

Measuring the Impact of The 606

Understanding How a Large Public Investment
Impacted the Surrounding Housing Market



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**INSTITUTE FOR
HOUSING STUDIES AT
DEPAUL UNIVERSITY**



DEPAUL UNIVERSITY

1 East Jackson, Suite 5400
Chicago IL 60604
312-362-7074

housingstudies.org
@housingstudies

Introduction

Many high-profile public works projects of late have sought to transform vacant lots, abandoned rail lines, or other underused pieces of municipal infrastructure into regional amenities and neighborhood assets. In Chicago, the new Bloomingdale Trail (also called The 606) joins a growing number of “rails to trails” projects nationwide, most famous among them the High Line in New York City and the Beltline in Atlanta. All were once abandoned rail lines transformed into “linear” parks.

Although these projects are celebrated for the benefits they provide, they can also accelerate neighborhood change, leading to higher housing costs and increased risk of displacing lower-income residents. As cities plan for the development of community assets like these and others, a better understanding of how neighborhoods change as a result of public investment is critical to developing policies that ensure that long-time residents are also able to benefit from new amenities built with public funds.

This report examines changing housing market dynamics in the neighborhoods adjacent to The 606 and provides background information on public investments and the conditions that lead to neighborhood change and decreased housing affordability. The analysis focuses on how the single-family housing market responded to the project and how this response differed depending on the underlying socioeconomic and demographic conditions of the neighborhoods that the trail connects. It finds that the development of The 606 contributed to rapid price increases on the lower-income western half of the trail. The report closes with a discussion of how these findings can inform community development policy and practice.

Background

Public Investment, Neighborhood Change, and Lost Affordability

Certain types of large public works investments can have catalytic effects on their surrounding communities.¹ When cities embark on projects such as new transit lines or stations, open space improvements, or parks, the goals are multifold. One primary goal is to fill a gap in service or add an amenity to a neighborhood that will improve the quality of life for residents. For example, a new transit station can help residents more easily access jobs in a central business district or better connect a neighborhood to other parts of a city. A new park can increase access to open space or provide playgrounds for children. The success of these investments can be measured in different ways, ranging from aesthetics, to public benefits, to the ability of the project to attract new investment and increase the city's tax base.²

However, concerns are also growing about the role of public works investments in accelerating housing market change, reducing neighborhood affordability, and potentially displacing long-time residents. A new amenity can attract people living outside the neighborhood, increasing demand for housing, which may lead to rising housing costs.³ As a result, the existing stock will likely be upgraded and new housing units will be built. Although adding new units to the housing supply may ease some demand pressure, these new units are not likely to be affordable to low- or moderate-income households unless the homes are heavily subsidized.⁴

Both lower-income homeowners and renters are affected by rising costs. For most homeowners, increased neighborhood demand and rising values can mean more home equity. After a major housing crash and years of weak price growth, price increases stimulated by a major public investment project can help stabilize housing for many homeowners and provide a significant asset for lower-income households hoping to build wealth through homeownership. However, rising property values can also lead to increased property taxes. These costs can be disruptive for senior homeowners on fixed incomes or for lower-income owners who are already paying a substantial portion of their incomes for housing.

A growing-demand market can also lead to rising rents. Landlords may choose to invest more in their property to appeal to new, higher-income residents or they can increase rents in response to increased market demand. Further, as demand grows in a neighborhood, it can attract outside investors seeking to take advantage of relatively low acquisition costs and anticipated growth in demand from higher-income households. These new owners may also upgrade the property to generate higher rents. In many cases, landlords may wish to continue to keep rents stable, but the cost of maintenance and new costs such as increased property taxes may require them to raise rents to maintain profitability.

When rents increase, renters have little option but to either pay more of their income toward rent or move to a neighborhood where rents are lower. Research has shown that many long-term renters choose to stay in their neighborhoods and are often willing to pay a higher rent to take advantage of neighborhood improvements or to maintain stability in their housing situations.⁵ In these cases, the decision to stay may exacerbate an already tenuous situation for lower-income renters, who may have a more difficult time bearing increased housing

¹ Michael Duncan, "Comparing Rail Transit Capitalization Benefits for Single-Family and Condominium Units in San Diego, California," *Transportation Research Record: Journal of the Transportation Research Board* 2067 (December 2008):120-130; Miriam Zuk et al., "Gentrification, Displacement and the Role of Public Investment: A Literature Review." Working paper 2015-05. (San Francisco: Federal Reserve Bank of San Francisco, August 2015), p. 22.

