

Strategic Property Code Enforcement and Impacts on Surrounding Markets: Analysis of Philadelphia's Implementation of Pennsylvania's Neighborhood Blight Reclamation and Revitalization Law (Act 90, 2010)

Introduction

The Neighborhood Blight Reclamation and Revitalization Act (Act 90, 2010) provides a variety of powerful tools to fight blight including that *a lien may be placed against the personal assets of an owner of real property that is in serious violation of a building code or is regarded as a public nuisance*. In Philadelphia, the Department of Licenses and Inspections (L&I) formulated an initiative for strategic, targeted enforcement of the City's 'doors and windows' ordinance (part of the City's property maintenance code) in conjunction with Act 90. Together the laws enable L&I to fine owners of properties in low-vacancy areas without a functional door or window \$300 per day, per opening - and owners of large numbers of properties - and attach those fines to the owner's personal property. Philadelphia also has a dedicated monthly Municipal Court date (a.k.a. 'Blight Court') in which L&I can streamline unresolved cases into the legal process for either a settlement with, or a default judgment against, the property owner.

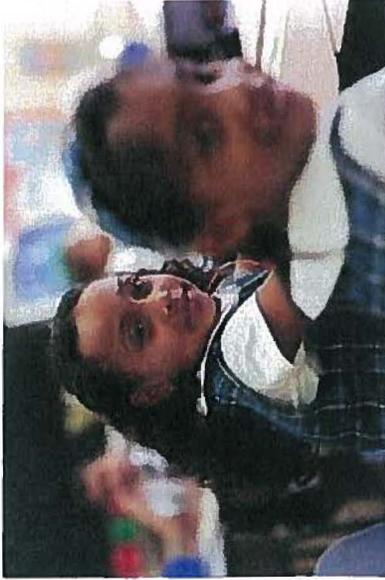
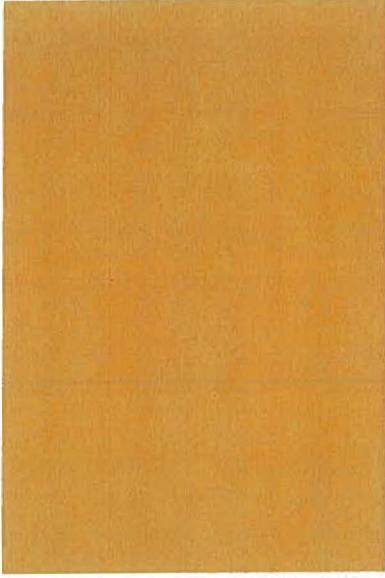
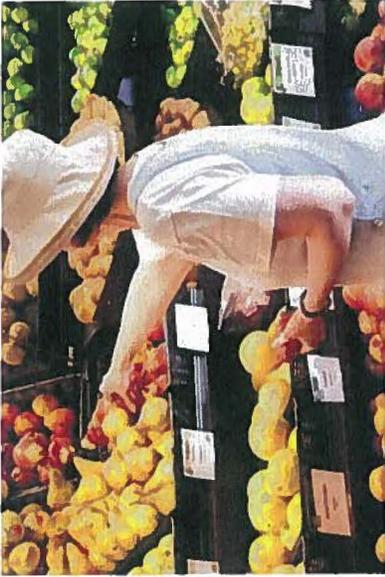
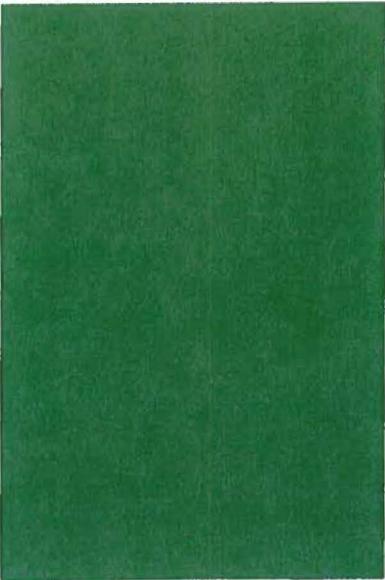
The resolution of blighting properties has long been an issue in Philadelphia. Research has identified a variety of issues associated with blight: increased crime, poor health outcomes, deteriorating conditions of neighboring properties, and declines in various measures of social cohesion. In economic terms, blighting properties have a negative effect on the value of surrounding properties and addressing blight can raise the value of nearby properties. This benefits homeowners and investors in neighboring properties and increases the City's revenue streams (e.g., real estate transfer tax, property tax and fees for building permits). The Reinvestment Fund's Policy Solutions group (TRF) was asked by a group of housing and community development intermediaries who had promoted adoption of Act 90 to assess whether L&I's strategic enforcement strategy resulted in demonstrable changes in the trajectory of markets. This study will answer the question: **Do markets where L&I focused its enforcement activities show signs of improvement on a series of market indicators compared to otherwise similar markets where L&I had not yet focused its efforts?**

Methodology

TRF obtained information from L&I on each of the approximately 25,000 properties it believes to be vacant and the enforcement actions taken on those properties. TRF created Neighborhood Enforcement Clusters (NECs) which are designed to identify areas where there is an actual spatial clustering of L&I activity. NECs (see Figure 1) had to have: (a) at least five L&I citations within a Census block group; and (b) at least 50% of known vacant properties were cited. Block groups that did not experience concentrated enforcement but were otherwise similar to the NECs on a number of indicators of the residential real estate market were identified as Comparable Areas (Comps) to tease out the impact that L&I's enforcement activities had on NECs.

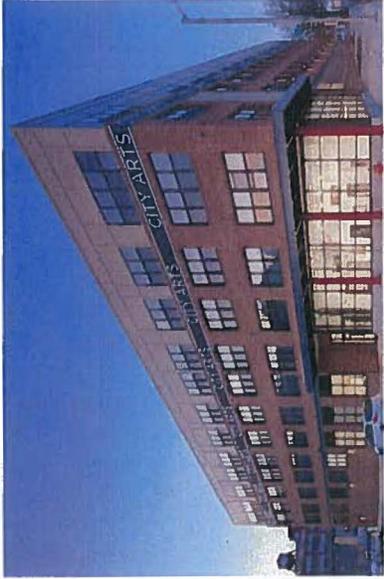
Findings

L&I's concentrated enforcement activities, as authorized through Act 90, have had a measureable impact on the areas targeted. When compared to up to three Comps on the change in sale price and the change in tax delinquency since the beginning of the targeted enforcement effort about 40% of NECs



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William Penn Data Collaborative
March, 2014



TRE THE REINVESTMENT FUND
Capital at the point of impact.

Profile of TRF

The Reinvestment Fund builds wealth and opportunity for low-wealth communities and low and moderate income individuals through the promotion of socially and environmentally responsible development.

