

# **Regulation of Residential Rental Property**

## **A First Suburbs Coalition Report**

### **June 2006**

#### **Introduction**

The First Suburbs Coalition, a coalition of 19 inner ring suburbs in the Kansas City metropolitan area, is focusing on modernizing and upgrading its housing stock. An important element of that housing stock is rental property. Rental property is a part of any community's housing mix. Such property provides housing opportunities to demographic elements of the population who out of choice or necessity seek rental housing, such as younger residents, seniors, and workers looking for affordable alternatives.

However, rental residential property can also present a challenge to neighborhoods and local governments if it is not well maintained and managed. First suburbs and most local governments want to encourage a healthy balance of rental and owner occupied housing as well as assure that rental property is a positive element of the community. To do that some communities have felt it necessary to adopt regulations focused on residential rental property.

The First Suburbs Coalition felt that encouragement of a healthy, well maintained and well managed rental housing market in their communities was an important element in an overall housing strategy. For that reason the coalition initiated a survey of local governments, first suburbs and other communities in the Kansas City metro area, to assess whether rental property was viewed as an important issue and what local governments are doing to address the issue. The survey was used as the basis for this report, which presents the results of the survey, provides analysis of the results, and suggests how the First Suburbs Coalition and all local governments might work together or singly to more effectively address issues related to residential rental property.

The First Suburbs Coalition hopes that this report will provide local governments information on approaches to regulation of rental property, especially best practices, and will encourage a conversation among local governments, and other stakeholders in this issue, on how they might work together to more effectively address issues related to rental property.

#### **Survey Results**

Twenty five cities responded to the survey. The current percent of occupied housing that is rental according to the 2000 Census ranges from Fairway, with 10.7% of their housing rental, to North Kansas City where 76.2% of their housing is rental. Based on incomplete information provided by respondents the percentage of rental housing that is single family ranges from 3% to 100%. Rental housing rates were fairly stable between 1990 and 2000 with only a few cities seeing changes of more than one to two percent. Kearney was the exception with its percent of rental housing falling from 49% to 26%.

The number one rental property issue cited by 22 of the 25 respondents was maintenance of rental property. This was followed by absentee landlords (16) and uncooperative landlords (16) and behavior of tenants (13). Eleven of the 25 respondents indicated they have some kind of

residential rental regulations with 9 indicating they have a rental licensing program. Of the nine cities that have a rental licensing program six indicate they can revoke a license if a property is not maintained. Annual rental license fees range from about \$25 to \$50 although a couple of communities calculate fees based on square footage and one on rental income.

Only four communities require a rental property to have a resident agent and only six cities inspect on a regular basis. Two communities require an inspection when there is a change in tenants and one when there is a change in ownership. Several communities have a Crime Free Multifamily Program with landlords and the police department.

Only seven of the 25 communities responding were satisfied with its current approach to regulating residential rental property. Eight communities indicated they were considering changing their approach and 22 communities indicated they were interested in working on a regional approach. Staffing and funding are the most frequently cited deterrents to adopting a program with landlord opposition also an important reason.

**Findings**

The most significant finding from the survey is that most communities see rental property maintenance and related issues as a major problem for their community. Further, they are interested in looking at new approaches and working together across jurisdictional boundaries.

There is a continuum of potential regulatory action that a local government can take to address the issue of maintenance of residential rental property. This continuum runs from the least intrusive and most conventional, such as code enforcement, to more intrusive programs that require licensing and may result in a license being revoked. This spectrum of potential action is illustrated in the chart below.

Action	Description	Potential Impact	Issues
<b>Code Enforcement</b>	Any property maintenance program starts with a sound code enforcement program. Reactive to complaints.	Higher level of maintenance of properties. Support for residents that do maintain their property.	Funding of inspectors (usually general fund). Dealing with absentee landlords. Dealing with owners that do not have resources to fix property.
<b>Code Enforcement Proactive</b>	A proactive code enforcement program does not only react to complaints, but has an active program of inspections. One proactive approach is to require an inspection when a property changes tenants or ownership.	This provides a higher level of attention to property maintenance and uses the transfer of tenants or ownership as leverage to get compliance.	Such a program requires more inspectors with more cost. Can be paid with an inspection fee. Program may generate opposition from landlords or the real estate community as too burdensome. Often difficult to know when a transfer occurs, especially of tenants.

