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RAISING THE BAR: LINKING LANDLORD INCENTIVES AND REGULATION THROUGH RENTAL LICENSING

A Short Guide for Local Government Officials

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This guide was prepared to assist local officials and others concerned with rental housing issues develop rental regulation ordinances. While it contains discussion of legal and policy issues for consideration by local leaders, it does not constitute legal advice and should not be relied upon as such. If you have any specific questions about any legal or financial matter related to rental regulation, you should consult an appropriately qualified professional. Municipalities are urged to consult local legal counsel in the course of preparing ordinances or taking other steps with respect to the matters addressed in this guide.

ABOUT THE CENTER FOR COMMUNITY PROGRESS

Founded in 2010, the Center for Community Progress is the only national 501(c)(3) nonprofit organization solely dedicated to building a future in which entrenched, systemic blight no longer exists in American communities. The mission of Community Progress is to ensure that communities have the vision, knowledge, and systems to transform blighted, vacant, and other problem properties into assets supporting neighborhood vitality. As a national leader on solutions for blight and vacancy, Community Progress serves as the leading resource for local, state, and federal policies and best practices that address the full cycle of property revitalization. Major support for Community Progress is generously provided by the Charles Stewart Mott Foundation and the Ford Foundation.

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INTRODUCTION: UNDERSTANDING THE REGULATORY FRAMEWORK

Regulating the condition and operation of rental housing is a major challenge facing local governments across the United States, particularly those experiencing social and economic distress. In recent years, along with widespread foreclosures and loss of property values, many municipalities have seen increasing numbers of single family homes move from owner-occupancy to absentee ownership and rental occupancy. While a stock of sound, well-managed single family rental properties can be a valuable asset for a community, in many cases much of this inventory is neither sound nor well-managed.

The responsibility for making sure that landlords maintain and manage their properties well falls to the municipality, which has the authority to enforce codes and take a variety of other actions under the legal powers they have to regulate property (see text box). The goal of these regulations is not to hinder landlords' ability to

conduct business, but to raise the bar and ensure, to the extent possible, that landlords are responsible stewards of their properties, working with the municipality to ensure safe, clean neighborhoods.

THE MUNICIPAL POWER TO REGULATE PROPERTY

The powers of local governments to regulate properties vary widely from state to state and within states between "home rule" and "non-home rule" municipalities. Home rule municipalities typically have broad powers to address the public health, safety, and general welfare in areas that are *not expressly precluded* by state law. Non-home rule municipalities have much more limited powers, and can only act within the parameters *expressly permitted* by state law. The same distinction applies at the state level. In some states, known as "Dillon's Rule" states, municipalities have no home rule powers, but are limited to those activities that are expressly permitted by state law. In other states, they have varying degrees of flexibility to act on the basis of what is known as the municipal "police power" to uphold the health, safety and general welfare of the community's citizens. Local officials should consult with legal counsel familiar with these issues before taking action.

Throughout the guide, key points are indicated with this symbol: ➡

The way in which municipalities do so can be called the *regulatory framework*, which is the sum of the ordinances, administrative systems, and

operating practices the municipality uses to foster responsible landlord behavior and sound, well-managed rental housing in the community. The principal elements in the regulatory framework are shown in Table 1 below, with a brief description and rationale for each. *Landlord*

Table 1: The Rental Housing Regulatory Framework

ELEMENT	DESCRIPTION	RATIONALE
Landlord registration or licensing ordinances	A <i>registration</i> ordinance requires landlords to register their properties with the municipalities and provide contact information A <i>licensing</i> ordinance requires registration and a regular health and safety inspection, and may also require other actions by the landlord.	A registration system is informational only, and does not affect the right of a landlord to own and operate rental property. A licensing system conditions that right on compliance with appropriate public interest standards, and raises the bar for landlords in the community. Where legally permitted, a licensing system is a much more effective way of improving rental housing quality.
Mechanisms to ensure landlords are registered and/or licensed	Procedures (see Sec. 1.1 of the guide) to ensure that landlords register or comply with licensing requirements.	No ordinance is self-enforcing, and simply passing a registration or licensing ordinance does not get landlords, especially small landlords of single-family properties to comply. Proactive steps are needed to get landlords into the system.
Rental property information system	A data base of registered/licensed rental properties in the community, including information about code compliance, police calls, and tax/fee payment status.	The ability to track landlords and rental properties is a key to effective enforcement. A strong property information system allows a municipality to target resources to problems more effectively
Strategic code enforcement	Code enforcement that goes beyond complaint response to strategically address systemic targets and focus on bringing properties into compliance with codes	Complaint-driven code enforcement, while necessary, is inefficient and leads to scattered outcomes rather than systematic compliance and neighborhood stabilization
Compliance-oriented fee structure	Fee structures that are oriented to generating positive outcomes and maximizing compliance rather than revenues	Fees should not be seen as a revenue generating mechanism, but as a way of motivating landlords to affirmatively comply with ordinances as responsible owners.

incentives should be thought of as part of the overall regulatory framework, rather than as a separate unrelated strategy.

The guide is divided into three major areas – getting the most out of a licensing system, improving the quality of rental management, and offering incentives to responsible landlords. Each of these areas is divided into a number of specific areas. While some strategies depend on having others in place – it is hard to set up a performance-based licensing system without a good property data base – others can be done by themselves. We try to indicate as we go along which steps are dependent upon other actions, and which are not.

I CREATING A LICENSING SYSTEM

1.1 UNDERSTANDING WHY LICENSING IS SO IMPORTANT

It is important to make clear up front the difference between a licensing and a registration system, and why licensing allows a municipality to become much more effective and proactive in terms of raising the quality of its rental housing

stock. A registration system is purely informational. It requires landlords to provide basic information to the municipality. It carries with it no inherent ability to enforce codes or set standards.