We achieve our mission through:

Capital

- Grants, loans and equity investments

Knowledge

- Information and policy analysis; PolicyMap & Policy Solutions

Innovation

- Products, markets and strategic partnerships

Data Collaborative - Background

- Started in 2011
- Funding from The William Penn Foundation
- Goals
 - Determine the impact of previous advocacy
 - Use data to inform future advocacy

Data Collaborative - Members

Practitioners:

- Housing Alliance of Pennsylvania (<http://www.housingalliancepa.org/>)
- LISC Philadelphia (<http://www.philadelphialisc.org/>)
- Philadelphia Association of Community Development Corporations (PACDC) (<http://pacdc.org/>)
- Regional Housing Legal Services (<http://www.rhls.org/>)

Research Team:

- The Reinvestment Fund (www.trfund.com)

Data Collaborative – Key Projects

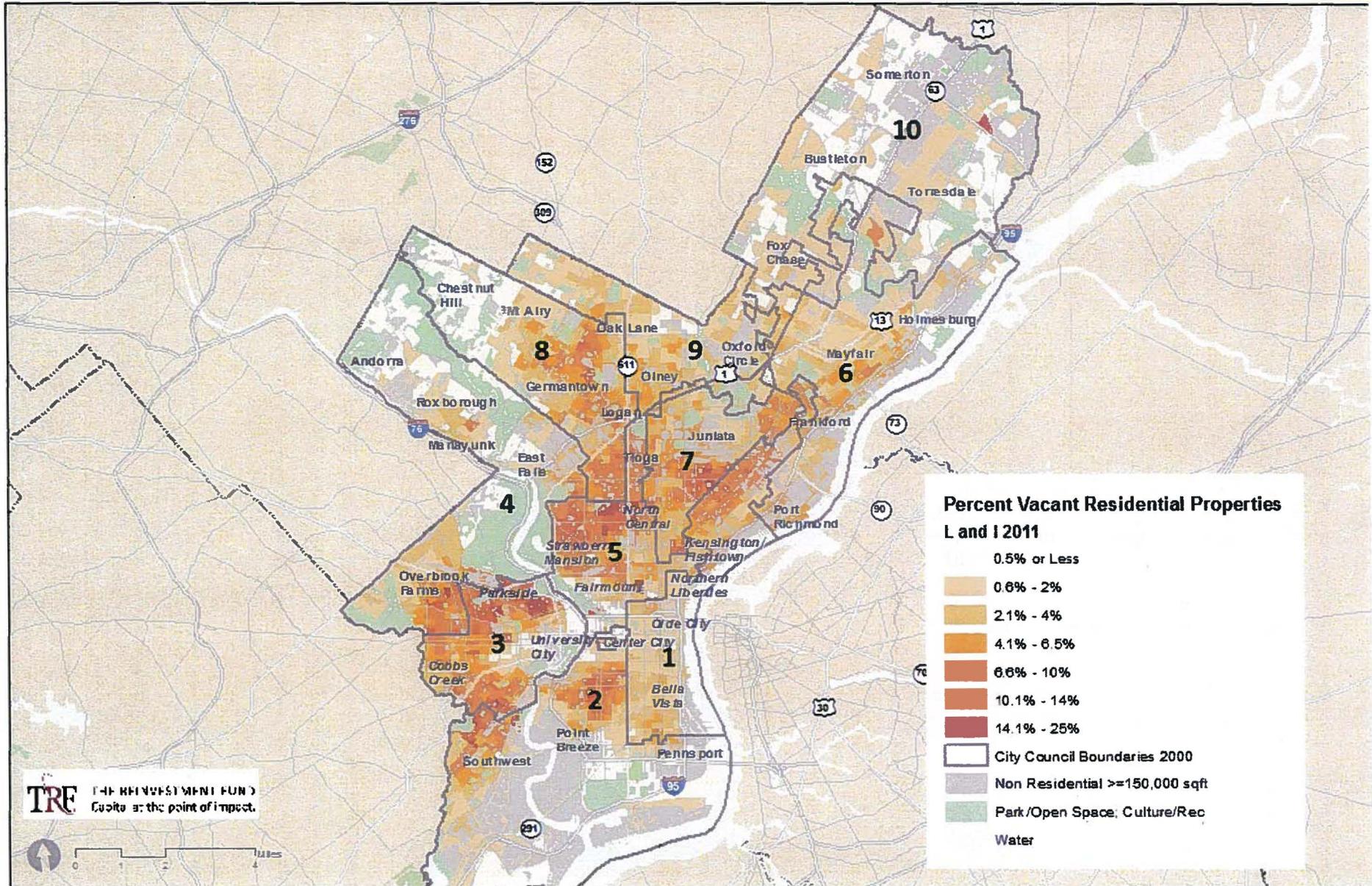
- **Report: *What If Pennsylvania Had Not Had HEMAP?***
Results fueled support for \$60M in HEMAP funding
- **Support for MERS litigation efforts, as needed, quantifying lost local dollars**
- **Mapping potential fraudulent conveyances; sharing with community organizations for possible intervention/advocacy**
- **City of Philadelphia Licenses and Inspections: Act 90 Enforcement Analysis**
First national data demonstrating positive economics of code enforcement and legislative advocacy to create new blight tools

Licenses and Inspections' Act 90 Enforcement

- Among a variety of new capacities for combating blight, Act 90 allows municipalities to attach fines to the personal property of Property Maintenance Code violators and to create 'blight courts' to streamline resolution of fines and penalties.
- The City's Doors and Windows Ordinance* requires all structures on blocks with at least 80% occupancy to have working doors and windows (i.e., not plywood or masonry). Fines are \$300 per opening per day.
- Taken together, L&I enforcement activity has included:
 - Citing vacant structures that are found upon inspection to violate the *Doors and Windows Ordinance*
 - Targeting *owners of multiple blighting buildings* (i.e., large property owners) for a Blight Court date to arbitrate a resolution of the violations and accrued fines. These buildings are not necessarily located in areas with at least 80% occupancy.

