where owners hold stocks

<sup>9</sup> Cedar. “HOA Short Term Rental: Is It Good Or Bad For Your Community?” [Link](#).

The state of Illinois does not have a blanket law that restricts or regulates STRs in CAs. However, some CAs in Illinois have bylaws or restrictive covenants that prohibit STRs. CAs can request STRs be included on the Prohibited Building List, a requirement by the city of Chicago enacted in 2016.

### III. Methodology

The Chicago ordinances stemmed from an intersection of these influences of STR on communities. The ban influences the economic status, social dynamic, and bylaws of community associations. CAs' regulations need to strike a balance between the needs of STR owners and the concerns of local residents. My research investigates current sentiment among CAs towards STRs, the rules in place, and how to motivate CAs to accommodate STRs.

The research consists of expert interviews, community association-wide surveys, and desk research of policies and news.

I spoke with lawyers who have a deep knowledge of community association and short-term rentals. Michael Kim, Of Counsel at Schoenberg Finkel Newman & Rosenberg, has interacted with condominium clients for over 40 years. "Condo residents don't like Airbnbs," shared by Kim, "they complain about Airbnb bringing in irresponsible visitors that are noisy and damage properties." This sentiment is particularly strong towards commercial short-term rentals, who are less incentivized than residential STRs to take care of the property and adhere to community rules.

This negative view of STRs could be confined to legal counsels. Residents don't seem to be communicating this view to their CAIs. In an interview with Cheryl Murphy, Executive Director at Community Associations Institute Illinois, CAIs rarely receive any comments or complaints about short-term rentals.

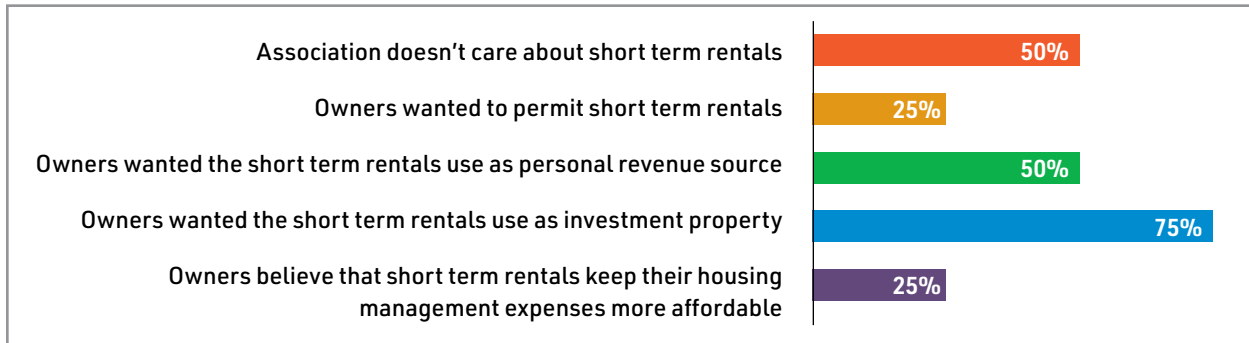
The lack of complaints could be due to the existing regulations against STRs in community associations.

The survey in this research received responses from 52 representatives in Illinois, concentrated in condos (73%) and planned communities (31%). 88% of the respondents are in CAs with all residential units, and about 40% of the respondents are located near touristic spots.<sup>10</sup> Among the respondents, 82% prohibit Airbnb rentals, overwhelmingly (80%) due to governing documents that prohibit short term rentals.

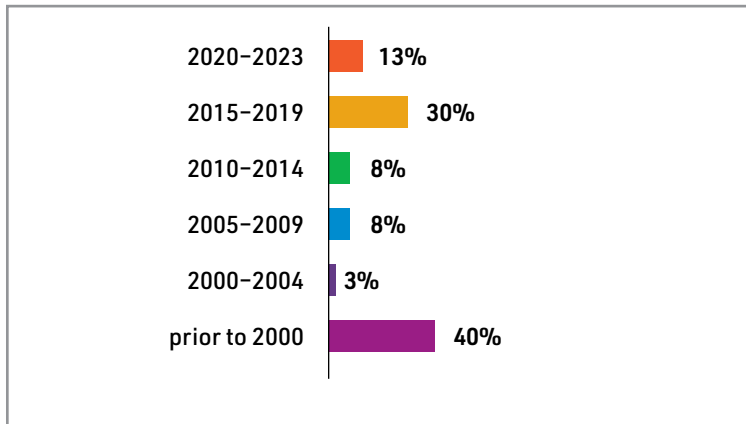
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10 See Appendix A for the survey questions.

