



FROM REVENUE TO REUSE: MANAGING  
**TAX-REVERTED**  
PROPERTIES IN DETROIT

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## EXECUTIVE SUMMARY

Over the past decade, the Wayne County Treasurer's Office has foreclosed on tens of thousands of properties within Detroit for failure to pay property taxes. The current auction process for selling tax-reverted property in Detroit is not effective for several key reasons, including failing to collect sufficient revenue, creating hardship for homeowners and not facilitating positive property reuse. This plan offers a series of recommendations to address these deficiencies and achieve three goals:

- **Increase revenue from the disposition of tax-foreclosed properties**
- **Decrease administrative costs**
- **Increase positive reuse of tax foreclosed property**

Recommendations include adjustments to the current auction process to increase revenue in the short term, as well as ways to encourage positive reuse of properties after sale, and increase revenue in the long term. In addition, the plan suggests changes in state law to facilitate these process improvements.

Due to its focus on property disposition, the plan does not discuss processes that precede foreclosure, such as foreclosure prevention. The plan focuses on affecting outcomes for properties that have already entered tax-foreclosure.

## Background

In 1999, the Michigan state legislature passed Public Act 123, which reformed the tax foreclosure process in Michigan by reducing the length of time from delinquency to foreclosure to two and a half years. PA 123 replaced the old tax lien sale system with a process of judicial foreclosure and auction sale (Chapter 2).

Studies indicate that some auction formats perform better than others in driving up prices and increasing revenue. All studies point out that effective auctions require a large number of bidders competing for an auctioned object. The amount of information the seller provides and the minimum bid that the seller sets influence auction outcomes. Some auction styles perform better at decreasing administrative and holding costs, with public auctions generally outperforming other types. A number of studies point out that auctions do not effectively encourage positive reuse of property. Property sales through auctions can create challenges over time in preserving neighborhoods with stable property values.

## Findings: Analysis of Tax Foreclosure

### Auctions in Detroit

The plan focuses on Detroit, which experiences the vast majority of tax foreclosures in Wayne County. Analysis of **auction results** reveals ways to improve the auction process. Major findings include:

- Over time, the percentage of taxes recovered decreased while the number of foreclosed properties increased, creating a revenue shortfall (Chapter 4).
- Property sale rates differ by location, with more stable neighborhoods and areas targeted for future development seeing the most sales.
- Sales rates also differ according to the type of property auctioned. Commercial and industrial properties, as well as housing in good condition have higher sale rates, while vacant lots more often remain unsold (Chapter 4).

Analysis of **outcomes for properties sold at auction** revealed several findings as well:

- **Location** influences property outcomes. Properties sold in more stable areas tend to have better outcomes regardless of type.

Properties in more vacant areas show evidence of neglect and blight.

- **Property type** influences property outcome. Many single-family and duplex residential structures suffer from poor maintenance. Vacant lots experience neglect after auction, except those purchased by adjacent property owners. Commercial and industrial structures show more positive outcomes (Chapter 5).
- More than 25 percent of all properties sold at auction undergo tax foreclosure again.

**Buying patterns differ by property buyer types**, whose varying motives and behaviors influence the nature of reuse or neglect experienced by sold properties (Chapter 6).

- **Resident buyers** usually seek to expand their current property, repurchase a home in the second auction to zero out their tax bill, or purchase for owner occupancy.
- **Business owners** purchase commercial vacant lots to expand parking capacity.
- **Nonprofit organizations** purchase vacant lots or structures at low prices in areas where they want to develop or rehabilitate low- and moderate-income housing.
- **Investors** purchase property for the return that it can bring through rental or sale. Some invest money in rehabilitation, but a significant number of them simply use the property until it is

uninhabitable. Investors usually realize returns of over 300% on their investments by quickly reselling (“flipping”) the property to unsuspecting third parties, or by making owners who fell behind on their taxes and lost their property at auction pay monthly rents.

- **Speculators** purchase properties in bulk hoping for high resale values. They acquire property in areas of anticipated public or nonprofit development to cash in when a developer tries to assemble land.

## Recommendations

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

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

The recommendations can strengthen the auction process and encourage reinvestment. However, the plan is not an all-encompassing solution to the foreclosure problem in the city or the challenges it brings to the Treasurer’s Office. Implementation will contribute to increasing net revenue and improving positive property reuse. However, the

Treasurer’s Office will retain a property inventory at the end of the foreclosure cycle.

Recommendations for **increasing net revenue** aim at increasing participation and competition in the auction while reducing the number of properties in the same auction.

By moving to an online auction, the Treasurer’s Office has expanded the pool of auction participants, 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. The plan details various approaches:

- Explain the process to the public through awareness seminars and video tutorials.
- Offer information on the properties for sale through an online portal.
- Offer more information on title clearing and water liens to winning bidders.

Reducing the number of properties auctioned at one time can allow bidders to find desirable properties more easily and attract higher bids. To do this, the Treasurer’s Office can sort properties based on different criteria and auction them separately (Chapter 7). Selling properties in different auctions also highlights certain characteristics of these properties, increasing the possibility they will sell for higher prices.

Recommendations to **increase positive reuse of auctioned properties** relate to strategic use of the right of refusal (ROR). The Treasurer's Office can work with city, state, and county governments to exercise their ROR, encouraging them to purchase important properties before they fall into the hands of speculators. Chapter 8 discusses how this can work through engaging different stakeholders and buyer types that have more interest in the positive reuse of property. Facilitating access for these desirable buyers relies on other institutions such as the Detroit and Wayne County land banks to hold and resell properties through alternative means. Chapter 8 discusses ways to coordinate with these other institutions.

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 or putting restrictions on the deeds issued upon purchase (Chapter 8).

Finally, recommendations for legal changes fall under different categories:

- **Changes in the foreclosure notification process:** Allowing online notices could save the Treasurer's Office \$500,000 a year and simplify property searches.
- **Changes to interest on delinquent property taxes:** Allowing county treasurers discretion in setting interest rates can ease the financial burden on low-income homeowners, increasing the likelihood of complete tax payment.

- **Changes to the existing auction process:** Allowing omission of the second auction could eliminate opportunities to purchase properties below taxes owed. Alternatively, allowing variable minimum bids in the second auction can ensure that prices paid for property more closely reflect the market value of the property.

- **Changes to restrict neglectful property owners:** Prohibiting bidders from purchasing property or from transferring property ownership while they owe delinquent taxes can discourage property neglect and help the Treasurer's Office recoup delinquent taxes.

- **Changes in the right of refusal process:** Allowing the state, county, or city to purchase property for the second auction's opening bid prior to the second auction can encourage local governments to purchase property to meet their planning goals. This can also give bidders less incentive to wait for the second auction to purchase property.

This plan offers a framework for increasing net revenue from the auction process and encouraging reinvestment in Detroit's neighborhoods. By more effectively using existing resources, forming strategic partnerships, and lobbying for legal changes, the Treasurer's Office can improve the disposition process in ways that increase revenues, decrease costs, and increase positive reuse of property. Meeting these goals can help the Treasurer's Office reduce its revenue shortfall over time and help stabilize neighborhoods.

CHAPTER

1

**WAYNE COUNTY TAX FORECLOSURES AND THE NEED FOR A PLAN**



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



Since 2002, the Wayne County Treasurer's Office has foreclosed on over 39,800 properties in Detroit for failure to pay property taxes. Thirty-eight thousand of these represent individual parcels being foreclosed. Thus, since 2002 foreclosure has affected almost 10 percent of properties in Detroit. Such exceptionally large amounts of tax foreclosures are unheard of except in the most depopulated central cities in America. In 2010, more than 8,000 tax-foreclosed properties in Detroit failed to sell at a public auction even for the opening bid of \$500. These properties raise many problems for neighborhoods, as well as for the City of Detroit and the Wayne County Treasurer's Office, who must maintain the properties and take on considerable liability. Improvements to the tax foreclosure and disposition processes could protect some neighborhoods in Detroit, reduce the liability to the city and county, and increase the amount of recovered tax dollars to the County Treasurer.

## Challenges

In 1999, the Michigan legislature passed Public Act 123, which aimed to solve problems in the property tax foreclosure system. The goals of the new law were to encourage the rapid reuse of property, prevent the onset of blight during the long foreclosure process, and improve the overall use of property.<sup>1</sup>

PA 123 had several effects on the tax foreclosure system in Michigan. First, it expedited the tax reversion process by transferring ownership of tax-delinquent property to the local county treasurer or the state after only two and a half years of unpaid property taxes. Second, it instituted a public auction system to attempt to dispose quickly of the county treasurer's foreclosed properties. Third, it enabled clearance of all liens from a property, paving the way for full ownership after the auction sale.<sup>2</sup>

The PA 123 tax foreclosure process came into law under the assumption that a property would sell at auction and that the revenue from owners' redemption of property, together with auction sales, would equal or exceed the back taxes owed on properties. The tax foreclosure auction would thus allow county treasurers to repay the bonds that they had issued to pay the back taxes to the jurisdictions. Moreover, quickly returning properties to the private market would return them to productive use and prevent the destruction of property. Neither the Detroit property market nor the Wayne County Treasurer's Office has experienced these intended results. This is due to a continued loss of population and, therefore, a weak demand for property in the city, leading to a large supply of increasingly dilapidated properties and reduced property values.

Since the inception of the tax foreclosure auction process, purchasers have acquired many of Detroit's foreclosed properties for less than the

taxes owed. Additionally, many more properties do not sell at auction at all. Of the more than 39,800 Detroit properties noted above, the Wayne County Treasurer's office offered some 39,000 in the tax foreclosure auction. Of these, only 28 percent sold at auction, leaving the majority of tax-reverted properties for the Treasurer's Office to manage or transfer to the City of Detroit. Since 2002, 28 percent of properties bought at auction reentered tax foreclosure within a few years. This places a significant financial burden on the Wayne County Treasurer's Office, the City of Detroit, and other tax-dependent entities, and also causes neighborhood destabilization.

**Figure 1.1. Delinquent Tax Payment Box, Wayne County Treasurer's Office, 2011**



Source: Authors, 2011.

Over 2,100 people have bought properties from the auctions since 2002. Eleven large buyers have bought 24 percent of the all properties sold from 2002 through 2010. Large investors, nonprofit organizations, and individuals buy property for many reasons—from saving their own homes to buying vacant land in hopes of blocking development and reaping a profit. The productive reuse of properties relies on the actions of the people who buy the properties at the auction.

The number of tax-foreclosed properties in Detroit reached unprecedented levels in 2010, with approximately 12,000 properties reaching the auction, of which approximately 3,700 were occupied residential properties. The Wayne County Treasurer's Office faces the challenge of decreasing the costs of the foreclosure process, encouraging productive reuse of property, and recovering money for the back taxes on properties, plus enough to cover the costs of the foreclosure and auction processes. In September 2010, the Wayne County Treasurer requested a plan to address these challenges.

## Goals of the Plan

This plan aims to assist the Wayne County Treasurer's Office to address the challenges outlined above by advancing the following goals:

## Increase revenue collected by the Treasurer's Office

The Treasurer's Office needs to recover enough money from redemptions and from the auctions to cover bonds issued to pay jurisdictions for the delinquent taxes not collected each year, as well as to cover the costs of the foreclosure and auction processes.

## Decrease costs associated with administering the foreclosure process

The Treasurer's Office faces a particularly high administrative burden because of the volume of tax-foreclosed properties in Detroit. Lowering costs of the foreclosure and auction processes will allow more funds to be available for repayment of the bonds issued to pay jurisdictions for the delinquent taxes.

## Increase the productive reuse of tax-foreclosed properties

Productive reuse of properties contributes to neighborhood stabilization and revitalization. Achieving this goal maintains property owners' confidence in neighborhoods and achieves neighborhood stabilization in the long term. Productive reuse may also result in greater tax revenues for cities in future years.

**Figure 1.2. Example of Abandoned Property After Tax Foreclosure, Detroit, 2010**



Source: Authors, 2010.

## Intentions of the Plan

The plan recommends approaches that the Treasurer's Office can take to meet these three goals. The plan puts forward a framework for addressing the goal of increasing net revenues in the short term. At the same time it offers suggestions for achieving positive reuse for the properties passing through foreclosure, thus, increasing property tax revenues and reducing the number of new tax foreclosures in the long run. In addition, this plan aims to provide the tools for the Treasurer's Office to pursue legal changes that better suit the situation in Detroit.

The plan encourages the Treasurer's Office to take a long-term view and to adopt policies that take into account other efforts at stabilization of property values that take place in Detroit, such as the Detroit Works Project. Achieving these goals presupposes coordination and collaboration among the different entities involved in handling tax foreclosures and vacant land. Coordination and collaboration constitute the basis for making the recommendations of this plan achievable.

Through its focus on Wayne County and the City of Detroit, this plan deals with a more extreme case than most. However, the plan will be a resource for addressing tax foreclosure issues throughout the state, if not the nation.

## Methods

The development of the plan relied on researching studies of foreclosure and auction systems; on analysis and mapping of auction data; on field research and analysis of a sample of properties sold at auction; and on interviews with experts and auction participants.

## Plan Overview

Chapters 2 and 3 provide background for the plan. Chapter 2 addresses the legal context of tax foreclosure, while Chapter 3 assesses what others have learned about how auctions can achieve the three goals of the Treasurer's Office.

Chapters 4 through 6 analyze trends and outcomes of the Detroit auctions. Chapter 4 addresses auction results, Chapter 5 examines what happens to properties after the auction, and Chapter 6 analyzes buying patterns of auction participants.

Chapters 7 through 9 provide the recommendations of the plan. Chapter 7 suggests changes the Treasurer's Office can implement to increase net revenues in the short term. Chapter 8 provides a strategy that the Treasurer's Office can carry out to improve positive reuse of properties and therefore strengthen property tax revenues and property values in the long term. Chapter 9 addresses changes that would require amendments to PA 123 and other laws. Together these chapters provide a plan for ways the Treasurer's Office can work with others to make changes that achieve the three goals.

## Notes

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<sup>1</sup> House Legislative Analysis Section, "Property Tax Delinquency and Reversion System," accessed September 2010, <http://www.legislature.mi.gov/documents/1999-2000/billanalysis/House/htm/1999-HLA-4489-B.htm>.

<sup>2</sup> Ibid.



CHAPTER

2

**THE LEGISLATIVE CONTEXT FOR PROPERTY TAX FORECLOSURE IN MICHIGAN**



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



Understanding the legal framework of collecting delinquent taxes and auctioning tax-foreclosed properties gives important context to the recommendations made in this plan. This chapter analyzes the system of foreclosure and property disposition put in place by Public Act 123, enacted by the Michigan legislature in 1999 as an amendment to the General Property Tax Act, as well as other relevant legislation.

The chapter briefly describes the problems with the tax lien sale system that prompted the changes enacted in PA 123 and then describes PA 123's goals and the process of forfeiture, foreclosure, and auction in Wayne County, in relation to other relevant legislation.

## Background

Public Act 123 of 1999 reformed how state and local jurisdictions dealt with tax delinquent properties, replacing the old system of tax lien sales with a new system of judicial foreclosure and auction.

Prior to PA 123, county treasurers' offices auctioned tax liens rather than the properties themselves. In the tax lien system, bidders competed to obtain the right to collect taxes. If multiple bidders competed for a tax lien, the winning bidder would accept the lowest ownership interest in the property.<sup>1</sup> Buying the lien enabled lien holders to collect on tax redemption payments, plus retroactive interest. If the property owner did not redeem

the property within 19 months, the lien holder could start the procedure to take partial title to the property. Due to the complicated title clearing procedures though, lien holders rarely took title.<sup>2</sup> If property owners did not pay the taxes and the lien holders did not take title, then the state would foreclose and take possession of the property.

A property could have multiple lien holders for taxes delinquent in different years, clouding the title. Also, the old system of foreclosure opened the door for lawsuits by requiring only a "very cursory title search, which failed to identify all persons with interest in a property."<sup>3</sup> Insufficient notice offered to persons with an interest in the property increased the problems with obtaining clear title. Thus, the state would take properties and transfer them to the local unit of government with clouded titles that made them hard to market.

Before PA 123, the process from tax delinquency to foreclosure took five to seven years, but PA 123 shortened that process to two and a half years.<sup>4</sup> Although the lengthier process gave property owners more time to pay back taxes and redeem their properties, it also gave abandoned and neglected properties more time to decline.

## Goals of PA 123

By enacting PA 123, the Michigan legislature sought to enable local governments to take control of structures before they were destroyed and to return tax-foreclosed properties to productive use more quickly by streamlining the foreclosure process. PA 123 did this by replacing tax lien sales with a judicial foreclosure process that allowed counties to take title to tax-delinquent properties and sell them at auction. If a county opted out of administering the tax foreclosure process, then the state would take title and sell the properties.

