

## **Revenue to Reuse: Managing Tax-Reverted Properties in Detroit**

In late summer 2010, the leadership of the Wayne County Treasurer's Office in Detroit, Michigan, asked students and faculty to work with them to analyze the outcomes of the auctions of tax foreclosed properties and to suggest ways to improve revenues and to encourage positive reuse of properties sold through the auctions. The Treasurer's Office staff analysis showed increasing problems in raising revenues through the auctions, and they wanted a thorough analysis of the situation with recommendations for improvements. Nine students undertook the project with two faculty over a period of eight months.

From 2002 through 2010, the Wayne County Treasurer's Office foreclosed on tens of thousands of properties in Detroit for failure to pay property taxes and offered them at auction. This process followed 1999 amendments to the state property tax foreclosure law that reduced the time from delinquency to foreclosure and eliminated the sale of tax liens with the hope of recouping revenues and preventing destruction of structures before new owners could reuse them. Vacant property policy experts have cited the state's new law as a national best practice for handling abandoned property.

To research the results of the auctions, the students first studied the law and related statutes in detail. They read extensively in the large academic literature on property auctions and the considerable policy literature on handling vacant and abandoned property. They then analyzed large datasets from the Treasurer's Office on properties offered at auctions. They mapped properties and looked at their distribution across the city in relation to neighborhood characteristics, proposed public projects, and other features. They visited a sample of 200 sold properties to document their 2011 status and compared this to their status at the time of auction (documented from photos provided by the Treasurer's Office). They classified types of buyers and investigated the practices of those purchasing the most properties from many online sources. They conducted interviews with key actors in the process—city officials, land bank leadership, nonprofits' staff who used vacant land, and numerous purchasers at the auctions. They investigated the implications and feasibility of the changes they recommended and asked for feedback on these from others knowledgeable about the processes. Throughout the work, they interacted with their partner-clients at the Treasurer's Office through meetings, interviews, phone calls, and e-mails.

The students' analysis showed that the auction for selling tax-reverted property is not effective because it fails to collect sufficient revenue, creates hardship for homeowners, and does not facilitate positive property reuse under the market conditions in Detroit and other Michigan cities that are losing population. The students researched the results of the auctions and offered recommendations for ways to achieve two goals: increase net revenue from the sale of tax-foreclosed properties and increase positive reuse of tax-reverted property after sale, a result that would increase tax revenue in the long run. In addition, the students suggested changes in state law to facilitate these improvements.

The plan does not discuss processes that precede foreclosure, such as foreclosure prevention and does not address what becomes of properties that fail to sell at the auctions and therefore remain in public ownership. The Treasurer's Office had strengthened the tax foreclosure prevention program prior to this project. The Treasurer's Office had transferred unsold properties to the City of Detroit prior to 2010, so the Office had had no further role in what

happened to those. The students' plan focuses on improving outcomes for properties that have entered tax foreclosure and that someone purchases at the auction, areas where the Treasurer's Office can take leadership.

### **Findings: Analysis of Tax Foreclosure Auctions in Detroit**

Auction results showed a growing crisis in the need to make auction revenues cover delinquent taxes:

- The number of Detroit properties offered at auction increased from nearly 300 in 2002 to nearly 12,000 in 2010, with no indication that the increase would slow. By 2010, 35,700 properties had gone through tax foreclosure, about 9 percent of all the properties in the city. Image1 shows the thick publication of notice for thousands of properties facing forfeiture preceding foreclosure. Image2 shows the densest areas of tax foreclosures, but all areas saw some foreclosures.
- Over the years, from the first auctions in 2002 through 2010, the percent of properties sold and the prices paid decreased so that delinquent taxes recovered in sales also decreased, creating a revenue shortfall. In 2009 the auction failed to make enough revenue to cover about 30 percent of the total property taxes that the City of Detroit would expect to receive in a year.
- The percent of properties offered at auction that sold differed by location, with less disinvested neighborhoods and areas targeted for future development seeing the most sales. Image3 shows that few properties sold in disinvested Brightmoor and the western section of MorningSide, most properties sold in middle class Rosedale Park and eastern MorningSide, most properties sold in Delray (site of a planned international bridge) and near the airport (where the FAA had ordered city officials to buy property stimulating speculators to snatch up the desired properties at the auctions).
- Sales rates also differed according to the type of property auctioned. Commercial and industrial properties, as well as housing in good condition, had higher sale rates, while vacant lots more often remained unsold. This had led the Treasurer's Office to overlook tax delinquency for vacant lots and to eschew foreclosure because revenues from sale would not cover costs of foreclosure.

