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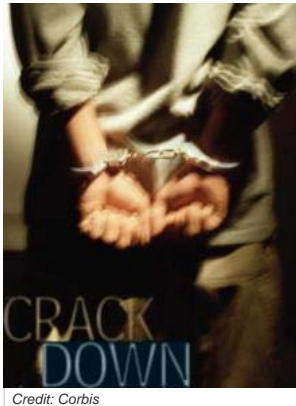
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Crackdown

As the outlaw economy of the past few years continues to wreak havoc on the multifamily sector today, apartment owners and managers face a litany of challenges—not least among them, how to stem a rising tide of on-site criminal activity.

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Credit: Corbis

When 58-year-old Shirley Hale moved into Somerset Park Apartments, a 496-unit complex in Memphis, Tenn., last February, she didn't know about the financial problems plaguing the complex's owner—Maruti Somerset Park. And she had no idea how those challenges would affect her. That is, until the woman was sitting on her porch one day and shots rang out.

"They were shooting and gang banging," she says. "I saw them shooting like they were in the Wild Wild West."

Eventually, an unexpected savior stepped in. In March, San Francisco-based lender Wells Fargo placed the property into receivership and put LEDIC Management, a Memphis-based manager with 26,132

units nationwide, in charge of the troubled complex. LEDIC's first course of action: Leverage its partnership with the Memphis police department to get more boots on the ground. It also did a lighting survey and added cameras. So far, there's one proponent in Hale. She says the crime—and shootings—have gone down: "They've got a bunch of police officers here now."

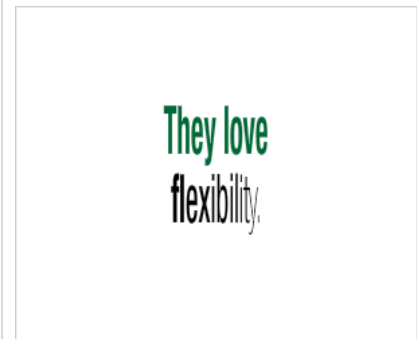
Hale is one of the fortunate few. While the failure of homeowners to keep up with their mortgage payments (and the ensuing foreclosure crisis) has consumed the headlines for more than two years, the corresponding bust in commercial mortgage payments hasn't received as much attention save from the financial press.

But the commercial real estate sector was, in its own way, as cavalier as a scene out of an old Western. Wall Street deal slingers and overzealous cowboy developers steered hundreds of loans and properties into distress. And a lack of enforcement by regulators has now led some cities, counties, and states to institute a form of marshal law: If the owner of an apartment building can no longer afford to ensure the safety of its residents—the unwitting actors in this drama—then they will step in.

Recent trends indicate that city police departments—and sometimes even banks—won't hesitate to take control of a property if on-site problems, particularly crime, get out of hand. And unfortunately, that crackdown is coming sooner than expected.

LOCAL LAWLESSNESS

Julie Smith, president of Bozzuto Management Co., a Greenbelt, Md.-based multifamily manager with 28,500 units throughout the Mid-Atlantic, says her on-site property managers have seen an uptick in auto-related crimes such as break-ins and thefts of GPS systems. "The increase in crime has been market-specific and not violent in nature, but



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any kind of crime within a community warrants immediate attention and action by the manager," says Smith, a 20-plus-year industry veteran who has seen real estate cycles come and go.

But ask Smith how crime levels at her mostly Class A and B properties compare to the national average, and you'll get little information. Unfortunately, the level of criminal activity at apartment and condo communities nationwide is incredibly difficult to gauge, thanks to inconsistent record-keeping by national and local enforcement agencies. For instance, the Federal Bureau of Investigation (FBI) reports that all manners of crime went down as the country sank into recession between 2007 and 2008: Murder fell 4.4 percent; robbery and property crime also fell, 1.1 percent and 1.6 percent, respectively. The only crime inching upwards was burglary, which rose 1 percent. But the agency doesn't delineate crime by property type and rarely segments out residential crime. In a letter to Multifamily Executive, the FBI wrote, "There is not a separate designation for apartments. They are included in the 'residence/home' category."

