



# RAISING THE BAR

## A short guide to landlord incentives and rental property regulation

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# RAISING THE BAR: LINKING INCENTIVES AND RENTAL PROPERTY REGULATION

## A short guide for South Cook County local government

Alan Mallach

### INTRODUCTION: THE REGULATORY FRAMEWORK

Regulating the condition and operation of rental housing is a major challenge facing many of the municipalities in South Cook County. 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 drive landlords away, but to raise the bar, and ensure to the extent possible that landlords in the municipality are responsible stewards of their properties, working with the municipality to ensure safe, clean neighborhoods.

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, with a brief description and rationale for each. *Landlord incentives should be treated as part of the overall regulatory framework, rather than as a separate unrelated strategy.*

Table 2 on the following page lays out the contents of the guide, which 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 what steps need others, and what do not.

Throughout the guide, key pointers are marked with this symbol:



**TABLE 1: THE RENTAL HOUSING REGULATORY FRAMEWORK**

ELEMENT	DESCRIPTION	RATIONALE
Landlord registration or licensing ordinances	<p>A <i>registration</i> ordinance requires landlords to register their properties with the municipalities and provide contact information</p> <p>A <i>licensing</i> ordinance requires registration and a regular health and safety inspection, may also require other actions by the landlord, and gives the municipality the power to revoke the landlord’s ability to conduct business within the municipality.</p>	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) 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 incidents, 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.

**TABLE 2: THE SCOPE OF THIS GUIDE**

I Getting the most out of a licensing system	1.1 Getting landlords into the system
	1.2 Creating a rental property information system
	1.3 Moving to a performance-based regulatory system
II Raising the bar for property management and maintenance	2.1 Create a manual of good landlord practice
	2.2 Create a ‘landlord academy’
	2.3 Create a landlord association, or strengthen existing associations
	2.4 Build a registry of qualified property management companies
III Providing incentives to responsible landlords	3.1 Create a ‘good landlord’ program
	3.2 Offer multiple low cost or no cost incentives
	3.3 Design fee structures as incentives
	3.4 Create special incentive programs for good landlords
IV Opportunities for inter-municipal and regional cooperation	Areas where it may be beneficial for municipalities to explore inter-municipal cooperation or creation of regional-level support programs
V Resources	General informational material and links to good practices.

It is important to make clear up front the difference between a licensing and a registration system. 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 in standards. A licensing system, which is what is discussed here, is a fundamentally different matter; by establishing minimum standards that a landlord must comply with in order to be licensed to operate a rental housing unit the municipality, it serves as the framework for a multifaceted system to raise the bar for the community’s rental housing stock.

Illinois law distinguishes between ‘home rule’ and ‘non-home rule’ municipalities. A home rule municipality can establish a licensing system as well as the other programs described in this guide. A non-home rule municipality cannot adopt a licensing ordinance *as such*; as we will discuss later, it can achieve much the same results by focusing on problem properties that run afoul of the municipality’s codes. We will discuss this point further below.

A municipality that already has a registration system has already taken an important first step if it seeks to transition to a licensing system, since it has 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.

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 licensing is a well-established governmental power already used to ensure that a wide range of activities meet appropriate standards.

At the same time, municipalities seeking to enact rental licensing may encounter strong opposition from property owners and Realtors. 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.

Some 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 inter-municipal cooperation, or by having them carried out by a regional body such as the South Suburban Mayors & Managers Association (SSMMA). 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.

## **PART I 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 community. 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 may not know that the ordinance exists, while others – in the absence of systematic enforcement, which is rarely present – expect that they can remain under the municipality’s radar. Section 1.1 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 property information that is already available in the community, and create a simple data base to track rental properties, described in Section 1.2. This enables the municipality to understand its rental inventory, identify problem properties and landlords, and target limited resources to the most critical problems. It can also help build co-operative 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 1.3.