Analysis of outcomes for properties sold at auction showed:

- Location influenced what became of properties. Those sold in areas with less vacancy had better outcomes regardless of whether these were houses, vacant lots, or commercial properties. Properties in more vacant areas experienced neglect and blight.
- Property type influenced property outcome. Many single-family homes and duplexes suffered from poor maintenance. Vacant lots experienced neglect after auction, except those that adjacent property owners purchased. Commercial and industrial structures showed more positive outcomes.
- About one-third of all properties sold at auction through 2007 experienced tax foreclosure again by 2010. Numerous purchasers never paid taxes on the properties they bought at the auction.

Property reuse differed by type of property buyer:

- Resident buyers usually expanded their current property, repurchased the home they had just lost to tax foreclosure (a practice that eliminated all liens), or purchased a home for owner occupancy.
- Business owners purchased commercial vacant lots to expand parking.

- Nonprofit organizations purchased vacant lots or structures at low prices in areas where they wanted to develop or rehabilitate low- and moderate-income housing.
- Investors purchased property for the return it could bring through rental or sale. A few invested money in rehabilitation, but most rented the property until it was uninhabitable.
- Investors who flipped property, selling to uninformed purchasers, often earned returns of 300 percent. Image4 shows a house that went through flipping and mortgage fraud before succumbing to tax foreclosure again.
- Speculators purchased properties in bulk hoping for high resale values. They acquired property in areas of anticipated public or nonprofit development to cash in when a developer tried to assemble land. Image5 shows purchases by speculators in relation to major proposed projects.
- Investors and speculators purchased a large share of properties sold at the auctions. Eleven large buyers alone purchased almost one-fourth of the 11,000 properties sold.

### **Recommendations**

Building on these findings, the plan offered suggestions in three main areas:

- 1) Changes to the auction to increase net revenues
- 2) Changes to the disposition process to encourage positive reuse of property
- 3) Legal changes to improve the system overall

Implementation of the recommendations can strengthen the auction process and encourage reinvestment. However, the Treasurer's Office will likely continue to have a substantial inventory of properties that no one has purchased at the end of the auctions. The city and county will need to implement better approaches for dealing with these.

Recommendations for increasing net revenue aimed at increasing participation and competition in the auction while reducing the number of properties offered in one auction.

By changing to an online auction in 2010, the Treasurer's Office expanded the pool of auction purchasers, increasing the percent of properties sold. Building trust in the process and improving access to information for all buyers are the next steps toward increasing participation. To increase the information about the process and the properties and to correct incorrect perceptions, the plan recommended that the Treasurer:

- Explain the auction process to the public through awareness seminars and video tutorials.
- Offer more information about the properties for sale through an online portal. Through 2010 the Treasurer provided no information other than address and property identification number.
- Offer more information on title clearing and water liens to winning bidders. Both Water Department officials and prospective purchasers showed confusion over whether foreclosure removed liens for unpaid water bills.
- Provide clear title. Although the Michigan foreclosure process is supposed to result in clear title for foreclosed properties, the Treasurer provides only a quit claim deed; owners have to clear title themselves. If assuring clear title for all properties is too expensive, the Treasurer could clear titles of more valuable properties to assure they sell for higher prices.

Reducing the number of properties auctioned at one time can allow bidders to find desirable properties more easily and attract higher bids. To accomplish this, the Treasurer's Office could sort properties based on different criteria and auction them separately. For instance, the Treasurer's Office could select properties of higher value, publicize these, and hold open houses to enable potential purchasers to learn more about the properties prior to auction. Selling different types of properties in different auctions improves information, increasing the possibility they will sell for higher prices.

Recommendations to increase positive reuse of auctioned properties encouraged strategic use of the city and county governments' right to purchase property prior to auction to facilitate public projects and projects others have planned. The Treasurer's Office could work with Detroit city officials to exercise their right to purchase, encouraging them to buy properties needed for redevelopment projects before speculators obtain them.

Facilitating access for buyers who will reuse property in positive ways relies on other institutions such as the Detroit land bank to hold and resell properties. For instance, using the city's right to purchase before auction, the Detroit land bank could acquire houses in the Neighborhood Stabilization Program areas to sell to nonprofit organizations poised to do rehabilitation.