A licensing system, which is the primary subject of this guide, is a fundamentally different matter. By establishing minimum standards that a landlord must comply with in order to operate a rental housing unit, licensing serves as the basis for a multifaceted system to improve the community's rental housing stock. A licensing system makes it clear that the community's landlords have a responsibility to live up to certain standards, but also that the municipality has accepted its responsibility to act proactively to enforce its standards. Licensing also facilitates efforts to move from a reactive and complaint-driven code enforcement system to one that is strategic and designed to improve the quality of the entire rental stock, not just the properties that trigger complaints.

A municipality that has a registration system has taken an important first step when it decides to transition to a licensing system, since it has already begun the process of creating an inventory of landlords who will need to be licensed. The key question, which is addressed below in the framework of the licensing system, is whether the inventory does in fact contain all or the great majority of the landlords and rental properties in the municipality. Experience in many different communities has shown that simply enacting an ordinance does not lead to compliance – a systematic outreach strategy is needed.

1.2 REACHING OUT TO THE COMMUNITY

The outreach strategy, however, really needs to begin even before the ordinance is enacted. The rationale for licensing rental properties is straightforward and compelling. The ability to live in housing that meets basic health and safety standards is a fundamental human need, and arguably far more critical to far more people than many of the professions and activities that are already subject to state or local licensing requirements.

At the same time, municipalities seeking to enact rental licensing may encounter strong opposition from property owners. While some objections may not be well-founded, others may reflect legitimate concerns that an ordinance may be administered in a punitive fashion or accompanied by unduly burdensome fees. For that reason, any municipality considering rental licensing should reach out to those most directly affected in advance, to explain how the proposed ordinance would work, and why it would benefit landlords, tenants, and their communities. Outreach efforts should focus not only on landlord and real estate associations and their key members, but also to tenant organizations where they exist, and to neighborhood and block associations.

➔ Since most owners of rental properties in most communities are responsible landlords, an important selling point of a *performance-based licensing system*, as described in this guide, is that it does not

treat rental properties and landlords in a “one size fits all” fashion, but rewards responsible landlords, while focusing enforcement on chronic offenders.

Outreach should be systematic and thoughtful, and all parties should be given the opportunity to have meaningful input into the specific provisions of the proposed ordinance, not merely be encouraged to support something presented as a *fait accompli*. In the end, no amount of outreach can guarantee that there will be no opposition, but a sound outreach effort will not only reduce opposition and build support, but, in the event the ordinance passes even with opposition, help the city build the positive relationships it will need with the landlord community to bring about successful implementation of the ordinance.

Small municipalities may find it difficult, given their limited financial and staff resources, to implement some of the actions in this guide by themselves. An alternative approach worth serious consideration is to carry out those actions through intermunicipal cooperation, or by having them carried out by a regional body or other entity. Areas where this may be worth consideration are discussed in Part IV of the guide. A final section provides resources, including informational material on landlord strategies generally and links to specific good practices.

II GETTING THE MOST OUT OF A

LICENSING SYSTEM

OVERVIEW

Creating a licensing system, in and of itself, can be an effective starting point in improving the quality of rental housing maintenance and management in a municipality. It is only effective, however, if the great majority of landlords in the community are licensed. The threshold problem that municipalities face when they enact such an ordinance is getting landlords into the system. Experience shows that without proactive steps to get landlords licensed, only one-third or fewer are likely to get into the system, a number that will typically exclude most of the small mom-and-pop owners of single family properties. Many landlords are unlikely to be aware of the existence of the ordinance, while others – in the absence of systematic enforcement, which is rarely present – expect that they can remain under the municipality’s radar. Section 2.1 will describe the steps a municipality can use to get more landlords into a licensing system.

The second step to get the most out of the system is to take the licensing information, along with other information that is already available in the community about properties, and create a simple database to track rental properties, described in Section 2.2. This enables the municipality to understand its rental inventory,

identify problem properties and landlords, and target limited resources to the problems. It can also help build cooperative relationships between the local government, residents, and neighborhood associations to help address problem properties in their neighborhoods. We refer to a system that focuses on problems, while rewarding good landlord performance, as a performance-oriented regulatory system, described in Section 2.3.

2.1 GETTING LANDLORDS INTO A LICENSING SYSTEM

While no municipality can expect to have 100% of the landlords licensed, at least 80% to 90% should be licensed for the licensing regime to be effective. This can only happen through a systematic effort to gain compliance. Obvious strategies, such as door-to-door campaigns, are likely to be both expensive and ineffective. Cities have limited resources to devote to this task, and must come up with more cost-effective strategies to gain compliance. Some of those strategies may be able to take advantage of available technologies in creative ways. This section describes three strategies municipalities can use.

a. Mass mailing

- (1) Create a list of presumptive rental properties, by comparing property addresses

to the name and address of the person to whom property tax bills are sent, and sorting by the latter address (some money can be saved by sending a single mailing to the owner of multiple properties). The list should be screened to identify those properties that are already licensed so that they do not receive mailings.

(2) Send the owner of record a packet containing the following information:

- a. A cover letter explaining the licensing requirement affecting all rental properties in the municipality
- b. A flier explaining the provisions of the licensing ordinance and regime
- c. A licensing form, for the owners of rental properties to return to the municipality with the appropriate fee; and
- d. An affidavit of non-rental status, a sworn document which the owner can complete and return if the property is not being used as a rental property

➡ The mailing should also indicate that the municipality has adopted a six-month (or similar period) amnesty period, during which no landlord will be penalized for failing to file a licensing application. It should further describe the potential penalties to which the owner may be subject if he or she fails to get the property licensed within that period, or if the owner files the affidavit of non-rental status and is subsequently found to be

operating the property as a rental property.