* See: <http://legislation.phila.gov/attachments/10949.pdf>

Residential Vacancy in Philadelphia



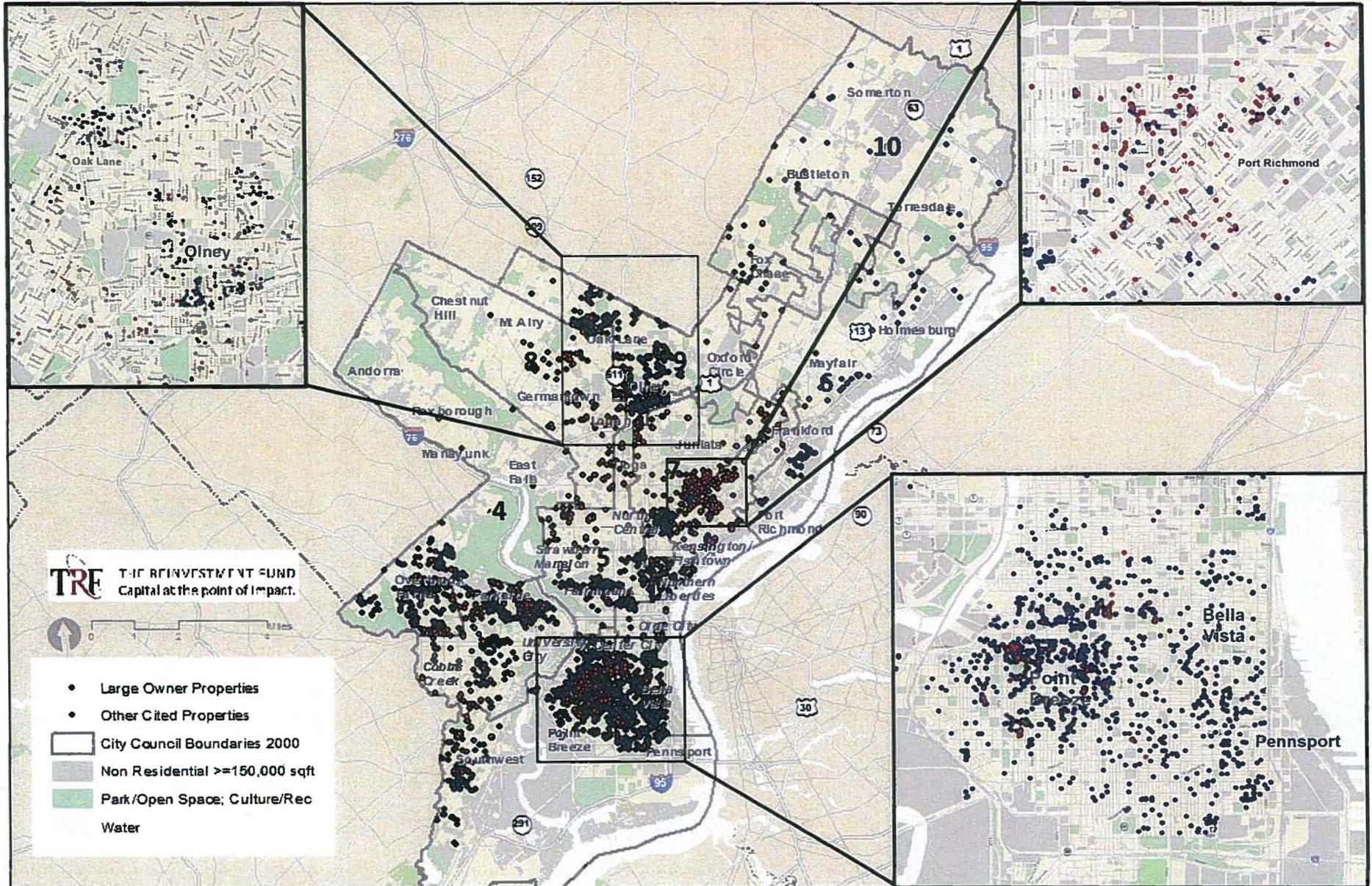
TRF's Evaluation of Act 90 Enforcement

- Theory: Blighting properties have a depressing effect on real estate sales and sales prices for nearby properties.
 - Code enforcement that reduces the number of blighting properties mitigates or eliminates the negative externality on the real estate market.
- Therefore neighborhoods that receive concentrated code enforcement should later exhibit higher value real estate sales and decreased amounts of residential tax delinquency than similar areas that have not.

Methodology for Testing this Theory

- TRF received a database from L&I containing a variety of data on vacant Philadelphia properties as of May 2013, including:
 - Known vacant properties
 - Whether those properties are in areas eligible for Doors and Windows citations
 - Whether the property was cited
 - If there was a Blight Court date scheduled for the violation
- TRF identified Census block groups as “Neighborhood Enforcement Clusters” (NEC) based on:
 - At least 50% of known vacant properties cited
 - More than 5 citations in the Census block group
- Comparable neighborhoods (Comps) are then identified based on a number of data points, including: sales price before the intervention, percentage change in sales price, owner occupancy, number of households, HUD-defined *foreclosure risk score*, percentage of properties in foreclosure and distance from the NEC.

L&I Citations as of May, 2013



Summary of Activity as of May 2013

	Vacant	Cited	Percentage Cited
Philadelphia	25,100	7,533	30.0%
NEC	3,612	2,600	72.0%

Council District	Total OPA Properties	Share of Vacant Properties	Vacant	Percent Vacant	Cited	Percent of Vacants Cited	Share of Cited Properties
1 (Squilla)	74,872	10.7%	2,697	3.6%	912	33.8%	12.1%
2 (Johnson)	64,509	13.0%	3,260	5.1%	1,326	40.7%	17.6%
3 (Blackwell)	49,713	15.3%	3,832	7.7%	1,185	30.9%	15.7%
4 (Jones)	53,060	8.1%	2,023	3.8%	705	34.8%	9.4%
5 (Clarke)	68,443	18.0%	4,529	6.6%	873	19.3%	11.6%
6 (Henon)	55,634	5.9%	1,492	2.7%	357	23.9%	4.7%
7 (Quinones-Sanchez)	60,395	12.6%	3,155	5.2%	791	25.1%	10.5%
8 (Bass)	51,221	10.0%	2,516	4.9%	823	32.7%	10.9%
9 (Tasco)	50,347	4.8%	1,198	2.4%	485	40.5%	6.4%
10 (O'Neill)	50,619	1.6%	395	0.8%	73	18.5%	1.0%
Total	578,813	100.0%	25,100	4.3%	7,533	30.0%	100.0%