<b>Resident Agent</b>	A city can require that owners of rental property have an agent registered with the city that has offices in the community.	This program is designed to help address the issue of absentee landlords when cities find it difficult to get a hold of anyone to address property maintenance issues.	Takes some administration. Having someone to send notices to frequently does not make repairs come any faster. Landlords may oppose.
<b>Rental Licensing</b>	Cities can require that rental properties have a license similar to a business license.	A rental licensing program helps identify where the rental properties are and who is responsible. Revenue from licenses can provide resources for inspections.	Licensing usually involves an annual license fee that can help pay for the program's administration. Many landlords are likely to be opposed. Identifying which properties are rental is an administrative issue.
<b>Rental Licensing and Proactive Inspections</b>	One key element of a rental licensing program is to couple it with increased inspections of rental property. In some cases this can be proactive inspections either by targeting neighborhoods or types of properties or on change in ownership or tenant.	Tying inspections to rental licensing greatly increases the impact of inspections by increasing their quantity. In some cases rental licensing inspections may use a different set of criteria than a typical code enforcement inspection. Proactive inspections allows for impacting targeted problems.	The license fee can be directed into increased inspections. Landlords will not want increased inspections.
<b>Rental Licensing with License Revocation</b>	One of the biggest potential elements of a rental license program is to require that each property meet certain conditions, such as maintenance of the property, in order to maintain a license.	The leverage of possible license revocation can be an important tool in getting compliance with property maintenance standards and other license requirements, especially by hard to reach absentee landlords. Neighborhoods love it.	Landlords will not like revocation. An appeal process will be necessary. Must decide what the criteria for license revocation are.
<b>Additional Programs</b>			
<b>Landlord Training</b>	Cities or not-for-profits can offer a wide range of training programs for landlords, such as screening tenants, lease provisions, and working with police. This can be made a requirement for licensing.	This is an opportunity to get landlords on the same page as local communities. The most important element in quality rental property is good management.	Some landlords may resist this element. Usually doesn't cost much.

Rental licensing and other programs designed to regulate rental property have been well tested both in terms of legal standing and in practice. The key decisions for a local community are determining the nature of the problem and which of the above approaches best addresses the problem. Although staffing inspections and funding the inspectors is an issue it can be overcome by devoting a license fee to these activities. Because different interests in the city may have strong feelings about rental licensing implementation can be contentious. Several cities have effectively used committees composed of landlords and residents to develop the program.

### **Recommendations**

The level of interest in rental regulation indicates that there are opportunities for communities to adopt effective programs and work together to make rental regulation across the region more consistent and effective. It is recommended that a meeting of local government officials be convened to discuss residential rental regulation and that attendees discuss the following potential initiatives:

- Ⓢ What makes a residential rental property an asset to the community and how can communities encourage such properties and management practices
- Ⓢ Development of a model ordinance or ordinances regulating residential rental property
- Ⓢ Development of a set of procedures to walk a community through consideration of adopting an ordinance regulating residential rental property
- Ⓢ Developing a web site to share information on regulating residential rental property, such as existing ordinances
- Ⓢ Explore ways that communities can work together to improve maintenance of rental property
- Ⓢ Discuss programs that work with landlords to improve rental property maintenance and management such as training
- Ⓢ Discuss expanding the KCMO Crime Free Multifamily Program throughout the metro area
- Ⓢ Requirements, such as design and management, for new rental developments

This group would set out an action program that would help local governments address issues related to residential rental property. MARC and the First Suburbs Coalition would work with local governments to implement the program.