PA 123 also sought to improve productive reuse of properties by enabling the foreclosing unit of government to produce clear and insurable title for those properties. It achieves this through stricter title search and notification requirements. PA 123 requires that the county treasurer's office send all persons with an interest in a tax-delinquent property three notices, with the third notice sent by certified mail, informing each one of his right to redeem his property. PA 123 also requires that the treasurer's office run a title search on properties to identify the people holding property interests who are entitled to notice about the show cause hearing and foreclosure proceedings. These stricter title search and notice requirements prevent violation of due process by ensuring that property owners are informed of their right to redeem the property before foreclosure. This increased attention to

due process reduces the likelihood of successful court cases against the county treasurer and increases the likelihood that purchasers of tax-foreclosed property will be able to insure their titles.<sup>5</sup>

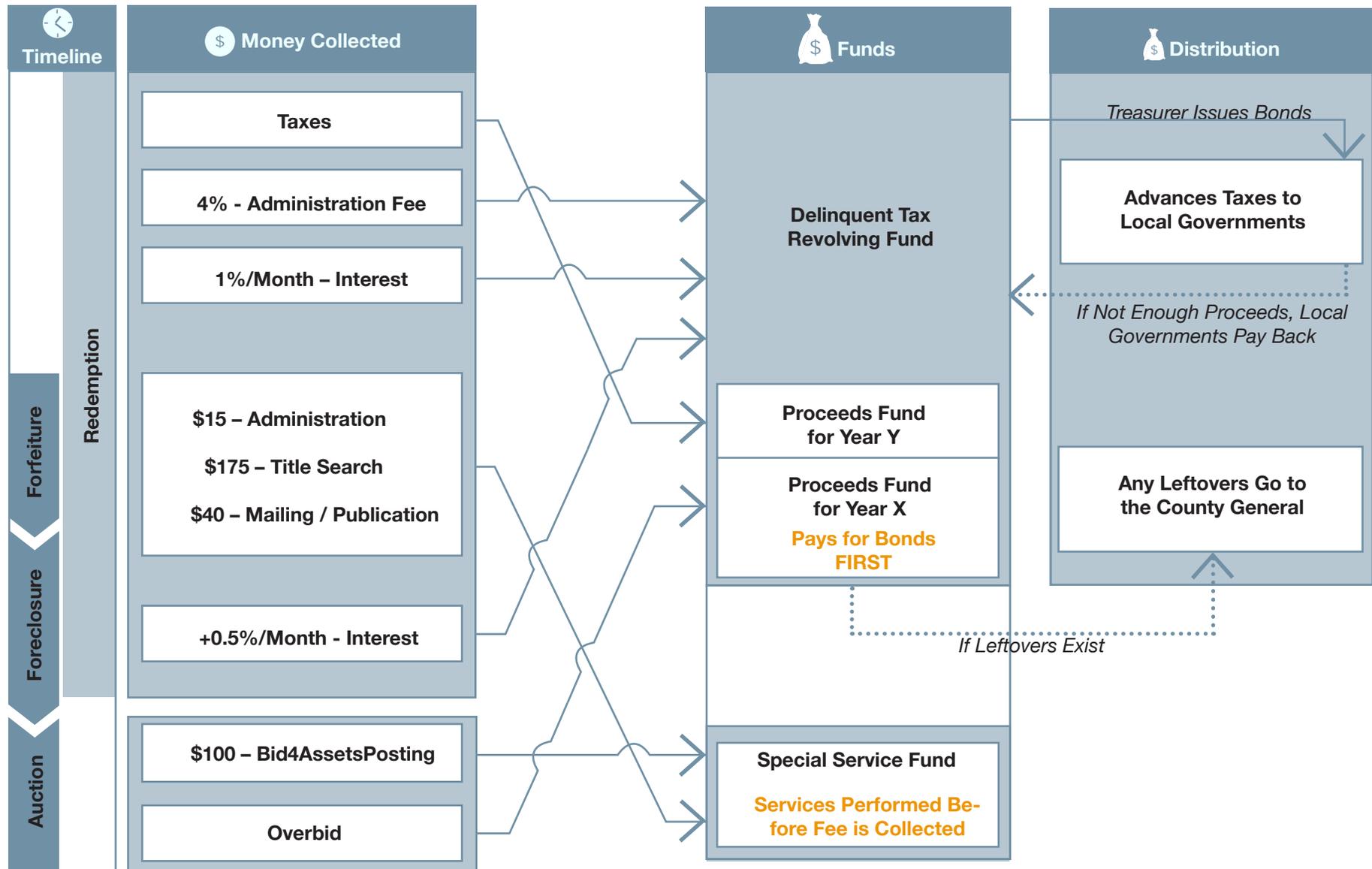
## Tax Foreclosure under PA 123

### Tax Delinquency

Each year in March, the local taxing jurisdiction returns tax-delinquent properties from the previous year to the county treasurer's office.<sup>6</sup> This prompts the treasurer's office to attempt the collection of delinquent taxes. The treasurer advances money to the local governments by floating bonds through the delinquent tax revolving fund, in expectation of delinquent tax collection.

At this point, the county treasurer adds a 4 percent administration fee to the taxes owed, and a 12 percent per year interest begins to accrue.<sup>7</sup> Property owners have the right to redeem their properties by paying the taxes, interest, and fees. The taxes collected go into an earmarked proceeds fund that the treasurer creates each year for the collection of delinquent taxes. All fees and interest accruing on the property go into this delinquent tax revolving fund (see Figure 2.1).

Figure 2.1. Tax Delinquent Properties' Money Flow in Wayne County



The treasurer's office sends out three notices during this first year informing taxpayers with delinquent properties that they will forfeit their properties to the county treasurer's office unless they pay the taxes, interest, and fees. The treasurer sends the notices in July, September, and October (see Figure 2.2). After the October notice the treasurer adds a \$15 fee to the total amount due.

In November, the treasurer's office starts preparing the information necessary for the forfeiture of delinquent properties that have not been redeemed.<sup>8</sup>

### Forfeiture

During the second year after the taxes became delinquent, the treasurer's office sends another notice by February 1 to all persons with an interest in the property informing them of the impending forfeiture and the schedule for foreclosure.<sup>9</sup>

On March 1, the delinquent properties owners forfeit to the county treasurer all unredeemed property for the total of taxes, interest, and fees.<sup>10</sup> The treasurer adds a \$175 additional fee to each property<sup>11</sup> and raises the interest fee to 18 percent per year retroactively to the date when the property became delinquent.<sup>12</sup> Consequently, property owners who try to redeem their properties after this date will pay the higher interest for the entire period since their taxes became delinquent.

By May 1 the treasurer's office starts a search of records to establish all the persons with an interest in the property who are entitled to notice.<sup>13</sup> In Wayne County, office staff or Treasurer's Office contractors pay a visit to all forfeited properties, delivering a notice of the impending foreclosure hearing. This process may take several months.

If the Wayne County Treasurer's Office cannot deliver notice to a person with an interest in a property, the office must publish that notice in the newspaper. This notice must appear in the newspaper once a week for three successive weeks, and the county treasurer's office must submit proof of publication to the register of deeds.<sup>14</sup>

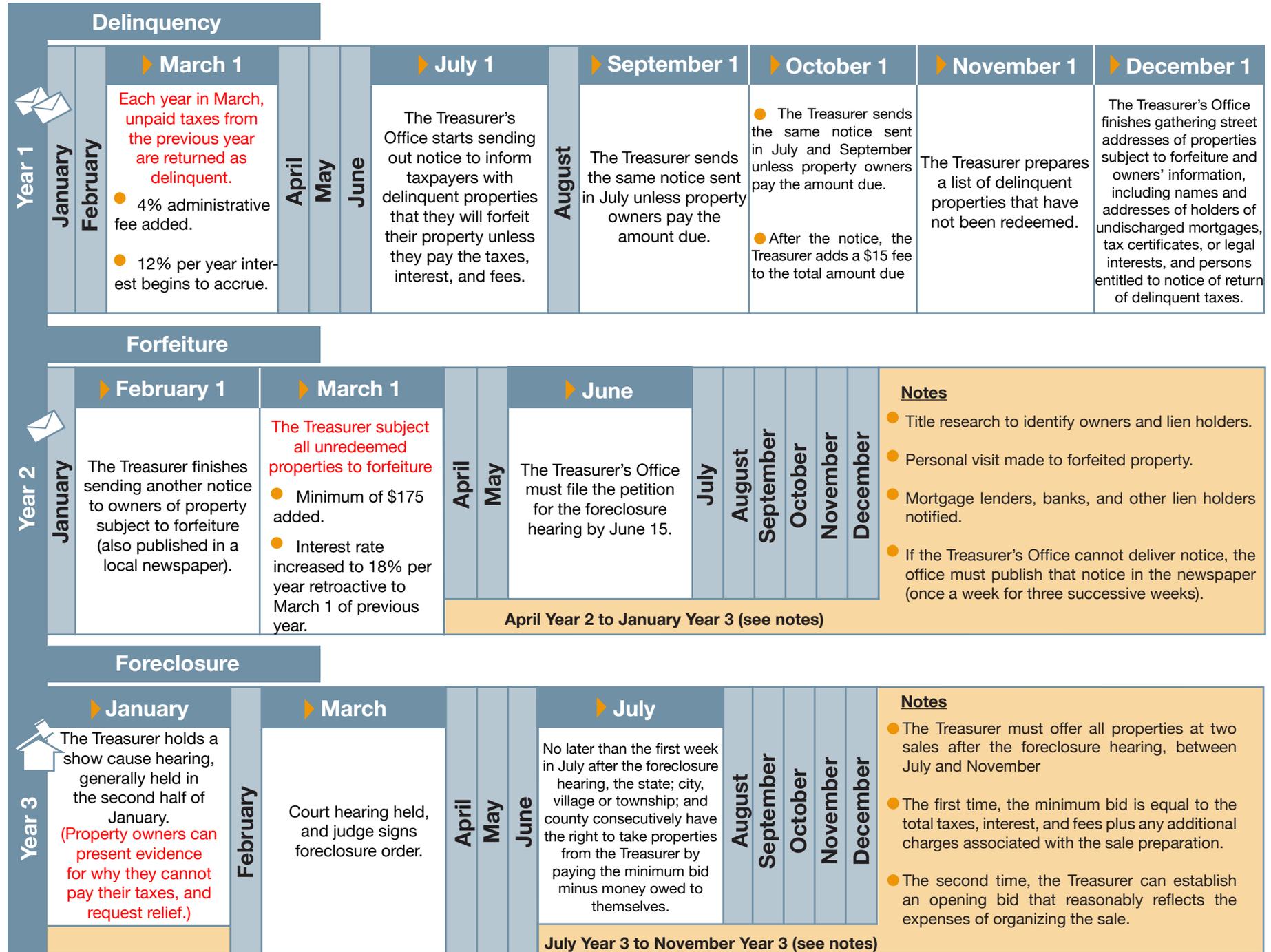
The treasurer's office must file the petition for the foreclosure hearing by June 15.<sup>15</sup>

### Foreclosure and Sale

#### Show Cause Hearing

At the beginning of the third year after taxes became delinquent, the treasurer holds a show cause hearing, where property owners can present evidence explaining why they are unable to pay their taxes and can request relief.<sup>16</sup> This hearing generally occurs in the second half of January.

Figure 2.2. PA 123 Foreclosure Timeline



**Figure 2.3. Show Cause Hearings, Wayne County, 2009**

Source: Wayne County Website, accessed March 2011, <http://www.waynecounty.com/documents/treasurer.pdf>.

The Wayne County Treasurer uses the show cause hearing to make property owners aware of alternative means of redemption, including the hardship extension. The hardship extension defers the payment of property taxes for one year, although interest continues to accrue.<sup>17</sup> The Treasurer also offers payment plans that allow taxpayers to pay their taxes in installments during one year.

Though not offered by the county treasurer, the poverty exemption is another method to ease the burden for taxpayers. Although the poverty exemption does not get rid of the back taxes that trigger foreclosure, it does exempt the taxpayer from paying the next year's taxes, enabling the taxpayer to pay back taxes. The General Property Tax Act

provides the opportunity for poverty exemption for property owners whose income is below the federal poverty threshold.<sup>18</sup>

To obtain a poverty exemption, a qualifying property owner must file an application at the local assessor's office. The City of Detroit's assessor's office has considered a number of extenuating circumstances for allowing a poverty exemption, including outstanding debt, disability and others, in addition to the income threshold which the assessor sets above the federal level.<sup>19</sup> Property owners eligible for a poverty exemption must file for it every year. However, insufficient information about the process prevents many property owners from taking advantage of this possibility.<sup>20</sup>

### ■ Foreclosure Hearing

By the date of the foreclosure hearing, no later than March 30, the treasurer presents to the circuit court a list of properties with delinquent taxes. During the years 2002 through 2009, the Wayne County Treasurer refrained from foreclosing on "occupied" properties. Though the Treasurer's system of establishing occupancy is not perfect, the policy allowed many people to stay in their homes.<sup>21</sup> In 2010, the Treasurer foreclosed on occupied houses for the first time in recent years.

In recent years, the Treasurer has excluded from foreclosure proceedings properties with higher foreclosure costs than the

minimum bid they can obtain at the auction sales. This has been one way that the Treasurer's Office has reduced some of the costs associated with foreclosure, but the practice also raises questions.<sup>22</sup>

At the foreclosure hearing the treasurer takes title to all properties that have not been redeemed, included in payment plans, or exempted from paying taxes. All rights of redemption expire on March 31 after the foreclosure hearing.<sup>23</sup> However, the Wayne County Treasurer has allowed redemption even after this date and has agreed to pull properties from the auction process even a few days before the auction if property owners redeemed their properties or employed other methods to defer taxes.

**Figure 2.4. Tax Foreclosure Notice, 2010**



Source: Authors, 2011.

### ■ Right of Refusal

No later than the first week in July after the foreclosure hearing, a number of government units have the right to take properties from the treasurer's list of foreclosed properties by paying the minimum bid. These governments are: the state; then the city, village, or township in which the property is located; and finally the county in which the property is located, in this order. In the case of a government's right of refusal, the minimum bid includes all taxes, interest, and fees except the taxes levied by the purchasing unit of government and the interest and fees associated with them, plus any costs of sale that the treasurer may choose to include in the minimum bid. This step is called the right of refusal (ROR). Cities, villages, and townships may only purchase property for a public purpose (the law does not define "public purpose" to clarify what uses meet this criteria). In addition, the profit from the subsequent sale of any ROR properties must go to the treasurer's delinquent tax revolving fund. Profit means any amount of money in excess of the taxes, interest, and fees initially paid plus any costs of demolition, rehabilitation, or infrastructure development.<sup>24</sup>

### ■ Auction Sales

The treasurer's office must hold a minimum of two auction sales between July and November after the foreclosure hearing. The law mandates that the treasurer offer all property subject to sale at least twice during this period.<sup>25</sup> The first time, the treasurer will offer properties for the

total taxes, interest, and fees plus any additional charges associated with the sale preparation. The second time, the law sets no minimum bid, but the treasurer can establish an opening bid that reasonably reflects the expenses of organizing the sale.<sup>26</sup> The county treasurer establishes the rules governing the auction process: deciding whether the properties will be offered one by one or in groups of two or more, whether the auction will be a live auction or an online auction, or whether it will take place at one location or at multiple locations.

The Wayne County Treasurer has traditionally held two auction sales: one in September for a minimum bid equal to the total taxes, interest and fees, and another in October with an opening bid of \$500, which covers only the costs of organizing the sale. The Treasurer auctions properties one by one, in an English style ascending bid auction (see Chapter 3). In order to participate, a bidder must deposit \$1,000 as a good faith payment. The Treasurer's Office refunds this sum to the bidder if the bidder makes no purchase.

The Wayne County Treasurer held live auctions from 2002 through 2009. Office staff organized the auction which took place in Detroit. In 2010, due to the large number of foreclosed properties, the Treasurer held the two auctions online, using the private auctioneer Bid4Assets. Using Bid4Assets eased the administrative burden placed on the Treasurer's Office.

The online auction ran with similar rules for participation as the previous floor auctions. Differences included the amount of information that the bidders could access. Bid4Assets connected all auctioned properties to a Google map, which gave the bidder more tangible, though potentially outdated or inaccurate, information about the condition of auctioned properties. Using Bid4Assets also allowed the Wayne County Treasurer to offer the property to the second highest bidder in cases where the highest bidder did not complete the sale.

Proceeds from the auction sales go into the yearly proceeds fund, which then feeds into the delinquent tax revolving fund to pay off the bonds that the treasurer floated to pay local governments the taxes owed to them.<sup>27</sup> If the proceeds exceed the amount needed to retire the debt, the law establishes priorities for how the treasurer should handle the excess money. If proceeds are insufficient to retire the debt, local governments must repay the treasurer and forgo some of their tax levies. This happened for the first time in Detroit in 2009, when the city had to repay approximately \$63 million to the County Treasurer.<sup>28</sup>

After the auction sales, if property remains unsold, the county treasurer transfers it to the municipality in which the property is located. The municipality may object to the transfer of one or more properties.<sup>29</sup> If the municipality rejects the property, it remains in the county treasurer's inventory.<sup>30</sup> For several years prior to 2009, properties accumulated in the Wayne County Treasurer's inventory after the auction sales, as

the City of Detroit refused most properties. In 2009, Detroit agreed to accept all city properties in the Treasurer's possession.

In 2010, the City of Detroit accepted all the unoccupied properties that remained in the Wayne County Treasurer's inventory after the October auction. This still left some 1,900 potentially occupied parcels in the Treasurer's possession. As of January 2011, the Treasurer's Office planned to determine the occupancy of these parcels again and offer them to the current occupants for \$500. The City of Detroit has agreed to accept all properties that the Treasurer confirms as vacant.<sup>31</sup>

## Conclusion

PA 123 improved how counties deal with tax foreclosed properties by shortening the length of time from delinquency to foreclosure and enabling property buyers to secure insurable title more easily. However, the Wayne County Treasurer's Office continues to face challenges in handling Detroit properties due to the large inventory of tax foreclosed properties and low property values. Chapter 9 will address ways to amend PA 123 to improve auction outcomes. The next chapter addresses what others have learned about how to administer an auction so as to increase revenue, decrease costs, and encourage the positive reuse of properties.

