

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

Findings (continued)

beat all three Comps on both measures and about 80% beat at least one Comp. Between 2008-2009 and 2011-2012, NECs saw an average increase in home sale prices of about 31%, compared to a 1% increase in Comps. Over the same period, tax delinquency rates remained relatively flat in NECs while steadily increasing in Comps.

L&I's targeted enforcement activities return value to the City through fines, permit fees, increased real estate transfer taxes, and increased property tax receipts. By one estimate, using vacant property financial impact estimates reported in a 2010 study of vacant property in Philadelphia,¹ addressing blighted properties through these targeted activities increased the sales value of surrounding properties by as much as \$74 million. This would translate into increased transfer tax revenue for the City estimated at \$2.34 million. L&I estimates that there is an additional \$1.1 million dollars returned to the City in permit fees, and in fines and default judgments in Blight Court against owners of blighted property.

In addition to the results measured in this study, because L&I enforcement activities caused blighted properties to be improved, they likely alleviated a range of related issues that previous research has shown are associated with blighted real estate: increased crime, poor resident health conditions, deteriorating condition of neighboring properties, and decline in various measures of social cohesion.

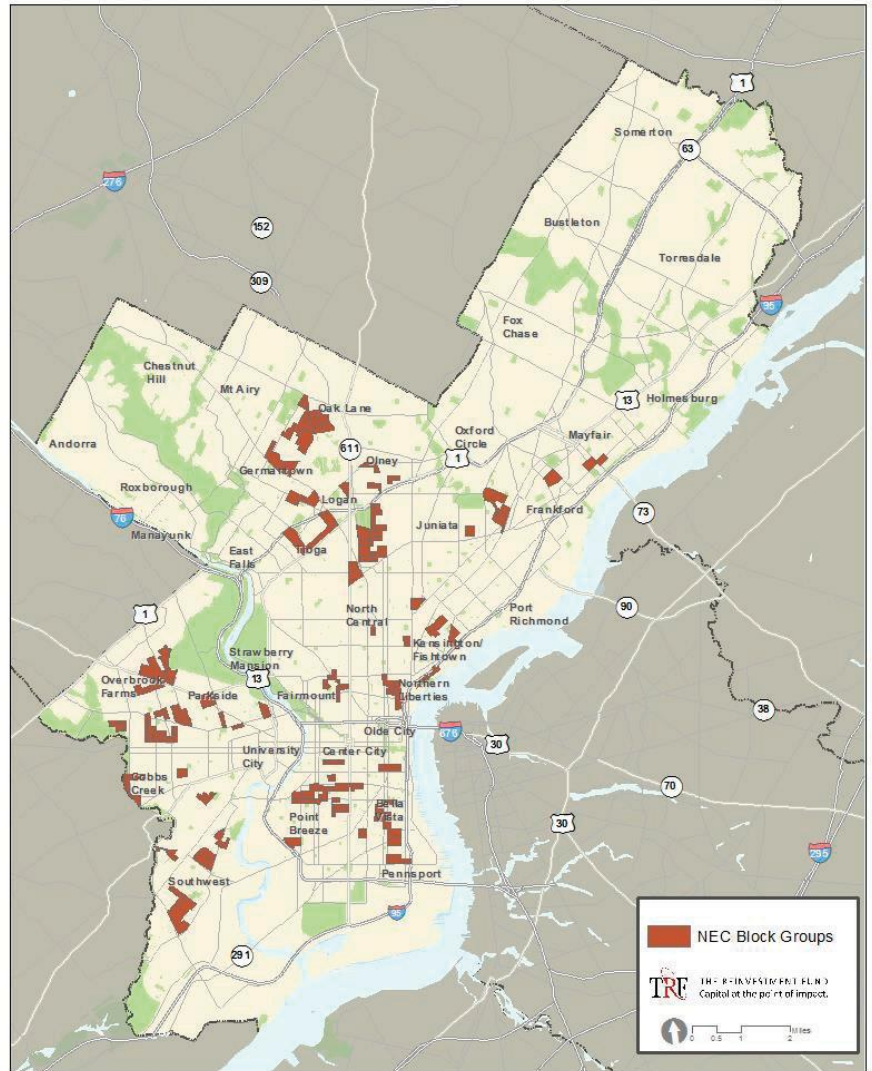


Figure 1: Location of L&I Neighborhood Enforcement Clusters (NEC)

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TRF is a Community Development Financial Institution (CDFI) that manages over \$709 million in capital and has made over \$1.3 billion in community investments, financing over 2,800 projects since its inception in 1985. We support our financing with a strong research and policy analysis capacity that has become a highly regarded source of unbiased information for public officials and private investors. For more on TRF, please see: www.trfund.com.

¹ Econsult Corporation, Penn Institute for Urban Research, May 8 Consulting. (2010, November). Vacant Land Management in Philadelphia: The costs of the current system and the benefits of reform. Downloaded from: <http://www.econsult.com/projectreports/VacantLandFullReportForWeb.pdf>