### Graph: Reasons for Permitting STRs



There is a consensus among survey respondents to agree with the prohibition, with 35 out of 39 supporting the prohibition, 1 disagreeing, and 3 being unsure. It's worth noting that 17 out of 40 respondents reported their CAs only adopted the prohibition since 2015, although 16 respondents have CAs that adopted the prohibition before 2000.



### Graph: Year of Prohibiting Airbnb

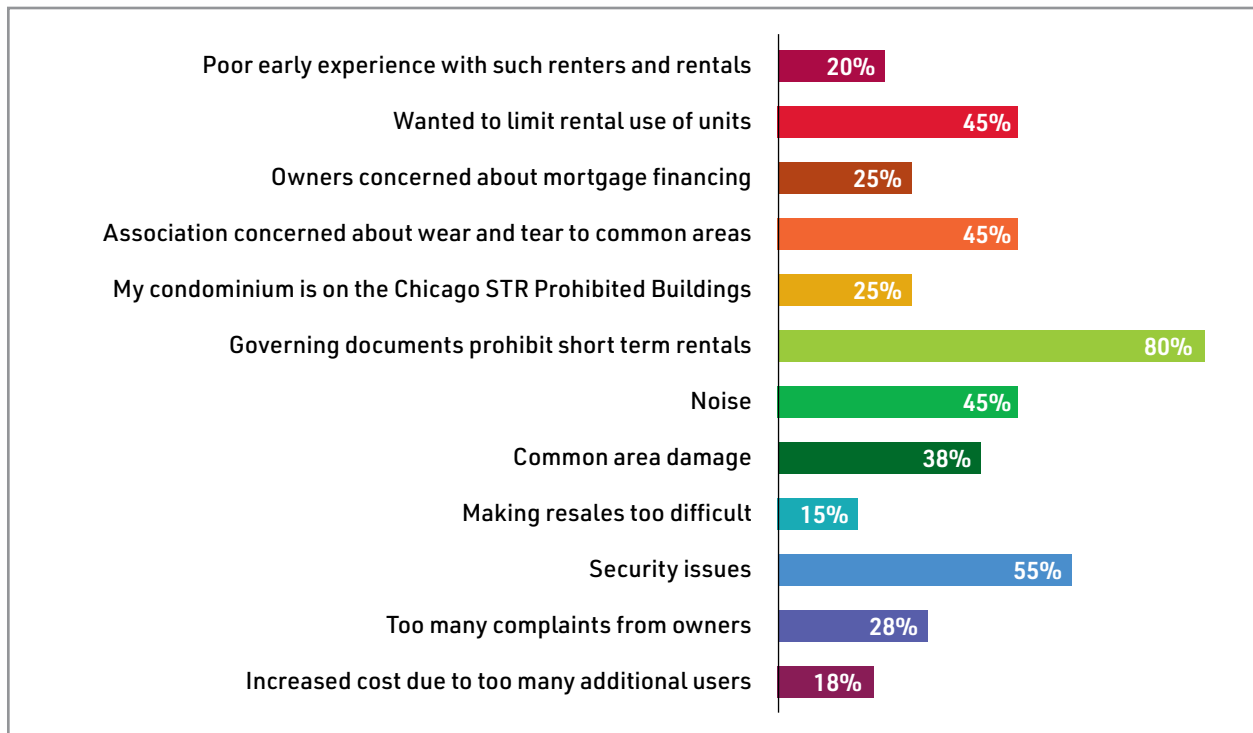
Interestingly, all of the 41 respondents who shared opinions about reconsidering permitting Short Term Rentals said no. Out of the 10 respondents that permit STRs, they want to permit largely due to owners wanting the STRs use as investment property and personal revenue source.