(3) Send a follow-up letter to owners who fail to respond, one way or the other, to the initial mailing. This letter should go out 45 to 60 days after the initial mailing. While resources are unlikely to permit systematic visits to the properties of all owners who fail to respond, a schedule of spot-checks should be developed within the limits of available personnel.

b. Transaction-driven mailing

(1) Arrange with the county to receive a list of new sales transactions on a regular basis (at least monthly).

(2) As the municipality is notified of each transaction, the same packet described above should be mailed to the owner of record. Since the owner in many cases will be unfamiliar with the municipality, the packet should also include a flier with other information likely to be useful to a property owner in the municipality, such as emergency phone numbers, landlord-tenant ordinances, code requirements, and trash collection schedules.

(3) As above, a second letter should be sent to those who do not respond to the initial mailing. Depending on the number of properties involved and the resources available, follow-up visits should be made to some or all of the properties where the owner has failed to respond.



The mailing process can, in large part, be automated; in other words, the addresses can be entered into a computer and appropriate software can be installed to generate the mailings. Depending on the volume and costs involved, the municipality may want to contract with a direct mail firm which already has the necessary equipment, rather than doing this in-house.

energetically to civic organizations and neighborhood groups, urging them to use it to help establish and maintain the quality of the municipality's rental housing stock.



The procedure should be simple and *anonymous*. Requiring people who report properties to identify themselves discourages reporting.

c. Citizen reporting (drop-a-dime)

Despite a municipality's best efforts, many landlords may remain unlicensed. In order to get more of those landlords into the regime, the municipality can utilize the eyes and ears of its residents to report unlicensed landlords.



In view of the widespread ownership of smartphones, communities should explore whether an app may be available that people can download to their smartphones and use for this purpose. Existing systems that have been developed for people to report vacant, blighted properties could perhaps be adapted to reporting unlicensed landlords.

(1) Create and post in a highly visible location on the municipality's website an accessible, searchable database of all of the *licensed* rental properties, with their owners' names and contact information.

(2) Create on the municipal website a simple means by which residents or neighborhood organizations can report properties that (1) they believe to be rental properties; and (2) do not appear in the municipality's licensed rental property database. This can take the form of a box in which the resident can enter the address of the property.

(3) When properties are reported, send the owner of record a mailing similar to that described under 2.1(a) above.

(4) Once these features have been put on the municipality's website, get the word out

2.2 CREATING A BASIC RENTAL HOUSING INFORMATION SYSTEM

Having good basic information about the community's rental properties, and what is happening with them is a major asset in any rental housing regulatory system. It makes possible a variety of strategies that can make the municipality's regulatory efforts both more

effective – in terms of their impact on housing quality and neighborhood stability – and more efficient – in terms of impact relative to the amount of resources devoted to the task.

The principle of a basic rental housing information system is straightforward: assemble information already being gathered in the municipality on rental properties and their owners, so that information on either an individual property or an individual landlord, who may own multiple properties, can be readily accessed by local officials and other authorized personnel as shown in schematic form in Figure 1. A more detailed description of the information