Inconsequential? No, say apartment owners, who believe national stats fail to tell the true story. After all, much like real estate itself, crime is a local game, dependent on regional economies and the efficacy of local law enforcement. What's more, while society overall is seeing a dip in crime, some apartment buildings are not. For instance, Steve Eddington, senior vice president of operations for Camden Property Trust, a Houston-based REIT with 63,123 units nationally, has seen crime rise in three of the company's four regions (though local and state laws—not just the economy—play a role in that uptick as well). In Dallas, out of 64,528 crimes committed in the city in the past year, 17,033 (or 26.4 percent) occurred in apartment buildings. And in Memphis, 16 percent of robberies, 14 percent of homicides, 17 percent of domestic violence aggravated assaults, and 18 percent of residential burglaries happened at apartments.

In fact, in certain Memphis wards, the statistics paint a frightening picture. In Ward 822, for instance, 61 percent of robberies happened at apartments. In Ward 329, 67 percent of domestic violence aggravated assaults were reported from multifamily buildings. And in Wards 123 and 126, every single homicide reported took place at apartments.

Why are apartments a hotbed for criminal activity? And what kinds of apartments are at risk? The answer comes from an unlikely place, according to independent research conducted by Multifamily Executive, which cross-referenced New York-based real estate research firm Real Capital Analytics' "Troubled Assets Radar" report detailing 1,000-plus properties nationwide at risk of default, against police data from the past year, and data from crime watch Web sites such as SpotCrime.com and EveryBlock.com. The findings show a striking correlation between crime levels and financially troubled apartments.

In Memphis, the Real Capital report lists 14 distressed properties. As of early June, nine of those properties had crime incidents occur within 1 mile of the site. In Chicago, 19 of the 35 troubled properties on the list had significant crime incidents occur within 1 mile of the property, with two of the buildings having more than 10 incidents in their vicinity. In Phoenix, all 10 properties on Real Capital's list had crime issues within a mile of this site, one with more than 10 incidents. In San Francisco, a whopping 30 of the 35 distressed properties had crime occur within the 1-mile zone. And in Dallas, a fifth (20 percent) of the properties on the Dallas Police Department's crime watch prevention program were also on Real Capital's troubled assets list.

Still, anecdotal information suggests that older properties in poor neighborhoods were the first to fall into distress. So they'd also be first to experience crime, regardless of how well-capitalized the owner is.

Despite those factors, a number of the industry's leading property owners and managers can see how financial distress could lead to more crime. "As owners become insolvent, they will have to chop back on every expense line item," says Ryan Akins, a regional director for The Bascom Group, an Irvine, Calif.-based apartment owner with 35,674 units. "Security is like marketing; it is very difficult to measure effectiveness, so it is one of the first items that owners start eyeing. We will likely see more of this as income continues to deteriorate."

Indeed, when an apartment property is starved for cash, owners and managers say that

it's easy to plummet into lawlessness. This manifests itself in two ways. For one, the owner neglects simple upkeep: Lights go out; they aren't replaced. Holes are ripped into fences; they aren't patched. And those costs can add up, especially if an owner is under financial distress and scouring for ways to save money. In Houston, for example, a 200-unit, Class B property usually costs \$3,600 to \$4,200 a year to maintain.

"The fencing around the property may get damaged, and access to the property may become unrestricted," says Byron Plant, executive vice president of multifamily operations for Asset Plus Cos., a Houston-based manager with more than 28,000 units nationwide. "There may be dark corners of the property where light fixtures went out, and there are no funds to repair it. By having dense shrubbery near corridors and dark areas in places, people can be surprised and confined."

Then there's the second trap, which some consider an even greater concern: the loosening of background and credit checks. As apartment communities fall into financial quicksand, they become exponentially more desperate to fill rooms. "It is a death spiral," says Pierce Ledbetter, CEO of LEDIC in Memphis. "You let in poorly qualified residents in a last-ditch effort to increase physical occupancy and increase income in order to hold on to the property. [Like it or not], there's a very strong correlation between credit scores and crime."

Other apartment owners and managers privately voice the same concerns. That's no surprise, especially when you consider that renter quality has fallen over the past year: Rockville, Md.-based First Advantage SafeRent, which helps screen potential residents for the multifamily sector, says its Multifamily Applicant Risk (MAR) Index has fallen off five points since the second quarter of 2008.

SPEAK NO EVIL

FEARING THE LEGAL REPERCUSSIONS OF GUARANTEEING A SAFE ZONE, MANY MULTIFAMILY PLAYERS CHOOSE TO KEEP THEIR LIPS SEALED ABOUT ON-SITE CRIME.

