



Rental Code Enforcement in Philadelphia

How it works, and what other cities are doing

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Overview

Philadelphia has long been known as a city of homeowners, but that has been changing in the past decade—to the point that nearly half of the city’s households are now renters. Yet the condition of most rental units in Philadelphia remains largely unmonitored by the city, despite public officials’ and advocates’ renewed focus on rental housing and, in the wake of COVID-19, a growing recognition of how housing affects people’s health and well-being. And there has been little conversation about how rentals are regulated and inspected.

Although homeowners are legally responsible for maintaining their residences, renters share this burden with their landlords, on whom they rely to keep their buildings safe and habitable. Philadelphia requires landlords to meet standards cited under the city’s extensive property maintenance, fire, administrative, and zoning codes, each of which is hundreds of pages long. The general goal, as stated in the property maintenance code, is that rentals be in “good repair, structurally sound, and in a sanitary condition.”

The city’s Department of Licenses and Inspections, known as L&I, along with the Law Department and the courts, is charged with enforcing these standards. L&I has fewer than 45 code enforcement inspectors with responsibilities that extend far beyond rental housing; they also inspect a range of enterprises, including commercial buildings, day care facilities, auto repair shops, and vacant properties. So as a practical matter, city officials depend primarily on landlords to self-certify that their rental units are up to code.

To determine how the current system is addressing the quality of rental housing, particularly in low-income neighborhoods, The Pew Charitable Trusts conducted an in-depth examination of the rental regulation system in Philadelphia—and the corresponding systems in other major cities. The research found that Philadelphia’s regulatory approach is less comprehensive than those in some other places and that the city’s officials face various administrative hurdles.

Among the key findings:

- Unlike some other cities, Philadelphia has no program for regularly inspecting rental properties. Instead, it makes physical examinations only in response to formal complaints. As a result, only about 7% of the city’s rental units get inspected each year.
- Some characteristics of the city’s rental housing complicate regulatory efforts. For instance, 82% of rental properties in Philadelphia are single-family structures, visually indistinguishable from owner-occupied homes. The city has relatively few large apartment buildings.
- Rental licensing rules are sometimes ignored. Landlords are required to obtain licenses, which cost \$56 per unit each year. But there is no inspection connected to the license, and some landlords never register their properties, making it difficult for city officials to know that the units exist. Pew estimates that 45% of rental properties, representing 30% of Philadelphia’s rental units, were unlicensed in 2020, although the exact number—and the degree to which these properties are compliant with the city’s codes—is unknown.
- L&I operates under rules that limit the department’s ability to act on its own. When landlords do not comply with orders to remedy violations, L&I works with the Law Department to take them to court, a process that takes an average of 180 days.

As city officials consider how the system might be changed, some policymakers worry that more rigorous enforcement of rental housing standards might place a financial burden on landlords who have taken an economic hit during the pandemic. And that enforcement in turn could result in higher rents and perhaps even displacement of some low-income tenants. Despite acknowledging these concerns, tenant advocates say that failing to enforce basic rental housing standards for all properties perpetuates a dual and inequitable housing market, with one set of standards for households with low incomes and another for everyone else.

To put Philadelphia’s laws, policies, and practices in perspective, Pew examined nine other cities with similar rental housing stocks in terms of size, nature, and/or age: Baltimore, Chicago, Cleveland, Detroit, Milwaukee, New York, San Diego, San Francisco, and Washington.

Pew found that these cities and others have sought ways to strengthen registration requirements, leverage the data they collect, streamline operations, and address poor conditions in rental properties.

Some of the practices include:

- Auditing departmental performance and progress toward goals.
- Conducting periodic, proactive inspections of all rental housing.
- Using third-party inspectors to increase capacity.
- Inspecting all of an owner’s rental properties when significant violations are found at one of them.
- Using public funds or private receivers to make repairs for noncompliant owners.

Determining how well these practices might apply to Philadelphia is beyond the scope of this report; the ways in which cities structure and fund their code enforcement operations vary substantially, and each system exists within its own economic and regulatory context. The purpose of this report is to analyze Philadelphia’s approach and provide options for policymakers to consider in a post-COVID-19 world, after a period in which the quality of housing has never seemed more important.

Legal standards for rental properties

About 296,000 Philadelphia households—48%—rent the homes in which they live.¹ Whether these units meet health and safety standards is critical to those tenants’ well-being. Housing deficiencies are associated with a range of adverse health outcomes, including allergies, asthma, injury, and lead poisoning.² And Philadelphia’s old and single family-dominated rental stock is particularly vulnerable to housing quality issues. Research conducted in 2019 by the Federal Reserve Bank of Philadelphia found that more than 40% of rental properties in the region had home repair needs, averaging over \$3,000 per unit—and the need was greater among units occupied by households with incomes below the poverty line.³

To lease residential property, a landlord is supposed to obtain a rental license from the city (although many do not) and name a local managing agent.⁴ This can be the owner, if he or she lives in Philadelphia. Since 2018, landlords have had to prove that they have a rental license in order to file for eviction or collect back rent in court.⁵

An owner can obtain a license by filling out a form and paying \$56 annually per unit. No inspection is required; owners self-certify that their properties are safe and habitable and have working fire alarm and smoke detection systems.⁶ With each new or renewed lease, a landlord must provide a certificate of rental suitability to tenants, along with a guidebook published by L&I that describes landlord and tenant rights and responsibilities.⁷