### Figure 2.5. Definitions

**Tax Lien:** A tax lien is a claim placed on the property for the payment of delinquent taxes.

**Tax Lien Sale:** At a tax lien sale, investors purchase tax liens so they can collect on the delinquent taxes or, if the delinquent taxes are not paid off, foreclose on the property.

**Tax Foreclosure:** In tax foreclosure, the foreclosing unit of government takes the title of tax-delinquent properties and sells them to recoup the unpaid taxes.

**Title:** A title is the document that proves ownership of a property.

**Clouded Title:** A property has a clouded title if a claim on the property exists, such as a lien, mortgage, or other property interest, that prevents the purchaser of a property from having full rights to that property. This cloud on the title can prevent the purchaser of the property from being able to acquire title insurance or a new mortgage.

**Title Insurance:** Title insurance protects property owners against losses due to a problem with the title.

**Clear Title:** A property owner possesses clear title to the property if the property has no claims or encumbrances, such as a lien or mortgage, and if all those with prior interest in the property received notice of foreclosure that met the due process standard

**Redemption:** A property owner can prevent his or her property from going into foreclosure by "redeeming" their property—paying the taxes, fees, and interest owed.

Sources: Jack P. Friedman and Jack C. Harris, *Dictionary of Real Estate Terms*, Fifth Edition (New York: Barron's Educational Series, Inc, 2000); Answers.com, accessed March 2011, <http://www.answers.com/library/Real+Estate+Dictionary>; *West's Encyclopedia of American Law* (New York: West Group Publishing, 1998); Answers.com, accessed March 2011, <http://www.answers.com/library/Law+Encyclopedia>.

## Notes

<sup>1</sup> House Legislative Analysis Section, "Property Tax Delinquency and Reversion System," accessed September 2010, <http://www.legislature.mi.gov/documents/1999-2000/billanalysis/House/htm/1999-HLA-4489-B.htm>.

<sup>2</sup> *Ibid.*

<sup>3</sup> Thomas Gunton, "Coping with the Specter of Urban Malaise in a Postmodern Landscape: The Need for a Detroit Land Bank Authority," *University of Detroit Mercy Law Review*, Summer (2007): 529.

<sup>4</sup> House Legislative Analysis Section, "Property Tax Delinquency and Reversion System," accessed September 2010, <http://www.legislature.mi.gov/documents/1999-2000/billanalysis/House/htm/1999-HLA-4489-B.htm>.

<sup>5</sup> Thomas Gunton, "Coping with the Specter of Urban Malaise in a Postmodern Landscape: The Need for a Detroit Land Bank Authority," *University of Detroit Mercy Law Review*, Summer (2007): 529.

<sup>6</sup> Delinquent Property Tax Foreclosure Act, 1999 Public Act 123, Sec. 78a (2) (MCL 211.78), accessed September 2010, <http://www.legislature.mi.gov/documents/1999-2000/publicact/htm/1999-PA-0123.htm>.

<sup>7</sup> Delinquent Property Tax Foreclosure Act, 1999 Public Act 123, Sec. 78a (3) (MCL 211.78).

<sup>8</sup> Delinquent Property Tax Foreclosure Act, 1999 Public Act 123, Sec. 78e (1) (MCL 211.78).

<sup>9</sup> Delinquent Property Tax Foreclosure Act, 1999 Public Act 123, Sec. 78f (1) (MCL 211.78).

<sup>10</sup> Delinquent Property Tax Foreclosure Act, 1999 Public Act 123, Sec. 78g (1) (MCL 211.78).

<sup>11</sup> Delinquent Property Tax Foreclosure Act, 1999 Public Act 123, Sec. 78g (1) (MCL 211.78).

<sup>12</sup> Delinquent Property Tax Foreclosure Act, 1999 Public Act 123, Sec. 78g (3) (b) (MCL 211.78).

<sup>13</sup> Delinquent Property Tax Foreclosure Act, 1999 Public Act 123, Sec. 78i (1) (MCL 211.78).

<sup>14</sup> Delinquent Property Tax Foreclosure Act, 1999 Public Act 123, Sec. 78i (6) (MCL 211.78).

<sup>15</sup> Delinquent Property Tax Foreclosure Act, 1999 Public Act 123, Sec. 78h (1) (MCL 211.78).

<sup>16</sup> Delinquent Property Tax Foreclosure Act, 1999 Public Act 123, Sec. 78j (1) (MCL 211.78).

<sup>17</sup> Delinquent Property Tax Foreclosure Act, 1999 Public Act 123, Sec. 78k (4) (MCL 211.78).

<sup>18</sup> Delinquent Property Tax Foreclosure Act, 1999 Public Act 123, Sec. 7u (MCL 211.7).

<sup>19</sup> Interview with Detroit Assessor's Office, February 21, 2011.

<sup>20</sup> Interview with Ted Phillips, United Community Housing Coalition, February 8, 2011.

<sup>21</sup> *Ibid.*

<sup>22</sup> Some of these questions are: How much larger is the total number of parcels that the Treasurer should process each year? Are some people exploiting this system to avoid paying taxes? What is the value of land in the city of Detroit if some properties are not worth the money that goes into processing their delinquent taxes?

<sup>23</sup> Delinquent Property Tax Foreclosure Act, 1999 Public Act 123, Sec. 78k (5) (MCL 211.78).

<sup>24</sup> Delinquent Property Tax Foreclosure Act, 1999 Public Act 123, Sec. 78m (1) (MCL 211.78).

<sup>25</sup> Delinquent Property Tax Foreclosure Act, 1999 Public Act 123, Sec. 78m (2) (MCL 211.78).

<sup>26</sup> Delinquent Property Tax Foreclosure Act, 1999 Public Act 123, Sec. 78m (5) (MCL 211.78).

<sup>27</sup> Delinquent Property Tax Foreclosure Act, 1999 Public Act 123, Sec. 78m (8) (a) (MCL 211.78).

<sup>28</sup> Interview with Jim Bickley, Wayne County Treasurer's Office, January 14, 2011.

<sup>29</sup> Delinquent Property Tax Foreclosure Act, 1999 Public Act 123, Sec. 78m (6) (MCL 211.78).

<sup>30</sup> Delinquent Property Tax Foreclosure Act, 1999 Public Act 123, Sec. 78m (7) (MCL 211.78m).

<sup>31</sup> Interview with Jim Bickley, Wayne County Treasurer's Office, January 14, 2011.

CHAPTER

3

REAL ESTATE AUCTIONS AND THE TREASURER'S PROPERTY DISPOSITION GOALS



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



The Wayne County Treasurer aims to increase revenue from the disposition of tax foreclosed properties, to decrease the costs of the process, and to increase positive reuse of properties (see Chapter 1). This chapter details how auctions can achieve these goals compared to other forms of disposition.

## Institutional Property Auctions

In the United States, large public entities, as well as local governments, commonly use auctions for handling distressed property (see Figure 3.3).<sup>1</sup> Public entities, such as the U. S. Department of Housing and Urban Development or the Federal Deposit Insurance Corporation (FDIC), sell properties that have gone into mortgage foreclosure. Local governments, on the other hand, deal mainly with tax-foreclosed properties.<sup>2</sup> In some states – Florida for example – local governments sell tax liens at auction. In others, such as Michigan, local governments practice judicial foreclosure and sell the property itself in mandated auction sales.<sup>3</sup> Given the widespread use of auctions in the disposition of foreclosed properties, understanding how auctions perform compared to other disposition strategies can help in identifying ways to achieve the goals of the Wayne County Treasurer.

## Auction Sales & the Treasurer's Goals<sup>4</sup>

Experiences from auctions suggest lessons for ways to run an auction to achieve the Treasurer's goals.

### Increase Revenue

The Wayne County Treasurer strives to collect as much of the delinquent taxes returned each year as possible. For this reason, the Treasurer prioritizes increasing the revenue coming from the foreclosed property auction sales. Research on auctions elsewhere offers insights for increasing revenues through an auction process. These insights, however, refer mainly to ways that the seller can increase the price offered for properties and less to ways the quantity of property offered affects total revenues.

- **Competitive public auctions – such as live English auctions – often result in higher sale prices and more revenue to the seller.<sup>5</sup>**

English auctions allow bidders to observe the behavior of other bidders and adjust their bidding to the general sentiment in the room. Consequently, competition for a property signifies to bidders that the property may have value beyond what they may have originally thought, which may lead them to bid up the price of the property in order to outbid the competition.

- **A large number of bidders in a public auction result in more competition, higher prices, and more revenue to the seller.**<sup>6</sup>

Achieving the competitiveness that makes public auctions effective in increasing revenue requires a large pool of bidders and ideally more than one bidder per property. Competition increases when the number of bidders increases in relation to the number of properties for sale.

- **Online auctions increase the possibility for competition, thus leading to more revenues.**

Online real estate auctions increase the number of bidders by allowing people who do not necessarily live in the area or are not seasoned in auction procedures to enter the auction.<sup>7</sup> By increasing the pool of potential bidders, online auctions result in more property sales, presumably for higher prices.

- **Online real estate auctions help increase revenues by allowing the seller to offer property to the second highest bidder.**

Because in online auctions the computer system registers all bids on a property, if the winning bidder fails to complete the sale, the seller has the option of offering the property to the second highest bidder. Though the price obtained for the property may be lower than the winning bid, the overall revenues will increase due to more properties' selling.<sup>8</sup>

Figure 3.1. Bidder's Card at Public Auction, Wayne County, 2009



Source: WHMSoft Moblog, accessed March 2011, <http://moblog.whmssoft.net>.

- **Increasing the amount of information available for an auctioned property can increase the price that it will bring in the auction.**<sup>9</sup>

The more a bidder knows about a property, the less the risk that the bidder must consider in deciding how much to pay for the item at auction. Sellers can use information on the property as a tool to increase revenues. Making pertinent information available to all buyers levels the playing field for the buyers and may make more buyers likely to consider properties.

- **Low minimum bids increase the likelihood of a property selling but may result in lower sale prices for properties than higher minimum bids would.**<sup>10</sup>

For sellers, setting an appropriate minimum bid involves a trade-off between encouraging bidders to buy more property and obtaining higher prices for some properties.<sup>11</sup> Lower minimum bids usually signify a willingness on the part of the seller to part with the property for less money, thus lowering the final sale price of individual properties. However, high minimum bids may lead buyers to think the property is not worth bidding on.

- **Negotiated sales bring higher revenues than regular public auctions, especially in low demand market conditions.**

Negotiated sales increase the potential for buyers to find properties that match their needs, so they are more likely to pay an amount that is close to, if not exactly, market value. This results in higher revenues per property, especially in low demand markets.<sup>12</sup> However, negotiated sales also involve higher holding costs than public auctions because the bidding process takes longer.

Not all alternatives to public auctions result in higher revenues. Research on sealed bid auctions suggests that these fail to produce the highest prices.

- **Sealed bid auctions provide an alternative to the classic English auction but do not increase revenue as successfully.**

Having a longer bidding period, sealed bid auctions enable buyers to operate strategically, based on information available to them. Buyers anticipate the highest bid and trade off the possibility of losing the property when placing their bids. However, because buyers do not know what other competitors are bidding, they are more likely to offer prices below the value they attribute to the property and risk not getting the property, rather than paying much more than their competitors.<sup>13</sup>

### Decrease Costs

The goal of increasing revenue relates to the goal of decreasing costs. This is because the net revenues equal the total revenues obtained from the sale minus the costs associated with it. Local governments dealing with large numbers of foreclosed properties have to make a series of compromises when dealing with these properties. Do they try to obtain higher prices for each property and incur more costs handling the property? Do they sell more properties at lower prices and incur as few costs as possible in handling the property? Dealing with foreclosed property involves two types of costs: holding costs – which refer to the costs of maintaining the property between the time of foreclosure and the time of sale and administrative costs – which refer mainly to the costs of selling the property. Auctions decrease costs in the following ways:

### Public auctions decrease holding costs for the seller when auctioned properties actually sell.

In public auctions, properties sell in a short period of time, usually a few days depending on the number of properties. When auctions sell property quickly, they have lower holding costs compared to other types of sales.

### Online auctions are more cost effective than public floor auctions when handling large amounts of property.

Listing properties with an online auction house, though not necessarily cheaper in absolute terms, reduces costs associated with staff time. In cases where large amounts of property reach the auction stage, online auctions ensure efficiency and transparency of the process.<sup>14</sup>

### As an alternative to public auctions, sealed bid auctions also have low administrative costs.

Sealed bid auctions have no venue costs, and the staff demands are minimal, as bids come in via mail and the seller announces one winning bid. Sealed bid auctions may be an alternative to public auctions or online auctions. However, there is no guarantee they will bring in comparable revenues.

Figure 3.2. Bid4Assets' Website Interface, 2010

**AUCTION ID #: 472509** SHARE  
**Wayne County, MI: PIN: 09008762-3**  
 PLEASE NOTE: IMAGE DOES NOT DEPICT ACTUAL ASSET.  
**You Must Register to Bid** [Click here>>](#)  
[Asset Info](#)  
**Seller Information**  
 Seller Name: **Wayne County Treasurer**  
 Winning Bid: USD \$10,000  
 Number of Bids: 9  
 Winner: Deborahal  
 Reserve: No Reserve!  
 Status: Sold  
 Auction Started: 10-22-10 11:00 AM ET  
 Auction Closed: 10-25-10 10:45 AM ET  
 Bid Increment: \$500  
 Shipping Cost: SEE DESCRIPTION BELOW  
 Minimum Bid: \$500  
 Auction Type: Regular Auction  
 Source: Government  
 Deposit Required: \$1,025 **BID DEPOSIT**  
 Overtime Period: 5 min  
 Page Views: 72

Source: Bid4Assets Website, accessed September 2010, <http://bid4assets.com/auction>.

## Improve Positive Reuse

For a public entity such as the Wayne County Treasurer's Office, ensuring the positive reuse of auctioned properties is an important goal. However, research has shown that despite their success as a means of quickly disposing of property, auctions are not an effective means of promoting positive reuse of property.

■ **Compared to other disposition strategies, such as managed sales or brokered sales, auctions lead to poor outcomes after sale.**

Due to the lack of information about the property and the need to pay the full price immediately, auctions encourage large land speculators over people with an interest in the positive reuse of property. More deliberate methods of sale allow other buyers - such as prospective homeowners, next door neighbors looking to expand their properties, or nonprofit developers and community development corporations - more opportunities for acquiring property than auctions do. This is true even in low demand markets.<sup>15</sup>

■ **Simply selling the land does not guarantee productive reuse. Auctions have no mechanism for achieving productive reuse built into them.**

Many empirical studies have revealed that achieving productive reuse requires a strategy for promoting redevelopment or reuse. Otherwise the results of tax-foreclosed property sales are, more often than not, vacancy and a return to tax-delinquent status.<sup>16</sup> A clear strategy for reusing the property, coupled with cooperation among the different entities involved in handling tax-reverted properties is necessary for promoting positive reuse.<sup>17</sup> Programs for the deliberate sale and reuse of foreclosed property such as those instituted by land bank authorities in Flint or Cleveland are more successful at achieving positive long

term reuse of land than simply returning property to the private market through an auction sale.<sup>18</sup>

■ **The amount of information available about property and the pricing of available property are important factors for achieving positive reuse.**<sup>19</sup>

Auctions sell property indiscriminately. Both properties with development potential and properties that have little potential are sold in the same way. Lack of information about the properties further impedes any efforts toward reuse or redevelopment, as buyers are uncertain whether the properties they are buying hold potential for the future. In this manner, auctions encourage speculation by investors who can afford to buy properties and wait to realize a profit when a third party wants to use the properties, such as when local governments or developers try to assemble land for a larger project.

Encouraging positive reuse can also mean that the seller of land forgoes some of the immediate profit in order to promote long-term positive outcomes. Pricing land much below the market value in some situations can promote redevelopment and reuse by reducing the upfront cost to nonprofit developers and other entities working for the future of a city, but at the same time this strategy runs counter to the auction system of increasing price through competition.

## ■ Promoting productive reuse presupposes a long-term view that at times trumps the short-term goal of increasing revenues.

Auctions are a good strategy for increasing revenues in the short term. Most of the knowledge about auctions points in that direction. However, promoting positive reuse means that achieving the goal of increasing short term revenues may need to be postponed in the interest of achieving both long term increased revenues and positive reuse.

## Conclusion

An appropriate selling strategy finds the ideal balance between timely disposition and obtaining a “fair” price.<sup>20</sup> Holding properties creates costs for governments in the carrying cost of maintenance; from interest, depreciation, and loss of taxes; and a social cost associated with vacancy and destabilization of neighborhoods.<sup>21</sup> In high demand market conditions, auctions sell large inventories of properties quickly and efficiently. However, auctions generally fail to achieve positive reuse, especially in low demand market conditions. This chapter has pointed out several ways that the Treasurer’s Office can employ auctions to increase the revenues coming to it. However, it has also pointed out the weaknesses of auctions in achieving long term positive reuse. PA123 mandates auctions, but the Treasurer’s Office

could consider strategic employment of this sales method to achieve better results given the constraints. Alternatives exist within the law for considering the long term positive reuse of property. Chapter 8 will offer more insights on this topic.

### Figure 3.3. Definitions

**Distressed Properties:** Parcels of land or housing units that have gone through mortgage or tax foreclosure.

**Public Auctions:** In a public auction, buyers attend the auction site and bid against each other until someone wins. Public auctions can occur either at a particular venue (floor auctions) or over the internet (online auctions).