WHEN IT COMES to on-site crime in the multifamily real estate industry, the silence is deafening—both from apartment owners and managers. Many of the high-profile, publicly traded real estate investment trusts, as well as several large private owners, shied away from talking to MULTIFAMILY EXECUTIVE for this piece. Many said that commenting on crime could leave them open to lawsuits down the road.

"Crime is a real liability for apartment companies," says one owner, who spoke only on the condition of anonymity. "If you say that you're tough on crime, it's almost strict liability [if something does happen at one of your properties]. You have to be very cautious."

But some outside the industry think these concerns are overblown. "They've had it knocked in their skull that they shouldn't ever talk about security because it will come back to haunt them," says Norman Bates, president and founder of Liability Consultants, a Bolton, Mass.-based security management and liability consulting firm. "It's such an overreaction or a misconception of reality. They're afraid if they say they have security and it's safe, then your safety is guaranteed."

While that's not entirely true, the issue does have a basis in reality, Bates adds.

"There have been instances in years past where apartment complexes used to advertise that they had 24-hour security and crime-free communities," he says. "That came back to bite them in a big way. They marketed themselves in a stupid [way] without completely understanding the impact." Now, Bates says things have gone so far that property managers will be asked under oath if they have on-site security, and they'll say they don't have to—even if they do.

"We're trying to train property managers to understand that they do have security, even though you're not guaranteeing anybody's [individual] safety," he says. "You have all of these things you're providing—locks and bolts, lights, inspections, and screening. It's a tough challenge because we can't seem to overcome some of their issues."

Criminal background checks are another vital tool that Trevor Shelor, a crime prevention specialist for the Charleston (S.C.) Police Department, often sees forgotten. And this can come back to hurt an apartment owner and its residents. "If you have a complex that allows every Tom, Dick, and Harry in—and they do—then you end up with a guy who made some drug dealer mad," Shelor says. "You let him in because your upper management in another state is telling you to fill those rooms, but that guy then ends up shooting up the apartments."

And, if the projections are correct, we could see many more apartment assets entering distress and potentially becoming safety hazards. Real Estate Econometrics, a New York-based real estate consulting firm, predicts that the national default rate for multifamily mortgages will likely rise to 4.5 percent by the fourth quarter of 2009 and peak at 5.5 percent in 2010.

CRIME ISN'T CONFINED TO C'S

Dr. Richard Janikowski, director of the University of Memphis' Center for Community and Criminology Research, and Phyllis Betts, director of the Center for Community Building and Neighborhood Action at the University of Memphis, are no strangers to controversy. The couple came to prominence last summer when their research work helped shape a piece in *The Atlantic*. Janikowski and Betts mapped out violent crime in Southeast Memphis over the past six years. What they found fueled a national controversy.

Their thesis: In Memphis, the city with the second-highest levels of violent crime nationally, according to Janikowski, crime was spreading into new communities, and that crime seemed to be following the former residents of public housing as they took their vouchers to market-rate apartment communities. The pair took the research to the streets, sharing it with the Memphis Police Department. Already, the Department has used the data in its Safeways Initiative, a partnership between apartment managers (right now, LEDIC is the only one involved) and law enforcement that uses data to target and reduce violent crime in apartment complexes and adjacent areas.

"It's not that those public housing residents are reflected in the arrest numbers," Janikowski says. "A lot of it is the folks who hang around public housing—it's not the residents, but the network around them. Plus, predators take advantage of poor people."

The couple's findings had its fair share of critics—affordable housing advocates and the U.S. Department of Housing and Urban Development, among others. But their report shouldn't have come as a surprise. "We looked at one police ward and overlaid offenses," Janikowski says. "If you zero in on the hot spots, it's apartment complexes."

In fact, type the word "apartment" into a Google News search, and more than likely, you'll see the words "shooting," "body," or "slain" in the results. The photos often show properties with broken windows, weed-filled yards, and barbed fences. But those Class C and D properties aren't the types where companies such as Bozzuto and Camden are seeing crime rise. At Bozzuto, the car break-ins are happening at Class A and B properties in Baltimore and Anne Arundel, Md.—not rundown cities and suburbs.