Landlords are expected to maintain basic standards for their rentals, as described in the city’s fire, property maintenance, administrative, and zoning codes. City regulations include general requirements ensuring that a property is in good repair, structurally sound, and in a sanitary condition, as well as specific provisions, such as requiring working windows and doors.⁸ Owners must resolve open code violations to obtain a new rental license.⁹ And a new policy, which took effect in October 2020, requires landlords of properties built before 1978 to schedule and pay for a lead inspection by a third-party inspector and receive a lead-safe or lead-free certification in order to receive or renew a rental license.¹⁰

Six of the other cities examined for this report—Baltimore, Cleveland, Detroit, Milwaukee, New York, and Washington—also require owners to record their rental units with the city. Some of them do this through licensing, and others use a registry designed to ensure that city officials have accurate contact information to communicate with landlords about code violations and other matters. This has been particularly important during the COVID-19 pandemic, when some relief options for tenants required coordination with landlords.

Among these six cities, the connection between registering and inspecting units varies. In New York and Milwaukee, as in Philadelphia, no city inspection is connected to registration. In Baltimore, Cleveland, and Detroit, the inspection follows registration; in Washington, the inspection comes first. (See Table 1.)

Table 1
Rules for Rental Property Registration and Inspections
 Requirements vary among cities

| | Registration required? | Registration fee | Registration frequency | Timing of initial inspection |
|----------------------|------------------------|-------------------------|--------------------------|---|
| Baltimore | Yes | \$25-\$35/unit | Annual | Scheduled after registration; valid for two years |
| Chicago | No | N/A | N/A | None required |
| Cleveland | Yes | \$70/unit | Annual | Scheduled after registration |
| Detroit | Yes | \$0 | Upon change of ownership | Scheduled after registration |
| Milwaukee | Yes | \$76-\$152/ building | Upon change of ownership | None required; may be requested by owner |
| New York | Yes | \$13/building | Annual | None required |
| Philadelphia | Yes | \$56/unit | Annual | None required |
| San Diego | No | N/A | N/A | None required |
| San Francisco | No | N/A | N/A | Scheduled periodically |
| Washington | Yes | \$43/unit | 2 years | Required before registration |

Sources: Official websites, documents from appropriate city departments, and interviews with local officials

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San Francisco keeps track of rental properties primarily for revenue collection, assessing an annual fee on rental properties to defray the cost of code enforcement. Officials there estimate that creating and maintaining a registry capable of supporting enforcement efforts would cost millions of dollars.¹¹

Rental license compliance

Philadelphia had about 137,000 rental properties in 2020, representing a total of 300,000 units, according to Pew estimates.¹² (See Table 2.) City data indicates that roughly 73,000 rental properties were licensed then, representing about 201,000 units. Based on all of those figures, Pew estimates that 45% of those properties—representing 30% of all units—were unregistered. This calculation excludes rentals owned or operated by the

Philadelphia Housing Authority (PHA), which have their own quality standards and do not have to be licensed by the city.¹³

Table 2

Estimated Licensed and Unlicensed Rentals in Philadelphia

30% of units are not licensed

| | Properties | Units |
|------------------------|------------|---------|
| Estimated total | 137,000 | 300,000 |
| PHA owned | 4,000 | 12,000 |
| Non-PHA owned | 133,000 | 288,000 |
| Licensed | 73,000 | 201,000 |
| Unlicensed | 60,000 | 87,000 |
| % Unlicensed | 45% | 30% |

Note: Pew's estimated number of rental units is slightly higher than the most recent U.S. Census Bureau estimate of roughly 296,000.

Source: Pew analysis of Philadelphia administrative data

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Getting landlords to register is a problem in multiple cities. In Cleveland, 44% of all rental units were unlicensed in 2019.¹⁴ New York officials say 20% to 30% of landlords don't register their buildings, with smaller properties more likely to be unregistered.¹⁵

In Philadelphia, failure to have a license is a code violation, subject to a \$300 daily fine. But the situation generally goes unnoticed unless someone files a complaint about conditions at the property. One factor that makes the licensing requirement hard to enforce is that 82% of the city's rental properties, representing 44% of rental units, are single-family structures rather than multifamily buildings. From 2016 to 2019, L&I issued more than 8,000 violation notices for renting without a license; 79% of them were for rentals in one- or two-family dwellings.¹⁶ Location also plays a role; landlords in higher-rent areas are more likely to secure licenses. In strong markets, as ranked by Reinvestment Fund's Market Value Analysis, an estimated 51% of rental units are licensed; in distressed neighborhoods, the figure is 26%.¹⁷

Even if the city were to make more vigorous efforts to compel registration, other problems would persist. Philadelphia has numerous landlords, many of whom own only one or two units. And many landlords with multiple holdings use different names or mailing addresses for each property. This practice also makes it difficult to know for sure how many landlords there are. Pew's estimate of 55,000 was generated by grouping properties whose landlords have the same mailing addresses and then further grouping those whose owners have the same names. Using this approach, Pew found that about 1 in 4 landlords operates under multiple names and/or addresses. (See Table 3.)