### **1.1. *Get 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, and how it benefits both the community and its landlords
- 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 an amnesty period, during which no landlord will be penalized for failing to file a licensing application. We would recommend six months, but the duration of the amnesty should be set by the municipality based on local conditions and preferences. 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 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 with (a) above, new owners will be asked to indicate whether they will be owner-occupants or landlords, and to return the appropriate form or affidavit.
- (4) 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.

➡ It is a good idea to spot-check the status of those properties for which owners have filed an affidavit of non-rental status, as they may include some landlords who are either trying to stay under the regulatory radar, or trying improperly to take advantage of homestead status for their properties.

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 system, the municipality can utilize the eyes and ears of its residents to report unlicensed landlords.

- (1) Create and post in a highly-visible location on the municipality's web site an accessible, searchable data base of all of the *licensed* rental properties, with their owners' names and contact information.
- (2) Create on the municipal web site 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 data base. This can take the form of a box in which the resident can type in the address of the property being reported.
- (3) When properties are reported, send the owner of record a mailing similar to that described under 1.1(a) above.
- (4) Once these features have been put on the municipality's web site, get the word out 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, and is not legally necessary, since reporting a property does not trigger a legal intervention such as a code or health inspection, but only triggers a mailing informing the owner of the licensing requirement.

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

➡ While a non-home rule municipality cannot license landlords, it can require landlords to register their properties, and can use reasonable methods, including all of those described above, to ensure that the rental properties in the community are registered.

1.2 ***Create 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 allows many 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 per dollar devoted to the task. Many municipalities already have a property data base, but the amount of information and the frequency with which it is updated vary from municipality to municipality. The value of a robust data base that can be used as a pro-active tool for improving housing quality fully justifies the effort in creating a new data base or upgrading an existing system.

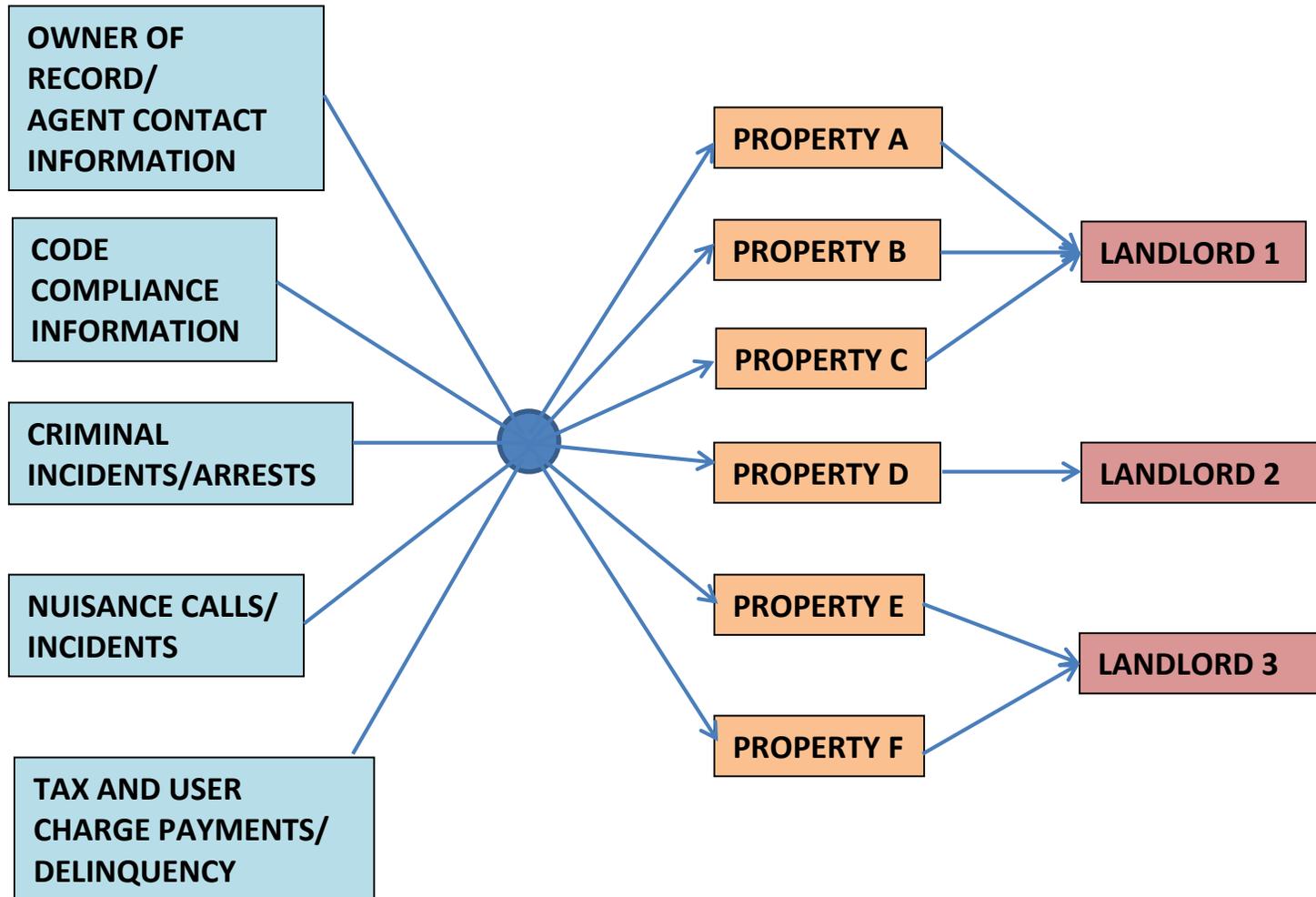
The principle of a basic rental housing information system is straightforward: assemble information already being gathered in the municipality about rental properties and their owners, so that one can call up all of the information at any time with respect either to an individual property, or an individual landlord, who may own multiple properties. It is shown in schematic form in Figure 1. A more detailed description of the information and its sources is shown in Table 3. It is not necessary to have all of these information sources available at the beginning, as the system can be set up with the information that is available, and the rest (including any other useful information not shown in the table) added as it becomes available.

