

Managing Property Investor Challenges in Middle Neighborhoods

City of South Euclid
South Euclid, OH

Many communities are struggling with increasing home prices as houses get scooped up by investors who are buying with cash. Cash sales expedite the sales process, which is valuable for sellers, but create nearly impossible circumstances for first-time buyers. The trend is creating a shift in the market and making a historically effective asset-building strategy difficult or even impossible for first-time buyers, thereby hampering the capacity to build inter-generational wealth.

South Euclid is a first-ring suburb outside of the city of Cleveland. Its middle neighborhoods offer affordable and safe housing but in the late 2000s, its distressed housing market resulted in ownership values dipping below \$50,000. Rental costs remained the same, however, which created conditions for property takeovers by investors who could purchase properties for very little but still charge a standard market rent. The area became flooded with investors and by 2021, nearly 45% of rental properties were owned by out-of-state buyers. To help gain control of the investor situation, the city created ordinances, pooled resources, and developed other strategies to provide relief. A few solutions are listed below:

1). Collaboration. One of the key strategies the City of South Euclid implemented was its participation in a regional collaboration among city governments, community development practitioners and other entities to break down municipal borders. The collaboration, called VAPAC (Vacant and Abandoned Property Action Council), established a place for collaboration and sharing of information and best practices. The group created a database of investor information and property holdings and established a goal of working together to address irresponsible investor behavior in the region. The group meets once a month to talk about issues affecting neighborhoods such as vacant properties, delinquent property tax collection, demolition, and tenant displacement. Having a regular meeting time allows people from around the region to come together and coordinate. Within VAPAC, specific working groups were established such as one focusing on speculators who are buying up real estate but not truly investing in the property or neighborhood. VAPAC is chaired by researcher and Senior Policy Advisor at Western Reserve Land Conservancy, Frank Ford.

2). Code Enforcement – Investment Properties.

For decades, the City of South Euclid has required an annual rental registration including an inspection of investment properties – both inside and out – every three years. To address the newer challenges posed by the influx of out-of-state investors, properties with delinquent taxes are not permitted to register, and all properties with owners living out of state are required to have a local agent-in-charge for the property. Registration of rental properties takes place through an online portal and owners must pay \$200 a year for single family homes. Those

with multi-unit buildings must pay the same \$200 for the first unit, plus \$150 for each additional unit up to a cap of \$3,000 total. If owners fail to pay, they face fees and penalties and are eventually taken to court if the issue is unresolved. This requirement was put into place as a codified ordinance.



Owners who fail to register a property are prosecuted as a criminal citation. If the original registration notice is ignored, the city posts a notice on the property stating the need for the certificate of occupancy, which lets the tenant know there's a problem. Landlords are given 30 days to come into compliance before being served a final notice and court summons.

To help identify unregistered properties, the city of South Euclid partners with the local school district to identify unregistered rentals. The school district provides a list of properties where students are living with rental leases and the city cross checks that information with their records. The city also has an MOU with the public housing authority to help them identify unregistered rentals. The public housing authority will also hold rent on unregistered rentals or properties with code violations until the issue is resolved. This collaboration with the public housing authority on properties with housing choice vouchers has been very successful in eliminating out-of-compliance properties.

3). Code Enforcement – Owner-Occupied Homes. Owner occupied homes are also inspected, on the exterior, every six years. This helps to keep housing stock viable and helps homeowners stay on top of potential health and safety issues. Most owners appreciate the service: it is not uncommon for homeowners to be unaware of or to overlook issues with their homes. Code enforcement officers follow up with owners if there are issues, and monitor property transfers to make sure problems get resolved when properties are being sold. Websites like Realtor.com or Redfin are utilized to find information on vacant properties. All vacant homes must be registered with the city and once the house sells, the new owner must assume the code violations and correct them within six months (see below).