Table 3

Use of Alternate Names and Addresses Among Philadelphia Landlords

The practices are widespread

| Landlords | All owners | | Non-LLC owner | | Owner with LLC status | |
|---------------------------------------|---------------|-------------|---------------|-------------|-----------------------|-------------|
| | Count | Percentage | Count | Percentage | Count | Percentage |
| One address, one name | 40,000 | 73% | 37,000 | 74% | 3,000 | 60% |
| One address, two to three names | 10,000 | 18% | 9,000 | 18% | 1,000 | 20% |
| One name, two to three addresses | 1,000 | 2% | 1,000 | 2% | | 0% |
| More than four names and/or addresses | 4,000 | 7% | 3,000 | 6% | 1,000 | 20% |
| Total | 55,000 | 100% | 50,000 | 100% | 5,000 | 100% |

Source: Pew analysis of Office of Property Assessment and L&I business license data

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About 10% of Philadelphia’s landlords—5,000 of 55,000—operate as LLCs, and they own roughly 31% of the city’s rental properties. LLC status insulates a landlord’s personal assets and properties that are not part of the LLC from lawsuits.¹⁸ And the status provides a level of anonymity that can make it difficult for the city to locate owners and hold them accountable for noncompliance, particularly those who do not obtain rental licenses. In 2018, Philadelphia City Council passed a bill designed to increase transparency concerning LLC-owned properties by requiring that names of key individuals associated with the LLC be included in documents; it took effect in July 2020.¹⁹ A similar law took effect in Washington in January 2020.²⁰

A reactive system of enforcement

In Philadelphia’s code enforcement system for rental properties, virtually all inspections are complaint-driven.²¹ An inspection is typically initiated when an individual contacts the city’s 311 call center about substandard housing conditions. As a result of these calls, L&I inspects about 7% of rental properties each year.²²

Some cities do things differently. Instead of waiting for complaints, they require all rental properties or those of a certain size to be inspected proactively over several years. One 2014 study found that this approach has generally resulted in increased property investment, reduced tenant complaints, and improved compliance with property maintenance codes.²³ Five of the nine comparison cities in Pew’s analysis take a proactive approach to one degree or another; the other four have fully complaint-driven systems like Philadelphia’s. (See Table 4.)

Among the proactive cities, Baltimore has regularly inspected all multifamily dwellings for decades, recently extending the requirement to include single-family properties and duplexes. Officials said that most of those units passed inspections the first time around, and most that failed required corrections costing about \$1,000 apiece.²⁴ Cleveland began implementing proactive enforcement in 2017.²⁵

Table 4

Use and Frequency of Proactive Inspections

Some cities, like Philadelphia, are purely complaint-driven

| | Complaint-driven | Proactive | Inspection cycle length |
|----------------------|------------------|-----------|--|
| Baltimore | | • | 1-3 years, depending on property violation history |
| Chicago | • | | |
| Cleveland | | • | 5 years |
| Detroit | | • | 3 years for one-to-two-family homes and 2 years for buildings with three or more units |
| Milwaukee | • | | |
| New York | • | | |
| Philadelphia | • | | |
| San Diego | • | | |
| San Francisco | • | • | 5 years for properties with three or more units; smaller properties complaint-driven |
| Washington | • | • | 4-5 years for properties with three or more units |

Sources: Official websites, documents from appropriate city departments, and interviews with local officials

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Proactive systems have problems in terms of execution. In San Francisco, for instance, the housing code stipulates that properties with three or more units must be inspected at least once every five years. But officials there say that the city—which uses its own personnel to conduct inspections—has had trouble meeting this goal, even though inspectors do not examine the interiors of individual units.²⁶

Detroit made the shift to a proactive system in 2018. A year later, only 10% of landlords had submitted required certifications proving that their properties had been evaluated by authorized inspectors—and had passed.²⁷ Instead, the city gave thousands of property owners extra time to gather the funds to make necessary repairs.²⁸

Philadelphia has considered taking a more proactive approach. A pilot program that was to have started in March 2020 called for inspectors to proactively inspect each property owned by a small subset of chronically noncompliant landlords.²⁹ The city has used this kind of portfolio-wide enforcement several times in recent years.³⁰ But the pilot was postponed because of the pandemic.³¹

For Philadelphia’s Department of Licenses and Inspections, Fire Safety Is the Priority

Whenever L&I inspectors visit rental properties in Philadelphia, they are instructed to prioritize fire code violations, according to former L&I Commissioner David Perri—on the grounds that fire violations can be matters of life and death rather than quality of life.³² In fact, the only proactive rental inspections the department performs are periodic fire inspections of high-rise residential properties.

This approach sets L&I apart from its counterparts in other cities. Most other large and medium-size cities leave fire code enforcement to the fire department, according to a 2014 report from the independent commission established to evaluate L&I operations after a fatal building collapse at a Center City Salvation Army store.³³

L&I’s focus on fire code enforcement stems from instances of corruption in the late 1940s, some of which involved the fire marshal, resulting in reforms that were codified in the city’s Home Rule Charter, adopted in 1951.³⁴ The charter centralized all city licensing and inspection activity in a single department.³⁵

Department officials note that L&I’s broad mandate means that any new license or inspection requirement instituted by any department or by City Council typically becomes L&I’s responsibility. The 2014 commission found that the scope of the agency’s mandate—and its susceptibility to an expanding mission and shifting priorities—undermined its ability to enforce building safety standards.³⁶

Addressing property violations

For now, most enforcement in Philadelphia is initiated by complaints from tenants or neighbors. Complaints may be filed anonymously, and inspections are prioritized based on the issue’s severity. For complaints about a lack of heat in winter, for example, inspections are conducted within 48 hours; the average response time for all complaints is 21 days.³⁷

L&I inspectors say they nearly always find a violation of some kind when they enter a unit, but it may not be related to the original complaint.³⁸ This is, in part, because the city’s housing is old, and many properties have deferred maintenance—and also because of the breadth of the codes that inspectors are empowered to enforce.