- The most popular public auction is the English auction, where the auctioneer requests bids in an increasing order.
- A less popular type of auction is the Dutch auction, where the auctioneer requests bids in a decreasing order. This type of auction is rarely used in selling real estate.

**Sealed or Spot Bid Auctions:** Buyers mail single bids or deliver them in person, and the seller later notifies each bidder of the highest bid. Sealed bid auctions resemble public auctions in that the buyer makes up his own mind about the value of an object based on the information available.

**Negotiated Sales:** In the case of negotiated sales, the auctioneer takes written and telephone offers before the auction date and accepts the highest offer on the auction date. Bidders can inspect items offered for sale and a broker is usually available to provide information and broker the bidding.

**Sources:** Lawrence E. Sherman and Jamie Bussio, “Real Estate Auctions: The New Method to Sell Real Estate,” *Real Estate Issues* 19 (1994): 36, accessed March 2011, [http://findarticles.com/p/articles/mi\\_qa3681/is\\_199404/ai\\_n8731559/?tag=mantle\\_skin;content](http://findarticles.com/p/articles/mi_qa3681/is_199404/ai_n8731559/?tag=mantle_skin;content).

## NOTES

- <sup>1</sup> Christopher Mayer, "Assessing Performance of Real Estate Auctions," *Journal of Real Estate Economics* 26(1) (1998): 41.
- <sup>2</sup> For the analysis of the tax foreclosure and sale system in Michigan see Chapter 2.
- <sup>3</sup> Frank Alexander, "Tax Liens, Tax Sales and Due Process," *Indiana Law Journal* 75 (2000): 746.
- <sup>4</sup> For definitions of the terms used in the following sections see the definition box.
- <sup>5</sup> Kerry D. Vandell and Timothy J. Riddiough, "On the Use of Auctions as a Disposition Strategy for RTC Real Estate Assets: A Policy Perspective," *Housing Policy Debate* 3(1) (1992): 120.
- <sup>6</sup> Daniel Quan, "Real Estate Auctions: A Survey of Theory and Practice," *Journal of Real Estate Finance and Economics* 9(1) (1994): 24.
- <sup>7</sup> Odhed Shenkar and Ilgaz Arikian, "Auctions in Ohio Real Estate," unpublished work sponsored by the Ohio Real Estate Education and Research Fund (2006): 12.
- <sup>8</sup> Interview with Jim Bickley, Wayne County Treasurer's Office, January 14, 2011.
- <sup>9</sup> Larry DeBoer, James Conrad, and Kevin T. McNamara, "Property Tax Auction Sales," *Land Economics* 68(1) (1992): 80.
- <sup>10</sup> *Ibid.*, 80.
- <sup>11</sup> Daniel Quan, "How to Set Minimum Acceptable Bids with an Application to Real Estate Auctions," *Journal of Industrial Economics* L(4) (2002): 394.
- <sup>12</sup> Christopher Mayer, "A Model of Negotiated Sales Applied to Real Estate Auctions," *Journal of Urban Economics* 38(1) (1994): 394.
- <sup>13</sup> Kerry D. Vandell and Timothy J. Riddiough, "On the Use of Auctions as a Disposition Strategy for RTC Real Estate Assets: A Policy Perspective," *Housing Policy Debate* 3(1) (1992): 121.
- <sup>14</sup> Telephone interview with Jim Bickley, Wayne County Treasurer's Office, April 5, 2011.
- <sup>15</sup> Margaret Dewar, "The Effects on Cities of 'Best Practice' in Tax Foreclosure: Evidence From Detroit and Flint," CLOSUP Working Papers Series 2 (2009): 5.
- <sup>16</sup> Kate Collignon, "Vacant Lots and Housing Opportunities: Auctions and Alternatives for Disposition of Vacant Land Owned by the City of New York" (MPP and MUP thesis, Harvard University, 2000): i.
- <sup>17</sup> Margaret Dewar, "Selling Tax-Reverted Land: Lessons from Cleveland and Detroit," *Journal of the American Planning Association* 72(2) (2006): 174.
- <sup>18</sup> Margaret Dewar, "The Effects on Cities of 'Best Practice' in Tax Foreclosure: Evidence From Detroit and Flint," CLOSUP Working Papers Series 2 (2009): 22; Margaret Dewar, "Selling Tax-Reverted Land: Lessons from Cleveland and Detroit," *Journal of the American Planning Association* 72(2) (2006): 174.

<sup>19</sup> *Ibid.*, 175.

<sup>20</sup> Daniel Quan, "Market Mechanism Choice and Real Estate Disposition: Search vs. Auction," *Journal of Real Estate Economics* 30(3) (2002): 366.

<sup>21</sup> *Ibid.*, 366.



CHAPTER

4

**ANALYSIS OF DETROIT PROPERTIES SENT TO AUCTION**

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





This chapter analyzes the results in Detroit of the Wayne County tax foreclosure auctions from 2002 through 2010. This chapter presents findings regarding:

- Change over time in properties sold
- Location patterns in Detroit foreclosed properties
- Characteristics of properties sold

Studying the auctions' results in these three categories illuminates why certain properties sell. Evaluating the auctions' results provides a richer understanding of the sale trends and helps to inform recommendations for changes in practices and in laws in Chapters 7, 8, and 9.

## Change Over Time in Properties Sold

Since the inception of PA 123, Wayne County has experienced diminished returns on properties sold at auction within the City of Detroit. In 2005, the Treasurer's Office recovered 56 percent of delinquent taxes plus fees and interest for Detroit properties offered at the auctions. The recovery rate declined to 7 percent in 2010. The primary reasons for this decrease were the falling rate of sales in the auctions and lower sales prices for properties that did sell. The problem has worsened annually since 2002 and a large increase in the number of properties coming into the auction in recent years compounded it. The auctions offered 42 times

more Detroit properties in 2010 compared to 2002 (11,840 in 2010, 282 in 2002). A poor sales rate continued to diminish the percent of taxes recovered by the Treasurer's Office on the properties offered at auction.

The larger number of sales in 2010 may be due to a large increase in properties offered and an increase in bidders generated by the change to an online auction format. In 2010, 577 different property buyers purchased at the auctions, representing a 77 percent increase over 2009.

**The percentage of properties sold at auction auction has generally decreased with an increase in 2009 and 2010**

Between 2002 and 2010, the percentage of properties sold at auction decreased significantly. In earlier auctions, bidders purchased a high percentage of properties in the city because of stronger economic conditions. For example, the Treasurer's Office sold 86 percent of the properties in the 2002 auction compared to only 32 percent of properties available at auction in 2010.

Figures 4.1 and 4.2 illustrate this trend. Figure 4.1 shows a substantial rise in the number of properties entering the auction, particularly following the 2007 increase in mortgage foreclosures and beginning of the recession that worsened the real estate market. During this rise in total properties in the auction, Figure 4.2 indicates a decrease in

the percentage of properties sold from 2002 through 2008, followed by an increase in 2009 and 2010. The net effect of these trends is an increasing number of properties remaining unsold at the auctions. Parcels that do not sell at auction become property of the Treasurer's Office. Historically, Detroit has eventually assumed ownership of most of these properties pursuant to agreements with the Treasurer's Office.<sup>1</sup>

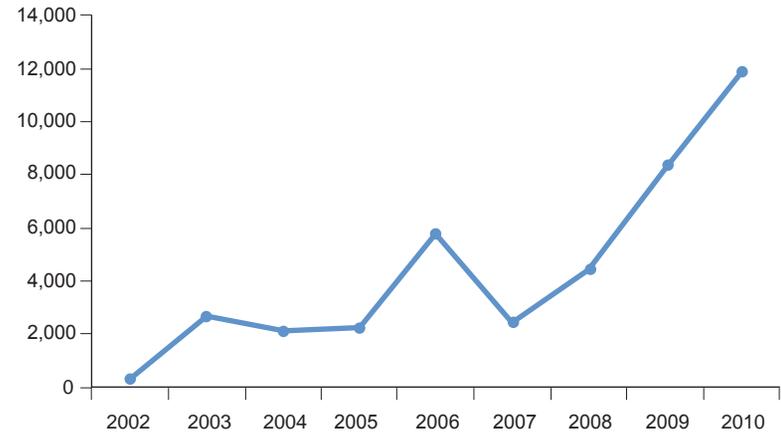
**Buyers increasingly wait until the second auction to purchase properties**

At the outset of the PA 123 auctions, more properties sold at the first auction than in the second. However, since 2005, the number of properties sold at the second auction has remained higher. In recent years, the difference between the number of sales at the first and second auctions has widened substantially. By 2010, only 2 percent of sold properties sold at the first auction, down from 84 percent in 2002. Figure 4.3 shows the pattern of auction sales and the substantial rise in second auction sales after 2007, with a large increase in second auction bids in 2010. This indicates that buyers increasingly wait until the second auction to purchase properties.

**More properties sell at lower prices**

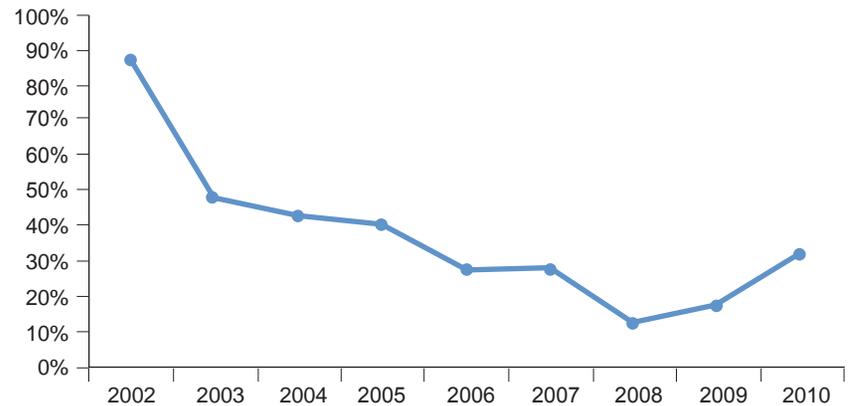
Though few properties sell at the first auction, those properties that do sell represent a substantial portion of the revenues generated by the

**Figure 4.1. Total Number of Properties Entering Auction, Detroit, 2002-2010**



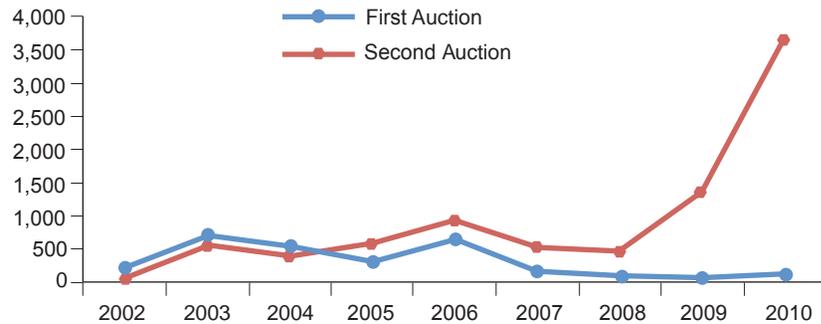
Source: Wayne County Treasurer's Office Auction Data, 2002-2010 (see Appendix A for explanation of data sources).

**Figure 4.2. Percentage of Properties Entering Auction That Sell, Detroit, 2002-2010**



Source: Wayne County Treasurer's Office Auction Data, 2002-2010, not including properties transferred to the city, county, or state under right of refusal (ROR).

**Figure 4.3. Number of Properties Bought at Each Auction, Detroit, 2002-2010**



Source: Wayne County Treasurer's Office Auction Data, 2002-2010, not including properties transferred to the city, county, or state (ROR).

auction. In the September 2010 (first) auction, the Treasurer's Office sold 86 Detroit properties for almost \$1.4 million with an average price of slightly over \$16,000. This amount represented only 2.2 percent of all properties offered at the auction but generated 15 percent of the total revenue from both auctions.

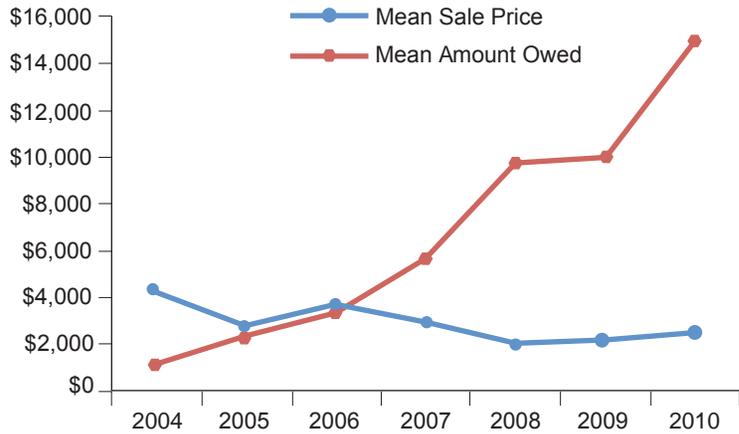
Due to the increased frequency of second auction property sales, the Treasurer's Office receives a substantially lower financial return than if more properties sold at the first auction. Moreover, 47 percent of sold properties at the second auction in 2010 sold for the opening bid of \$500, indicating not only a shift to the second auction, but also a low demand for properties in general.

### The Treasurer's Office recovers fewer taxes on properties

Diminishing returns from auction-sold properties, combined with an increasing number of properties entering auction, results in a declining rate of recovery on property taxes owed. Legislators wrote PA 123 under the assumption that redemptions before the auction and auction revenues would match or exceed the amount of taxes owed on delinquent properties (see Chapter 2). However, results from Detroit have challenged this assumption since 2009 when redemptions and auction sales first fell short of covering delinquent taxes.

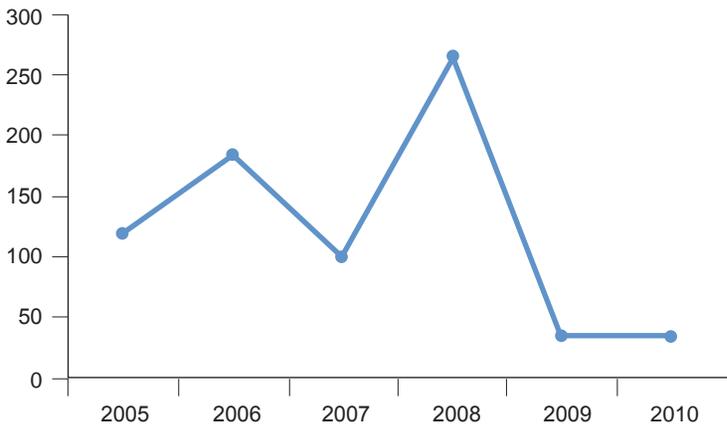
One primary reason for the shortfall in auction revenues was a substantial increase in the average amount owed per property along with a decrease in the average amount paid per property. In 2010, the average amount owed was 12 times higher than in 2004, while the average amount paid declined. Figure 4.4 illustrates this trend by comparing the mean amount owed on properties to the mean amount paid on properties from 2004 to 2010 in Detroit.<sup>2</sup> The average amount owed in taxes, fees, and interest per parcel increased from \$1,162 in 2004 to \$14,965 in 2010, while the average amount paid decreased from \$4,280 to \$2,523 over the same time.

**Figure 4.4. Tax, Fees, and Interest Owed Compared to Sale Price for Detroit Properties Sold at Auction, Detroit, 2004-2010**



Source: Wayne County Treasurer's Office Auction Data, 2004-2010. not including properties transferred to the city, county, or state (ROR).

**Figure 4.5. Total Number of Right of Refusal Properties Taken by the City of Detroit or Wayne County, Detroit, 2005-2010**



Source: Wayne County Treasurer's Office Auction Data, 2005-2010.

The large increase in properties for sale, as well as the low revenue generated by the auction and the low percentage of properties sold, places a considerable financial burden on Wayne County. These factors also burden the City of Detroit, which must repay the Treasurer's Office for the delinquent property taxes not recovered from the auction or property redemption. In 2009, Detroit owed the Treasurer's Office approximately \$63 million for delinquent taxes not covered by auction sales and redemptions.<sup>3</sup>

**Detroit and Wayne County remove few properties before the auction**

The City of Detroit or Wayne County can use right of refusal (ROR) power to remove properties from the auction for a "public purpose" (see Chapter 2). A city removes property for a multitude of reasons, including strategic land assembly and requests from nonprofits. The City of Detroit and Wayne County removed over 700 properties in the past nine years, with the Planning and Development Department of Detroit responsible for over 90 percent of those requests. This represents a small number compared to the total number of properties that entered the auction over that time period. In total, the city or county pulled only 2 percent of all properties that would have entered the auction. Figure 4.5 illustrates the volatile nature of right of refusal property removal from the auctions. While some years see many more properties taken out of the auction, no pattern of removal exists.

## Location Patterns in Foreclosed Detroit

### Properties

In addition to the trend of properties selling poorly, in the more recent years of the auction the location of properties has had a definite impact on their attractiveness in the auction. While certain areas of the city have experienced high rates of foreclosure and poor rates of sale at auction, other specific areas have remained quite healthy despite the general economic downturn and unfavorable housing market in Detroit.

### Different locations experience different rates of tax foreclosure

Figure 4.6 shows all of the tax-foreclosed properties from 2002 through 2010. Tax foreclosure affects the entire city; areas in red highlight the hardest hit areas. Analysis of several of these areas indicates that Brightmoor has a very high rate of foreclosure, the Coleman A. Young International Airport area and a small section of MorningSide also have many foreclosed properties, but North Rosedale Park has few tax foreclosures.

