

## **RENT ESCROW ACCOUNT PROGRAM**

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### **Background**

The Rent Escrow Account Program (REAP) serves as an enforcement tool to encourage landlords to maintain and repair residential buildings, structures, and the surrounding premises. It does so by making units which have been cited for Housing Code violations, and for which the period to correct those violations, plus any extensions, has expired, eligible for a rent reduction. As of April 4, 2013, there were 1,361 cases in REAP consisting of 4,494 units in 1,087 properties. Each one of these REAP cases is the result of persistent habitability violations that affect the health and safety of the residents of the affected units. Prior to removing a property from REAP, all cited habitability violations must be resolved, and no additional pending orders may exist. As a result REAP has been able to successfully incentivize property owners to repair and maintain their properties and bring the properties into compliance with Housing Codes. The following is a brief history of REAP, and description of the impact the program has had on improving communities throughout Los Angeles by ensuring safe and affordable rental housing for the City's residents.

### **History of REAP**

REAP was established by Ordinance (No. 164205) in 1989, to encourage property owners to comply with the requirements of the housing codes, and ensure proper maintenance and repair of their rental properties. In 1997, the City established the REAP outreach program to expand participation by tenants in the REAP program through provisions of education and outreach to tenants residing in subject buildings.

In 2005, the Department saw a significant increase in the number of properties referred to REAP, as LAHD ramped up its Systematic Code Enforcement Program (SCEP) to complete the first cycle of rental property inspection by 2006. Since 2007, the Department has seen year over year decreases in the number of properties referred to REAP primarily as the result of the success of SCEP in addressing habitability violations and extensive and effective REAP outreach activities, which prevent properties from being referred back to REAP repeatedly, and resulted in expeditious removal of cases in REAP. Each subsequent SCEP cycle is expected to identify fewer and fewer violations as property owners become more aware of the requirements of the law, with regards to maintaining and repairing their properties.

## REAP Case Processing

Rental properties with violations affecting the health and safety of occupants, or for Rent Stabilization Ordinance (RSO) properties, violations which result in a deprivation of housing services, may also be referred to REAP by any City or County agency, or any tenant. In practice, LAHD Housing Inspectors, investigate any complaints, and cite any habitability violations found. Violations which remain unresolved, and are not addressed within the period allowed by the order for compliance, including any extensions, are referred to REAP. Based on LAHD records, the average time between the initial citation and the referral of the property to REAP is four (4) months. Ample time is allowed for the property owner to correct any violations.

Properties referred to REAP are afforded due process and the opportunity for two layers of appeal. Each unit that is referred to REAP qualifies for a rent reduction depending on the nature and severity of the violation cited. The reduction amount is cumulative and ranges from a minimum of 10% to a maximum of 50%. Depending on the severity, a single violation can result in a rent reduction ranging from 10 to 20%. The following table is used to determine the rent reduction applied to a property placed into REAP:

VIOLATION CATEGORY	LOW SEVERITY	MEDIUM SEVERITY	HIGH SEVERITY
Nuisance Conditions	10%	15%	20%
Structural Hazards	10%	15%	20%
Fire Warning Devices	10%	15%	20%
Carbon Monoxide Detector	10%	15%	20%
Exiting	10%	15%	20%
Fire Protection Equipment	10%	15%	20%
Hazardous Storage	10%	15%	20%
Failure to test/certify	10%	15%	20%
Failure to Manage/Secure	10%	15%	20%
Sanitation	10%	15%	20%
Weatherproofing	10%	15%	20%
Maintenance	10%	15%	20%
Electrical	10%	15%	20%
Plumbing/Gas	10%	15%	20%
Heating/Ventilation	10%	15%	20%

Rent payments made into the REAP escrow accounts, through a hearing process, can be made available to the property owner to make repairs, pay for tenant relocation, or pay utilities to prevent shut-off. Each month the property owner receives a statement detailing all payments made into the escrow account, and the amount of funds available. The Department monitors the escrow accounts and periodically issues a letter to the property owners which strongly encourages them to use the available funds in the escrow account to complete the work necessary to remove the property from REAP. The LAHD releases approximately \$1.089 million in escrow account funds annually to bring properties into compliance with the housing codes, pay for utilities, and provide relocation benefits.

Rents deposited into the escrow account can also be used directly without a hearing process, or on shortened notice when it is deemed necessary to address an imminent threat to the health and safety of the occupants or to prevent termination of utility services.