When inspectors find code violations, they weigh various factors to determine the type of citation to issue and the amount of time an owner will have to correct a violation—up to 35 days, according to the local statute.³⁹ When a violation presents an immediate hazard, an inspector may give the owner as few as five days before reinspection. In some instances—at least one case per day, according to the inspectors Pew interviewed in 2019—that means issuing a cease operations order, requiring tenants to vacate the property immediately or on a set date.⁴⁰

Notices of violation

In most instances, L&I issues a notice of violation (NOV); 17,000 of them were issued in 2019.⁴¹ The notice is mailed to the owner of record one day after the initial inspection.⁴² It provides contact information for the property inspector and names both the section of the code that has been violated and the general location of the violation on the property. It also informs the owner how quickly the violation must be remedied or an appeal filed and warns that failure to correct the violation will result in a fine.

After the end of the compliance period—typically 30 days—L&I reinspects the property. If all violations have been corrected, the case is closed and no fines are levied.

If the unit fails reinspection, L&I may provide the owner with additional time to comply before another inspection is conducted.⁴³ If the violation remains unresolved after that, L&I refers the case to the city’s Law Department. Nearly 28,000 cases were referred from 2015 to 2018.⁴⁴ (See Table 5.)

Table 5

Number of Referrals to Law Department by Licenses and Inspections 2015-18

| Year | 2015 | 2016 | 2017 | 2018 |
|------------------------------|--------------|--------------|--------------|--------------|
| Municipal Court | 4,909 | 5,238 | 6,177 | 6,577 |
| Court of Common Pleas | 1,052 | 1,012 | 1,230 | 1,476 |
| Total | 5,961 | 6,250 | 7,407 | 8,053 |

Source: City of Philadelphia Law Department

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After a code violation case is referred to the Law Department, it may not get to court for another 180 days.⁴⁵ For properties whose ownership or contact information is incomplete or out of date, some of that time is devoted to finding and notifying the owners. If L&I or the Law Department can’t find them, the court case is closed for failure of service—although the violations remain open. The problem that prompted the NOV may remain unaddressed, with the tenant or other complainant having no obvious recourse.

Getting to court takes time, even when owners are readily identified and contacted. It can take six to eight weeks to research and file a case, and court dates are set for roughly eight weeks after filing.⁴⁶ Given the length of this process, fines—which accrue from the date of the first failed inspection—typically amount to many thousands of dollars.

The city code sets fines of \$300 daily for Class 1 violations such as high weeds or lack of a rental license; \$1,000 daily for Class 2 violations, such as obstructing an exit with a locked door; and \$2,000 daily for Class 3 violations, such as renting an unfit dwelling that poses a hazard to occupants.⁴⁷

The Law Department uses Municipal Court for straightforward cases in which it believes that fines alone—a maximum of \$12,000 in that court—will motivate an owner to make the necessary corrections. The Court of Common Pleas is used for more complex cases in which the court’s power to issue injunctions—orders to require or halt action by property owners—may be necessary; fines in that court do not have a monetary limit.

Lawyers for the city typically request the full fine allowed by the code, up to the maximum set by the court. But judges have the discretion to determine how much owners are required to pay. Data on typical fine amounts, or on the percentage of fines actually paid, is difficult to extract from the court database and is not tracked by any agency or organization.

Ultimately, the city’s goal in taking owners to court is to bring them into compliance with the code, not to generate revenue. But using the courts means that the road to compliance can be long for owners who do not respond until there is a financial cost for inaction. And for tenants, it can appear that nothing is happening. Former Commissioner Perri said that a much quicker system for bringing cases to court is needed.⁴⁸

Code violation notices

Rather than issue an NOV, L&I inspectors have the option to issue a code violation notice (CVN). According to acting L&I Commissioner Ralph DiPietro, the department has been expanding the use of this tool. L&I issued an estimated 2,903 CVNs for housing-related violations of the property maintenance code from Jan. 1 through Nov. 1, 2019.⁴⁹

Often referred to as a ticket, a CVN offers to settle a code violation case for a set penalty—\$75, with the expectation that the owner will make the necessary repairs.⁵⁰ The use of CVNs reduces the administrative burden on the city by limiting enforcement actions to a single day. The city does not reinspect a property after issuing a CVN, and the courts are not involved. There is nothing stopping a landlord from paying the penalty without clearing the violations. But if L&I becomes aware that the violation has not been corrected, perhaps via a tenant complaint, an inspector may return to inspect and issue an NOV.

Several city departments use CVNs, which are processed through the Office of Administrative Review (OAR). L&I plans to begin issuing its own CVNs—called site violation notices (SVN)—which will be administered by L&I and the Law Department with the goal of better tracking and record-keeping, and broader use. SVNs will also have higher penalties than standard CVNs—\$150, \$500, and \$1,000 for Class 1, 2, and 3 violations, respectively.⁵¹

Methods Landlords Use to Avoid the Rules

How do landlords get around laws requiring rental units to be safe and habitable? An owner of 22 Philadelphia rental properties spoke with Pew on condition of anonymity and described tactics that he and other landlords have employed.⁵²

- Staying under the radar: Landlords can do this by not paying city taxes, not obtaining a rental license, and not accepting federal housing choice vouchers.
- Keeping down costs without tenants filing complaints: Landlords might decide to do shoddy work or none at all on items such as chipped paint, ripped carpeting, holes in the walls, and other problems that don't threaten the property's long-term viability.
- Avoiding L&I: Sometimes, landlords instruct tenants not to file complaints about housing conditions and not to allow L&I to enter their properties.
- Getting tenants out without formal evictions: If landlords don't have a rental license, they can't go to court to request an eviction. Instead, they might cut off a unit's utilities or remove its windows.