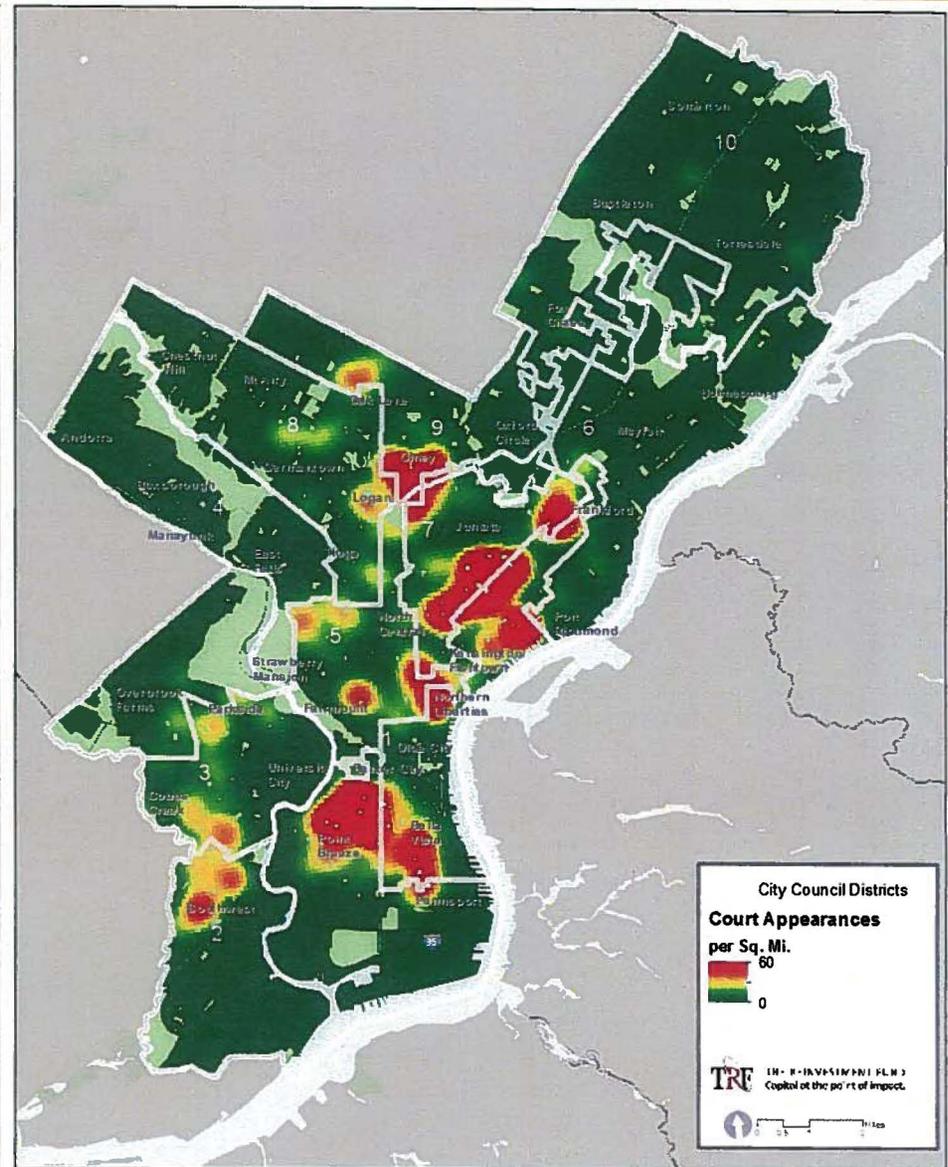
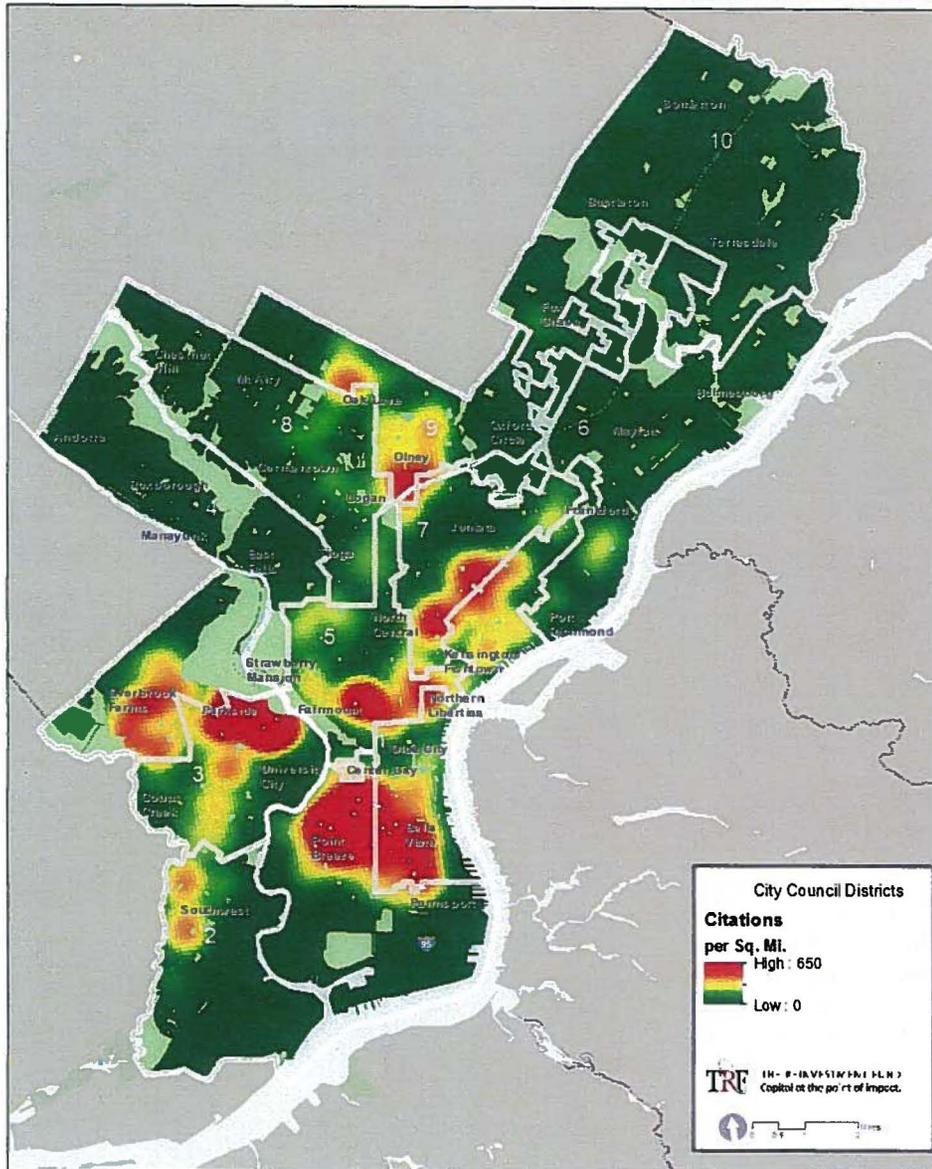
Large Owner Citation Activity

	Totals	Cited	Complied	% Compliance
Large Owners	1,072	1,072	479	44.7%
Blight Court	144	144	115	79.9%
No Blight Court	928	928	364	39.2%

Note: Properties owned by those who own many vacant properties (i.e., "large owners") need not be located on blocks that are 80% or more occupied. Citations to large owners comprise 14% of all citations. Approximately 20% of properties owned by large owners are in NECs.