4). Vacant Building Ordinance. The City of South Euclid developed a vacant building registration ordinance which combines annual registration requirements with a point-of-sale inspection for vacant properties. This means properties are inspected inside and out before they can be resold. It also means that buyers are required to assume any violations and must escrow a percentage of the estimated repairs. If they do not comply, daily fines of up to \$1,000 are imposed as a lien upon the property, plus criminal misdemeanor charges. Since this ordinance was passed in 2010, over 1,200 vacant houses have been made fully code compliant, amounting to over \$200M invested in neighborhoods.

5). Agents in Charge. The City of South Euclid requires all out of state owners to have an agent-in-charge assigned to each property. That way, if there is an issue, the city has a local individual who can be held criminally liable if the owner lives in a different state or country and is unresponsive. In South Euclid, nearly 45 percent of properties have out-of-state or -country ownership, so this is an important strategy. The agent-in-charge must live in the county, or in a surrounding county, and if they are not in compliance, the city files an affidavit against the property, effectively clouding the title and prohibiting resale until the property is brought into compliance. Agents-in-charge must be listed on the annual registration. Oftentimes, the agent-in-charge is a local property management company.

Below are a few best practices to address the investor trend:

Apply strong code enforcement	Code enforcement is a proactive way to deter investors who do not want to invest in the community and instead want to exploit a property.
Coordinate with law enforcement	If the building department needs to enforce through criminal prosecution, they will need the law department to help. Develop relationships early.
Build a strategy for regional information sharing	Learn how to reach people and share information in a proactive way. Educate others on how to develop a code enforcement plan, create a local strategy, serve people in court, etc. Working together, regions can be more successful.
Inform the public	Share information with the community on the impact of investors in the rental market. Let the public know about the trend so they understand the intentions behind code enforcement actions.
Require annual rental registrations	Hold every person or entity with a rental property accountable for property maintenance through annual rental registrations and systematic inspections. Also, be sure to make the associated code enforcement actions a priority.
Require a local agent-in-charge	Requiring a local agent-in-charge for non-local property owners is a game changer. Enforcing this through legislation results in higher success rate.
Transfer violations to new owners	Property violations should transfer with the property so the new owner can be held accountable for them. If this is not required, LLCs can flip properties to each other, thereby skirting code enforcement.
Make use of criminal and civil proceedings for code compliance	Most code violations are criminal citations meaning someone must get served and come to court to be held accountable. Using a dual criminal and civil approach for gaining compliance is a best practice. For example: Franklin County imposes a civil forfeiture of \$100 each day that the owner fails to comply, in addition to the criminal citation of non-compliance.
Expand tenant protections	Tenant protections are important especially with out-of-country investors. Some are merciless and start the eviction process when a tenant is one day late and include all sorts of fees and expenses. Expanding the right to counsel, pay to stay, and source of income protection legislation is critical in this environment.
Require an interior and exterior inspection every three years	Regular inspections for owner-occupied properties should be standard practice and include assessment of lead paint hazards. Properties can become dilapidated and sometimes an owner overlooks or does not know a problem exists. Upholding consistent standards for property conditions helps prevent loss of neighborhood property value and helps restore confidence in the local housing market.
Make repair capital accessible	Provide capital repair funds to owner-occupants and mom-and-pop landlords through a loan loss reserve fund. Many small, local landlords are struggling just like tenants and cannot afford to make large repairs, especially for lead remediation which can be costly.
Ensure funding is available to demolish vacant parcels	Some properties cannot reasonably be rehabilitated and will need to be demolished. Create a fund to cover this expense. Dilapidated (and therefore low-cost) properties are often the ones to get snatched up and create true problems for the neighborhood.
Create a targeted down payment assistance program	Many homes are selling for cash meaning first-time and FHA buyers are shut out of the market. Create opportunities for down-payment assistance so first-time buyers can compete and build generational wealth.

Encourage local lenders to help local buyers	Develop relationships with local lenders and encourage them to develop affordable lending products for communities. Reach out to lenders and share details on the value of providing lending support to first-time buyers.
Review land bank models	Community land trust models can be a great asset and serve as a good model for creating long-term affordability. Be aggressive in searching for properties and attaining them. Pull from state forfeiture lists and tax foreclosure rolls, and work with partners who can rehab and resell them to first-time buyers.

Questions?

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