² For example see, The Atlanta Development Authority, "Atlanta Beltline Redevelopment Plan" (2005), p. 1.

³ Melissa Checker, "Wiped out by the 'Greenwave': Environmental Gentrification and The Paradoxical Politics of Urban Sustainability," *City & Society* 23 (2011): 210-229, doi:10.1111/j.1548-744X.2011.01063.x

⁴ Urban Institute, "The Cost of Affordable Housing: Does It Pencil Out?" (July 2016); Mac Taylor, "California's High Housing Costs: Causes and Consequences," Legislative Analyst's Office, March 17, 2015, p. 3.

⁵ Lance Freeman and Frank Braconi, "Gentrification and Displacement New York City in the 1990s," *Journal of the American Planning Association* 70 (1) (2004): 48.

costs. In 2014 in Cook County, for example, roughly 45 percent of renters earned less than 50 percent of the area median income, and more than 86 percent of these households were rent burdened, paying more than 30 percent of their incomes for rent.⁶

The differing responses to new demand pressures mean that certain types of neighborhoods may be more vulnerable to rapidly rising housing costs than others.⁷ For example, communities with a high share of renters or lower income households may be less able to bear increased costs and be more prone to displacement. Proximity to higher-priced markets also makes certain communities more attractive to investors and more vulnerable to rapidly rising housing costs.⁸ Other research has shown that access to transit stops and other highly valued amenities is a predictor of future gentrification.⁹ Combined with demographic, socioeconomic, and other location factors, the relative cost of property compared to nearby neighborhoods can increase demand and exacerbate affordability and displacement issues for certain populations.

The 606: One Park System Traversing Two Very Different Neighborhoods

The 606 is a 2.7 mile linear park and active transportation corridor on Chicago's northwest side. The project is the result of decades of work by neighborhood residents and others seeking ways to add green space to a neighborhood with the least open space in the city. Advocates saw an opportunity for development of a park in the abandoned Chicago and Pacific freight rail line along Bloomingdale Avenue.¹⁰

Although discussions about converting the rail line into a park had been ongoing for more than a decade, the project kicked into high gear when it became a priority of newly elected mayor Rahm Emanuel in 2011. Through a mix of federal transportation funds, local funds, and private donations, the City announced in March 2012 that it was ready to begin work on the project.¹¹ The project broke ground in August 2013, and the park system, consisting of a trail with several access points and adjacent parks, opened to the public in June 2015. On opening day, thousands of people packed the trail. It has subsequently won awards for urban design, and the trail is used daily by commuters, neighborhood residents, and people from across the city.¹²

Beyond creating much needed open space for neighborhood residents, The 606 also more strongly connects a set of diverse neighborhoods. Bounded by trailheads at Ashland Avenue on the east and Ridgeway Avenue on the west, the trail cuts through three community areas: West Town, Logan Square, and Humboldt Park. Figure 1 maps the area with a half-mile buffer along The 606. It divides the area into "606 East" and "606 West" using Western Avenue as a midpoint and highlights the location of the trail as a green line. The two areas have very different demographic and housing dynamics. For example, 606 East is characterized by higher incomes, a predominantly white population, smaller households, and high levels of homeownership. The housing market is high value, largely condominiums, and was only slightly affected by the foreclosure crisis. Conversely, 606 West is lower income, has a large Latino population, higher share of larger households, and is primarily a renter community. The housing market is lower value, made up predominantly of small two- to four-unit rental properties. The foreclosure crisis affected the western area more than in the east, and it has a higher share of properties purchased by investors.¹³

⁶ Institute for Housing Studies, "2016 State of Rental Housing in Cook County," last modified May 11, 2016.

⁷ Lisa Bates, "Gentrification and Displacement Study: Implementing an equitable inclusive development strategy in the context of gentrification," (May 2013): 26-37.