FIGURE 1: SCHEMATIC REPRESENTATION OF BASIC RENTAL PROPERTY INFORMATION SYSTEM

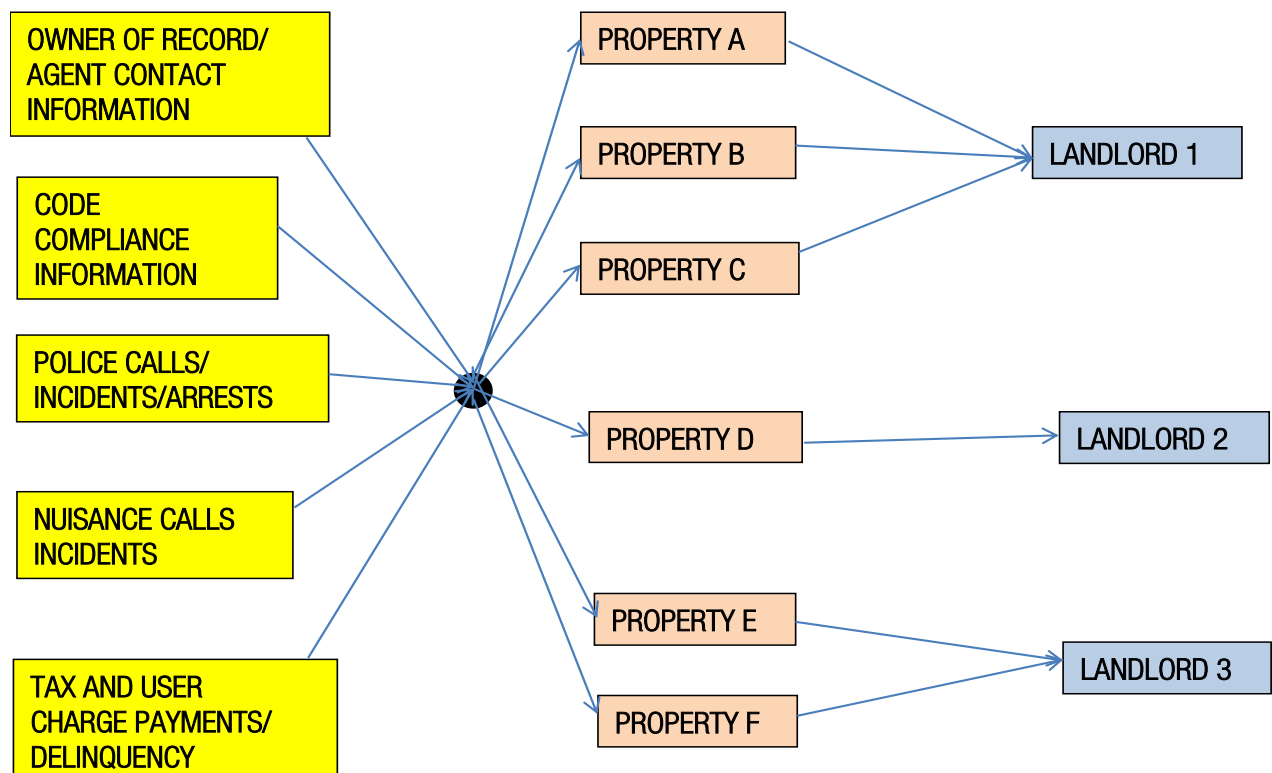


Table 2: Categories and Sources for Rental Property Information System

CATEGORY	SOURCE	DETAIL
Owner of record/agent contact information	Registration or Licensing Form Updates from County Recorder	Name/address of owner Name/address of agent if owner not local
Code compliance information	Municipal agency responsible for code enforcement	Most recent inspection/ outcomes/time to comply Re-inspections needed
Police calls/incidents/arrests	Police Department	Calls, incident reports, and arrests by location
Nuisance calls/incidents	Municipal agency responsible for addressing nuisance issues	Noise, health, and similar violations
Tax and user charge information	Treasurer, Tax Collector, and other agencies responsible for levying user fees	Taxes and user charges due by amount and date Delinquency in payment Tax liens outstanding

and its sources is shown in Table 2 following the figure. If not all of these information sources are available at the beginning, the system can be set up with those that are available, and the others (including any other useful information not shown in the table) added as they become available.

A rental housing information system can be as simple or as sophisticated as a community's resources permit and its goals dictate. Some small communities use nothing more elaborate than an Excel spreadsheet, which can be adequate where the number of properties involved is small, while others use more advanced software. A group of Minnesota local governments have formed a consortium to provide a common platform for local data needs, including a property

information system and a data system for permits and inspections.¹

2.3 MOVING TO A PERFORMANCE-BASED REGULATORY SYSTEM

➔ In order to establish a performance-based regulatory system, a municipality must have two key elements in place: (1) a well-functioning landlord licensing process; and (2) a basic rental property information system.

¹ Local Government Information Systems (LOGIS). See <http://www.logis.org/>

No municipality has unlimited resources. The best regulatory framework is one which effectively distinguishes between those landlords

PERFORMANCE-BASED LICENSING IN BROOKLYN CENTER, MINNESOTA

Brooklyn Center annually determines the number of property code and nuisance violations, and police service calls, for each property. They then use that information to classify each property from Type I through IV. The properties are first scored on the basis of the number of property code and nuisance violations. That score is then adjusted on the basis of the number of validated calls for disorderly conduct and Part I crimes.

The classification of properties from Type I to Type IV is then used by Brooklyn Center to determine (1) the obligations of the landlord going forward; and (2) the level of monitoring by the municipality; that is, how often the property is scheduled for inspection, and what other steps, if any, the municipality will take to bring the property and the landlord up to the community's standard. The closer the property classification is to Type I, the fewer obligations are placed on the landlord, and the less often the property is inspected.

The full description of the Brooklyn Center scoring system can be found at <http://www.cityofbrooklyncenter.org/DocumentCenter/Home/View/118>

who are responsible owners and managers, and those who are not, and focuses the greater part of the municipality's efforts on the second group. Among the greatest benefits of having the property information system up and running are that it gives the municipality a powerful tool for evaluating landlord performance, identifying problem buildings and landlords, and targeting

resources to the problems. Brooklyn Center, Minnesota, an inner-ring suburb of Minneapolis, has designed a good system for doing this, which we describe in the box to the left.

➡ Municipalities going to a performance-based system should add tax compliance to the factors used to classify property. The information is readily available, and failure to pay property taxes and municipal user charges in a timely fashion, or at all, is a hallmark of a problem landlord. Including tax compliance in the system will provide inducement to landlords to pay their taxes.

Table 3 on the following page shows proposed landlord and municipal responsibilities in a performance-based system. They are divided into two categories – **basic requirements**, which are the fundamental requirements to make the system work and establish clear standards for landlords; and **optional provisions**, which are enhancements that can improve the system but are not essential to its functioning. The optional provisions can also be incorporated into the Good Landlord Program, described in Section 4.1.

A major advantage of the performance-based system is that it allows the municipality to focus its limited inspection resources. Thus, the municipality is not spending valuable time inspecting properties that are likely to be in good condition more often than necessary, and can devote its resources to the worst-performing properties.

Table 3: Landlord and Municipal Requirements Under Performance-Based Regulatory System

	CLASSIFICATION	I	II	III	IV
BASIC REQUIREMENTS	Re-licensing inspection timetable	Every three or four years	Every two years	Annual	Every six months
	Participation in landlord improvement program (see note 1)	Encouraged	Encouraged	Required	Required
	Participation in crime-free program (see note 2)	Encouraged	Encouraged (see note 3)	Required	Required
	Other requirements	None	None	None	Must complete remedial action plan which must be approved by municipal officer
OPTIONAL PROVISIONS	License fee	Base fee	Base fee	Base fee + added “problem property” fee (see note 4)	Base fee + higher added “problem property” fee (see note 4)
	Eligible for purchase of public property	Yes	Yes, subject to case by case review	No	No
	Eligible for good landlord incentives	Yes	Yes, if meets conditions	No	No
Notes: (1) See Section 3 for further discussion. (2) This can be combined into a single program with the landlord improvement program, or run as a separate initiative. (3) May be required if criminal or related matters make up principal reason for lower rating. (4) See Section 4 for further discussion of fees.					