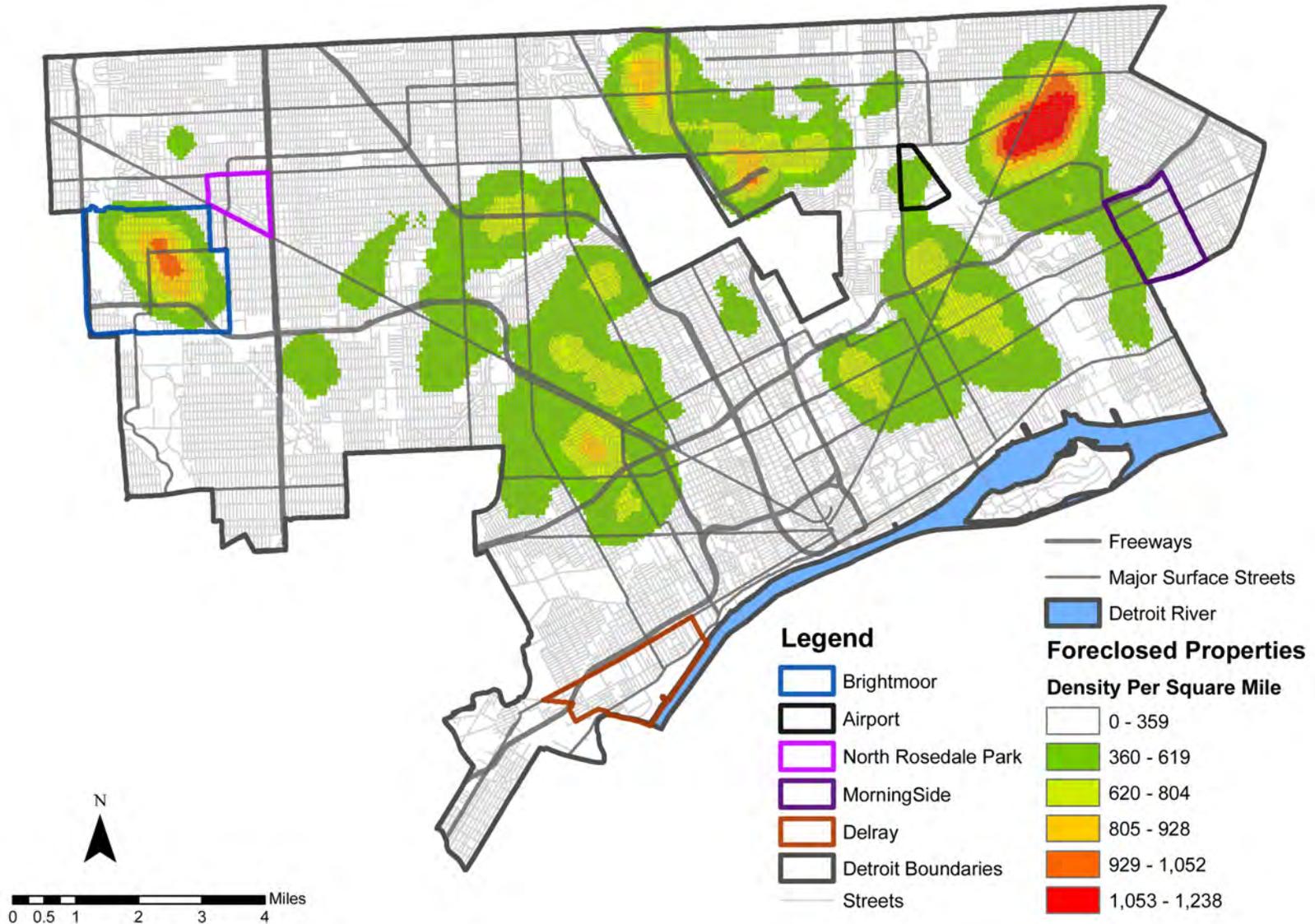
### The distribution of sold properties across the city differs from the pattern of all tax-foreclosed properties

Buyers purchase properties for a wide array of reasons. Since the beginning of the auction in 2002, sold properties have clustered around several locational “hotspots.” These clusters include areas with a high rate of nonprofit development such as the MorningSide and Brightmoor areas, as well as areas of land speculation surrounding the City Airport and the anticipated Detroit River International Crossing (now called New International Trade Crossing). Chapter 6 will further examine purchasers in those areas.

Figure 4.7 shows hotspots as areas in yellow and red. In the areas with the highest number of properties sold, the red core indicates a density of 225 through 264 properties sold per square mile. While many properties sell in these areas, the areas also have many properties subject to foreclosure.

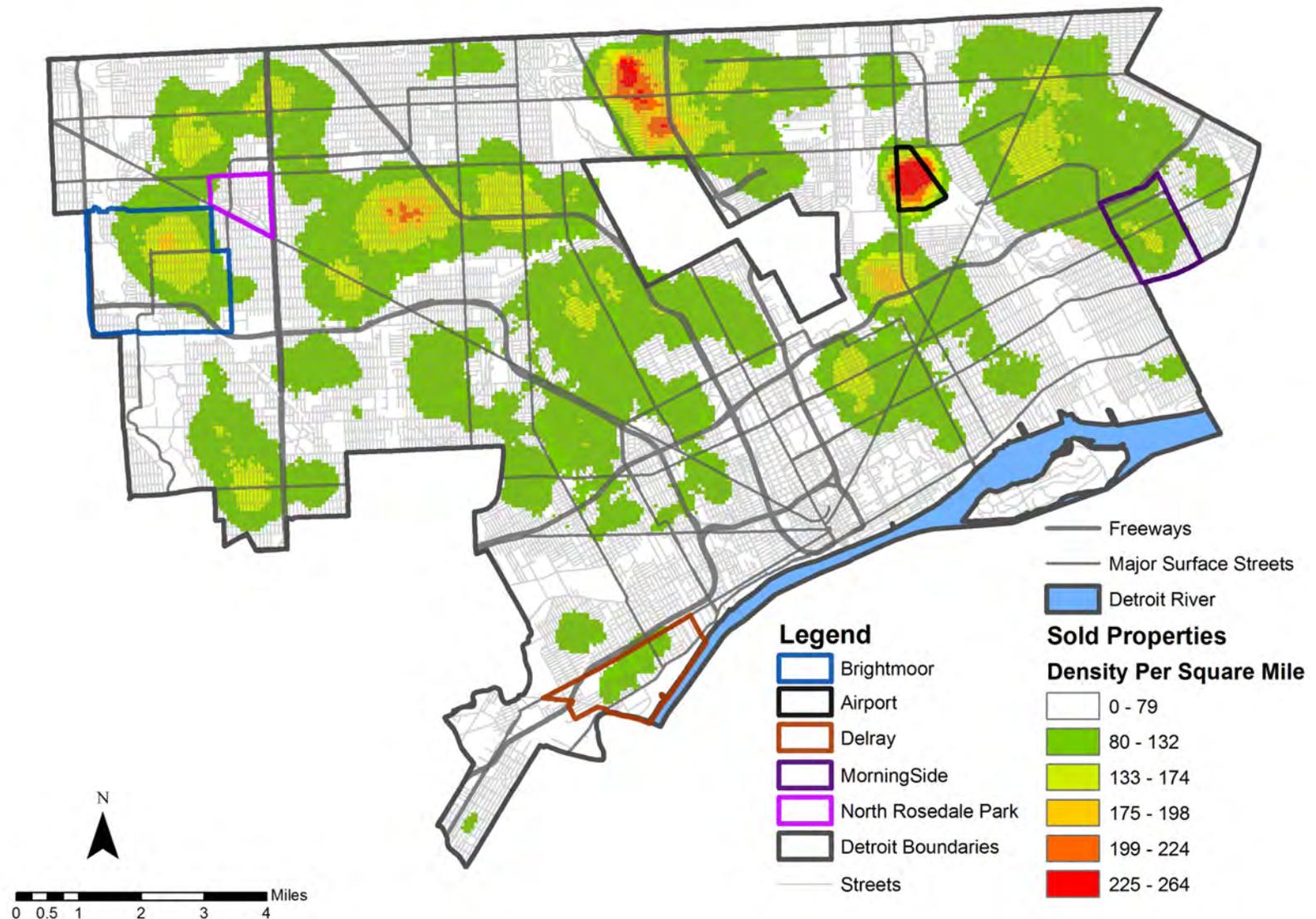
Figure 4.8 displays the vacancy rates of census block groups. A census block group generally contains 250 to 550 housing units.<sup>4</sup> Vacancy rates refer to the percent of vacant residential parcels and unoccupied residential structures compared to the total number of residential parcels within the census block group. In the areas in the darkest red, many properties enter the auction but few sell. Table 4.1 illustrates that

Figure 4.6. Density of Tax-Foreclosed Properties, Per Square Mile, Detroit, 2002-2010



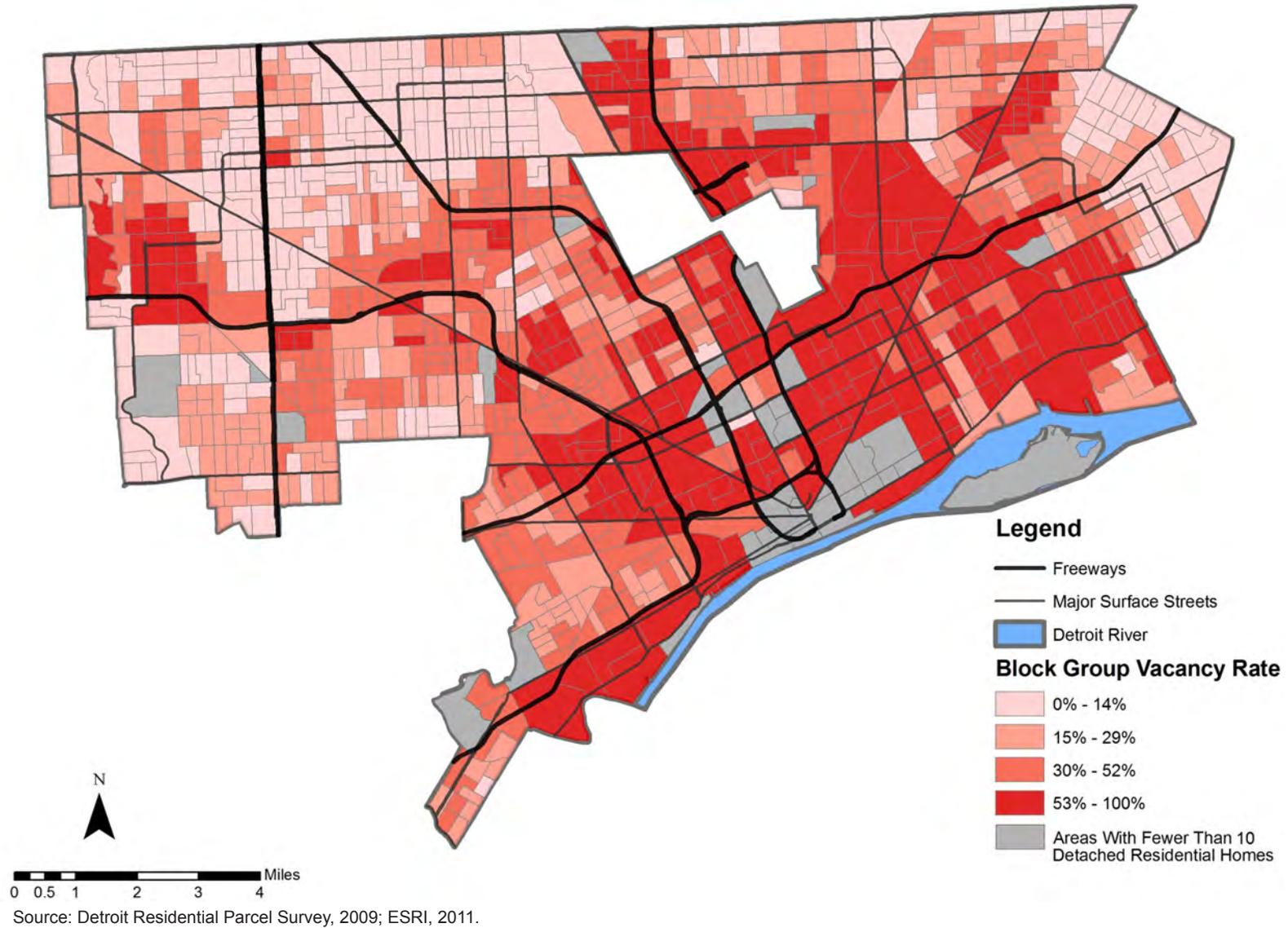
Source: Wayne County Treasurer's Office Auction Data, 2002-2010, not including properties transferred to the city, county, or state (ROR); Detroit Residential Parcel Survey, 2009; ESRI, 2011.

Figure 4.7. Density of Properties Sold at Auction, Per Square Mile, Detroit, 2002-2010



Source: Wayne County Treasurer's Office Auction Data, 2002-2010, not including properties transferred to the city, county, or state (ROR); Detroit Residential Parcel Survey, 2009; ESRI, 2011.

Figure 4.8. Residential Property Vacancy Rate, By Census Block Groups, Detroit, 2009.



areas with a high rate of vacancy have more properties entering the auction. Table 4.1 demonstrates that areas with high vacancy rates, where considerable property disinvestment has already occurred, also have lower rates of property sales and lower sales prices at the auctions. Figure 4.8 shows that the vacancy rates vary greatly across the city. The four categories of vacancies in Figure 4.8 and Table 4.1 represent an equal number of block groups in each category, also known as quartiles.

The next section will examine the foreclosure and sales pattern of five specific neighborhoods that illustrate some of the wide variation across the city.

**Table 4.1. Residential Property Vacancy Rates Compared to Numbers of Properties Offered at Auction and Sold at Auction, Detroit, 2002-2010**

Residential Vacancy Index Rate	Properties Offered	Properties Sold	Auction Sale Rate	Average Price
0-14	2472	1775	72%	\$5,690
15-29%	6101	2664	44%	\$3,561
30-52%	12134	2633	22%	\$3,070
53-100%	17247	3576	21%	\$2,141

Sources: Wayne County Treasurer's Office Auction Data, 2002-2010, not including properties transferred to the city, county, or state (ROR); Detroit Residential Parcel Survey, 2009.

## Different areas experience different outcomes

As noted above, different areas in Detroit have experienced very different outcomes from the auctions. This section focuses on five areas to provide examples of different factors that affect the rate of property sales. As Table 4.2 indicates, identified areas experienced large differences. Delray and Brightmoor had the highest foreclosure rate, while North Rosedale Park had the lowest percent foreclosed and the highest percent sold. The Airport area had the most parcels sell for \$500 or less and the second highest percent sold at auction (see Figure 4.9).

**Table 4.2. Percent of Parcels Foreclosed, Sold at Auction, and Sold for \$500 or Less, By Neighborhood, Detroit, 2002-2010**

Area	Percent of Parcels Foreclosed	Percent of Foreclosed Parcels that Sold at Auction	Percent of Properties that Sold for \$500 or less at Auction
Airport	8%	64%	75%
Brightmoor	18%	18%	58%
MorningSide	9%	36%	35%
Delray	17%	64%	34%
North Rosedale Park	2%	76%	11%

Source: Wayne County Treasurer's Office Auction Data, 2002-2010; Detroit Residential Parcel Survey, 2009.

**Figure 4.9. Overview Map of Coleman A. Young International Airport, Brightmoor, Delray, MorningSide, and North Rosedale Park, Detroit, 2002-2010**



Source: Wayne County Treasurer's Office Auction Data, 2002-2010; Detroit Residential Parcel Survey, 2009; ESRI, 2011.

### ■ Coleman A. Young International Airport Area

The area west of the Coleman A. Young International Airport on the city's northeast side is bounded by Van Dyke Avenue, East McNichols Road, French Road, and Lynch Road. It has become one of the city's most distressed areas, with high rates of population loss and disinvestment. The area is now home to a large concentration of vacant lots and vacant homes.<sup>5</sup>

Table 4.2 shows that many properties enter the auction in this area and 64 percent of these properties sell. Federal Aviation Administration (FAA) regulations require the City of Detroit to acquire property along the eastern edge of the area to create a safety buffer around the airport. The order has existed since the 1980s and has stimulated interest from property speculators. The eastern block of the area, between Gilbo Avenue and French Road, had 49 foreclosed parcels, and all of them sold. Profiteering obstructionists (see Chapter 6) bought all of these properties and also purchased a number of other properties in nearby areas amid rumors that the City of Detroit may try to expand the airport.<sup>6</sup>

### ■ Brightmoor

Located on the city's northwest side, Brightmoor's boundaries are Puritan Street, Telegraph Road, Evergreen Road, Fullerton Street, and Westwood Street. Since the 1960s, Brightmoor has experienced substantial property abandonment and is now home to one of the city's largest concentrations of vacant land.

Today, the area is home to two of the city's active community development organizations – Motor City Blight Busters and Northwest Detroit Neighborhood Development; together they demolish and build houses in Brightmoor. Habitat for Humanity had a presence in this area but recently stopped developing properties here. Table 4.2 shows that 82 percent of properties remain unsold after the auction. Three main groups of purchasers buy the properties that sell: the two nonprofit developers, side lot purchasers (residents), and bulk buyers (mostly investors). Chapter 6 will discuss these groups of buyers in further detail.