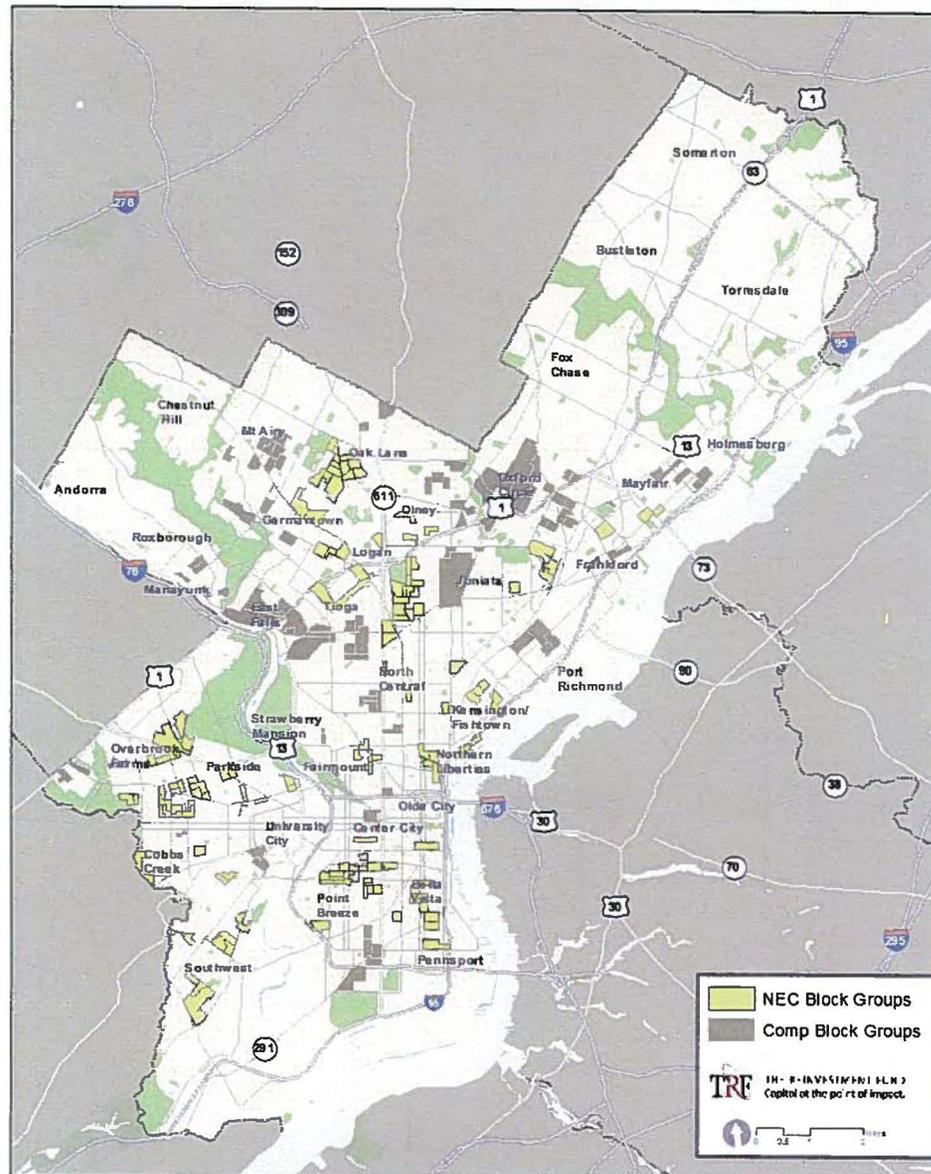
Location of Act 90 Enforcement Activities by City Council District



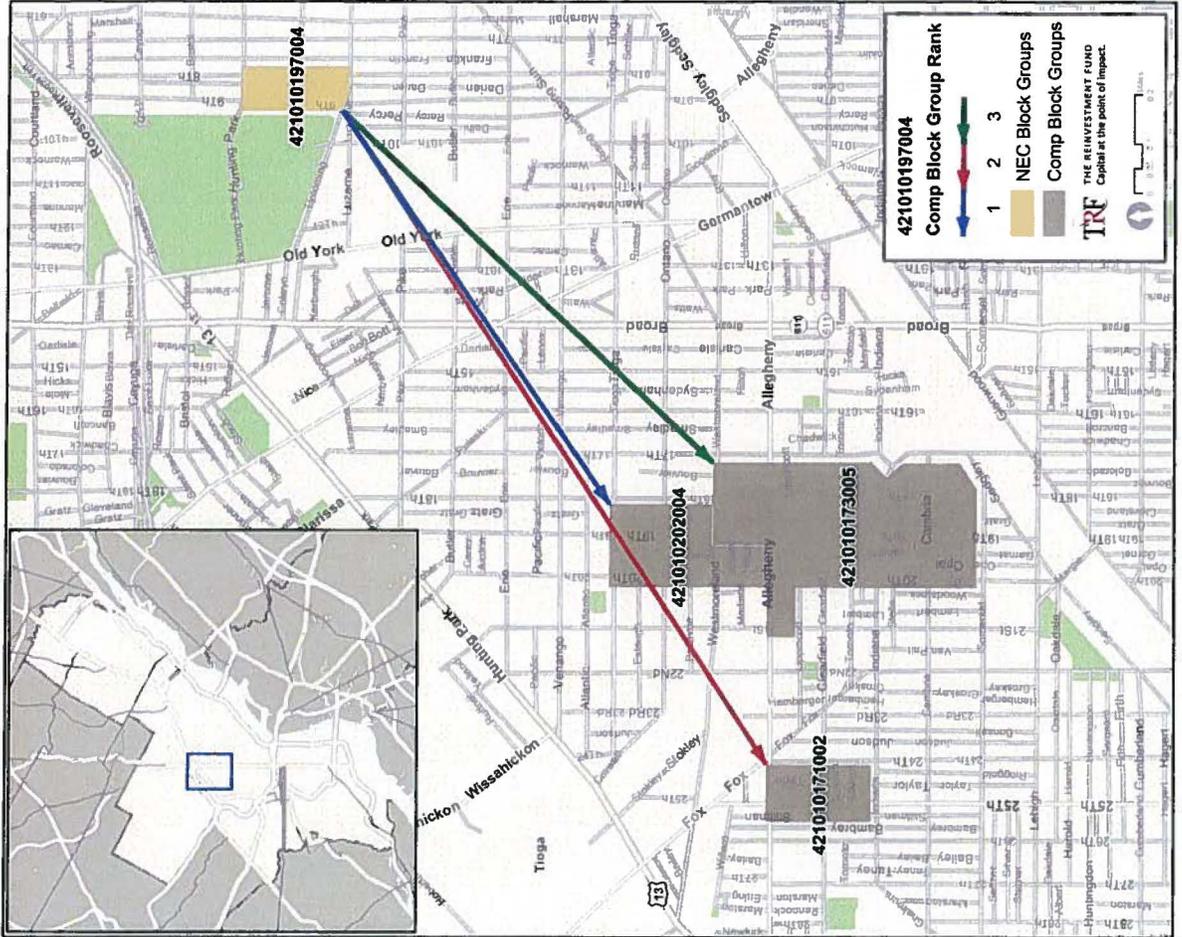
Scoring of NEC Performance Since Intervention