➡ In lieu of having municipal inspectors conduct licensing and re-licensing inspections, a municipality with limited personnel resources may want to consider creating a list of screened, approved private inspection firms that will conduct these inspections for a predetermined fee, payable directly by the property owner to the firm. This can save the municipality money, and free up inspectors for more urgent activities. Another alternative is to contract with a single firm through a Request for Proposals process to handle all licensing inspections in the municipality.

III RAISING THE BAR FOR PROPERTY MANAGEMENT AND MAINTENANCE

Most landlords in most communities are small scale mom-and-pop landlords, but many do not live near their properties. Some are irresponsible, but others may be responsible individuals who are unable for many different reasons to give their properties the attention they need, leading to inadequate maintenance and management quality. These issues can take many different forms, including:

- Failure to maintain building and grounds in visually appropriate condition
- Failure to make repairs in timely fashion
- Failure to ensure uninterrupted utility service
- Failure to address public safety issues associated with the property
- Failure to perform appropriate pre-lease tenant screenings
- Failure to use appropriate lease document
- Failure to evict problem tenants when appropriate.

Raising the bar in all of these areas will benefit responsible tenants, responsible landlords, and the community as a whole. To do so effectively, it is important to create a support structure for responsible landlords, with a particular focus on assisting those who have been unable to maintain their properties to an appropriate standard.

➡ All of the recommendations in this section may be implemented either through inter-municipal cooperation or regional support programs, or through partnerships with existing high-capacity organizations in the area. Municipalities should carefully explore both options before deciding whether to initiate their own program. For this reason, some of these recommendations are not presented in as much detail as those in the previous section.

3.1 CREATING A MANUAL OF GOOD LANDLORD PRACTICE

Every existing landlord in each municipality, as well as individuals acquiring property in the municipality, should be given a manual which lays out the responsibilities of landlords and standards of good landlord practice, both in general and with respect to the provisions of any applicable ordinance specific to that municipality. The manual should include a recommended form lease.

➡ There are a number of existing manuals that have been created by municipalities (links to some are provided in Section 6 of this guide). Rather than reinvent the wheel, the best approach for a municipality is to use a good existing model, with an additional section or insert with information about the municipality's ordinances and requirements, along with information about the municipality, such as contact information for local officials, recycling guidelines, etc.

3.2 CREATING A “LANDLORD ACADEMY”

A **landlord academy** is shorthand for a well-organized and integrated series of training and technical assistance programs offered to landlords in the municipality. A landlord academy can

include assistance through a variety of programs and modalities, including:

- Training programs for landlords, which can include both basic courses and advanced or specialized courses in subjects such as equipment maintenance, legal issues, or financial management.

CRIME-FREE RENTAL HOUSING PROGRAM

Crime-Free Rental Housing is a program of the International Crime-Free Association, based in El Cajon, California, that is widely used by municipalities around the United States. It consists of three elements, carried out by or under the supervision of the municipal police department:

Phase I – An eight-hour training program taught by a trained police officer, covering a wide range of issues, and including a 100-page manual for every participant.

Phase II – A CPTED (crime prevention through environmental design) survey of the property by a trained police officer, covering such areas as door, window, and lock standards; exterior lighting, and landscape maintenance.

Phase III – A Crime-Free Commitment by the property owner, including commitment to proper tenant screening, use of a crime-free lease addendum, working with the police, etc.

While the term “crime-free program” does not appear to be subject to copyright or other restrictions, it is generally used to refer to this specific program. Many municipalities have similar programs, either designed locally or by other entities.

For more information, see http://www.crime-free-association.org/rental_housing.htm.

- Crime-Free programs, which are already used by many municipalities, could be integrated into the landlord academy (see text box on previous page).
- If resources permit, hands-on technical assistance, something like a SCORE² program for landlords, can be very productive. It can use retired contractors, inspectors, building superintendents, landlords, and others to provide one-on-one assistance to landlords, either on an ongoing basis or as needed.

➔ Access to one-on-one assistance could be something offered only to landlords who are participating in the good landlord program, and used as an inducement to get landlords to participate. In the other direction, landlords who have received low scores for their properties could be *required* to participate in training courses.

➔ This is another area where individual municipalities should work cooperatively to offer courses, potentially in partnership with an existing organization that already does so.

3.3 CREATING A LANDLORD ASSOCIATION OR STRENGTHENING AN EXISTING ORGANIZATION

A strong, effective landlord association can be an asset to both the community's landlords and the community as a whole. A good model is the

THE BROOKLYN CENTER ASSOCIATION FOR RESPONSIBLE MANAGEMENT

The objectives of the ARM are as follows:

- Serve as a networking resource for property managers
- Educate and inform property managers about current municipal initiatives
- Improve the safety and quality of all rental properties in the municipality to improve and maintain the municipality's image with citizens and neighbors
- Increase ARM meeting awareness and attendance
- Promote resources for property managers and tenants
- Provide more accessible dialogue between government, residents, and property managers

Landlords who fall into categories III and IV are required to participate in landlord association meetings.