Despite this, David Hillman doesn't see a difference in crime by property type. "I don't consider a Class C to have more crime," says the CEO of Southern Management, a Vienna, Va.-based operator with 23,780 units in the D.C. metro area and a reputation for turning around troubled properties. "If you're going to steal cars, you'll go where the better cars are. We have as much crime in Bethesda, Md., [a high-end D.C. suburb] as we do in Landover, Md. [a poorer suburb]."

When LEDIC's Ledbetter took over the distressed assets in Memphis, he began by examining police reports, comparing the physical street addresses of his properties to the types of crime reported for the past few years. The call logs ranged from burglaries, prowlers, shots fired, theft, armed robbery, and auto theft to fights and even loud music complaints. The biggest surprise: domestic abuse. Within a 1-mile radius of Memphis' Autumn Ridge property, part of the Safeways Initiative, reports show 2,424 domestic disturbance calls last year.

"Domestic violence is a scourge for many of our communities," Ledbetter says. "Until we

actively began seeking police reports, we didn't realize we had such high incident rates—even in nicer Class A and B-plus properties that are not typically thought of as having crime.”

THE SHOWDOWN

Dallas Deputy Police Chief Brian Harvey grew up in the cornfields of Illinois—where there were no apartments. But when he joined the Dallas Police Department, he quickly encountered “acres and acres” of apartments. And, as a cop working the beat, he also quickly recognized that a lot of crime occurred at multifamily properties. “We had some apartments that were problematic, and we were running out of tools,” Harvey says.

In his current role as deputy chief, Harvey is taking a stab at reducing—and working to prevent—those crimes. After seeing a crime prevention program in Houston that he liked, he decided to implement it in Dallas. In a nutshell, the Department, with the help of local apartment owners and data sources, calculates the unit mix and occupancy levels at each of the city's 1,326 apartment complexes to determine a per capita crime statistic for each property. Crime levels for the city's suite of properties range from no crime at all to murders. If an apartment community hits a certain threshold of crime, it is placed in a crime reduction program. Harvey acknowledges that people could be arrested on a property for crimes committed off-site, so the Department looks at each offense individually.

Harvey says the police department didn't want to take a punitive approach with apartment owners. But it does mandate a litany of requirements for complexes in the crime reduction program—performing background checks of residents and employees; checking gates, fences, lights, shrubs, and view lines from trees; locking common areas before midnight; blocking incoming calls from pay phones or removing them altogether; starting a neighborhood crime watch; participating in a citywide criminal trespassing program (which allows the police to approach people on a property and ask them why they're there); and implementing a resident security survey for crime watch meetings.

THE TROUBLE NEXT DOOR

CRIME SPILLOVER CAN BE A DANGEROUS PHENOMENON FOR HEALTHY APARTMENTS.

For one apartment owner (who spoke only on the condition of anonymity), the issues major apartment owners face can be nightmarish. For instance, this firm has a property next to a foreclosure-laden single-family development in Phoenix.

“The lenders took the easy road on renting and started taking Section 8,” says a representative for the national firm. “The unsupervised teens from these homes are creating gang-related activity that was not seen before in this area. We have been forced to hire armed security to take care of the problem. We have also seen some car break-in activity.”

In today's economy, even if your property is generally crime free, being next door to a distressed asset—whether single-family or multifamily— can cause you problems.

“On-site crime is environmental as far as influences from around the area and having a neighboring area that harbors that element,” says Byron Plant, executive vice president of multifamily operations for Asset Plus Cos., a Houston-based manager with 28,000-plus units nationwide.

Plant cites an example in Houston. There, an established property with “good, stable” long-term residents has a complex next door that has deteriorated into chaos. “They've got a bad element that lives and/or visits that property frequently,” he says. “Eventually, the stable property saw an increase in car break-ins, petty crime, and people climbing over the fence to get on site.”

Steve Eddington, senior vice president of operations for Camden Property Trust, a Houston-based REIT with 63,123 units nationally, has seen this as well. “We have anecdotal evidence that some of our own communities tend to have issues due to neighboring communities that don't have the same philosophical approach to credit and background screening that we do,” he explains.

Neighboring crime has also been an issue for properties that were built in transitional neighborhoods at the height of the development boom. Those builders assumed that other high-end development would follow. But as the credit markets dried up, nothing came online. Now, those developments are islands of safety in otherwise crime-riddled areas.