- NECs are compared to their top three comps on:
 - Change in residential real estate market sales price from 2008/2009 to 2011/2012 (Data source: Philadelphia Board of Revision of Taxes database)
 - Change in number of tax delinquent properties per number of housing units from 2008/2009 to 2011/2012 (Data source: Philadelphia Office of Property Assessment database)
- NECs are then graded from “A” to “D” on both comparisons.
 - “A” if NEC ‘beat’ all three comps or all comps for which data were available (if less than 5 arms length sales, comp was not graded)
 - “B” if NEC ‘beat’ all but one comp
 - “C” if NEC ‘beat’ one of three comps
 - “D” if NEC did not ‘beat’ any comps

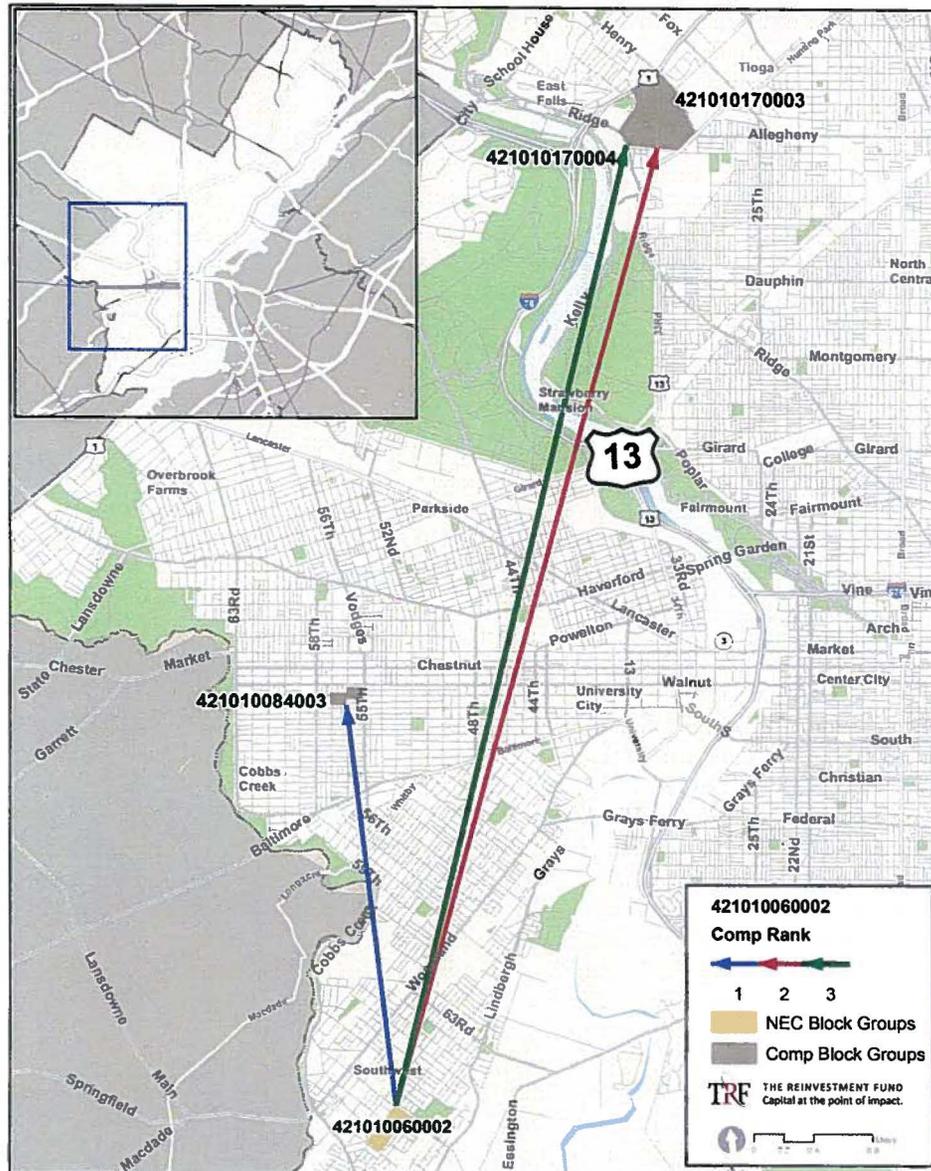
Identified NECs and Block Groups used as Comps



NEC Example #1: Hunting Park



NEC Example #2: Southwest Philadelphia



NEC Performance: Change in Sales Price and Tax Delinquency by Group

	Mean Sales Price			Mean Rate of Tax Delinquency		
	2008-2009	2011-2012	Percent Change	2008-2009	2011-2012	Percent Change
NECs	\$72,526	\$95,651	31.9%	36.1%	35.7%	-1.1%
Comps	\$72,239	\$73,411	1.6%	27.0%	28.1%	4.1%