### ■ Delray

Located on the city's southwest side, Delray's boundaries are South Leigh Street, the Detroit River, West Fort Street, Dearborn Street, and Clark Street. The area has experienced high rates of property abandonment and population loss. In September 2004, the United States and Canada announced plans to study the need for a new international bridge – the Detroit River International Crossing (DRIC), subsequently renamed the New International Trade Crossing (NITC) – in the Delray area. While the majority of property in Delray offered at auction remained unsold in the years prior to 2006, bulk buyer speculators now purchase nearly all foreclosed property in the area. Todd White, an associate of the Ambassador Bridge owner and trucking magnate, Matty Moroun, bought nearly 60 percent of the properties from 2006 to 2010.<sup>7</sup>

### ■ MorningSide

Located on the city's far eastside, MorningSide boundaries are Alter Road, Harper Avenue, Whittier/East Outer Drive, and Mack Avenue. The area has beautiful brick homes built in the 1920s. Today, most of MorningSide remains a stable, owner-occupied, diverse neighborhood. Since the 1980s, however, residents along the western edge of MorningSide have fled, resulting in population loss, disinvestment, and property abandonment on several blocks. In the late 1990s, U-SNAP-BAC, a nonprofit community development corporation, began development of a 16-block area south of East Warren Avenue. As shown in Table 4.2, some 36 percent of MorningSide properties sell at auction, with speculators and investors responsible for 90 percent of purchases. Recently, property along the western edge of the area remained unsold after the auction.

### ■ North Rosedale Park

Located on the city's northwest side, North Rosedale Park boundaries are Grand River Avenue, Evergreen Road, McNichols Road West, and Southfield Road. Developed in the 1920s and 1930s, the neighborhood is still one of the city's most prosperous neighborhoods, known for its large, stately, brick homes. Due to high housing values, few properties have entered tax foreclosure, although mortgage foreclosure is more common. Like most of the city, North Rosedale Park faces some instances of tax foreclosure, although all of the residential structures offered at auction have sold because of the neighborhood's desirable

characteristics. Commercial properties and vacant residential lots also typically sell, although at a lower rate.

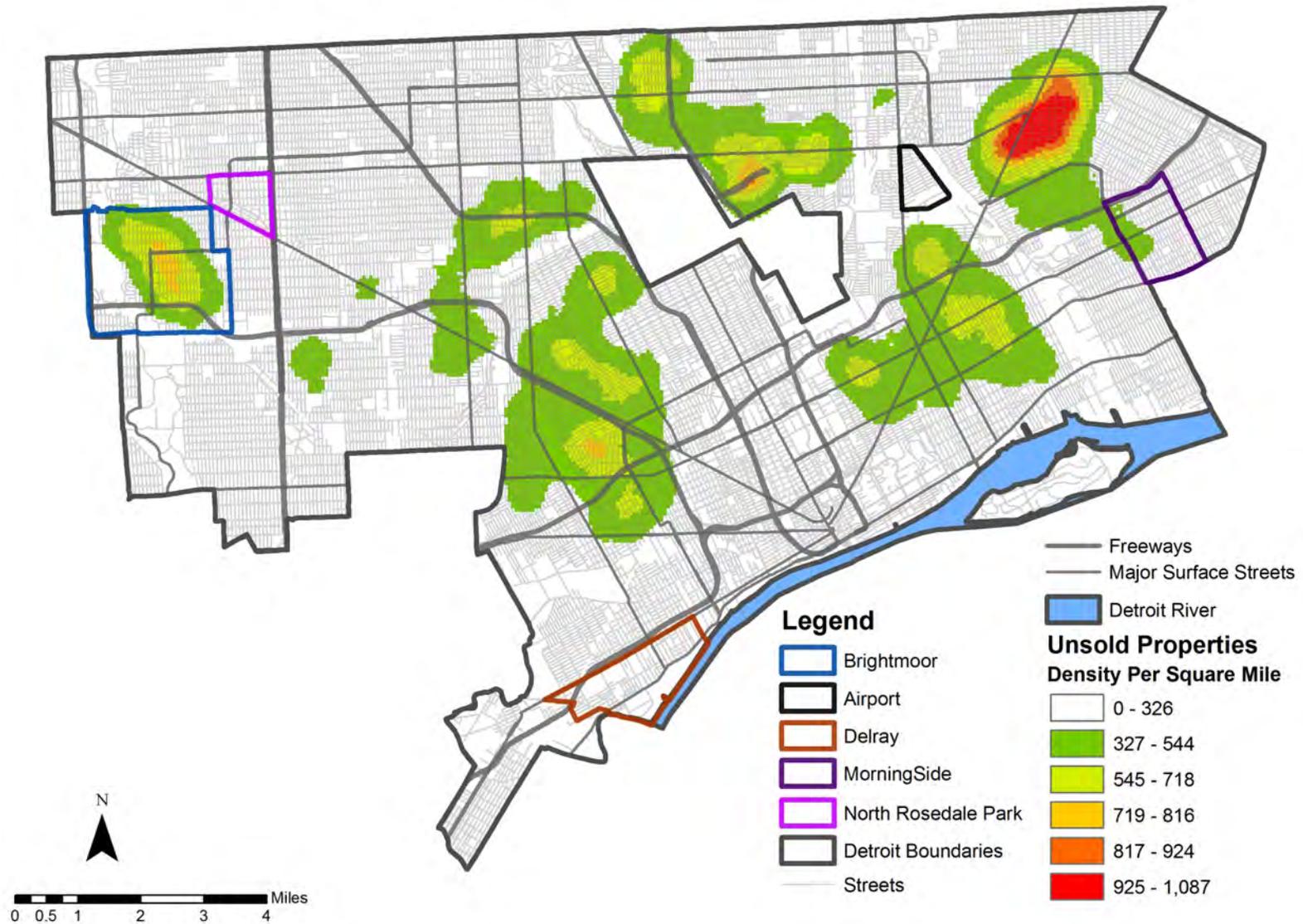
### Properties left unsold demonstrate the low demand for property throughout Detroit

In Detroit, the distribution of unsold properties from the auction is more concentrated than those properties that sold. Figure 4.10 illustrates this pattern. Unsold property is concentrated in Brightmoor and in the northeast part of the city. In these hard-hit areas, density of unsold properties reaches over 900 unsold properties per square mile. Law demand for property affects the entire city; however, areas in red highlight the hardest hit areas.

### Characteristics of Properties Sold

The characteristics of a property also affect not only the price paid at auction but whether it sells at all. This section examines the price paid and the percent sold by property use. It categorizes property type into commercial/industrial lots and structures, residential structures, or vacant residential lots using the 2009 Detroit Residential Parcel Survey (DRPS). This section only assesses 2008 and 2009 auction results because these years are closest to DRPS that took place in August and September 2009.

Figure 4.10. Density of Unsold Properties, Per Square Mile, Detroit, 2002-2010

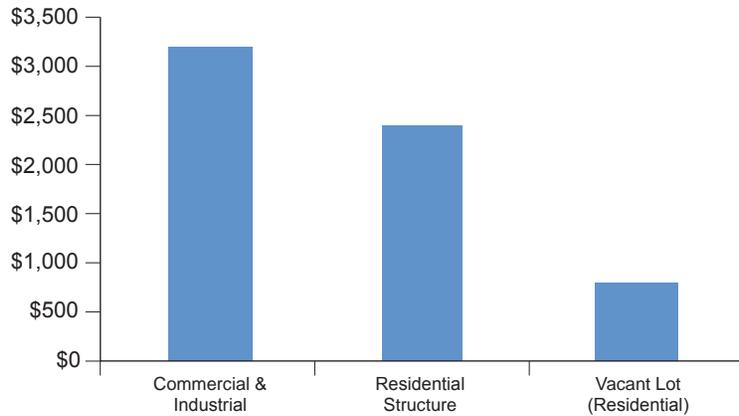


Source: Wayne County Treasurer's Office Auction Data, 2002-2010; ESRI, 2011.

Average price paid varies by property type

Prices paid for properties vary by property type. Figure 4.11 illustrates that commercial/industrial properties (including both lots and structures) received the highest bids, while vacant residential lots received the lowest bids.

**Figure 4.11. Average Price Paid, By Property Type, Detroit, 2008-2009**

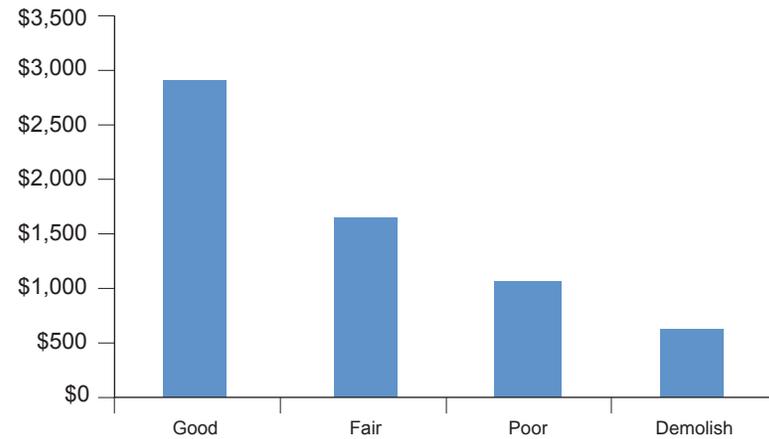


Source: Wayne County Treasurer's Office Auction Data, 2008-2009, including properties transferred to the city, county, or state (ROR); Detroit Residential Parcel Survey, 2009.

Average price paid varies by property condition

In general, properties in better condition sold for higher amounts than those in poor condition. Notably, residential structures' sale prices were highest for properties in the best condition. These findings are consistent with expectations that properties in better condition are likely to sell for a higher amount at auction.

**Figure 4.12 Average Price Paid for Residential Structure, By Condition Rating, Detroit, 2008-2009**

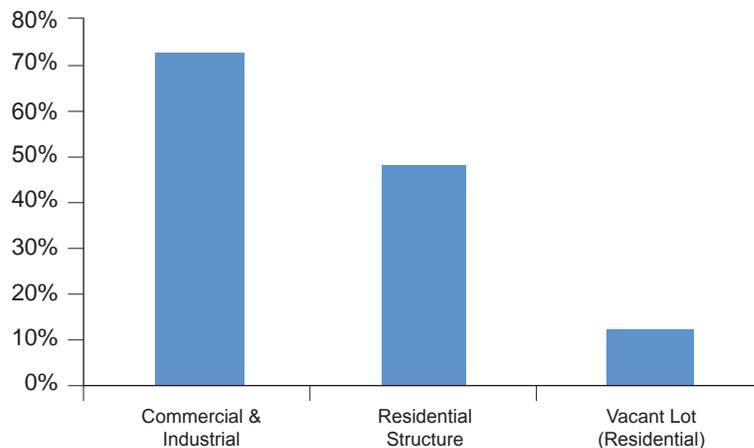


Sources: Wayne County Treasurer's Office Auction Data, 2008-2009; Detroit Residential Parcel Survey, 2009.

## Property type influences sales rate at auction

The type of property affects the likelihood that a property will sell at auction. Figure 4.13 shows that only 6 percent of the 6,601 vacant lots offered at auction sold between 2008 and 2009. This is substantially lower than the 24 percent of the 4,528 residential structures that sold, and the 37 percent of the 958 commercial/industrial properties that sold. Additionally, vacant commercial/industrial parcels are included in the commercial/industrial group while vacant residential lots are not, due to more data on residential lots.

**Figure 4.13 Percentage of Properties Sold at Auction, By Use, Detroit, 2008-2009**



Source: Wayne County Treasurer's Office Auction Data, 2008-2009, not including properties transferred to the city, county, or state. Detroit Residential Parcel Survey, 2009.

## Conclusion

Detroit and Wayne County face increasing numbers of properties entering auction, a loss in the amount paid, and an increase in the taxes owed. The different prices and sales rates observed by property use, location, and condition demonstrate that, even with limited information, many bidders have researched properties enough to differentiate among properties. This finding informs Chapters 7 and 8, which propose ways to increase net revenue from the auctions and to increase positive reuse of property after sale at auction.

The next two chapters will provide more detail on what happens to properties after they sell at the auctions and analyze the different types of people who buy these properties.

## Notes

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- <sup>1</sup> Interview with Jim Bickley, Wayne County Treasurer's Office, January 14, 2011.
- <sup>2</sup> 2002 and 2003 data do not have minimum bid information and are excluded
- <sup>3</sup> Interview with Jim Bickley, Wayne County Treasurer's Office, January 14, 2011.
- <sup>4</sup> U.S. Census Bureau, "Census Blocks and Block Groups," accessed April 2011, <http://www.census.gov/geo/www/GARM/Ch11GARM.pdf>.
- <sup>5</sup> Detroit Residential Parcel Survey, 2009.
- <sup>6</sup> The Boyd Group/ASRC, Inc., "Vision: 2005: Detroit City Air Center, Re-Framing for the Future," Detroit, 2005.
- <sup>7</sup> Wayne County Treasurer's Office Auction Data, 2002-2010. See Appendix A.

CHAPTER **5**

**THE FATE OF DETROIT PROPERTIES SOLD AT AUCTION**

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





**E**xamining what happens to properties after their purchase at an auction offers useful lessons and ideas for improving future auctions. Sold properties have varying outcomes years after the auction, including changes in condition, use, and ownership. Properties often undergo a change from owner to renter occupancy after purchase by a large-scale investor; this usually coincides with marked declines in maintenance and occupancy. Strong patterns emerge in comparing outcomes by use (such as commercial or residential), neighborhood, location, condition of the property at the time of the auction, and the economic conditions at time of sale.

Throughout this chapter, the three types of property uses are vacant lots, residential structures, and commercial/industrial properties. Figure 5.1 defines these categories.

## Reuse and Investment Outcomes by

### Property Type

Based on a random sample<sup>1</sup> of properties auctioned from 2002 through 2008, the following sections explain what happens to properties after the auction and why these changes occur. Comparison of investment and reuse indicators with a number of property characteristics

#### Figure 5.1. Definitions

**Vacant Lots:** The vacant lot category includes all properties without structures in residential zoning areas.

**Residential Structures:** The residential structure category includes all residential structures with four or fewer units.

**Commercial and Industrial Properties:** The commercial and industrial category includes all commercial and industrial properties with or without structures, all residential structures with five or more units, and all mixed-use structures with any number of housing units that also include a commercial use.

reveals a number of clear relationships. Investment and reuse are not synonymous. Reuse demonstrates a commitment of time and energy, while investment requires a financial commitment. Reuse can occur without significant investment – especially in vacant lots – but investment rarely occurs without reuse. Figure 5.2 describes the differences in the various categories of reuse and investment.

**Figure 5.2. Definitions**

**Vacant Lots:**

Reuse: The owner or occupant uses the parcel for parking or by mowing the grass, for example, or by making temporary improvements such as adding lawn chairs; and/or performs regular upkeep, including mowing and litter removal.

Investment: The owner or occupant makes permanent improvements that add value to the land, such as installing fencing, building playground equipment, paving or gardening.

**Residential Structures:**

Reuse: The new owner occupies or rents the property, and the owner or occupant performs exterior upkeep, such as sweeping and clearing mail.

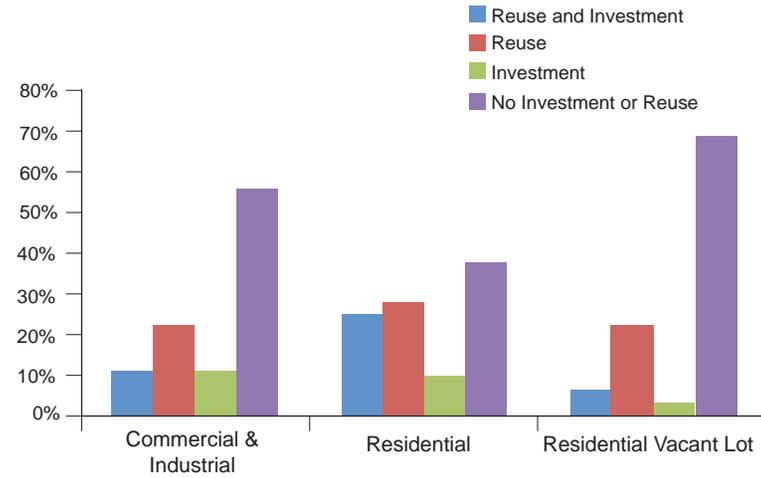
Investment: The new owner expands or improves the property to increase its value or voluntarily demolishes an unsound property and reuses the resulting vacant lot in a manner consistent with the lot reuse definition.

**Commercial and Industrial Structures:**

Reuse: The new owner or occupant uses the structure and performs upkeep, such as litter removal or sweeping.

Investment: The new owner expands or updates the property to increase its value or attract tenants or demolishes an unsound property and reuses the resulting vacant lot in a manner consistent with the lot reuse definition.

**Figure 5.3. Reuse and Investment Rates for Sampled Properties, By Property Type When Sold, Detroit, 2002-2008**



Source: Wayne County Treasurer’s Office Auction Data, 2002-2008; Field Research, 2010; Wayne County Register of Deeds, 2002-2010. (See Appendix A for details on data sources).

As Figure 5.3 suggests, a significant share of properties show signs of reuse after the auction, although financial investment is less common. The residential structure and commercial property categories show more investment than the vacant lot category. Reuse without investment is very common among vacant lots. In general, reuse and investment rates relate to the purchase price. Purchasers more often invest in properties with higher purchase prices and more often reuse property with lower purchase prices.