**TABLE 3: CATEGORIES AND SOURCES FOR RENTAL PROPERTY INFORMATION SYSTEM**

<b>CATEGORY</b>	<b>SOURCE</b>	<b>DETAIL</b>
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 incidents/arrests	Police Department	Incident reports and arrests by location as determined to be legally appropriate
Nuisance incidents	Municipal agency responsible for addressing nuisance issues	Noise, health and similar violations
Tax and user charge information	County assessor, County Treasurer and other agencies responsible for levying user fees	Taxes and user charges due by amount and date Delinquency in payment Tax liens outstanding

One of the categories shown in Table 3 is police incidents, arrests or a similar measure of criminal activity. Crime is an important concern in most municipalities, and many already have ordinances that provide for use of crime-free rental housing programs or equivalent programs. While these initiatives are widely considered to have a positive impact on community safety, use of police calls rather than verified incidents in a performance-based rental licensing

**FIGURE 1: SCHEMATIC REPRESENTATION OF A BASIC RENTAL PROPERTY INFORMATION SYSTEM**



program as well as certain provisions found in some crime-free programs may raise due process, fair housing law, and first amendment rights issues. Municipalities which plan to use measures of criminal activity in a rental licensing program need to be aware of the legal issues involved and work closely with legal counsel to draft ordinances that benefit the community while providing appropriate constitutional and legal protection for potentially affected tenants.

### 1.3 ***Move 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.

No municipality has unlimited resources. The best regulatory framework is one which effectively distinguishes between those landlords that are responsible owners and managers, and those who are not, and focuses the greater part of the municipality's efforts on the second group. One of the greatest benefits of having the property information system up and running, is 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, Minneapolis has designed a good system for doing this, which we will describe below.

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, as follows:<sup>1</sup>

Properties are first scored on the basis of the number of property code and nuisance violations; for example, to be considered a Type I property, a one or two family house must have had no more than 1 violation during the preceding year.