For further information see

<http://www.municipalityofbrooklyncenter.org/index.aspx?NID=234>

² SCORE (which initially stood for Service Corps of Retired Executives) is a program supported by the U.S. that links small Small Business Administration business people who

need technical assistance with qualified volunteers. For more information see <https://www.score.org/>

Brooklyn Center, Minnesota, Association for Responsible Management (ARM), described in the text box above.

Creating such an entity, and actively encouraging landlord participation, can serve not only to spur more responsible landlord operations, but as an effective communications strategy between local government and the landlord community. The landlord improvement program shown in Table 3 can be conducted through a landlord association. The association can either be a local organization specific to a single municipality, or an area-wide organization.

3.4 BUILDING A REGISTRY OF QUALIFIED PROPERTY MANAGEMENT COMPANIES

Where landlords are located more than a few miles from their properties, or where their ability to become effective property managers is limited for other reasons, high quality third-party property management can make the difference in bringing about sound, well-maintained rental properties.

Municipalities should encourage landlords, particularly those where there is evidence of limited capacity to manage their properties on their own, to use professional management. Two steps municipalities can take are:

- Creating a registry of approved or licensed property management companies; and
- Offering incentives, such as a partial fee rebate or waiver of other requirements (such as taking training courses) to problem landlords who hire approved managers.

In some areas, there may not be enough professional property managers interesting in managing scattered single family rental properties. If this is the case, municipalities may want to work with their neighbors or with a regional organization to pursue either or both of the following steps:

- Identify qualified management firms in the region, particularly in nearby major cities, and encourage them to open a local branch operation;
- Create, perhaps in partnership with an existing firm or nonprofit entity, a new locally based company dedicated to property management.

Although over time, property management pays for itself – and is often profitable – either of these two steps might require that the public sector provide some seed money to get the project started.

IV PROVIDING INCENTIVES TO RESPONSIBLE LANDLORDS

Landlord incentives complement a regulatory strategy by building an ever-growing pool of responsible landlords who meet good practice standards with respect to their leasing and operations. While regulations can discourage bad actors, incentives reinforce and encourage good, responsible operations.

4.1 CREATING A “GOOD LANDLORD” PROGRAM

While incentives can be employed individually or separately, they are likely to have much more impact if they are bundled into a comprehensive program, under an umbrella such as a “good landlord program” or similar term. Under such a program, landlords that meet the criteria to participate can become members of the program, and obtain all of the benefits of the program.

Alternatively, as the airlines do with their loyalty programs, the benefits can be tiered, so that “silver” landlords are eligible for one set of incentives, but “gold” landlords are eligible for those and more. This can easily be integrated with the performance-based regulatory system described above (Section 2.3).

There are two basic approaches to setting the eligibility for a good landlord program (or for incentives separately):

- (1) Basing eligibility on performance: Any landlord who meets the criteria (as described in Section 2.3) on his or her properties during the preceding year would be eligible. This approach requires that the municipality have its property information system up and running.
- (2) Creating an “aspirational” system: Landlords become eligible when they make a pledge to meet the criteria by signing onto a landlord code of conduct. If, after making such a commitment, a landlord fails to meet the criteria, he/she is removed from the program.

The two can be combined in a system which accepts any landlord who makes the pledge into the program, but limits “gold” benefits to landlords who both make the pledge and meet a high standard of performance.

4.2 OFFERING MULTIPLE LOW-COST/NO-COST INCENTIVES

There are many incentives that municipalities can offer landlords which cost the municipality little or nothing. These incentives can be bundled into a package that is made available to all participants in the good landlord program, including.

- Provide access to free one-on-one technical help with specific management or maintenance problems. The municipality can line up a small group of people, including property managers, lawyers, and the like, who agree to be available for a modest amount of time for this program.
- Designate a police officer as an ongoing liaison with landlords, to assist not only in crime-free programs, but with specific problems or concerns.
- Hold regular (monthly or bi-monthly) forums between key municipal officials and landlords where both municipal and landlord concerns can be discussed informally and openly.
- Provide fast-track approval of permits for property improvements.
- Offer free advertising of available rentals on the municipal website and in local newspapers, particularly free weekly merchandising papers.
- Negotiate discounts for good landlords on goods and services at local merchants or from local contractors.
- Provide free or low-cost equipment such as smoke or carbon monoxide detectors, security locks, etc. Municipalities may be able to acquire these in bulk from retailers either as a contribution or at a significantly discounted cost.
- Provide free radon testing.

The specifics of the bundle would vary from municipality to municipality, based on what are

seen as the most appealing incentives for landlords, and what is feasible, in terms of availability of volunteers and donation of materials or services.

4.3 DESIGNING FEE STRUCTURES AS INCENTIVES

Municipalities can use the way they charge fees – both general ones and fees specific to rental housing – to act as incentives for responsible rental operations. This can happen in two general ways:

- Offering good landlords reduced fees for fee-charged municipal services, such as building permit fees for property improvements, crime-free housing fee or garbage removal fees.
- Structuring fees associated with rental properties to function as incentives.

While the first is largely self-explanatory, the second can take different forms that may need some discussion.

a. Basic licensing fees

Licensing fees should be kept as low as municipal financial circumstances permit, in order to maximize compliance with the licensing ordinance. They should not be seen as a vehicle for generating municipal general revenue. If feasible, the licensing fee should be no more than the administrative cost of the program, which should most probably not be more than \$10/year. Similarly, the basic licensing inspection

should be free if possible, along with the initial follow-up inspection if the property failed to meet the basic licensing requirements. Where fiscal considerations dictate that a fee be charged for the initial inspection, it should be kept as low as possible, and include the initial follow-up inspection in the fee. Substantial fees, however, may be charged for subsequent re-inspections, and penalties charged for failure to qualify for the license.