NEC Performance: Residential Sales Price Change

Performance - Sales Price Change			
A	B	C	D
52	27	27	28
38.8%	20.1%	20.1%	20.9%

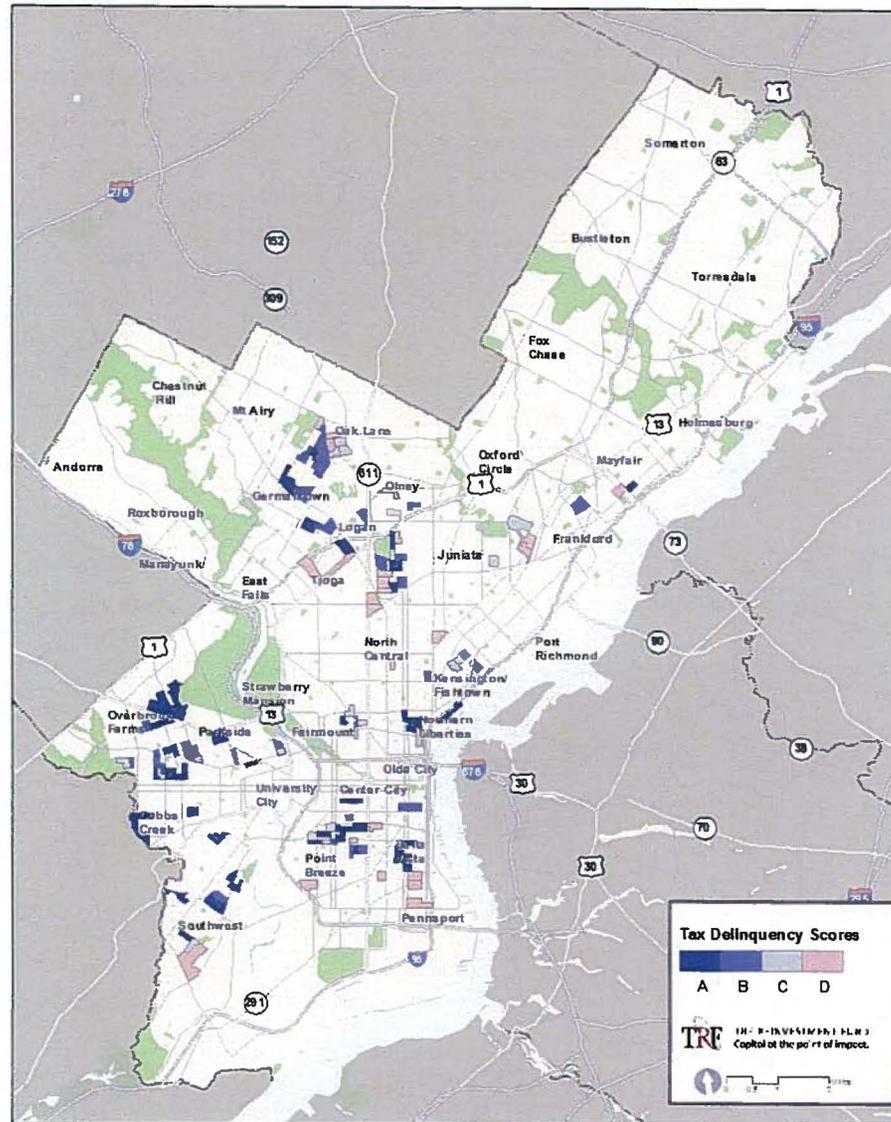
NEC Performance: Change in Sale Price by Percent of Vacant Properties Cited

	Percent of Vacant Properties Cited	Sales Price 2008 - 2009	Sales Price 2011 - 2012	Percent Change in Sales Price
Low	50 – 65%	\$68,404	\$83,986	22.8%
Medium	65 – 80%	\$75,824	\$94,617	24.8%
High	80%+	\$82,749	\$122,550	48.1%

NEC Performance: Change in Tax Delinquency

Performance – Change in Tax Delinquency			
A	B	C	D
53	32	19	30
39.6%	23.9%	14.2%	22.4%

NEC Performance: Tax Delinquency



Effect of Removing Blight on Nearby Properties

TRF recreated an algorithm from Econsult Corporation's 2010 report *Vacant Land Management in Philadelphia* that measures the effect of blight on nearby property sales.

- Using BRT sales data from 2011 – 2012, TRF found that properties that complied with L&I citations created \$74 million in sales value for surrounding properties. This created value resulted in \$2.34 million in increased transfer tax revenue to the City.

L&I estimates that an additional \$1.1 million was returned to the City through permit fees and fines and judgments from Blight Court against owners of blighting properties.

- See: <http://www.econsult.com/projectreports/VacantLandFullReportForWeb.pdf>

Consistent with the Econsult algorithm, the aggregate financial impact of vacant properties was limited to actual sales within 200 feet of the cited and compliant properties.



