

CITY OF PHILADELPHIA PENNSYLVANIA

OFFICE OF THE CONTROLLER

Promoting honest, efficient, and fully accountable government

PHILADELPHIA'S MULTIPLE PROPERTY OWNERS:

**REVIEW OF CITY PROPERTY REQUIREMENTS
& CONDITIONS**

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City Controller
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Philadelphia's Multiple Property Owners:

Review of City Business Requirements

June 2011

SUMMARY

Neighborhoods across the City of Philadelphia have experienced problems with tenant occupied properties that in many cases go undetected by city officials. In some cases, these property owners do not obtain the required city licensing, evade city taxes, create unsafe living conditions for tenants and cause serious nuisance problems for surrounding neighbors.

Through information received from Philadelphia residents as well as findings from previous investigations, the Office of the City Controller conducted an investigation into multiple property owners operating unlicensed rental properties to examine the extent of the problem and locate troubled neighborhoods. A sample of 46 property owners owning three or more properties was reviewed and matched against rental and business license records. Property surveillance and other investigative techniques were also conducted as part of this investigation.

FINDINGS

By conducting a sample that consisted of 261 properties owned by 46 individual multiple property owners, the Controller's Fraud & Special Investigation (FSI) Unit found the following:

- 36 properties owned by 23 different owners combined for 135 unresolved violations ranging from property maintenance, fire code and/or licensing issues; 15 were licensed rentals.
- A combined \$356,999 is owed for delinquent real estate and water receivables for all property owners included in the sample.
 - Real Estate Delinquent: 67 properties owned by 27 owners owe \$196,446
 - Water Delinquent: 97 properties owned by 32 owners owe \$160,553
- Three properties owned by one individual were being used as rentals without the owner obtaining the required rental licensing.

RECOMMENDATIONS

The Controller's Office has developed a number of recommendations for both the Department of License & Inspections and the Revenue Department to address these findings. The recommendations can be found at the end of the report.

The City Controller's Investigation

Objective

Through information received from Philadelphia residents as well as findings from previous investigations, the Office of the City Controller conducted an investigation into multiple property owners operating unlicensed rental properties to examine the extent of troubled properties that are potentially causing neighborhood depreciation.

Scope of Work

Through a universe of 21,596 properties owned by 4,714 property owners with three or more properties, the Controller's staff conducted a sampling of 261 of these properties that were owned by 46 different individuals.

The Controller's staff examined various federal, state and city records to build a profile for each property as well as analyze trends and habits for each property owner. Reviewing current and historical records assists with determining how the property is being operated and if any illicit activity is being conducted. The records included but were not limited to the following:

- Legal dockets and other similar public records
- Voter registration records
- Business license records
- Online businesses providing rental property listings
- Delinquent real estate and water account records
- City code violations

Along with reviewing multiple types of records and data, the Controller's Investigators conducted on-site visits to 121 properties of the sampled properties, to visually inspect the buildings' structures and land as well as the surrounding properties. By reviewing certain records, the Controller's Office was able to determine which properties that the multiple property owners were residing at and which were additional properties that they owned, potentially used for renting to tenants.

Conducting on-site inspections allowed the Controller's Office to better determine the properties use, look for signs of property mismanagement such as blight, and any other issues that might be found at the property. Some of the on-site inspections included the Controller's investigators speaking with individuals who resided at these properties as a method to find out if the property is being illegally rented.

These techniques along with many other investigative practices led to the Controller's Office uncovering multiple property owners that were operating illegal rental properties without proper city licensing, not maintaining the property and causing blight, and owning properties with multiple liens and hundreds of thousands of dollars in delinquent real estate taxes and unpaid water bills.

Background:

Required City Licensing

Under City Code, every person who wants to engage in business, including the generation of rental income, in Philadelphia is required to have a Business Privilege Tax (BPT) Account Number and Business Privilege License (BPL). A BPL is required for each ownership entity under which a person owns properties. For example, if a person owns property under their personal name and also under a corporate name, they would need a BPL for each entity. Each BPL can be purchased from the city's Department of Revenue for a lifetime fee of \$300.