Common code violations

City records show that the most commonly reported violations involve deficient interior surfaces, such as windows, doors, walls, and floors.⁵³ These can be serious. Chipped and peeling paint in older homes can expose tenants to lead, and surface deterioration can indicate water infiltration—a primary cause of property destabilization. (See Table 6.) It is difficult to know whether the volume and type of reported violations accurately reflect the condition of the city's rental inventory, given the relatively small percentage of rental properties inspected each year and the lack of a systematic approach to inspections.

Table 6

Most Common Property Maintenance Code and Fire Code Violation Types Cited by the Department of Licenses and Inspections 2017-19

| Top 5 property maintenance code violations | | Top 5 fire code violations | |
|---|-------|--|-------|
| Interior surface issues | 4,212 | Lack of a functioning smoke alarm (single station) | 1,683 |
| Plumbing system problems—general | 1,794 | Lack of a tested and certified fire alarm | 1,207 |
| Mechanical equipment issues | 1,253 | Lack of a functioning carbon monoxide alarm | 1,200 |
| Electrical hazards | 1,218 | Open junction boxes | 825 |
| Plumbing system problems—sanitary maintenance | 1,010 | Fire extinguishers lacking tags recording regular inspections* | 642 |

* Applies to multifamily housing (three or more units only).

Source: Philadelphia Department of Licenses and Inspections

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Some serious housing conditions may go unreported. City officials, tenant advocates, and community leaders interviewed by Pew said they worry that some tenants fear that raising complaints could cause their landlords to evict them.⁵⁴ And several studies have documented underreporting of serious, life-threatening code violations by vulnerable tenants.⁵⁵

Under Philadelphia law, it is illegal for a landlord to evict a tenant for complaining about substandard conditions.⁵⁶ But landlords sometimes do it anyway.⁵⁷ Aggrieved tenants can turn to the city's Fair Housing Commission (FHC), an independent body within city government. Tenants can file with the FHC when they face a credible threat of eviction, but they must do so before the landlord files an eviction action in Municipal Court.

The commission has the power to order fines up to \$300 but does not typically do so, instead instructing the tenant to withhold some percentage of rent until the landlord fixes the substandard conditions.⁵⁸ Former FHC Executive Director Rue Landau said that few tenants are evicted after a commission hearing.⁵⁹ FHC handles about 400 cases per year, turning down hundreds of requests that it does not have the capacity to handle.⁶⁰ Appeals of FHC decisions may be filed with the Court of Common Pleas.

Landlord Property Maintenance Decisions

Philadelphia landlords interviewed by Pew cited three factors that determine whether they maintain their properties to code: how much rent they get from tenants, the probability and severity of regulatory enforcement, and market demand for rental units in substandard condition.

According to Alan Mallach, senior fellow at the Center for Community Progress, a landlord with a handful of units in a city like Philadelphia needs at least \$800 per month in rent to operate a typical unit in a low-income urban neighborhood. When rents are lower, he said, repairs don't get made, and maintenance gets deferred. Several Philadelphia landlords interviewed for this report concurred with that assessment.

As for regulatory enforcement, the landlords interviewed characterized current city efforts as inconsistent and unpredictable. And even when L&I inspects a property in response to a complaint and finds violations, many owners do not make repairs. A 2015 L&I analysis of a single month of citations found that 29% of them had not been resolved a year later.⁶¹ Studies of proactive code enforcement in Rochester, New York, and Grand Rapids, Michigan, found that landlords improve housing quality and address safety risks when consistent, predictable enforcement makes it a business necessity for them to do so.⁶²

Then there's the market. With studies showing a shortage of affordable units in Philadelphia, low-cost units in substandard condition may represent the most viable option for many low-income renters.⁶³ With 38% of Philadelphia households making less than \$35,000 a year, community leaders say there is always another would-be tenant to occupy a substandard unit.

Challenges to enforcing the rules on rental housing quality

Three key factors affect Philadelphia's enforcement of its standards for the condition of rental units. One is L&I's limited resources and expansive mission. The second is the lack of complete data. And the third is concern about harming low-income tenants, either by displacing them or causing their rents to rise.

L&I's limited resources

The Department of Licenses and Inspections has much to do aside from monitoring rental housing. From 2017 through 2019, it performed inspections for roughly 200,000 code enforcement cases, of which 28% involved rental properties.⁶⁴ L&I is constantly deciding how to deploy its limited resources.