We do *not* recommend that landlords who fail to comply with licensing requirements be required to vacate their units, unless the property fails to meet basic health and safety standards for occupancy. Such requirements penalize the tenants more than they do the owner. Municipalities should use the fee structure, as described further below, as well as citations and fines, to obtain compliance. Municipalities can also prevent noncompliant landlords from re-renting units that have been vacated.

b. Disproportionate impact fee

A highly creative approach is followed by municipalities in Utah, based on a state enabling law³ that has two parts:

- Municipalities impose a **disproportionate impact fee** on rental properties. The fee must be determined on the basis of a formal analysis that calculates the cost that rental properties impose for municipal police, fire, and code enforcement compared to the rest of the municipality, and establishes a dollar amount for each unit, known as the disproportionate impact fee, which can

vary depending on the type of rental property. This fee can be substantial. The city of West Jordan imposes a fee of \$200 per year for single family rental properties, and \$70 per unit for multifamily properties.

- Municipalities establish a **good landlord program**. Landlords who qualify for the good landlord program receive a rebate of the disproportionate impact fee except for a modest amount for administrative costs. In West Jordan, \$7 per unit is retained by the municipality for administrative costs.

This program is widely used in many Utah municipalities and is credited with significant improvements in the quality of rental housing operations and maintenance. It is critical that any such program be based on a solid, defensible analysis of municipal costs and meet all relevant local legal requirements.

c. Graduated licensing fee

A variation on the licensing fee, which is shown in Table 4, is to add a performance-based fee to the basic fee. Under a performance-based fee:

- Landlords and properties who fail to meet adequate standards would be assessed a supplemental licensing fee for the following year.
- At the end of the year, if the properties improved to a higher category, the landlord would receive a rebate of a portion of the supplemental licensing fee. The rebate could be a standard amount,

³ The Utah enabling law can be found at Utah Code, Title 10, Chapter 1, Section 203.5 and can be accessed at http://le.utah.gov/code/TITLE10/htm/10_01_020305.htm

or could be based on the degree of improvement.

- Alternatively, the municipality can enact a single licensing fee for all landlords, but adjust the period covered by the fee based on the property category; thus the owner of a category I property would pay the fee once every three or four years, but the owner of a category IV property would pay the (same) fee every six months.

This approach offers landlords a concrete incentive for improving the quality of their operation.

4.4 EXPLORING OTHER POSSIBLE GOOD LANDLORD INCENTIVES

The ideas in this section are offered as additional options to consider, depending on resource availability, policy preferences, legal framework, and appropriateness for the particular municipality.

a. Security deposit guarantee

In less affluent communities, landlords periodically find a prospective tenant who meets all of the requirements for a lease but lacks the funds for the full security deposit. In this program, the municipality provides a guarantee to the landlord of the additional amount the tenant needs to meet the security deposit requirement. Because such a program expands the pool of potential qualified tenants, it is likely

to be highly attractive to landlords. While there is no direct cost to the municipality, it does place some amount of public funds at risk.

b. Make qualified landlords eligible to purchase vacant properties owned by the municipality or land bank entity

This supports the goal of increasing the pool of responsible landlords. It is only meaningful, however, if the municipality and/or land bank have an inventory of properties available, which can be offered to landlords by the public sector at prices that are advantageous to landlords without resulting in loss to local governments. There may be some opposition for such an initiative from those who believe that local governments should sell single family properties only to owner-occupants.

V OPPORTUNITIES FOR INTER-MUNICIPAL AND REGIONAL COOPERATION

Most municipalities in most metropolitan areas, particularly in the Northeast and Midwest, are small, both in area and population. They have limited resources, both with respect to the number of professional staff they employ as well as the funds over which they have discretion. While the landlord strategies described in this

short guide can be implemented by individual municipalities, many may benefit from being done either by a number of municipalities pooling their resources or by a regional agency. It may be more cost-effective to have the activity

more centralized. In addition, a regional organization may be more likely to have the necessary specialized staff or discretionary seed funds.

Table 4: Potential Roles for Inter-municipal Cooperation and Regional Agencies

SEC.	PROGRAM	POTENTIAL INTER-MUNICIPAL OR REGIONAL ROLE
1	Getting landlords into the system	If municipalities adopt a common ordinance, many operational functions such as mailings and web-based information can be centralized to reduce overhead costs.
	Creating a basic rental housing information system	Municipalities can share an information system, or the system can be maintained by a regional agency, to reduce overhead costs and increase access to qualified personnel.
	Performance-based regulatory system	Assuming that the information system is maintained by a single entity on behalf of multiple municipalities, that entity can do the tracking and classifying of landlords, and provide that information to participating municipalities.
	Creating a list of screened and pre-approved inspectors	This is a service that can be provided by a regional agency for participating municipalities.
2	Create a manual of good landlord practice	A single manual can be developed, either by a regional agency or by an existing high-capacity organization, and adopted (with appropriate municipality-specific inserts) by participating municipalities.
	Create a landlord academy	Since the scope of landlord training varies little if at all from municipality to municipality, and there are clear cost advantages in reaching a larger pool of landlords, this could be done either by a regional agency or by an existing high-capacity organization on behalf of participating municipalities.
	Create a landlord association	This is an activity that might be shared between contiguous municipalities, in order to increase the available pool of landlords, and better manage the administrative requirements of supporting the association.
	Create a registry of qualified property management companies	This is a service that can be provided by a regional agency for participating municipalities.
3	Create a good landlord program	While there are advantages to having municipal programs, it may be desirable for contiguous small municipalities to create a single program to reduce overhead costs.
	Offer multiple low cost incentives	A regional agency may be in a stronger position to package some of the incentives that could be offered in the good landlord program.
	Design fee structures as incentives	If there are municipalities that are interested in pursuing the disproportionate impact fee approach (Section 4.3.b) a regional agency could conduct or commission the impact study that is needed to set the fee. (continued on next page)