City Code also requires that any property owner who rents his or her property to others needs to have a current housing rental license for each rental property. If a person has five rental properties, they will need five rental licenses. A BPL is required for a person to obtain a rental license through the city's Licenses & Inspections Department. The fee for the rental license is \$50 per unit.

Also, through L&I, all owners that rent property are required to obtain a Certificate of Rental Suitability no more than 60 days prior to the inception of the tenancy. This certificate is a document for the owner's attestation that all fire alarm and detection systems required for the premises are present and in proper working order, that the operating systems and the property are free of defects which affect the health and safety of the occupants and that the owner will continue to maintain the operating systems and the property throughout the tenancy. The fee for the certificate is \$25 and required for each rental property.

While L&I has compiled a "Partners for Good Housing" handbook that outlines minimum health, safety and maintenance standards for houses and apartments, there are still illegal renters that are not only breaking the law by evading city taxes and not complying with the City's Code, but they are creating unsafe living conditions for tenants and can cause serious nuisance problems for surrounding neighbors.

Governing Agency Enforcement

Adopting legislation that imposes new or increases current fees for violating the law is only effective if the responsible governing agencies enforce these laws. According to L&I's website, it states the following:

The Department of Licenses and Inspection (L&I) is the chief regulatory agency for the City of Philadelphia. One of its responsibilities is to enforce the requirements of the Zoning Code. L&I processes applications, issues permits, and conducts inspections to ensure that zoning regulations are met.

The mission of the Department of Licenses and Inspections is to administer and enforce the City's code requirements for the enhancement of public safety, including building, plumbing, electrical, mechanical, fire, property maintenance, business, and zoning regulations. The Department is responsible for regulating the conduct of businesses and persons by issuing licenses, by conducting inspections, and by enforcing applicable codes and regulations.



While L&I is responsible for regulating business activity and enforcing codes, the Revenue Department is responsible for identifying and collecting applicable taxes resulting from rental properties. When rental properties go undetected by agencies and departments, it's a lost opportunity for the city to collect much-needed revenue.

Since rental activities are usually considered to be business activities, landlords should be filing for business privilege taxes, whether or not they earned a profit during the preceding year, and they should file for the net profits tax. Also, as with all property owners, they should be filing their real estate tax for each property owned.

The Controller's Investigative Findings

By conducting a sample of 261 properties owned by 46 individual multiple property owners and reviewing each one of their properties for unlicensed or illegal activity, the Controller's Fraud & Special Investigation (FSI) Unit uncovered a variety of findings.

Unlicensed & Illicit Activities

As previously noted in the report, property owners who want to operate rental properties must have a Business Privilege License and a Certificate of Rental Suitability and Renter's License for each rental unit. This is to ensure that all appropriate taxes are paid to the city, and the owners properly maintain their properties so that tenants are living in safe conditions.

The Controller's investigators selected 30 properties from its sampled list to review for illegal rental activity and found that three of the properties, all owned by one individual, contained rental units where the owner did not have the required Renter's License registered at the property.

Delinquent Taxes and Water Accounts

While there are properties being used as illegal rentals with the owner earning revenue that remains off the financial books, some property owners also elude paying their real estate taxes and water and sewer accounts.

Real Estate

Of the 46 sampled property owners owning a total of 261 properties, 27 property owners owed \$196,446 in delinquent real estate taxes. This total delinquent balance accounted for 67 individual properties.

A list of the top five properties with the highest amounts owed for delinquent real estate taxes includes the following:

Delinquent Real Estate Taxes		
Address	Delinquent Balance	# of Liens (oldest lien)
3397 TULIP ST	\$19,781	11 (1993)
2028 FRANKFORD AVE	\$17,054	17 (1993)
1262 N 29TH ST	\$11,886	6 (2005)
3323 N SYDENHAM ST	\$11,236	13 (1998)
4238 PAUL ST	\$10,774	11 (2000)

Water & Sewer

A review of the total individuals sampled and their respective properties found that 32 owners owed \$160,553 in delinquent water and sewer services. This total delinquent balance accounted for a total of 97 individual properties.