L&I employs fewer than 45 cross-trained people to inspect occupied and vacant housing, commercial properties, schools, day care centers, auto repair shops, and other facilities. In 2017, Rebecca Swanson, then L&I's director of planning, told City Council that the department would need at least 260 additional inspectors, at a cost of \$17 million a year, to check every rental unit on an annual basis, and would need 52 more inspectors and \$3.4 million a year to inspect every unit every five years.⁶⁵ The department collects more than enough through fees (\$65.6 million in 2020) to fund its own operations, which were budgeted at \$38 million in 2021. But its revenue is directed to the city's general fund instead. According to former Commissioner Perri, converting L&I to a self-funding department would enable it to be more responsive to change, correct some of its structural problems, fund expansion, and strengthen internal accountability for enforcement activities.⁶⁶

That \$38 million budget was up significantly from \$22 million in 2011, and department staffing has increased 33% over the past 10 years. But the number of code enforcement inspectors has stayed the same.⁶⁷ The city has had trouble recruiting new property inspectors, and many existing inspectors are reaching retirement age.⁶⁸

Pew attempted to compare L&I's budgets and staffing with those of similar agencies in other cities, but the differences in the various agencies' duties and scope made meaningful comparisons impossible.

Incomplete and inconsistent data

L&I collects data on property complaints, inspections, violations, and permits and has been a leader in disseminating it through the city's open data portal.⁶⁹ But owner names and contact information are often out of date or incomplete—even though rental property owners are required to provide this information and update it within 10 business days of a change of address or ownership.⁷⁰

The department also struggles to measure ongoing compliance with licensing rules and to track outcomes, partly because of the limitations of its legacy database, which did not adequately retain license and case history for properties. The system was also limited in its ability to share or import data from other departments with which L&I coordinates regularly, including the Law and Fire departments.⁷¹ For example, until recently, L&I did not keep track of the number of cases going to the Law Department for enforcement.⁷² Departmental leaders hope that the recent and long-awaited rollout of a new tracking system—eCLIPSE—will help the department better use the data it collects.

Protecting tenants

Another consideration is that vigorous enforcement of regulations could harm households in need of low-cost units. The concern is that if landlords raise rents to cover the costs of required improvements, some units might no longer be affordable for low-income tenants.

"For many tenants in Philadelphia, the choice is not between a house without running water and a better rental—the alternative is a [homeless] shelter," said George Donnelly, a lawyer at the Public Interest Law Center.⁷³

Some housing advocates say that every rental unit should meet minimum standards regardless of the price of rent and that owner neglect is responsible for the loss of more low-cost units than code enforcement is.⁷⁴

"If the housing code is too harsh, then let's change it. Let's not have two standards—one for poor people and one for rich people," said Phil Lord of Philadelphia's Tenant Union Representative Network.⁷⁵ In addition, a failure to strictly enforce the rules gives landlords who don't get a license or pay taxes an unfair advantage, said Jim Sims, a rental property owner and board member at HAPCO, a Philadelphia-based landlord association.

A recent study of Baltimore's housing market found that the impacts of more stringent licensing requirements are not always straightforward and depend on local market factors, as well as the standards that are applied. On the plus side, the researchers found, stronger enforcement through penalties such as higher fines improved the quality of rental housing and reduced the supply of unlicensed rentals. But it also led to a modest increase in homelessness and higher rents among the remaining units operating without licenses.⁷⁶

In Philadelphia, one category of housing that would be particularly affected by increased enforcement is boarding houses. In these properties, also called rooming houses or single-room residences, each room is rented separately to an individual or a household. The city's zoning code does not permit them in any residential district without special permission, and their use is prohibited within single-family zones.⁷⁷

As a result, most boarding houses are underground operations. And because of the retrofits necessary to accommodate multiple households—such as adding power outlets or additional cooking areas—these converted properties can be particularly dangerous for tenants.⁷⁸

Boarding houses already get significant attention from the city. About 10% of the 600 “Intent to Cease” letters that L&I issues each year—final warnings to landlords that they may have to cease operations because of violations that place tenants in imminent danger—concern such residences.⁷⁹

Former L&I Commissioner Perri said that legalizing these facilities in some residential districts would help address the affordability concerns raised by increased enforcement. “Where do people in extreme poverty live if code enforcement lowers the number of affordable units?” he asked.

How other cities are trying to improve rental housing conditions

Cities across the country—including Philadelphia—are exploring and implementing new ways to enforce standards for rental housing. To learn more about these practices, Pew went beyond the nine cities mentioned earlier in the report. Many of the cities frequently cited in best practices literature for rental code enforcement have newer housing stock than Philadelphia, a greater proportion of multifamily housing, or a much smaller number of rental units.⁸⁰ Other factors, such as the local government’s financial capacity and the local housing market’s strength, also influence the degree to which tools that are being used in other cities may or may not be feasible or effective in Philadelphia.

Strengthening registration requirements

A rental property registry is the foundation for code enforcement in many cities. In Philadelphia, an estimated 45% of landlords are unregistered. Here’s how some cities are trying to increase registration.

One method is through stiff penalties and rigorous attempts to find scofflaws.

In New York, when officials learn of unregistered properties, they send landlords a Notice of Failure to Register, which may result in a \$250 to \$500 civil penalty.⁸¹ This targeted outreach has been focused on three-to-five-unit buildings, for which registration compliance rates are low. In Minneapolis, the city has put a staff member in charge of finding unlicensed properties; noncompliant landlords face a \$250 fine. Landlords in Milwaukee found to have failed to register within 15 days of acquiring a rental property pay double the standard registration fee, \$152 rather than \$76.⁸²

In Boston, unregistered landlords, once located, are charged annual registration fees back to 2013, or the purchase date, whichever is more recent, in addition to \$300 per month until they are in compliance.⁸³ In Maricopa County, Arizona, which includes the city of Phoenix, a tenant can ask to terminate the lease for an unregistered unit. A landlord has 10 days to come into compliance before having to return all previously collected rent.⁸⁴

Other cities have tried to encourage registration through incentives instead.