Prior to removing a property from REAP, the Department verifies that all violations have been corrected, and that no other outstanding or pending government agency orders exist on the property, including orders issued by the Los Angeles County Health Department. After compliance has been verified by LAHD Housing Inspectors, the property is scheduled before City Council for removal from REAP. Once the property is removed, the property owner and tenants are notified, the rents are restored, and the escrow account is closed.

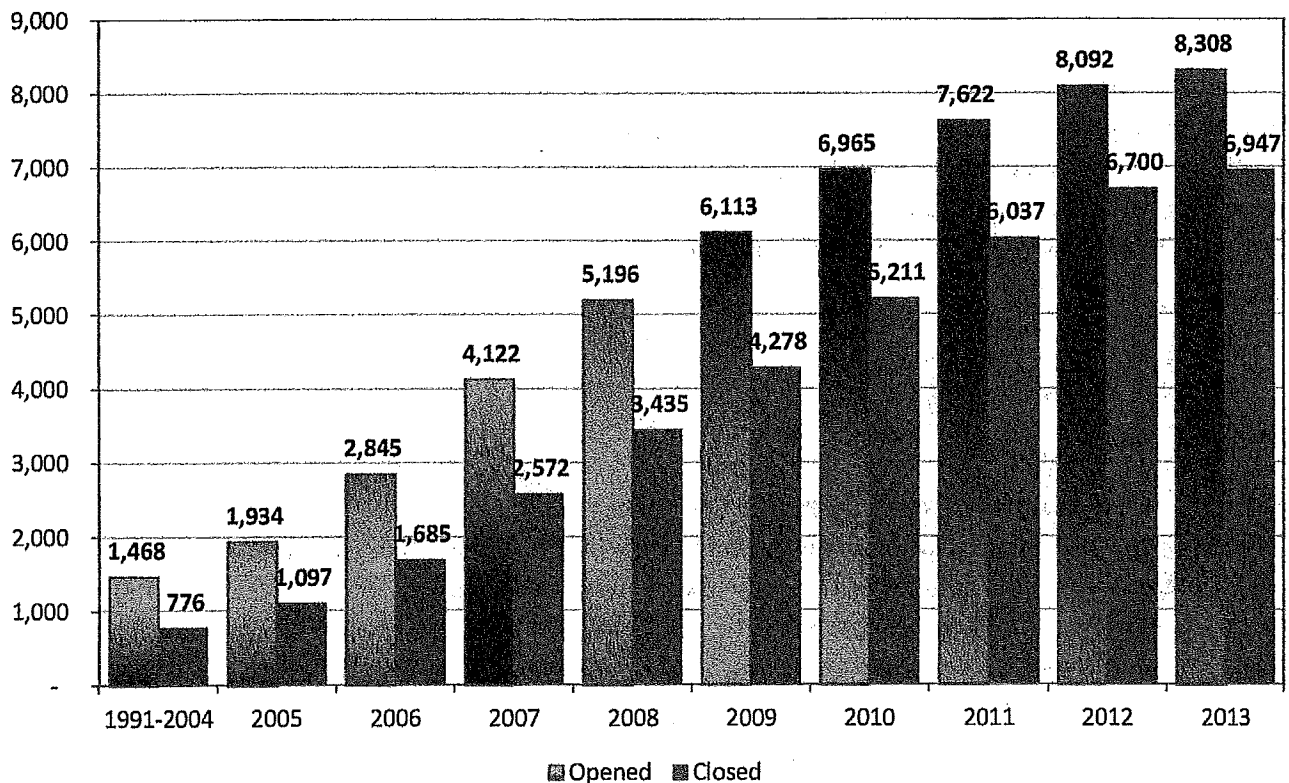
### **Impact of REAP**

REAP has had a measurable impact on ensuring safe and habitable rental housing throughout the City. By providing tenants of affected units the opportunity to pay reduced rents into an escrow account managed by LAHD, REAP serves as a disincentive to property owners who may otherwise not maintain their properties in habitable conditions. The program also provides a source of funds that can be used to make the necessary repairs to bring a property into compliance. The impact of REAP can be seen in the number of properties that have been brought into compliance through the activities of the program, the number of utility shut-offs that have been prevented, and the ability to target slumlords who's properties are in continuous disrepair, and who persistently violate housing codes affecting the safety and habitability of their rental units.

- **Compliance with Housing Code and Elimination of Habitability Violations**

Since the inception of REAP, over 6,947 cases have closed removing 29,620 units from REAP. 85% of the units referred to REAP have been brought into compliance and have had their rents restored. Each one of these cases is a success story in bringing a property into compliance and restoring it to habitability. Since 2004, when the Department had been able to close 53% of the REAP cases opened, LAHD has been able to increase the rate of compliance and has improved the rate of REAP case closure by over 30%. Over the lifetime of REAP, the Department has achieved a case compliance and closure rate of 83%.