⁸ Veronica Guerrieri, Daniel Hartley, and Erik Hurst, "Endogenous Gentrification and Housing Price Dynamics," *Journal of Public Economics* 100 (2013): 45-60.

⁹ Karen Chapple, "Mapping Susceptibility to Gentrification: The Early Warning Toolkit" (CITY: Center for Community Innovation, 2009), p. 6.

¹⁰ The 606, "The Story"; City of Chicago, "The Logan Square Open Space Plan" (2004).

¹¹ Julia Thiel "The Bloomingdale Trail Is (Suddenly) Fully Funded," *Chicago Reader*, March 13, 2012.

¹² The American Planning Association, "Chicago's 'The 606' Receives National Planning Award for Urban Design" (March 30, 2016); Blair Kamin, "Chicago's New 606 Trail a Boon for Open Space, Neighborhoods It Links," *Chicago Tribune*, June 2, 2015; The 606, "Mayor Emanuel Joins Senator Durbin, The Chicago Park District, The Chicago Department of Transportation and The Trust for Public Land to Open the 606 Park and Trail System" (June 6, 2015).

¹³ Institute for Housing Studies, "Data Clearinghouse" (website).

FIGURE 1

AREA WITHIN A HALF MILE OF THE 606, 606 WEST AND EAST



SOURCE: IHS DATA CLEARINGHOUSE

The 606 has been largely celebrated, and its ability to connect diverse neighborhoods in a historically segregated city like Chicago is one of the key elements of its success. However, grassroots organizations have also expressed concern that The 606 will eventually lead to increased housing costs and displacement for existing residents, particularly in 606 West.¹⁴

As described above, the neighborhoods of 606 West have nearly all of the characteristics associated with high risk of lost affordability and displacement risk. 606 West is immediately adjacent to the strong real estate market of 606 East, and is now more directly connected to it via the trail. It is also adjacent to central Logan Square to the north, which has seen some of Chicago's most dramatic recent price increases.¹⁵ Property values in 606 West are also lower than 606 East, and a recent history of foreclosures and distressed sales created potential investment opportunities. In addition, the housing market in the west is predominantly small two- to four-unit rental properties, which research shows often provide lower-cost housing.¹⁶ Many of these properties are not rent-subsidized, which leaves them vulnerable to conversions in a rising market because landlords are not bound by subsidy agreements to keep rents affordable.¹⁷ Figure 2 summarizes some of the key demographic and housing market data in 606 East and West related to displacement and affordability risk.

¹⁴ Juilia Thiel, "Is the Bloomingdale Trail a Path to Displacement?" *Chicago Reader*, June 4, 2016.

¹⁵ Institute for Housing Studies, "Cook County House Price Index Second Quarter 2016" (October 13, 2016).

¹⁶ Institute for Housing Studies, "Two-to-Four Unit Buildings in Cook County's Rental Market." Fact Sheet (June 2012).

¹⁷ U.S. Department of Housing and Urban Development, "Background Paper on Market Rate Multifamily Rental Housing" (Washington, DC: Millennial Housing Commission Report, May 30, 2002); Joint Center for Housing Studies, "Landlords at the Margins: Exploring the Dynamics of the One to Four Unit Rental Housing Industry" (March 2007).

FIGURE 2**Key Demographic and Housing Market Characteristics, 606 West and East**

Key Demographic and Socioeconomic Data	606 West	606 East
Median Household Income, 2010-2014	\$ 49,701	\$ 115,924
Poverty Rate, 2010-2014	25.5%	4.8%
Renter Share, 2010-2014	61.5%	41.5%
Latino Share, 2010-2014	67.3%	11.1%
4+ Person Household Share, 2010-2014	25.5%	9.4%

Key Housing Market Data	606 West	606 East
Share of Properties Impacted by Foreclosure, 2005-2015	24.1%	7.1%
Median Single Family Sales Price, 2015	\$ 450,000	\$ 815,000
Investor Share, 2015	20.7%	4.8%
Share of Units in Two-to-Four Unit Buildings, 2016	48.8%	29.2%