In several places, including Philadelphia, landlords must be registered if they want to use the courts to collect back rent or evict tenants. Some cities operate on the assumption that a property, once registered as a rental, continues to be a rental, billing owners for registration fees and imposing penalties for failure to re-register. This gives landlords an incentive to keep up with registration requirements and notify the city when a property no longer serves as rental housing. L&I recently adopted this approach and approved a regulation codifying the change in December 2020.

Leveraging data

Data analysis is helping some cities make their code enforcement efforts better targeted and more efficient.

In Cincinnati in 2015, fellows from Data Science for Social Good, a Chicago-based nonprofit, used more than a decade's worth of code enforcement and other administrative data to predict (with 78% accuracy) the location of property violations; this tool has helped the city's inspection agency decide where to direct its resources.⁸⁵ In Baltimore, researchers have used property data to model licensing changes' impact on the supply and demand of rental housing.⁸⁶

Several cities—including Chicago; Austin, Texas; San Diego; and Albany, New York—have performed internal audits of their enforcement operations.⁸⁷ These audits have identified ways to make code enforcement more efficient, improve inspection response times, and deliver fairer and more consistent fines and penalties. Recent audits of L&I in Philadelphia have not focused on the department's rental licensing and housing code enforcement functions.⁸⁸

L&I officials say they want equitable code enforcement that does not cause vulnerable tenants to be displaced. But as noted earlier, data limitations have made it difficult for them to tell what's happening once a case gets to court.

Streamlining department operations

Philadelphia's efforts to monitor the condition of rental housing have limited reach. With only a fraction of L&I's budget devoted to rentals, few properties get inspected. To enforce property standards in the context of limited budgets and competing priorities, cities have tried different ways of targeting resources.

Proactive code enforcement

Proactive code enforcement is intended to encourage landlords to maintain their properties and enable a city to compile a relatively current inventory of property conditions. Most cities using this approach aim to inspect all properties over a period of several years, which is far less expensive than conducting annual inspections. Some cities, including Baltimore, Los Angeles, and Minneapolis, have implemented systems requiring properties with histories of violations to be inspected more frequently than those that are well-maintained.

Use of third-party inspectors

To expand city inspections, an option less costly than hiring more inspectors would be for L&I to require property owners to contract with private, third-party inspectors at their own expense. In Philadelphia, landlords now must make such arrangements for lead inspections.

Baltimore requires landlords to hire licensed third-party inspectors for all single-family properties and duplexes.⁸⁹ Detroit also uses third-party inspectors for properties with fewer than three units; landlords who object can ask the city to perform the work—at the landlord's expense.⁹⁰ And Washington trains and employs local residents as contract workers to inspect properties.

Addressing poor property conditions

When landlords have failed to make repairs in response to violation notices or citations, city officials and tenants have used a variety of tools to compel compliance.

Ways to encourage or compel compliance

In New Orleans, mailing a “nudge” letter after a 311 complaint providing a simple explanation of reported violations, mentioning potential remedies, and announcing a pending inspection increased voluntary landlord compliance by 15% before the initial inspection.⁹¹ Attorneys in Gary, Indiana, said that owners’ failure to fix cited violations was often because of confusion over what actions were needed.⁹²

Fines and increased fees are another common tool. In Baltimore, rental properties with poor violation histories are subject to a \$15-per-unit increase in registration fees, with the additional fee directed to the city’s affordable housing trust fund.⁹³ In Minneapolis, an owner of a one-unit property in poor condition pays \$465 for a rental license, compared with \$110 for a well-maintained property.⁹⁴

In Boston, owners of rental properties with substantial violations are subject to a \$300 fine, are listed on a public registry of problem properties, and must file management plans detailing timelines for resolving violations.⁹⁵ Officials in Los Angeles and New York also maintain publicly accessible lists of landlords of substandard properties.⁹⁶

In Philadelphia, the Fair Housing Commission uses rent withholding as its primary driver to secure landlords’ cooperation.⁹⁷ In Los Angeles, when a landlord fails to remedy code violations, the property may be placed in the city’s Rent Escrow Account Program, which gives tenants rent reductions of up to 50% and directs remaining rent payments to an escrow account rather than directly to the landlord. Rent paid to the account can be used only for activities such as property repairs and utility payments. Once a building has been entered into the program, the city places a lien on the property that can be cleared only when the owner comes into compliance.⁹⁸

Portfolio-wide enforcement

Portland, Oregon, has an enhanced inspection program in which inspectors look at all of an owner’s properties after finding substantial violations at one of them.⁹⁹ In Minneapolis, once a landlord has two or more rental licenses revoked because of property conditions, that landlord becomes ineligible to obtain any rental licenses for five years and is effectively shut down.¹⁰⁰

Loan funds for property repairs

Sometimes landlords fail to comply with violation notices because they can’t afford the necessary fixes. A 2020 survey of Philadelphia landlords found that 23% had difficulty paying for property repairs or renovations.¹⁰¹ In recent years, the city has created two loan funds to help landlords with property improvements.¹⁰² And in October 2021, Philadelphia City Council passed legislation that would allow the city to repair safety hazards on its own and bill the property owner. New York provides loans to owners to repair rental units, with the stipulation that units are kept affordable for 15 to 40 years.¹⁰³ Chicago’s Community Investment Corp. (CIC) provides loans to owners of single-family and midsize rental properties, with no affordability restrictions.¹⁰⁴

Repairing serious violations with public dollars

Several cities use public funds to repair serious unresolved violations, aiming to prevent tenant displacement and preserve affordable housing.