## Cumulative REAP Case Activity



As of April 4, 2013, there are 1,361 open REAP cases representing 4,494 units. Since 2010, the Department has been able to close more cases than were opened, which is indicative of the program's success. Since the inception of REAP, the program has experienced a 6% recidivism rate. The vast majority of cases referred to REAP, never return to REAP once the violations are corrected, and the property is brought in to compliance with habitability standards. This is thanks in large part to the proactive outreach performed by outreach contractors who educate property owners on maintaining their properties and resolving violations in a timely manner.

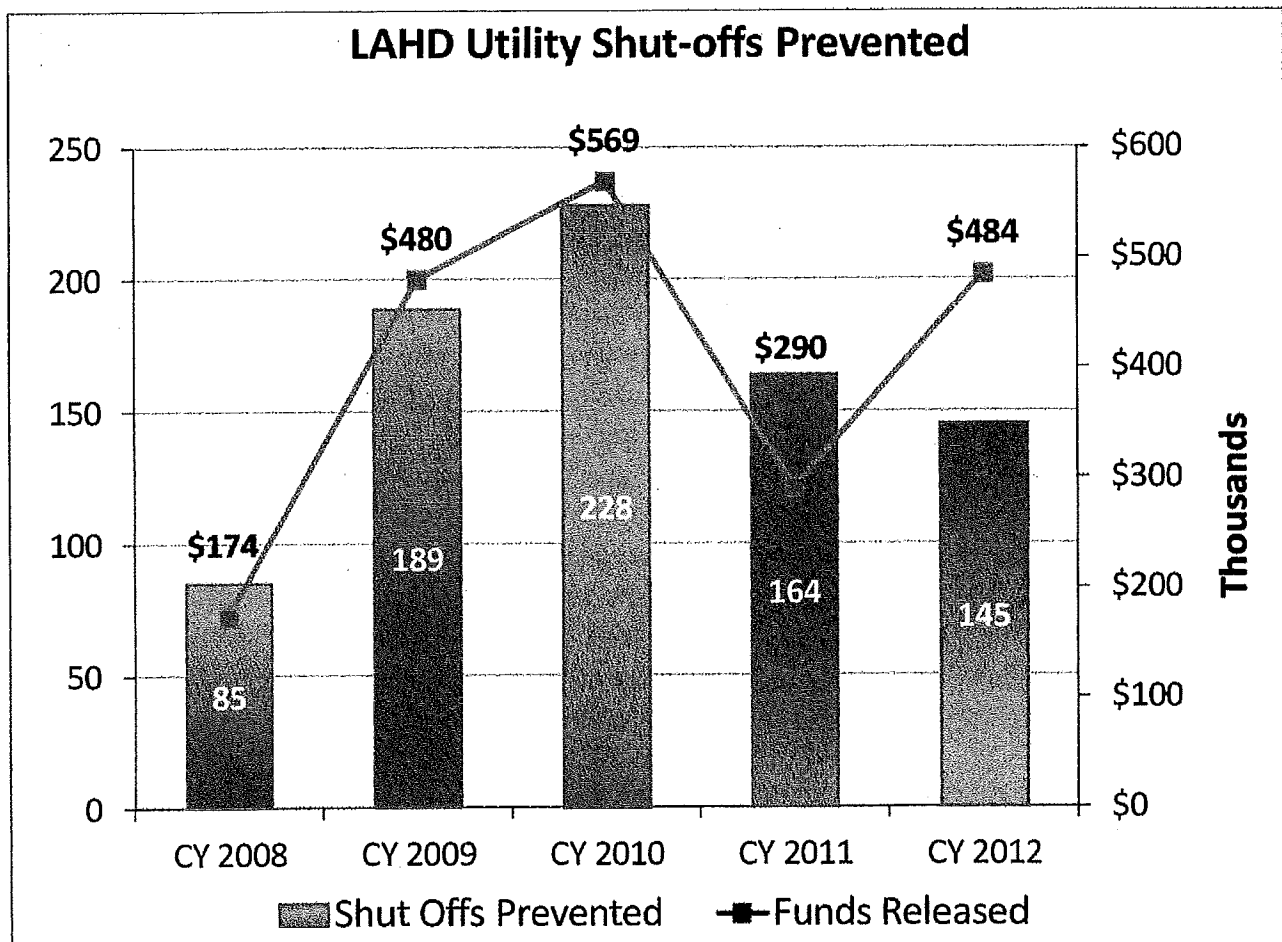
- **Continuation of Essential Services, Utility Shut-off Prevention, and Tenant Relocations**

Money can be withdrawn from the escrow account associated with a REAP case for the purposes set forth in LAMC § 162.07.B, including the payment of utility services. The ability for the landlord, tenant, enforcement agency, interested party or creditor to apply for the funds in the escrow account is essential in Department's ability to quickly correct violations. The escrow account funds also allow the Department to pay for utilities to ensure continuation of services when a shut-off has been threatened due to non-payment of utilities.