- The property score is then adjusted on the basis of the number of validated calls for disorderly conduct and Part I crimes. To retain the same ranking, a one or two family house must have had no more than 1 validated call during the year.

If a property has had 2 or 3 calls, its score is reduced by one category; if more than 3, by two categories. In addition to making sure that only validated calls are included, Brooklyn Center excludes any police calls resulting from domestic violence incidents. As addressed in Note 2, municipalities should be cautious to avoid infringing upon due process, fair housing and first amendment rights if police calls are used as a factor in rating landlords.

The classification of properties from Type I to Type IV is then used by Brooklyn Center to

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<sup>1</sup> The full description of the Brooklyn Center scoring system can be found at <http://www.cityofbrooklyncenter.org/DocumentCenter/Home/View/118>

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 higher the property is classified, the fewer obligations are placed on the landlord, and the less often the property is inspected.

➔ 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, and including tax compliance in the system will provide inducement to landlords to pay their taxes.

Table 4 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 3.1. These are recommendations, and can be adjusted by individual municipalities to reflect local concerns and conditions.

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.

➔ In lieu of having municipal inspectors conduct licensing and re-licensing inspections, a municipality with limited personnel resources may want to consider either (1) creating a list of screened, approved private inspection firms that will conduct these inspections for a pre-determined fee, payable directly by the property owner to the firm, or (2) hiring through a competitive process a single firm to handle all inspections for a set fee. This can save the municipality money, and free up inspectors for more time-sensitive, urgent activities.

#### 1.4 ***Implementing a performance-based regulatory system in a non-home rule municipality***

As we pointed out earlier, a non-home rule municipality cannot license landlords or rental properties. Non-home rule municipalities, however, have clear legal authority to require that property owners maintain their properties up to full compliance with all codes, and can use inspections, citations and liens to ensure that they do so. Moreover, they can require landlords to register rental properties, and can maintain a basic rental property information system as described in Sec. 1.2 above.

**TABLE 4: LANDLORD AND MUNICIPAL REQUIREMENTS UNDER PERFORMANCE-BASED REGULATORY SYSTEM**

	<b>CLASSIFICATION</b>	<b>I</b>	<b>II</b>	<b>III</b>	<b>IV</b>
<b>BASIC REQUIREMENTS</b>	re-licensing inspection timetable	Every 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 <sup>2</sup>	Encouraged	Encouraged (see note 3)	Required	Required
	Other requirements	None	None	None	Must complete remedial action plan which must be approved by municipal officer
<b>OPTIONAL PROVISIONS</b>	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
<p>Notes:</p> <ul style="list-style-type: none"> <li>(1) See Section 2 for further discussion</li> <li>(2) This can be combined into a single program with the landlord improvement program, or run as a separate initiative.</li> <li>(3) May be required if criminal or related matters make up principal reason for lower rating.</li> <li>(4) See Section 3 for further discussion of fees</li> </ul>					

<sup>2</sup> "Crime-Free Rental Housing" is the name of a program designed and administered by the International Crime-Free Association, a private non-profit entity based in El Cajon, California. While many municipalities use that program, some use similar programs provided by other vendors or designed in-house. Where that is the case, although the Association web site does not indicate that the name is registered or copyright, it is preferable to use a different term in the ordinance for the program.

Procedurally, this means that non-home rule municipalities must approach a performance-based system somewhat differently. Using the rental property information system, they can identify on an annual basis which landlords are problem landlords; in other words, which properties have been triggered some minimum number of code citations or police or nuisance incidents during the preceding year. The municipality can then impose requirements on the owners of those properties as described in Table 4, such as re-inspection, participation in crime-free housing and landlord training programs, and possibly additional fees.

If a non-home rule municipality wants to impose a fee on problem landlords as discussed in Section 3 below, it must be able to document that the costs that the fee is designed to cover are “specifically and uniquely attributable” to the landlord’s activities, which could be characterized as a “chronic nuisance” fee. This is where having the information system becomes critical. That information, in conjunction with a straightforward analysis of the cost of code enforcement activities, police incidents, etc., can become a sound basis for such a fee. Given the history of litigation over the “specifically and unique attributable” feature of Illinois law governing fees, however, a municipality imposing a fee on landlords may risk litigation, at which point the quality of its documentation of landlord impacts may be closely scrutinized.