In Chicago, the Troubled Building Initiative identifies distressed large buildings, encouraging owners to resolve outstanding code violations. If owners do not comply, court-appointed property receivers such as the CIC make property repairs, seek to recover expenses from the original owners, and, when necessary, transfer the properties to more responsible owners.¹⁰⁵ The goal is to prevent buildings from reaching such a state of disrepair and neglect that they become candidates for demolition.

When inspectors in Los Angeles find an urgent substandard housing issue for which an owner has not responded, they work with a contractor to make needed repairs and charge the costs to the owner; the city recovers the costs about 50% of the time and places a lien if an owner fails to pay.¹⁰⁶ New York spends about \$10 million annually repairing private rental properties; the charges appear on the owners' tax bills.¹⁰⁷

Conclusion

This is an important moment for Philadelphia to explore what it wants to accomplish through its rental housing code enforcement program, how the existing system might be revised, and how the city could fund its operations. The COVID-19 pandemic, which led people to spend far more time in their homes than in years past, made clear just how vital it is to have a healthy and safe place to live.

In recent years, cities throughout the country have been reforming policies and enforcing standards to help ensure that rental housing is safe and in good condition. Larger cities are beginning to engage in proactive code enforcement, and some are using data analysis to find ways to get more done without drastically increasing departmental budgets.

The goal of this report is to encourage a serious conversation about how Philadelphia's program is working and how it can become more effective in ways that help more low-income Philadelphians live in safe and habitable residences.

Methodology

To better understand how Philadelphia enforces the rules surrounding rental properties, Pew—through May 8, a housing-focused, Philadelphia-based consulting firm—interviewed more than 30 local stakeholders, including code enforcement officials, property inspectors, local landlords, housing lawyers, and landlord and tenant advocates. And to put Philadelphia’s regulatory practices in context, Pew also conducted a literature scan; examined code enforcement laws, policies, and practices in Philadelphia and other cities; and interviewed leaders of code enforcement agencies in 17 cities.

Comparison cities

For the report, Pew focused largely on nine comparison cities, chosen because they, like Philadelphia, have a large rental housing inventory with a high percentage of rental units built before 1980 and/or located in single-family homes or duplexes. Those nine primary comparison cities are Baltimore, Chicago, Cleveland, Detroit, Milwaukee, New York, San Diego, San Francisco, and Washington.

| | Occupied rental units | Rental units in one-to-two-family structures | | Rental units built before 1980 | |
|----------------------|-----------------------|--|-----|--------------------------------|-----|
| | | # | % | # | % |
| Baltimore | 127,170 | 56,142 | 44% | 101,384 | 80% |
| Chicago | 603,352 | 144,388 | 24% | 467,760 | 78% |
| Cleveland | 102,925 | 56,216 | 55% | 88,918 | 86% |
| Detroit | 139,338 | 87,813 | 63% | 117,729 | 84% |
| Milwaukee | 139,194 | 69,111 | 50% | 116,090 | 83% |
| New York | 2,188,214 | 306,567 | 14% | 1,787,284 | 82% |
| Philadelphia | 295,783 | 150,606 | 51% | 241,427 | 82% |
| San Diego | 274,404 | 89,145 | 32% | 144,766 | 53% |
| San Francisco | 229,999 | 47,881 | 21% | 178,510 | 78% |
| Washington | 170,582 | 27,223 | 16% | 109,416 | 64% |

Identifying rental properties

Pew retained Reinvestment Fund (RF) to estimate the total number of active rental properties in Philadelphia and the number of landlords operating them.

Working in partnership with Pew, RF identified licensed and unlicensed rental properties in Philadelphia using Office of Property Assessment (OPA) records and open source data from the Department of Licenses and Inspections. Designated Philadelphia Housing Authority properties and all properties with active rental licenses were included in the rental count.

Properties with lapsed rental licenses were included if their ownership had not changed. Tracts that had been sold since the last rental license was issued were counted if the new owner’s mailing address differed from the property address and the city had no record of vacancy or other business licenses associated with the property. This method produced an estimate of 133,000 rental properties in the city.

This method likely includes some properties that no longer operate as rental properties, and it does not include properties that have never been licensed. An additional 56,000 residential properties that have never been licensed appeared to be possible rentals, because they have off-site mailing addresses and no business or vacancy recorded with the city. But they were not included in the final estimate because a spot check showed that many of them were not rentals.

Estimating rental units

After making a best estimate for the number of rental properties or buildings, Pew went about estimating the number of rental units in each location.

For properties licensed within the past two years, the analysis used the number of units listed on the most recent license. An extensive Google Street View sampling conducted by RF found that unit numbers included on active rental licenses were much more accurate than the building or zoning code classifications.

To estimate the number of units for properties without current licenses, RF calculated the median number of units in licensed buildings within each building code classification and assigned these median values to unlicensed properties with the same code. These numbers were adjusted for specific properties where clarifying information was available through Google Street View.

This analysis estimated that the city has 300,000 rental units. This is similar to the one-year estimate of occupied rental units in the U.S. Census Bureau's 2019 American Community Survey, which was 295,783.

Endnotes

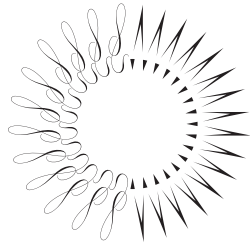
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