SOURCE: IHS DATA CLEARINGHOUSE, CALCULATIONS OF DATA FROM THE AMERICAN COMMUNITY SURVEY 5-YEAR ESTIMATES, 2010-2014

Analysis

About the Data

This analysis uses IHS's Clearinghouse of parcel-level administrative data to examine changes in the housing market around The 606. Increased demand for housing and rising house prices are indicators of declining housing affordability and growing risk for displacement among lower-income households.¹⁸ Further, rising single-family home prices are broadly aligned with increasing rental costs. As demand for housing increases, landlords may invest in properties to attract higher-income tenants or raise rents in response to an increase in overall demand. In addition, higher single-family prices can tempt owners to convert rental properties into single-family homes, which can raise rents by lowering the supply of total rental units.¹⁹ Owing to limitations of available rental data for small geographic areas, IHS did not examine how rent prices responded to The 606. House prices along The 606, however, provide a key indication of how demand for housing has changed along the trail.

Price trends could be driven by a number of factors not directly related to The 606, such as increased demand coming from nearby neighborhoods independent of The 606. To disentangle the influences, IHS included both time trends and spatial variation in the price index by adding geographical distance from The 606 into the statistical model. To isolate the impact of the trail on housing prices specifically, we estimated the premium that buyers were willing to pay to be near The 606, and simulated how that premium varied for neighborhoods on the eastern and western sides of The 606 as well as by distance from The 606. To relate any changes to various benchmarks associated with the development of The 606, we focused on three key points in time: the second quarter of 2012, when funding was secured to begin construction; third quarter 2013, when the city broke ground on the trail; and second quarter 2015, when the trail opened.

To account for stark differences in observed risk factors associated with displacement and decreased affordability, this analysis segments The 606 and observes changes in 606 East and 606 West housing markets separately. For more on how the IHS House Price Index is calculated, the data, and the methodology used in this study, see the accompanying technical paper "Hedonic House Price Models for Small Geographic Areas: The 606 Linear Park System in Chicago."



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Key Findings

Prices have increased dramatically in 606 West. Housing in both 606 East and West experienced price increases after the trail broke ground, but prices have recently risen dramatically in 606 West. Figure 3 shows quarterly price trends for single-family homes from 2000 to the second quarter 2016 across Chicago, and in 606 East and West within a half-mile of The 606. Figure 4 summarizes key price trends.

Compared to the city as a whole, 606 East and West are today both strong housing markets that have experienced long-term price gains and robust recent recoveries. Since 2000, prices in both areas have increased by more than twice the citywide increase during the same period. In addition, prices in 606 West are only 2.5 percent off peak levels, while prices in 606 East are 4.1 percent over previous peak levels. By comparison, prices citywide are 27.2 percent below peak.

Historically, trends in 606 East and West have been very different. Figure 3 shows that, compared with the city

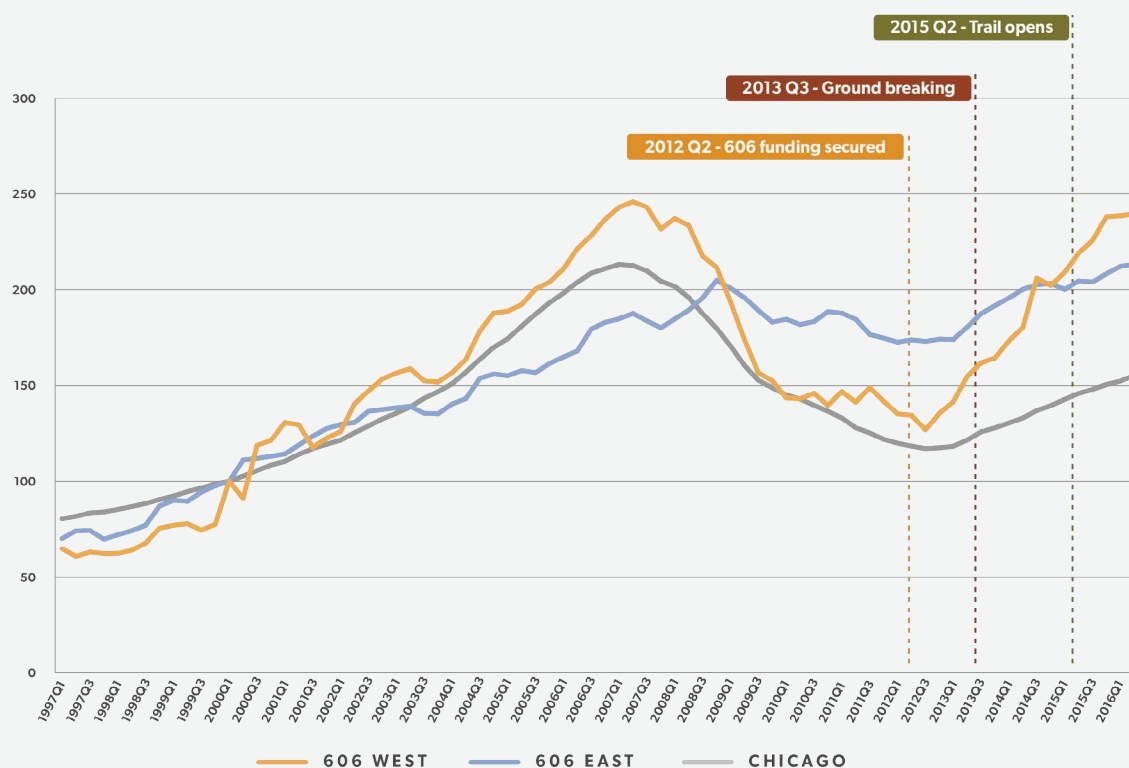
¹⁸ Joint Center for Housing Studies, "America's Rental Housing: Expanding Options for Diverse and Growing Demand" (December 9, 2015); Kathe Newman and Elvin K. Wylie, "The Right to Stay Put, Revisited: Gentrification and Resistance to Displacement in New York City," *Urban Studies* 43 (1) (2006):51.