“There was a great deal of urban gentrification taking place from 2000 to 2007,” says Greg Mutz, CEO of Chicago-based AMLI Residential. “This gentrification, which changed and strengthened a lot of neighborhoods, has virtually stopped.

“If someone invested in a re-development in the path of urban gentrification,” Mutz continues, “that path has stopped growing until we start to come out of the mess we are in. Those transition, peripheral, and pathway properties will be challenged for a longer period of time than originally envisioned. If infrastructure and neighborhood investment were factors cited driving future value increases, a lot of those improving locations will stay unimproved because investment capital has stopped coming into the area.”

Sound onerous? That’s what some apartment owners think. One who spoke only on the condition of anonymity wondered if the police would help pay for these upgrades. “In some cases, if a property is run by a slumlord that doesn’t screen his residents, it might be helpful,” he says. “But ultimately, it’s just a way for cash-strapped municipalities to pass the costs of crime prevention onto the business community. If police departments had adequate resources to do their jobs, criminals would be in jail, not wandering around apartment buildings.”

In Memphis and Shelby County, Tenn., the police department has the voluntary Safeways Initiative and a mandatory nuisance program into which it can lasso problem apartment communities. For instance, it required one local owner to secure its apartment property with a fence and improve the lighting after the site was deemed a nuisance. “It’s really to force apartment owners or managers to take action to improve conditions,” says William L. Gibbons, Shelby County’s District Attorney.

Despite the strong stance that the cities of Houston, Dallas, and Memphis are taking against apartment crime, such programs are not an industry-wide standard. Yet, mfe contacted police departments in San Francisco, Miami, Baltimore, Washington, D.C., Chicago, Charleston, S.C., and Philadelphia. None of the spokespeople for these departments were aware of mandatory programs for apartment owners who had on-site crime issues.

What a shame, Janikowski says. “I think officers on the ground know [about problems in certain apartments],” he says. “I’m not sure the police departments know, though. I’m not convinced police departments, unlike what’s happening here in Memphis, are really developing coordinated, directed, and targeted strategies.”

Harvey thinks his colleagues in Dallas will focus more closely on apartments now that the stats illustrate the problem areas. Unfortunately, most other departments in the country, handcuffed by ancient operating systems, aren’t able to discern crimes at apartment properties from other residences. In fact, Philadelphia, Memphis, and Dallas were the only cities able to provide mfe with apartment-specific crime stats.

“I don’t think police departments have developed stats [on apartment crime],” Janikowski says. “I think a lot of police departments are focused on problem-solving in public housing.”

LEDIC’s Ledbetter, who has worked closely with the city of Memphis, thinks many police departments will come around to the idea. “As data patterns have become computerized and technology costs come down, police have better identified where crime hot spots are,” he says. “And they’ll see crime is centered around apartments because of density.”

And if they do, these lawmakers and lawkeepers may adopt additional programs to force you to keep your property safe from bandits ... or else. *Additional reporting by Amber V. Smith*

A NUMBERS GAME

WHEN IT COMES TO CRIME IN THE MULTIFAMILY REAL ESTATE SECTOR, STATS TELL AN INTERESTING STORY.

239,671

No. of robberies and burglaries committed at residences (single-family and multifamily) nationwide in 2007

Source: *Federal Bureau of Investigation*

1%

Rise in burglaries committed at residences from 2007 to 2008, nationwide

Source: *Federal Bureau of Investigation*

27%

Portion of all Dallas crimes that occurred at apartments

Source: *Dallas Police Department*

\$3,600- \$4,200

Average annual maintenance costs for a 200-unit, Class B apartment property in Houston

Source: *Asset PLUS COS.*

20%

No. of properties in Dallas' crime prevention program that are also distressed

Sources: *Real Capital Analytics, Dallas Police Department*

2

No. of properties in Memphis, Tenn.'s new Safeways Initiative program, meant to deter crime at apartments

Source: *LEDIC Management*

5.5%

National default rate for multifamily mortgages predicted for 2010

Source: *Real Estate Econometrics*

2,424


No. of domestic disturbance dispatches in the 1-mile radius around Autumn Ridge Apartments in Memphis, Tenn., last year

Source: *LEDIC Management*

30

No. of distressed assets in San Francisco that saw crime occur within a 1-mile radius in 2009

Source: *Real Capital Analytics, everyblock.com*

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