## **PART II RAISING THE BAR FOR PROPERTY MANAGEMENT AND MAINTENANCE**

Most of the landlords in South Cook County are small scale ‘mom and pop’ landlords, and many do not live near their properties. Some are irresponsible, but more are likely to 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 documents
- 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.

 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 Chicago 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.

### **2.1 Create a manual of good landlord practice**

Every existing landlord in each municipality, as well as every individual acquiring property in the municipality, should be given a manual which lays out the responsibilities of landlords and the 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 a number of these are provided in Section 5 of this guide). Rather than re-invent the wheel, the best approach for a municipality is to use a good existing model (which ideally should be used by all municipalities in South Cook County), 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, and contact information for local licensed businesses that provide services, such as contractors and tradespeople, useful for landlords.

### **2.2 Create a 'landlord academy'**

**A landlord academy** is shorthand for a well-organized and integrated series of training and technical assistance programs offered 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 programs, which are already used by some South Cook municipalities, could be integrated into the landlord academy.
- If resources permit, hands-on technical assistance, something like a SCORE (Service Corps of Retired Executives) 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.

### **2.3 Create a landlord partnership association or strengthen an existing organization**

A strong, effective partnership between the municipality and its landlords can be an asset to both the landlords and the community as a whole. A good model is the Brooklyn Center, Minnesota Association for Responsible Management (ARM). As presented on that city's website,<sup>3</sup> 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

This is a different type of entity from those landlord associations which are organizations, often informal ones, of the landlords themselves. Creating such an entity, and actively encouraging landlord participation, can serve not only as a spur to more responsible landlord operations, but as a communications link between local government and the landlord community. That, in turn, requires the ongoing involvement of key municipal officials with direct responsibility for issues relevant to rental properties, including police and code enforcement personnel; and the regular but less frequent involvement of other municipal officials.

This approach is used in Brooklyn Center, where landlords who fall into categories III and IV are required to participate in ARM. The landlord improvement program shown in Table 4 can be conducted through a landlord partnership association. The association can either be specific to a single municipality, or it can be an areawide organization.

### **2.4 Build 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

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<sup>3</sup> See <http://www.municipalityofbrooklyncenter.org/index.aspx?NID=234>

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.

The question has been raised whether there are in fact enough qualified professional property managers interested in managing scattered single family rental properties in South Cook County. If the answer is no, municipalities may want to work with their neighbors or with SSMMA to pursue one or more of the following steps:

- Identify qualified management firms in Chicago or elsewhere within the metropolitan area, and offer them inducements to open a South Cook County branch operation;
- Create, perhaps in partnership with an existing firm or non-profit entity, a new management company dedicated to property management in South Cook County.

Although over time, good 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.

### III PROVIDING INCENTIVES TO RESPONSIBLE LANDLORDS

The reason to provide incentives is to complement the regulatory strategy, and build an ever-growing pool of responsible landlords who meet good practice standards with respect to leasing and operations in South Cook County. While regulations can discourage *bad* actors, incentives reinforce and encourage good, responsible operations.

#### 3.1 *Create 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 1.3).

There are two basic approaches to defining eligibility for a good landlord program, or for

landlord incentives, if offered separately:

- (1) The best approach is to base eligibility on performance. Any landlord who meets the criteria (as described in Section 1.3) on his or her properties during the preceding year would be eligible. That approach requires that the municipality have its property information system up and running.
- (2) The alternative is to an 'aspirational' one; in other words, landlords become eligible by *making a pledge to meet the criteria* by signing onto a landlord code of conduct. If, after making such a commitment, the landlord fails to meet the criteria, 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.

### **3.2 Offer 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.
- 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 web site 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 to landlords, and what is feasible, in terms of availability of volunteers, donation of materials and services, etc.