¹⁹ Dennis Rodkin, "Why So Many Two-Flats Are Turning into One-Flats," *Crain's Chicago Business*, July 7, 2015.

as a whole, 606 East has consistently been a strong and stable market, while 606 West has had a much more volatile history with much larger peaks and valleys during the boom and bust years. House prices in 606 East peaked in early 2009 and experienced some modest declines during the housing crisis and modest appreciation during the recovery. As of the second quarter 2016, house prices in 606 East are at their highest point since 2000. Conversely, prices in 606 West continued to fall until second quarter 2012, and the strong recovery since has largely coincided with the development and opening of The 606 trail. Since breaking ground on the trail, prices in 606 East have increased by 13.8 percent and by 4.3 percent since the trail opened in second quarter 2015. Conversely, prices in 606 West have increased by 48.2 percent since breaking ground, and by 9.4 percent since the trail opened.

FIGURE 3

SINGLE FAMILY HOUSE PRICE TRENDS FOR 606 WEST, 606 EAST, AND THE CITY OF CHICAGO - 2000 TO 2Q 2016



SOURCE: IHS DATA CLEARINGHOUSE

FIGURE 4**Summary of House Price Data for 606 West, 606 East, and the City of Chicago - 2000 to 2Q 2016**

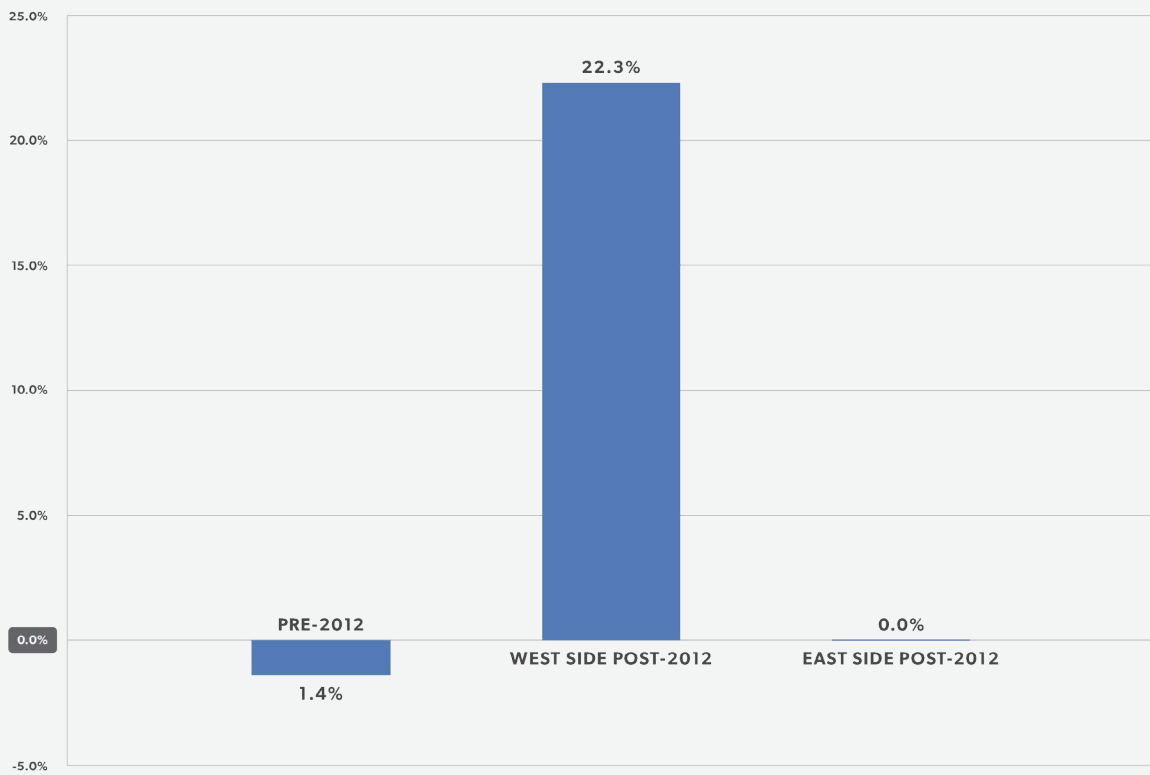
	606 West	606 East	City of Chicago
Price Change since 2000	139.7%	113.4%	55.3%
Bubble Peak to Current	-2.5%	4.1%	-27.2%
Recovery from Bottom	88.9%	23.6%	32.7%
Since Groundbreaking (2013 Q3)	48.2%	13.8%	23.4%
Since Trail Opening (2015 Q2)	9.4%	4.3%	6.4%

SOURCE: IHS DATA CLEARINGHOUSE

Buyers in 606 West are paying a large premium for properties near The 606. Figure 5 isolates the impact that The 606 has had on prices. It shows the price premium buyers were willing to pay to live within one-fifth of a mile of The 606 before and after the trail opened. Before 2012, the abandoned rail line was a penalty on property values of about 1.4 percent. After The 606 was underway, being near The 606 began to command a premium, but only on the western side of the trail. Although the rail line was no longer a penalty in 606 East, buyers did not pay an additional premium for homes near the trail in this higher value market. The story is different in 606 West. There, buyers were willing to pay 22.3 percent price premium for properties within one-fifth of a mile of the trail.