The LAHD General Manager may release funds from the escrow account without a hearing or on shortened notice when it is deemed necessary to address an imminent threat to the health or safety of

the occupants, or to prevent the termination of utilities. As a result of the recent financial crisis and rise in foreclosure rates in the City of Los Angeles, REAP has played an essential role in maintaining utility services for multi-unit rental properties including master-metered properties, where the owner has abandoned their obligation to pay utility fees. The rate at which REAP escrow account funds have been used to prevent utility shut-off has been at an all time high since 2008. Since 2009, over 726 utility service terminations were stopped and over \$1.8 million was released from the REAP escrow accounts for emergency shut-off prevention. That is an average of 1 shut-off prevention every other day since 2009.

REAP also affords the tenants the ability to seek relocation assistance if the violations cited on their property continue unabated. Since 2009, \$512,773 has been released from the REAP escrow accounts for relocation assistance, allowing 107 tenants to relocate to other safe and habitable rental units.



Almost half of all funds released from the REAP escrow accounts are for repairs which address the violations cited by the enforcement agencies which referred the properties to REAP. Since 2009, the Department has released over \$1.8 million in funds to address and repair violations cited on REAP properties. Many of the properties that receive funds for repairs are able to successfully use the funds to correct all violations cited on the property, and as a result are removed from REAP, restoring rental income for REAP property owners.

- **Addressing the Foreclosure Crisis**

REAP has been a successful tool in allowing the city to address blight in foreclosed rental properties. Over two thirds of the REAP properties in foreclosure were foreclosed upon prior to their acceptance into REAP, which indicates that properties in foreclosure are often not maintained, and the violations on these properties continue unabated resulting in their referral to REAP. Often banks are unable to adequately address the habitability violations cited on these foreclosed properties, or ensure continuation of utility services while the property goes through the foreclosure process. REAP becomes the only means by which utility services can be restored, and habitability issues addressed.

- **Prevention and Elimination of Slumlords**

REAP is a tool which the Department uses to enforce habitability standards when other enforcement actions are unsuccessful in forcing the property owner to take corrective action and resolve the violations cited on their property. A REAP notice on title remains on the property, and the rent reduction remains in effect for eligible units, until all violations have been resolved. A REAP enforcement action cannot be circumvented through repeated transfers of ownership of the property, or by changes to the name of the property owner. When slumlords make a concerted effort to circumvent Housing Code regulation through frequent ownership changes, REAP is able to prevent them from taking advantage of loopholes because of the REAP notice that is filed with the title.

The unfortunate reality is that in the City of Los Angeles there exist property owners who seek to profit from renting properties in severe disrepair without regard to the safety of the tenants from which rent is collected. These property owners are commonly called slumlords and REAP has historically been successful in bringing these properties into compliance by empowering all parties involved to correct habitability violations by making REAP escrow account funds available for that purpose.

A recent example of the success of REAP in combating slumlords is a case where several properties, owned by a property owner who owned four properties in REAP which combined had over 2,100 violations in 230 units, were brought into compliance. For each of these properties, multiple complaints were received from tenants, and each complaint was thoroughly investigated by the LAHD. Through these investigations as well as regularly scheduled inspections through the Department's Systematic Code Enforcement Program (SCEP), deficiencies were noted and Housing Code violations were cited against the properties. The property owner was notified, but due to continued non-compliance the properties were referred to the Rent Escrow Account Program, and the units were

made eligible for a rent reduction in proportion to the severity of the violations cited. Due to active participation in REAP, the funds deposited in the escrow accounts were used to make necessary repairs to the properties, and tenants were able to apply for relocation when the violations affecting their units remained unabated. As the result of the success of REAP, of the 2,100 violations originally cited, approximately 30 remain, and two of the rental properties have been completely removed from REAP. The two properties remaining in REAP continue to progress towards compliance, and the funds available in the REAP escrow accounts continue to be used to make repairs and improve habitability conditions.