The Treasurer's Office could also encourage positive reuse by marketing properties to specific buyers more likely to reuse property in positive ways. For instance, the Treasurer's Office could provide information to nonprofit developers about the properties going to auction in their target areas. For another example, the office could inform homeowners and businesses about adjacent properties going to auction.

Strategies to increase positive reuse also rely on making all buyers more responsible toward their properties. The Treasurer's Office can discourage negative reuse of property by requiring prepayment of taxes, requiring vacant property registration under the city's ordinance, or putting restrictions on the deeds regarding reuse.

Finally, legislative changes could aid local officials in increasing net revenue and positive reuse of property. Changes should be made in:

- Foreclosure notification requirements: Allowing online notices instead of print news notices could save the Treasurer's Office \$500,000 a year and simplify property searches for potential buyers.
- Interest on delinquent property taxes: Allowing county treasurers discretion in setting interest rates on overdue bills can ease the financial burden on low-income homeowners, increasing the likelihood of tax repayment.
- Auction process: Allowing cancellation of the second of two required auctions could eliminate opportunities to purchase properties at prices below market value. Eliminating the second auction could encourage bidding in the first auction and could enable the Treasurer's Office to use more discretion in selling properties. Alternatively, allowing variable minimum bids in the second auction could ensure that prices paid for property are closer to market value.
- Restricting neglectful property owners: Prohibiting bidders from purchasing property while they owe delinquent taxes can discourage property neglect and help the Treasurer's Office recoup delinquent taxes.

- City, state, and county right to purchase before auctions: Allowing the state, county, or city government to purchase property prior to the second auction, not just the first, can enable local governments to purchase property to meet public needs at a lower price. This can also give other bidders less incentive to wait for the second auction to purchase property.

In sum, by using resources more effectively, forming strategic partnerships, and lobbying for legal changes, the Treasurer's Office can improve the tax-reverted property disposition process in ways that increase net revenues and increase positive reuse of property.

### **Outcomes**

The Treasurer's Office leaders were enthusiastic about the plan (LTRSzymanski). It provided evidence for some issues, such as prior owners' repurchases of foreclosed properties, about which they had had hunches. The plan offered ideas for change, some of which they implemented and some of which gave them ideas about directions for other, better changes. For instance, the Treasurer's Office considerably increased the promotion of auctions to Detroiters in 2011 and 2012 (MIS3news8-10-11).

A program officer for the Skillman Foundation heard the students present their findings, asked for additional mapping of properties heading to the 2011 auction, and then made a grant to a nonprofit working to save owner-occupants from loss of their homes in six large areas of the city. The nonprofit, United Community Housing Coalition, was able to quadruple the number of homeowners buying back their homes at the second auction.

Soon after the students completed their work, reporters used their findings to expose practices of investors and speculators (MIS1news7-1-11, see p. 5 of pdf; MIS4news9-4-11). These stories led to proposals for changes in law that are still working their way through the legislature (MIS2news7-13-11, last page; MIS7news10-2-11). One of the most important proposals is to allow a treasurer to cancel the second auction--  
[http://www.legislature.mi.gov/\(S\(isnox155xhmypkm4kpflyo55\)\)/mileg.aspx?page=getObject&objectName=2011-HB-4819](http://www.legislature.mi.gov/(S(isnox155xhmypkm4kpflyo55))/mileg.aspx?page=getObject&objectName=2011-HB-4819). This bill likely will not become a law in the last weeks of this legislature, but the key sponsor will reintroduce it in the next session.

In later news stories, reporters did not mention the students' plan, but they talked with students and faculty before their stories appeared. The stories built on findings that the students' plan initially exposed (for example, MIS5news9-7-11, MIS6news9-13-11).

Three of the student authors immediately obtained jobs in offices that involved them in work related to tax foreclosure policy. They have therefore been able to continue to try to improve the system. One has advised Detroit city officials on ways to use their right to purchase properties prior to auction more strategically (LTRAnderson). Another has provided auction information on the website of his employer, Data Driven Detroit (for example, <http://newsletter.datadrivendetroit.org/2011/11/08/tax-foreclosure-now-a-regional-issue/>). He has also supported the work of a group of activists in creating a website with much more information about each property prior to auction. The activists' website seemed to enable many more individuals to participate in the auction by 2012 (see the website at <http://whydontweownthis.com/about>), an important change for increasing revenue and facilitating participation of people who would reuse property in positive ways, as the students

had pointed out. The third student worked for officials in another metropolitan Detroit county experiencing an enormous increase in tax foreclosures to advise on how to structure the auction process.

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