### 3.3 *Design fee structures as incentives*

Municipalities can use the way they charge fees 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, where feasible.
- Structuring fees associated with rental properties to function as incentives, by adjusting the fee in keeping with landlord performance as discussed below.

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

#### 3.3.1 **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 per property. 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. 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 do not comply with licensing requirements be required to make their tenants 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.

#### 3.3.2 **Disproportionate impact fee**

A highly creative approach is followed by municipalities in Utah, based on a state enabling law which contains two separate but inter-connected parts<sup>4</sup>:

- Municipalities impose a **disproportionate impact fee** on rental properties, based on a formal analysis that determines the disproportionate impact that those properties have on the cost of municipal police, fire and code enforcement. In some municipalities, the fee can be \$200/year or more.

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<sup>4</sup> 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](http://le.utah.gov/code/TITLE10/htm/10_01_020305.htm)

- 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, usually between \$5 and \$10/year, 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 it be based on a solid, defensible, analysis of municipal costs. This is particularly the case in Illinois, where the courts have imposed strict standards on fees imposed by municipalities. If this is an area municipalities want to pursue, it may be appropriate to have the SSMMA or another regional body conduct or commission a disproportionate impact study on behalf of multiple municipalities, or develop a standard template for municipalities' use.

Setting up such a program should not be construed as a criticism of all landlords, but simply a recognition that the impacts of rental and owner-occupied housing vary (if the study finds that they do not, no fee would be imposed), but that the disproportionate impacts can be reduced and even eliminated by responsible landlord actions.

### **3.3.3. Graduated licensing fee**

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

- Landlords and properties who fail to meet adequate standards (categories III and IV) would be assessed a supplemental licensing fee for the following year.
- At the end of the year, if the properties improved to category I or II, the landlord would receive a rebate of a portion of the supplemental licensing fee. The rebate could be a standard amount, or could be based on the degree of improvement. Alternatively, the municipality could reduce or waive the fee for the coming year.
- A different way to achieve the same goal is to set a single licensing fee, but require that it be paid on the same schedule as the inspection schedule; so a category I landlord in would pay the fee once every 4 years, but a landlord in category IV would be required to pay every 6 months.

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

## **3.4 Other possible good landlord incentives**

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

### **3.4.1 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 qualified good landlord with a guarantee 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.

**3.4.2 Make designated landlords eligible to purchase vacant properties owned by the municipality or land**

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 or to the highest bidder. While owner-occupancy is important and should be encouraged, it is in everyone's interest to encourage responsible landlords, particularly when, for various reasons, qualified homebuyers may be too few to absorb the available housing stock.

**IV OPPORTUNITIES FOR INTER-MUNICIPAL AND REGIONAL COOPERATION**

Most municipalities in South Cook County are small, both in area and population, and 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, either because it is more cost-effective to have the activity more centralized, or because it may require specialized staff or discretionary seed funds that may be more likely to be available from a regional organization.

Table 5 on the following page described how each of the different programs and initiatives described in the guide might lend themselves to inter-municipal or regional implementation.

**TABLE 5: 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.
	Utilize an app for reporting unlicensed or other problem properties	A regional agency can identify a suitable product and disseminate information to interested municipalities, and provide training in municipalities that adopt the program.
	Performance-based regulatory system	If 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 want to pursue the disproportionate impact fee approach (Section 3.3.2) a regional agency could conduct or commission the impact study that is needed to set the fee.
	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 the land bank

## V RESOURCES FOR FURTHER INFORMATION

### ***General guides***

*Dealing with Problem Property Owners* section of the Building American Cities Toolkit from the 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](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/WHENINVESTORSBUYUPTHEIGHBORHOOD.pdf>

### ***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](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 a performance-based approach as 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](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.htm](http://www.crime-free-association.org/rental_housing.htm)

Overview of Crime Prevention through Environmental Design (CPTED) resources <https://www.bja.gov/evaluation/program-crime-prevention/cpted1.htm>

### ***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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