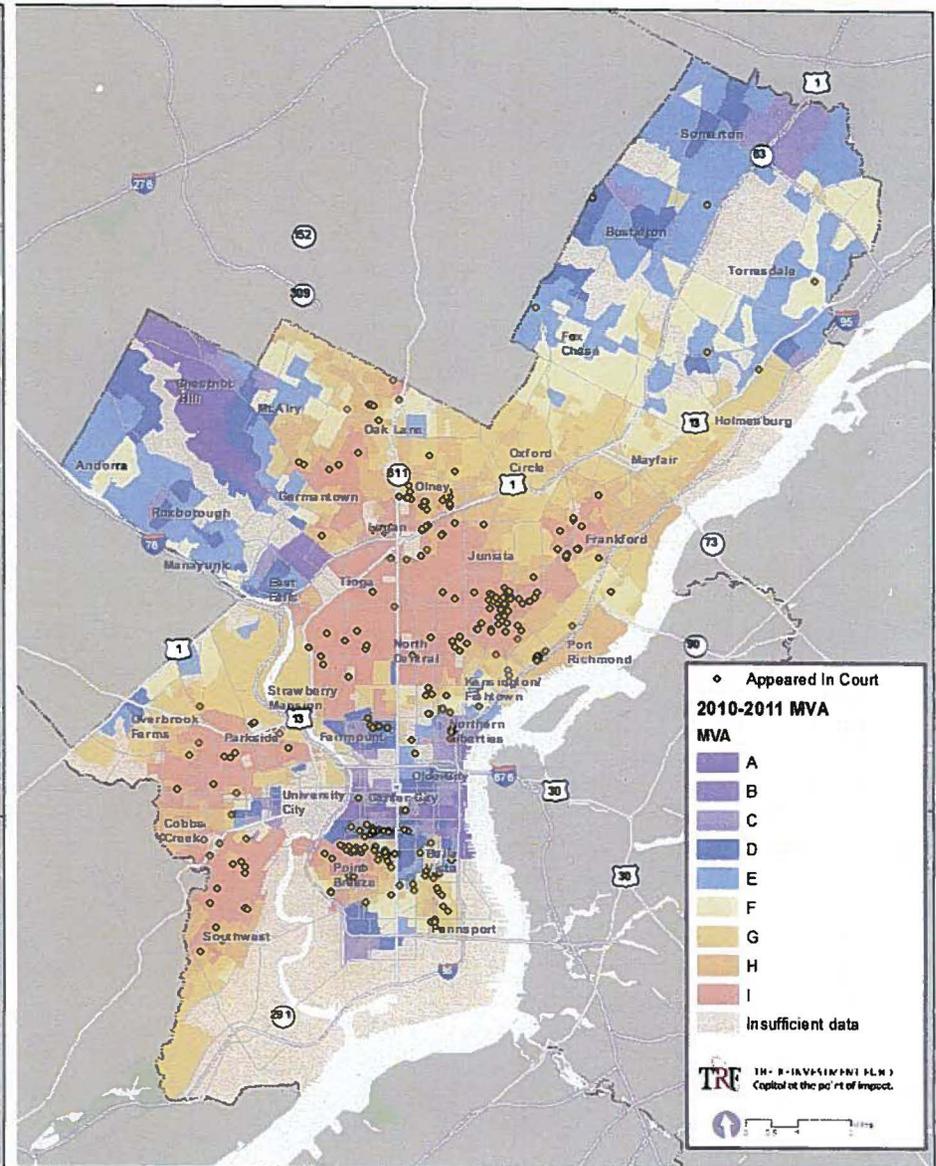
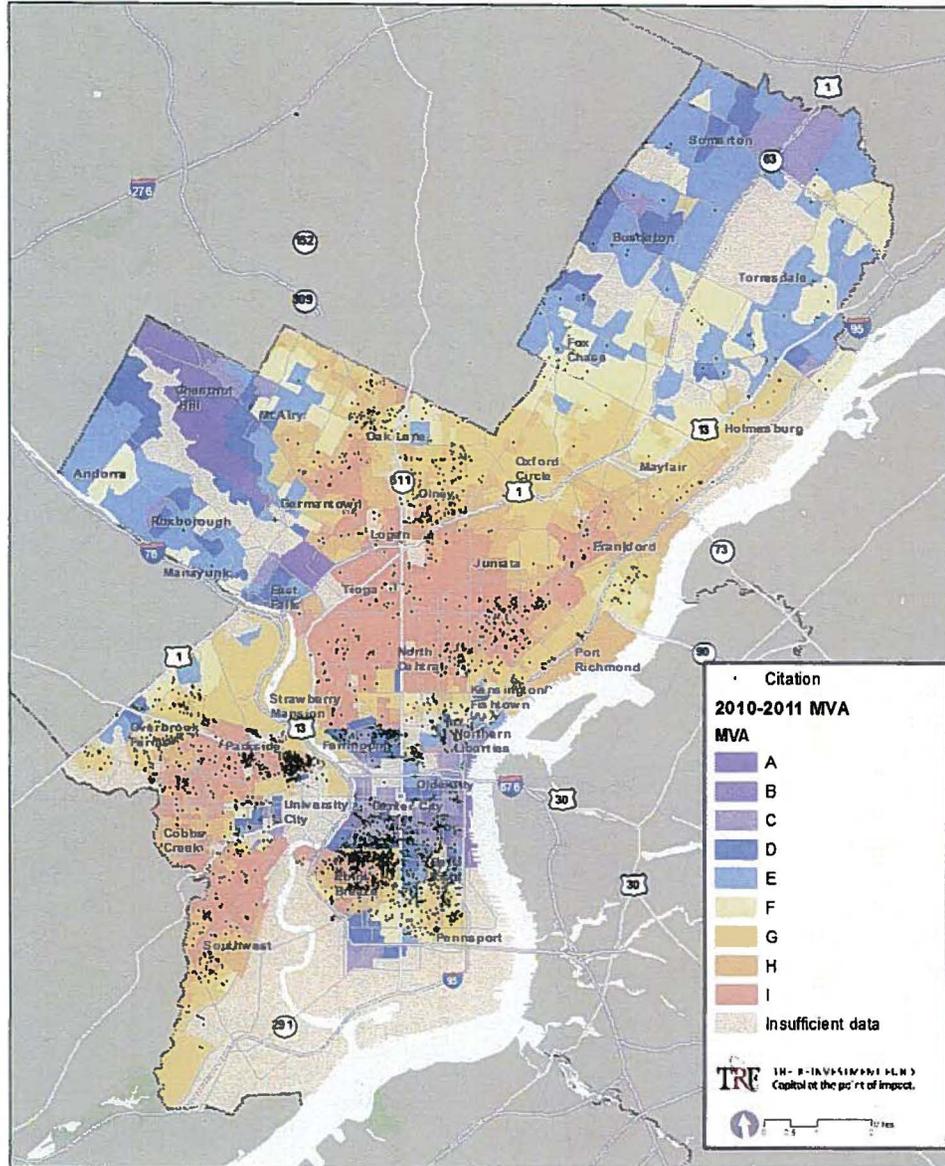
2010/2011 Market Value Analysis (MVA) Characteristics

MVA Market Category	Median Sale Price	Mean Sale Price	Coefficient of Variation	Percent Owner Occupied	Percent Vacant (L & I)	Percent New Construction	Percent Commercial	Foreclosures as a Percent of Sales	Percent Public/Assisted Housing
A	\$ 624,122	\$ 707,042	0.584	39.8%	1.6%	11.5%	5.7%	6.3%	0.0%
B	\$ 435,249	\$ 502,392	0.496	48.8%	0.7%	7.0%	7.3%	5.9%	0.0%
C	\$ 325,897	\$ 354,545	0.462	49.3%	1.4%	9.7%	6.6%	9.0%	0.8%
D	\$ 245,930	\$ 267,304	0.497	51.2%	2.1%	6.5%	5.9%	17.7%	2.1%
E	\$ 194,459	\$ 196,960	0.387	63.9%	1.0%	2.8%	3.3%	24.1%	0.5%
F	\$ 148,066	\$ 148,958	0.393	66.4%	1.6%	1.9%	4.0%	33.5%	0.4%
G	\$ 97,860	\$ 100,361	0.480	62.4%	2.7%	1.5%	3.9%	38.4%	3.8%
H	\$ 51,190	\$ 64,001	0.657	61.4%	4.2%	0.6%	3.9%	45.9%	2.3%
I	\$ 19,649	\$ 31,094	0.935	48.1%	8.1%	1.1%	5.1%	33.5%	10.3%

TRF's MVA is a widely used analytic strategy to assess an area's (e.g., city, region) real estate market. It characterizes the market based on a set of objective, rigorously analyzed market-based indicators summarized for Census block groups. Cities around the US are using the MVA to inform strategies to invest public and philanthropic dollars and to target local governmental activities.



Enforcement Activity by MVA Category



NEC Performance: Sales Price Change By MVA Market Category

MVA 2011 Market Category	Beat All	Percentage Beat All	Beat at least One	Percentage Beat at Least One	Total
Regional Choice A	1	100.0%	1	100.0%	1
High Value C	4	80.0%	5	100.0%	5
Steady 1 D	9	90.0%	10	100.0%	10
Steady 2 E	2	100.0%	2	100.0%	2
Transitional F	2	50.0%	3	75.0%	4
Transitional G	5	26.3%	15	79.0%	19
Distressed H	12	48.0%	20	80.0%	25
Distressed I	17	25.0%	50	73.5%	68
Totals	52	38.8%	106	79.1%	134

Acknowledgements

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