Property owners reuse or invest in their properties for a variety of reasons. Some common changes include residential properties' becoming rental properties or neighboring residents' purchasing adjacent vacant lots to expand their yards. Vacant lots, residential structures, and commercial/industrial properties often have different outcomes due to their different characteristics.

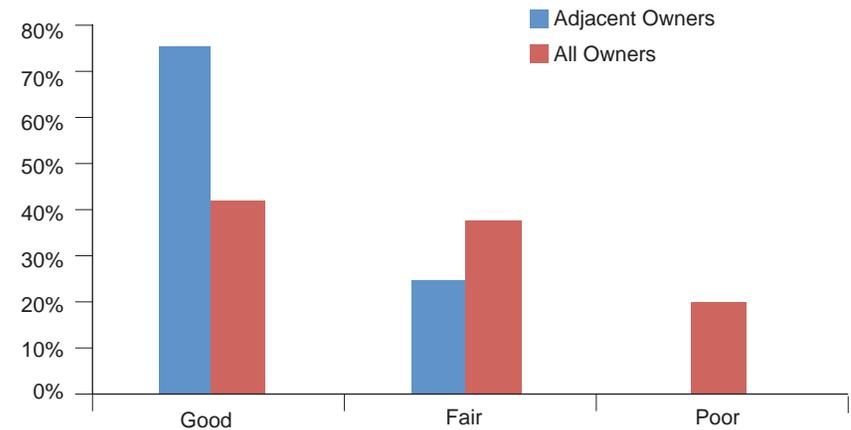
**Vacant lots**

As Figure 5.4 illustrates, a considerable majority of the sample of properties sold at auction as vacant lots are now in either "good" or "fair" condition. Lots in "good" condition exhibit maintenance, lots in "fair" condition need minor yard work, and lots in "poor" condition require significant attention to address downed trees, illegal dumping, and exceptional overgrowth.

Adjacent homeowners account for nearly 5 percent of vacant lot purchases and often have a greater stake in the condition of the lots they purchase. As Figure 5.4 indicates, adjacent property owners who buy side-yards maintain their properties better than all buyers (including adjacent owners) do overall.

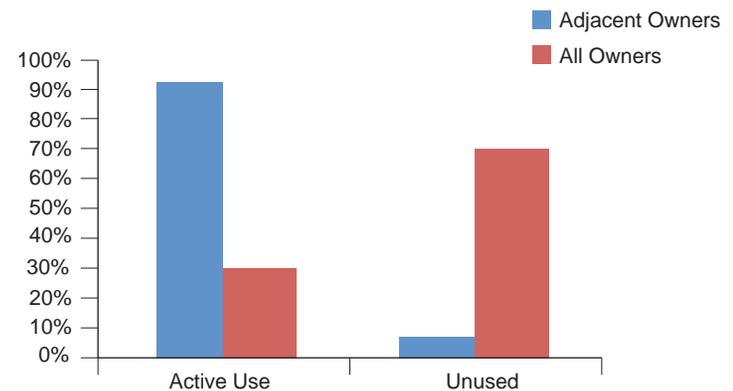
Adjacent property owners are also more likely to reuse their vacant lots in comparison to all owners. As Figure 5.5 illustrates, neighboring residents are nearly three times more likely to reuse their property in a productive manner, typically as parking areas or recreational spaces.

**Figure 5.4. Condition of Sample of Properties Sold as Vacant Lots to Adjacent Owners Compared to All Owners, 2002-2008**



Source: Wayne County Treasurer's Office Auction Data, 2002-2008; Field Research, 2010.

**Figure 5.5. Current Rates of Reuse of Properties Purchased as Vacant Lots by Adjacent Homeowners and All Owners, 2002-2008**



Source: Wayne County Treasurer, 2002-2008; Field Research, 2010; Data Driven Detroit, 2009.

Property owners who reuse vacant lots, whether or not they live next door, demonstrate creativity and dedication in their efforts to reuse vacant lots bought at auction. These uses include, but are not limited to, rose gardens, dog-training areas, horseshoe pits, family playgrounds, and basketball courts. Figure 5.6 shows a property purchased at auction in 2006. The current owner purchased the vacant house next door, demolished it, and built this basketball court in its place.

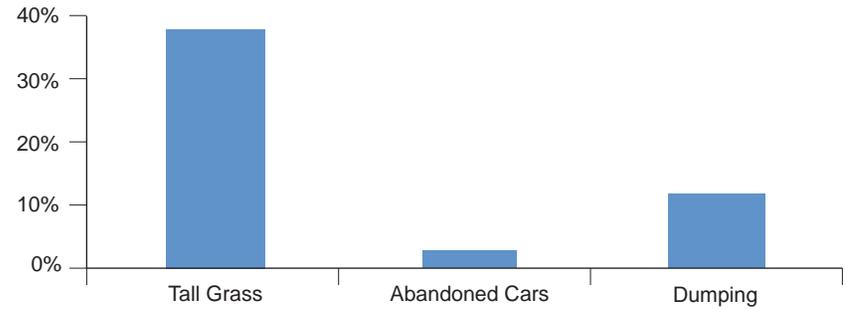
Despite examples like the basketball court, many vacant lots suffer from disinvestment and neglect. Many of the lots purchased at auction have one or more of a range of indicators of neglect. Figure 5.7 shows the prevalence of some signs of neglect.

**Figure 5.6. Basketball Court Built on Property Bought in the Auction, Detroit, 2006**



Source: Google.com, 2011; Wayne County Treasurer, 2002-2008; Field Research, 2010; Wayne County Register of Deeds, 2010.

**Figure 5.7. Percentage of Vacant Lots in Sample Sold Between 2002 and 2008 with Common Signs of Neglect, Detroit, 2010**



Source: Wayne County Treasurer's Office Auction Data, 2002-2008; Field Research, 2010.

Nearly 40 percent of the sampled vacant lots had illegally tall grass – grass higher than eight inches. Less significantly, but still prevalent, were other related neglect indicators such as dumping, which affected nearly 15 percent of vacant lots, and abandoned cars, which affected nearly 5 percent of properties sold at auction that are now vacant lots. These frequently occurring code violations substantially detract from a neighborhood's attractiveness and produce many negative outcomes for nearby residents.

### Residential Structures

Of the three property types sampled, residential structures face the most challenges after tax foreclosure. As Figure 5.8 indicates, many

single-family houses and duplexes suffer from poor maintenance or need to be demolished at the time of the auction. The average conditions deteriorate rapidly after purchase at auction.

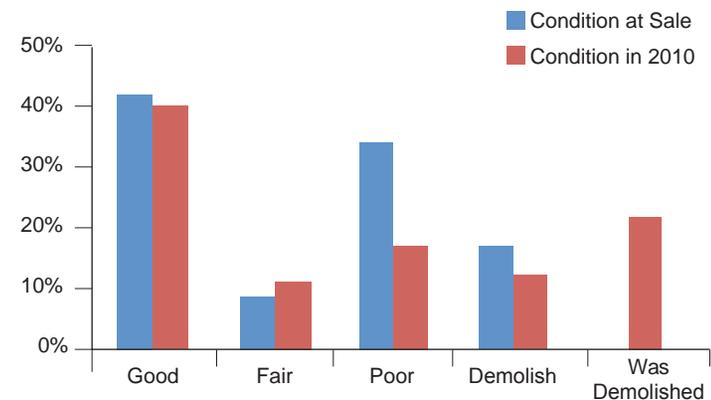
Many residential structures bought at auction show signs of further disinvestment after sale at auction. In many cases, occupied houses become vacant houses, and vacant houses become vacant lots. Demolition is the only significant “investment” in many properties, for which the City of Detroit bears the cost in more than two-thirds of the cases.<sup>2</sup>

More than 21 percent of the auctioned homes in the sample have now been demolished, and many more properties show signs of disinvestment. Residential properties sold in the tax foreclosure auctions often show a number of disinvestment indicators such as blight violations, demolition, rental unit conversion, suspected mortgage fraud, or being vacant, open, and dangerous (VOD). Disinvestment creates chronic problems for neighborhoods, as nearly 40 percent of properties suspected of flipping or mortgage fraud are subject to subsequent tax foreclosure, in contrast to a rate of 28 percent for all properties bought at auction. Figure 5.9 illustrates the different problems currently facing these properties. Figure 5.10 shows the definitions that Figure 5.8 used for some of these conditions. A home can suffer from one, several, or all of these problems:

- Fire and safety hazards
- Magnets for dumping and other blight violations
- Targets for thieves who take furnaces, water heaters, and metal piping
- Catalysts for an increase in crimes such as graffiti, gang hangouts, and a general feeling of neighborhood disarray and lawlessness

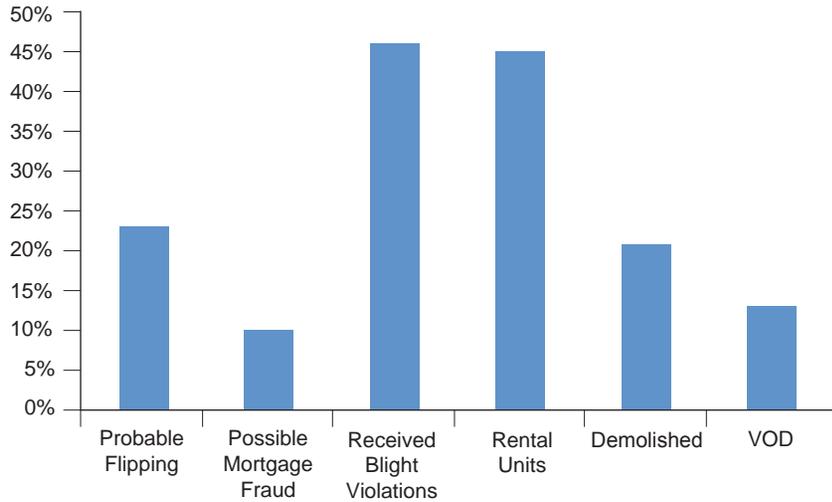
These changes lead to destabilization of neighborhoods and loss of property values.

**Figure 5.8. Housing Condition Among Sample of Auctioned Homes and Duplexes When Sold, Between 2002 and 2008, Detroit, 2010**



Source: Wayne County Treasurer's Office Auction Data, 2002-2008; Field Research, 2010; Data Driven Detroit, 2009.

**Figure 5.9. Housing Currently Facing Disinvestment Indicators, Among Sample of Homes Sold at Auction, Between 2002 and 2008, Detroit, 2010**



Source: Wayne County Treasurer’s Office Auction Data, 2002-2010; Field Research, 2010; Detroit Department of Administrative Hearings, 2010; Wayne County Register of Deeds, 2010.

**Figure 5.10. Definitions of Selected Disinvestment Indicators**

- **Flipping:** Buyers resold auctioned properties for a profit within 12 months of the auction.
- **Mortgage Fraud:** Banks foreclosed on a home within two years of issuing a mortgage that was considerably larger than the amount paid for the building.
- **Vacant, Open, and Dangerous (VOD):** Vacant houses are not properly boarded and can be easily entered.

**Resale Rate**

One of the strongest predictors of disinvestment is resale rate. Sampled residential structures were more likely to show signs of disinvestment if they sold more than once after the auction. Of the homes resold after auction, 69 percent were tax delinquent as of 2011, the Treasurer’s Office foreclosed on 28 percent for unpaid taxes, and 14 percent are now city-owned. Many properties suffer from more than one of these disinvestment indicators. This cycle of reselling and disinvestment has the potential to destroy structures and pose challenges for surrounding properties.

Figure 5.11 shows a property on the city’s northeast side that illustrates this destructive process. When this property entered tax foreclosure in 2003 it was owner-occupied and in “fair” condition. The property was sold five times following the auction, was suspected of mortgage fraud and flipping, and went through mortgage foreclosure. Additionally, the property was a victim of arson and received blight violations for abandoned cars, rodent harborage, and improper storage of hazardous waste.<sup>3</sup> For each of the three blight violations, the owner failed to appear in court. The property reentered tax foreclosure in 2010 and did not sell at auction.

**Figure 5.11. Disinvested Home, Detroit, Initially Foreclosed Upon in 2003**



Source: Google Maps, accessed February 2011, <http://www.google.com>.

## Commercial and Industrial

Among the three major property types, commercial properties may have the best outcomes. Commercial and industrial structures show high rates of investment and reuse with few signs of disinvestment, while commercial businesses frequently reuse neighboring commercial vacant lots. Figure 5.12 shows the parcel outline of a commercial lot

purchased by the adjacent business for use as overflow parking. This type of reuse is typical among commercial lots. Nearly all sampled commercial lots exhibited signs of reuse, although none had signs of investment beyond paving or fencing.

**Figure 5.12. Parcel Outline of a Commercial Vacant Lot Used as Parking, Detroit, Foreclosed Upon and Sold at Auction in 2009**



Source: Bing Maps, accessed February 2011, <http://www.bing.com>; Wayne County Treasurer's Office Auction Data, 2009; Detroit Residential Parcel Survey, 2009.

In comparison to commercial lots, commercial structures have a wide range of outcomes after purchase at auction. Some commercial structures show small signs of investment but no use. Nearly all commercial structures in the sample were vacant, yet many received some amount of new investment after purchase at auction. Figure 5.13 depicts a typical commercial structure from the sample; it shows some level of upkeep but appears to be vacant. In this instance, the owner

spent \$20,000 on cosmetic and structural improvements, according to building permit data.

**Figure 5.13. Typical Sampled Commercial Structure, Detroit, Foreclosed Upon and Sold at Auction in 2003**



Source: Authors, 2010.

## Reuse and Investment Outcomes by

### Location

Reuse and investment also vary by location. Some neighborhoods show few vacancies while others experience widespread abandonment. Neighborhood context has a considerable effect on property outcome.

As Table 5.1 shows, a higher percentage of properties sold in neighborhoods with low vacancy rates were in good condition in 2009. A quarter of all census block groups fall into each of the residential vacancy rate categories.

**Table 5.1. Condition of All Residential Structures Sold at Auction, By Block Group Residential Structure and Lot Vacancy Rate, Detroit, 2009**

Residential Vacancy Rate	Housing Condition in 2009			
	Good	Fair	Poor	Demolish
0-14%	86%	12%	2%	0%
15-29%	78%	17%	4%	1%
30-52%	63%	22%	11%	4%
53-100%	40%	27%	21%	13%

Source: Wayne County Treasurer’s Office Auction Data 2002-2010; Detroit Residential Parcel Survey, 2009; ESRI, 2011.

Two Detroit neighborhoods, Brightmoor and MorningSide, especially indicate how property outcomes differ in areas within separate vacancy rate categories. With one of the city’s highest vacancy rates, Brightmoor illustrates typical property outcomes in the city’s more distressed areas. In comparison, MorningSide, with an average vacancy rate, illustrates property outcomes that are typical of more city neighborhoods.

## Brightmoor

Brightmoor, a residential area in northwestern Detroit (see Chapter 4), is among the areas most affected by tax foreclosures. Between 2002 and 2010, more than 18 percent of all area parcels entered the foreclosure auctions, and only 18 percent of Brightmoor properties entering the auctions ultimately sold.

Large-scale buyers are active in Brightmoor but are more likely to purchase residential and commercial structures. In general, Brightmoor houses sold at auction are in poorer condition than those in Brightmoor overall. For example, 80.5 percent of Brightmoor houses were in “good” condition in 2009, while only 63.3 percent of auctioned houses were in “good” condition. Figure 5.14 depicts several of the properties that have sold at auction.

At the time the properties sold at auction, three of the four properties had single-family homes present, albeit in varying states of disrepair, as shown in the Treasurer’s photographs in the left column of Figure 5.14. By 2010, two of the structures that sold at auction were demolished, as shown in the Treasurer’s photographs in the right column of Figure 5.14. The remaining house showed further deterioration, and the vacant lot remained unchanged.

Figure 5.14. Examples of Properties in Brightmoor, Detroit



Source: Wayne County Treasurer’s Office Auction Data, Pictures, 2002-2008; Authors, 2010. Field Research, 2010.

In general, the outcomes for properties in Brightmoor that enter the tax foreclosure auctions tend toward vacancy and not reuse, contributing little in the way of tax receipts or benefits to the area and the city. At present, the city government is the eventual custodian of nearly 80 percent of Brightmoor properties that enter tax foreclosure auctions.

### MorningSide

While the Brightmoor area demonstrates an extreme example of abandonment in Detroit, MorningSide, a residential neighborhood on the city's eastside, is an area with considerably more housing demand. Properties in MorningSide are less likely to go into tax foreclosure than in Brightmoor. Between 2002 and 2010, tax foreclosure affected fewer than 10 percent of all neighborhood parcels. Of the properties that enter the foreclosure auction, most of which are in the neighborhood's western half, the auction sale rate exceeds 36 percent.

As Figure 5.15 shows, properties in MorningSide selling at auction tend toward better outcomes than in Brightmoor. In MorningSide, auction purchasers improved both residential structures identified in a sample of properties that sold at auction. Vacant lots identified in the sample showed improved maintenance since selling at auction.

Figure 5.15. Examples of Properties in MorningSide, Detroit



Source: Wayne County Treasurer's Office Auction Data, Pictures, 2002-2008; Authors, 2010. Field Research, 2010.