FIGURE 5

HOUSE PRICE PREMIUMS FOR HOMES WITHIN 1/5 OF A MILE FROM THE 606, PRE-2012 AND POST-2012 606 WEST AND 606 EAST

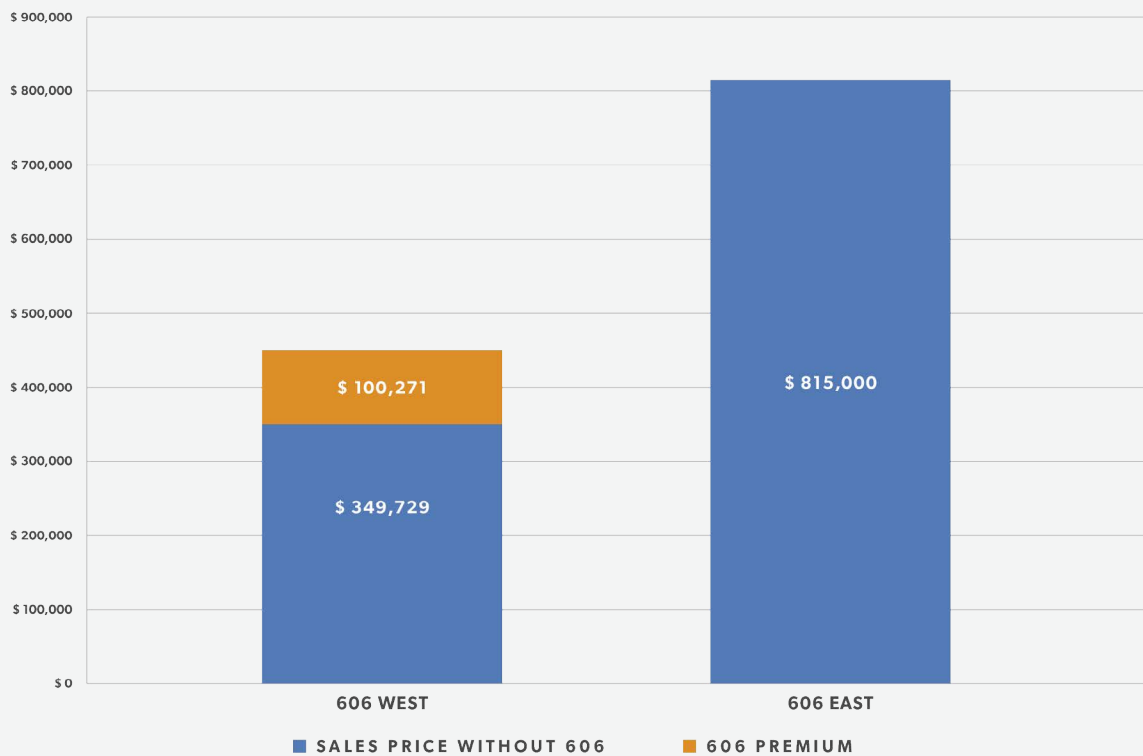


SOURCE: IHS DATA CLEARINGHOUSE

For single-family homes selling in 606 West, more than \$100,000 of the total 2015 sales price is a result of close proximity to The 606. Figure 6 shows that in 2015, the median sales price for a single-family home within one-fifth of a mile of The 606 was \$450,000 on the west side. Using the distance premium above, more than \$100,000 of that price can be attributed to The 606. Although median home values were much higher in 2015 in 606 East, the trail contributed to none of that sales price.