CAs should consider regulating the behaviors of short-term renters and short-term housing owners - to keep short-term rentals happening by making it tolerable among their residents. Suggestions include requiring damage deposit from STRs and setting a maximum percentage of units or homes allowed for Short Term Rentals. Otherwise, laws may be put in place that can leave community associations limited room for change and negatively impact the number of residents interested in CA living.

The survey was distributed to CAI member and non-member contacts in the state of Illinois in August 2023. Over half of respondents are community managers or management professionals, with a quarter being board members and less than a quarter being owners. The sample did not overrepresent a group that dislikes STRs or likes STRs to the extreme.



**Chart: Reasons for Prohibiting STRs**



#### IV. Findings and Results

The survey results show how community managers, board members, and professionals view the regulation of short-term rentals in community associations. The majority of respondents seemingly favor the restriction of short-term rentals in their communities, while a few allow them due to the economic benefits STRs bring to residents.

Due to the tremendous growth of short-term rental websites such as Airbnb and VBRO, associations are encountering STR issues and disputes on an increasingly frequent basis. By taking a position on the issue sooner rather than later, an association can address short-term rental issues before they become a problem.

My suggestion is to find a middle ground between the two - establish restrictions but do not ban the entire STR industry. As for restrictions, CAs can require damage deposit from STRs. CAs can also set a maximum percentage of units or homes allowed for STRs to address gentrification concerns. The total amount of space available for STR use could be capped at a percentage of available housing capacity, thus encouraging the development of long-term housing alongside STRs.<sup>11</sup> This way, CAs fulfill the needs of both groups of residents. Another solution is to make rules stricter by adjusting bylaws.

The analysis of this report is restricted to Illinois. It would be helpful to see if other areas observe similar trends to generalize CAs' treatment to STRs. The survey is also limited to CAs' perspectives which may not be representative of all residents.

11 HBR. "Research: Restricting Airbnb Rentals Reduces Development." 2021. [Link](#).

## V. Conclusion

In summary, short-term rentals can bring a variety of benefits to community associations, on the premise that community associations implement regulations that conform to state requirements and safeguard the needs of residents. By embracing STRs and upholding regulations that protect owners, community associations can benefit from the growing popularity of home-sharing platforms like Airbnb and VBRO.

Government regulations, although mounting, do not seem to impede the growth of short-term rentals. Looking ahead, consumers will continue to prioritize travel, despite the talk around imminent recession. Compared to one year ago, almost all travel indicators have shown consistent improvement, from travel spending to overseas arrivals. Both STR and hotel stays have noticeably improved since 2021—a sign of the increasing interest in experiential consumption and travel specifically.<sup>12</sup>

The timing is right for community associations to consider amending their regulations to allow short-term rentals with specific restrictions—to maximize the economic benefit STRs can bring to homeowners.

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12 AIRDNA. “U.S. 2023 Short-Term Rental Outlook.” 2022. [Link](#).

## VI. Appendix

### Appendix A: Survey Questions

#### Airbnb Policies and Attitudes in Illinois

1. What is your role in the association? Check all that apply.

- Owner
- Board member
- Committee member
- Community manager/management professional
- Other (please specify)

2. Type of community association:

- Condominium
- Cooperative
- Planned community (HOA)

3. Number of units in your community association:

- 2-10
- 11-30
- 31-60
- 61-100
- 101-250
- 251-1,000
- 1,001+

4. Number of buildings in your community association:

- 1
- 2-5
- 6-10
- 11+

5. What is the age of your community association/building?

- 1-10 years
- 11-20 years
- 21-31 years
- 32+ years

6. What is the structure of your community association?

- Low rise: 1-3 stories
- Mid rise: 4-6 stories
- High rise: 7+ stories
- Single-family homes
- Townhouses
- Other (please specify)

7. In what ZIP code is your home or unit located? (enter 5-digit ZIP code; for example, 60629)

8. Are you located near any tourist type features? (the Willis Tower, for example)

- Yes
- No

9. Is your community all residential units?

- Yes
- No

10. Is your community a mixture of residential and commercial units? (mixed-use)

- Yes
- No

11. Does your community association prohibit Airbnb rentals?

- Yes
- No



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