A list of the top five properties with the highest amounts owed for delinquent water and sewer services includes the following:

Delinquent Water & Sewer Accounts	
Address	Delinquent Balance
718-26 N 17TH ST	\$38,363.84
2537 N NEWKIRK ST	\$14,615.74
884-92 N 40TH ST	\$14,394.64
2633 N MYRTLEWOOD ST	\$14,264.26
5412 SPRINGFIELD AVE	\$9,733.08

City Code Violations

Property owners are responsible for maintaining structures and exterior property in such repair and in such safe and sanitary condition at all times. The City’s L&I Department is responsible for enforcing code requirements and regulating the conduct of business and persons at all properties. If necessary, L&I is authorized to take lawful sanctions to correct properties that pose dangerous and unlawful conditions to the public.

In reviewing the 261 properties that the Controller’s staff sampled, there were 36 properties owned by 23 individual owners that had either property maintenance violations, fire code violations or permit violations that are considered to be open and unresolved. These 36 properties accounted for a total of 135 violations. Some of these violations have been unresolved for almost four years.

Other violations findings include the following:

- 15 of the 36 properties with violations are rental properties
- One owner had 22 individual violations at one property, including various fire code and property maintenance code violations that had been unresolved since July 2007
- One rental property had three property maintenance violations that all reference conditions where there is imminent danger of failure or collapse of a structure or could endanger lives, and occupants are required to vacate the property.

Conditions of Urban Blight

Urban blight is a condition that exists throughout several neighborhoods in Philadelphia. The City of Philadelphia's efforts to combat blight, especially at vacant properties, have been dealt with much resistance due to difficulties in locating the problem property owners as well as dealing with uncooperative owners. One broken window that goes unfixed can create the appearance of decay and disrepair and in turn results in entire neighborhoods to depreciate and communities to fall apart.

The Controller's investigators reviewed 121 of the 261 sampled properties and found that eight properties showed visual signs of blight that can lead to more serious problems for property residents as well as surrounding neighbors. The conditions of some of these properties are illustrated in the following photographs on the next page:



3025 W. Dakota St. 19132



3112 Page St. 19121



1810 E. Atlantic St. 19134



2940 French St. 19121



2439 Master St. 19121



4146 N. 5th St. 19140



718-26 N. 17th St. 19130



862-72 N. 41st St. 19104

Conclusion and Recommendations

By focusing on a sampled listing of multiple property owners and their respective properties, the Controller's Office was able to determine that one property owner was operating an illicit rental business at three of the properties, all of which did not have a the required Renter's License.

A breakdown of the Controller's findings from a sample that included 261 properties owned by 46 individual multiple property owners included the following:

- 36 properties combined for a total of 135 unresolved violations that ranged from property maintenance, fire code and/or licensing issues; 15 of these properties were licensed rentals.
- \$196,466 total is owed by 27 property owners for delinquent real estate taxes.
- \$160,553 is owed by 32 property owners for water and sewer services at 97 properties.
- One multiple property owner was found to be operating three unlicensed rental properties.
- Eight properties showed signs of blight.

These findings illustrate that there is a need for City Departments to work together for the common goals of compliance with L&I standards and enforcing all applicable laws against nuisance property owners. The Revenue Department needs to identify all persons who own multiple properties and coordinate efforts with L&I to determine if there are other properties that need licenses.

By taking these necessary actions, it will allow L&I to inspect rental properties to ensure safety standards are being met and it will generate revenues associated with the all applicable business licenses and renters fees. In addition to these fixed fees, the City should be collecting all business taxes and real estate taxes on an annual basis.