Table 4: Potential Roles for Inter-municipal Cooperation and Regional Agencies (Continued)

SEC.	PROGRAM	POTENTIAL INTER-MUNICIPAL OR REGIONAL ROLE
3	Security deposit guarantee	Managing this program could be done by a single entity, either one municipality on behalf of multiple municipalities, or a regional body to reduce administrative and overhead costs.
	Purchase of vacant properties	This could be done through a land bank entity
	Equity protection insurance	If there are municipalities that are interested in pursuing equity protection insurance, a regional agency could conduct or commission the analysis that would be needed to determine whether it would be feasible and its benefits commensurate with its costs. If the study was positive, a regional agency could design a program on behalf of municipalities. Because of the nature of such a program, it is likely to be more cost-effective with a larger pool of properties, suggesting that a multiple-municipality program is to be preferred.

We have noted in different places in this guide some of the areas where inter-municipal or regional cooperation might be desirable. Table 4 above provides a more organized picture, for each of the different programs and initiatives described in the guide, how they might lend themselves to inter-municipal or regional implementation.

Center for Community Progress
<http://www.communityprogress.net/problem-property-owners-pages-201.php>

Alan Mallach (2010). *Meeting the Challenge of Distressed Property Investors in America's Neighborhoods*. Published by the Local Initiatives Support Corporation, available at http://www.lisc.org/docs/publications/102010_Distressed_Property_Investors.pdf

Sarah Treuhaft, Kalima Rose, and Karen Black (2010). *When Investors Buy Up the Neighborhood: Preventing Investor Ownership from Causing Neighborhood Decline*. Published by PolicyLink, available at http://www.fhfund.org/wp-content/uploads/2014/10/WHENINVESTORS_BUYUPTHENEIGHBORHOOD.pdf

VI RESOURCES FOR FURTHER INFORMATION

GENERAL GUIDES

Dealing with Problem Property Owners section of the Building American Cities Toolkit from the

LANDLORD GUIDES AND MANUALS

Landlord Training Program: Keeping Illegal Activity out of Rental Property. Prepared by Campbell DeLong Resources Inc. for the Bureau of Justice Initiatives, US Department of Justice. Available at

http://www.communityprogress.net/filebin/pdf/toolkit/LandlordTrainingProgram_JohnCampbell.pdf

Portland, Oregon, *Landlord Training Program Manual*. This manual and the one from Durham, North Carolina, are both adapted from the Campbell DeLong guidebook to include specific information about state law and local regulations.

<https://www.portlandoregon.gov/bds/article/96790>

Durham, North Carolina, *Landlord Training Program Manual*

<http://durhamnc.gov/ich/cb/nis/Documents/landlordtrainingmanual.pdf>

The Community Investment Corporation in Chicago has developed a Property Management Manual for landlords, which can be downloaded (by chapter) from

<http://www.cicchicago.com/landlord-resources-training/download-manual-and-forms/>

Greater Manchester (UK) Landlord Accreditation Scheme *Code of Standards and Management Practices*. While based on British law and practice, this contains a great deal of information relevant to US communities.

<http://www.stockport.gov.uk/2013/2998/43251/codeofstandardsandmanagementpractice>

HAP Housing, a nonprofit organization based in Springfield, Massachusetts, has developed an excellent comprehensive manual for landlords in Massachusetts. It comes as a CD along with multiple forms and documents, and can be ordered from HAP Housing for \$45. Order at <http://www.haphousing.org/default/index.cfm/landlords/property-management/>

GOOD PRACTICES

The city of Brooklyn Center, Minnesota, operates a well-thought-out, comprehensive rental licensing program, including the performance-based approach described in this guide.

<http://www.cityofbrooklyncenter.org/index.aspx?nid=316>

The state of Utah authorizes municipalities to establish Good Landlord Programs to encourage landlords to maintain and manage their properties responsibly in exchange for a reduction in rental license fees. A “What is the Good Landlord Program?” factsheet can be found at:

http://www.communityprogress.net/filebin/pdf/toolkit/UtahHousingCoalition_WhatIsTheGoodLandlordProgram.pdf

The City of Milwaukee runs a strong landlord training program, offering a wide range of courses and materials for landlords.

<http://city.milwaukee.gov/Landlordtraining#.VTEHWLktGUK>

The Community Investment Corporation of Chicago offers a variety of good resources for landlords

<http://www.cicchicago.com/landlord-resources-training/>

CRIME PREVENTION MODELS AND STRATEGIES

Overview of the Crime-Free Rental Housing Program from the International Crime-Free Association

http://www.crime-free-association.org/rental_housing.html

Overview of Crime Prevention through Environmental Design (CPTED) resources

<https://www.bja.gov/evaluation/program-crime-prevention/cpted1.html>

MATERIALS ON DEFENSIBLE SPACE

Oscar Newman “Defensible Space” 1997. An article describing the defensible space concept and how it was used in the Five Oaks community of Dayton, Ohio.

<http://www.nhi.org/online/issues/93/defense.html>

Oscar Newman *Creating Defensible Space* 1996. A book published by the U.S. Department of Housing and Urban Development which discusses the concept and creation of defensible space in detail, including case studies from Dayton, Ohio; Yonkers, New York; and New York City.

<http://www.huduser.org/publications/pdf/def.pdf>

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