FIGURE 6

ESTIMATED IMPACT OF THE 606 ON 2015 MEDIAN SINGLE FAMILY PRICES, 606 WEST AND 606 EAST

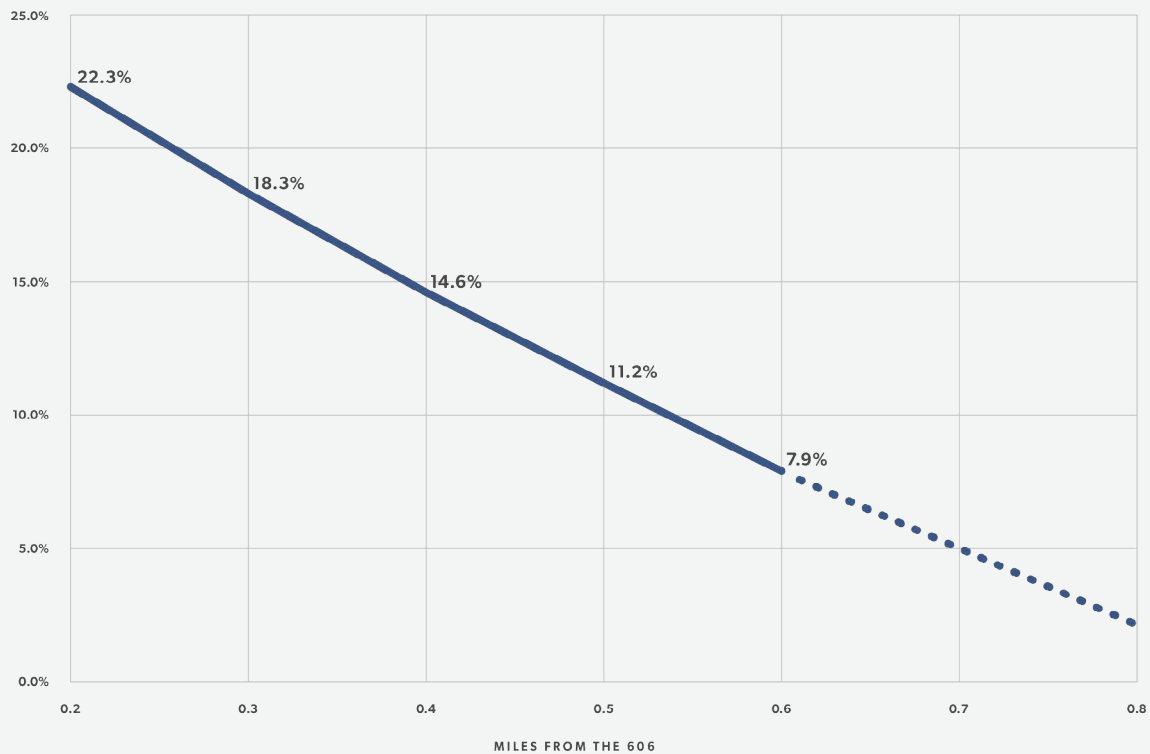


SOURCE: IHS DATA CLEARINGHOUSE

After a substantial premium at 1/5 of a mile, The 606 has a dissipating impact on house prices. Figure 7 shows that the trail's influence on 606 West house prices dissipates the further from the trail a property is located. Whereas the price premium is more than 22 percent within one-fifth of a mile of the trail, it declines to 11.2 percent at one-half mile away. After 3/5 of a mile the effect of the premium becomes statistically insignificant, as denoted by the dotted line in Figure 7.

FIGURE 7

CHANGE IN HOUSE PRICE PREMIUM BY DISTANCE FROM THE 606 IN 606 WEST, POST-2012



SOURCE: IHS DATA CLEARINGHOUSE

Discussion

Where to From Here? Four Policy Implications

As Chicago and other cities consider future high-profile, potentially catalytic projects like The 606, evidence from this analysis can help inform more proactive and targeted policies to preserve neighborhood affordability. The neighborhoods around 606 East and 606 West reacted very differently to the introduction of the trail. In the already strong and stable 606 East housing market, a new amenity had a very limited effect on house prices because demand and house prices were already very high. In 606 West, the trail had a much more substantial effect by attracting new demand from buyers willing to pay a substantial percent premium to live near the trail.

These findings have implications for community development practitioners trying to develop a balanced set of policies that will allow cities and neighborhoods to benefit from the success of these projects while also preserving housing affordability and limiting the potential displacement of lower-income residents. This section discusses some of those implications.

» **Neighborhood characteristics matter.** Given the underlying demographic characteristics of 606 West, the rising sales prices driven by buyers willing to pay a premium to live near the trail should raise concerns about rising housing costs and declining affordability for lower-income households in the area. This analysis highlighted key indicators, including a neighborhoods' location, housing market characteristics, and demographic mix, that city planners and grassroots organizations can use in proactively assessing the risk to affordability and of potential displacement in advance of any major public investment project. In communities with similar characteristics to 606 West, certain types of investments may lead to high short-term risk of lost affordability, and certain policies may be most appropriate for this type of neighborhood. However, in other neighborhoods that have a higher level of housing distress or may be more isolated from stronger real estate markets, similar investments may not present the same risk of lost affordability. For these areas, a different set of policy tools will likely be more appropriate.

» **Policy incentives must be responsive to market changes.** In 606 West, the trail led to a 22.3 percent increase in values for properties within a one-fifth of a mile boundary. This translated to a \$100,000 premium for the typical

single-family property. Understanding the scale of such effects can help inform the types of policy incentives targeted to building owners to keep housing affordable.

» **The timing of interventions will be important to their success.** In the case of 606 West, prices for single family homes dramatically increased after 2012 and much of this increase can be attributed to the premium buyers were willing to pay after development of the trail began in earnest. Market increases were so substantial after work on the trail began that many policies tied to providing incentives to building owners to maintain affordability likely have become difficult to implement after the fact. With future projects, policymakers may need to focus on implementing policy interventions early in the planning process to be most effective.

» **Proximity matters.** The analysis identified a clear boundary of influence on house prices. In 606 West, the premium was most acute within one-fifth of a mile from the trail, declined by roughly 50 percent at a half-mile, and became statistically insignificant quickly thereafter. This suggests that policy interventions should be prioritized or targeted to areas within a specific range of a large public investment where impact is expected to be most significant.

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1 East Jackson, Suite 5400
Chicago IL 60604
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