Despite the more positive outcomes in MorningSide, auctioned properties are still more likely to be in disrepair than other properties in the neighborhood. In general, houses in MorningSide sold at auction are in poorer condition than neighborhood homes overall, including those sold at auction. For example, 91 percent of MorningSide homes were in “good” condition in 2009, while only 80.9 percent of auctioned MorningSide homes were in “good” condition. In MorningSide and in Detroit’s more stable neighborhoods, the range of outcomes for properties selling at auction includes significant reinvestment. This is a testament to the potential for auctions to match properties with buyers inclined toward reuse in Detroit’s more stable neighborhoods.

## Condition Outcomes over Time

Just as type, events since the auction, and location affect property outcomes, the time of sale and prevailing economic climate influence the ultimate fate of properties. As Table 5.2 indicates, houses sold in 2002 had positive outcomes – nearly all properties are in “good” or “fair” condition in 2009. However, rates of reuse and investment declined each successive year. Properties sold in 2007 had the worst outcomes of all properties sold between 2002 and 2007.

**Table 5.2. Condition of All Residential Structures Sold at Auction, Between 2002 and 2007, Detroit, 2009**

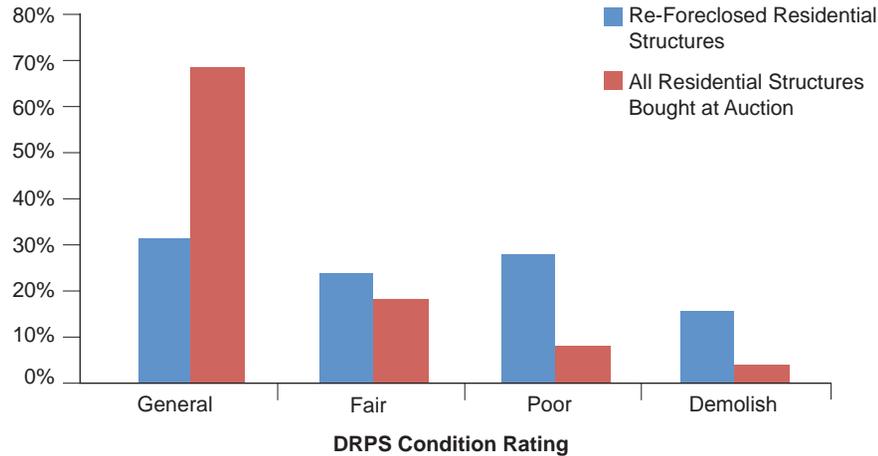
Year Sold	Housing Condition in 2009				Housing Vacancy in 2009	Percent Demolished by 2010
	Good	Fair	Poor	Demolish		
2002	79%	10%	10%	2%	27%	6%
2003	64%	18%	11%	7%	38%	14%
2004	48%	23%	19%	11%	51%	11%
2005	47%	23%	19%	12%	54%	7%
2006	41%	28%	21%	10%	56%	7%
2007	38%	29%	23%	11%	62%	4%

Source: Wayne County Treasurer Auction Data, 2002-2007; Detroit Residential Parcel Survey, 2009; Detroit Buildings, Safety Engineering and Environmental Department, 2002-2010.

## Properties Returning to Foreclosure

Among all auctioned property outcomes, subsequent re-foreclosure may be one of the most destructive. Between 2002 and 2007, 28 percent of properties bought at auction returned to tax foreclosure within an average of nearly four years. This means that more than one-fourth of the properties bought at auction paid little to no property tax. Many of the buyers of these properties were large-scale bulk buyers who purchased hundreds of properties. Of the 1,493 properties that were subject to foreclosure twice, 40 percent of them belonged to bidders who had bought at least 20 properties.

**Figure 5.16. Condition in 2009 of All Residential Structures Sold at Auction Compared to Those Sold from 2002 to 2007 Returned to Tax Foreclosure, Detroit**



Source: Wayne County Treasurer, 2002-2010; Detroit Residential Parcel Survey, 2009.

In total, 62 percent of these re-foreclosed properties are vacant land compared to 31 percent of all purchased properties. As Figure 5.16 illustrates, residential structures subject to multiple foreclosures end up in worse condition than residential structures as a whole.

## Conclusion

In most cases, the process of tax foreclosure and subsequent sale at auction leads to discernible, dramatic, and lasting changes in ownership type, condition, and occupancy. The fate of a property is highly related to the property type and location. Finally, the fate of a property also relies on the type of buyer who purchases the property; Chapter 6 will discuss the types of buyers in more depth.

## Notes

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- <sup>1</sup> See Appendix B for a detailed description of the sample assessment methods.
- <sup>2</sup> Detroit Buildings, Safety Engineering and Environmental Department, 2002-2010. See Appendix A.
- <sup>3</sup> Detroit Department of Administrative Hearings, 2011. See Appendix A.



CHAPTER 6

PEOPLE IN THE AUCTION



From Revenue to Reuse:  
Managing Tax-Reverted Properties in Detroit



The types of people who purchase properties at auction and what they do with their properties suggest ways to modify the auction process to encourage the productive reuse of properties. Productive reuse of property can be as intensive as renovating a structure for sale or as simple as maintaining a side lot. Many different types of purchasers acquire properties, and each buyer type follows a different purchasing pattern. Since 2002, the auctions have attracted more than 2,100 bidders from throughout Michigan, across the continental United States, and from three foreign countries. As Figure 6.1 illustrates, Wayne County's tax foreclosure auctions have attracted bidders from 36 states, although Michiganders purchase more than 90 percent of property.

Purchasers fall into three general categories: residents and business owners, nonprofit organizations, and bulk buyers. Each of these groups has an influence on the use of properties after the auction. Bulk buyers have the most influence on the use of properties after the auction because they purchase the largest number of properties. Since the first auctions in 2002, 11 buyers have purchased 24 percent of the properties sold at all auctions combined. This is more than twice the number of properties bought by the 1,127 purchasers in the smallest category. Individual Detroit residents – those who are not part of a larger organization or buying bulk quantities of property – often use the auction as an opportunity to purchase property for personal use. The auction provides an opportunity for individuals to buy a house or allows

property owners to enlarge their properties by purchasing adjacent lots to use as side yards or parking. As Table 6.1 shows, only 10 percent of properties have gone to buyers purchasing only one property, although 1,127 – or 51 percent – of the 2,180 total buyers fall into this category. Detroit residents make up 65 percent of purchasers of one property. Detroit residents and business owners buy approximately 40 percent of all properties at the auction.

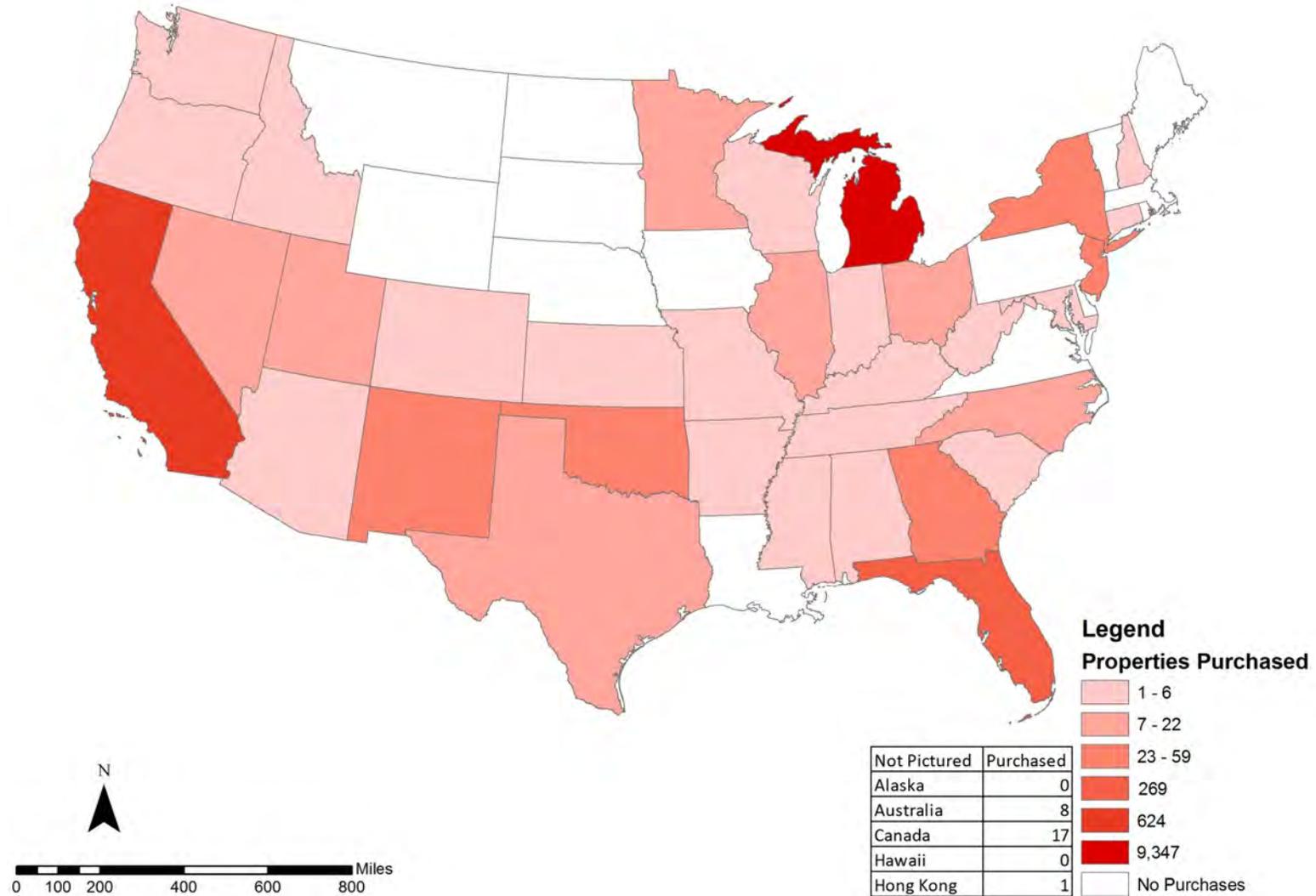
**Table 6.1. Distribution of Property Purchases at Auction, Detroit, 2002-2010**

Properties Purchased	Number of Purchasers	Total Properties Purchased	Percent of Properties Purchased	Most Common Bidder Type
1	1,127	1,127	10	Residents
2 to 10	888	3,303	30	Business & Investors
11 to 30	108	1,832	17	Investors & Nonprofits
31-80	46	2,145	19	Nonprofits
Over 80	11	2,664	24	Large Buyers
<b>Total</b>	<b>2,180</b>	<b>11,071</b>	<b>100</b>	

Source: Wayne County Treasurer's Office Auction Data, 2002-2010 (See Appendix C for information about purchaser research sources).<sup>1</sup>

The following sections of this chapter will analyze the different patterns of buying of the different participants in the auctions.

Figure 6.1. Distribution of Properties Purchased, By State, United States, 2002-2010



Source: Wayne County Treasurer's Office Auction Data, 2002-2010; ESRI, 2011.

## Residents and Business Owners

Individuals who purchase properties at the auction do so for a variety of reasons:

### Buyers expand the size of current property

Adjacent homeowners have purchased more than 120 vacant lots – or more than 4 percent of all vacant lots sold – usually to make improvements to their properties. Such improvements include adding outdoor space, constructing accessory structures, or erecting garages. By bearing the burden of lot maintenance, the property owner reduces the financial strain placed on local governments and increases the strength of Detroit’s real estate stock.

Side lot purchases represent a small but significant market for auctioned properties. According to the side lot purchasers themselves, they make the investment in their properties for several reasons, including the ability to ensure a sufficient level of maintenance, to create a safe area for children to play, or to allow for recreational uses too large for a typical lot – such as hoop houses or swimming pools. Due to these personal use reasons for purchasing a side lot, side lot purchasers often purchase in otherwise distressed areas. Figure 6.2 shows where the 120 identified side lot purchasers bought property.

From the perspective of the Treasurer’s Office, this may be a desirable purchasing pattern since other buyers show less interest in areas with high vacancy rates.

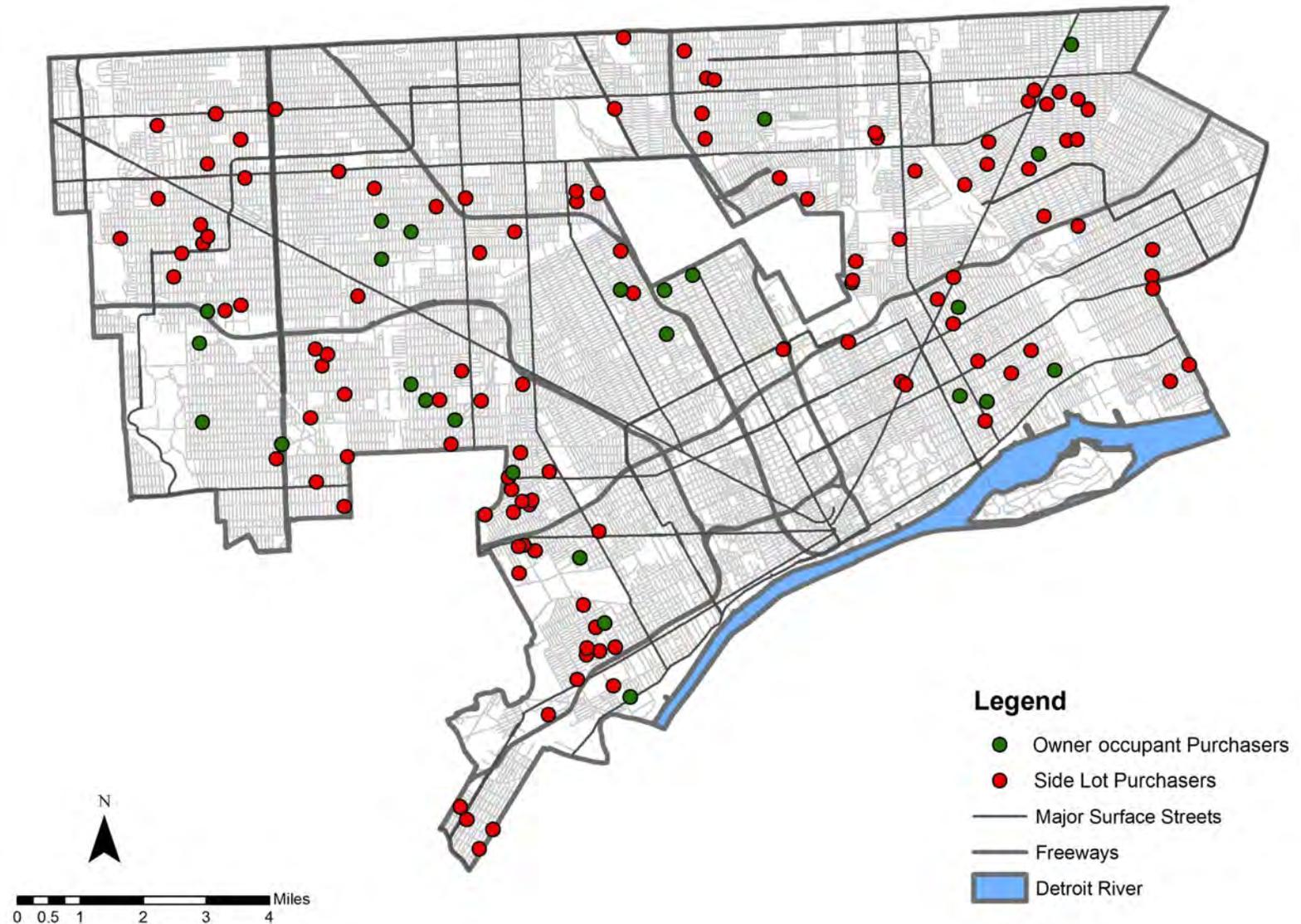
According to side lot purchasers, the chief barrier to further growth among their ranks is notification. Even if interested in an adjacent lot, many neighbors do not know that a neighboring property is for sale at auction.

### Buyers purchase a commercial building or adjacent commercial lot

Though the purchase of commercial buildings by individual business owners is rare, many businesses buy adjacent vacant lots for use as parking.

As indicated by sample-based research, adjacent commercial property owners use more than 10 percent of commercial vacant lots sold at auction for parking or storage. Commercial buildings also exhibit some kind of reuse after purchase at auction. A former commercial property in Woodbridge underwent a comprehensive renovation in recent years, as shown in Figure 6.3. The sample found three new commercial structures built on land acquired through the auction, including an auto-service facility, a fish market, and a cellular phone tower. In addition, Detroit Buildings, Safety Engineering and Environmental Department

Figure 6.2 Side Lot Purchasers and Owner Occupant Purchasers, Detroit, 2002-2008



Source: Wayne County Treasurer's Office Auction Data, 2002-2008; Detroit Residential Parcel Survey, 2009; City of Detroit Assessor's Office, 2009; ESRI, 2011. See Appendix C for information about purchaser research sources.

records indicate that property owners filed 81 applications related to altering and repairing commercial and retail spaces purchased at auction between 2002 and 2010.<sup>2</sup>

**Figure 6.3. Redeveloped Property in Detroit's Woodbridge Neighborhood, 2007 and 2010**



Source: Wayne County Treasurer's Office Auction Data, 2007; Wayne County Treasurer's Office Auction Data, Picture, 2002-2010; Authors, 2010.

### Buyers purchase a house to occupy

At least 25 individuals purchased a house at auction to live in as an owner-occupant. Figure 6.2 shows where these homes are located. These homeowners paid an average of \$13,567 for their properties, more than three times the average price paid for residential structures at auction.

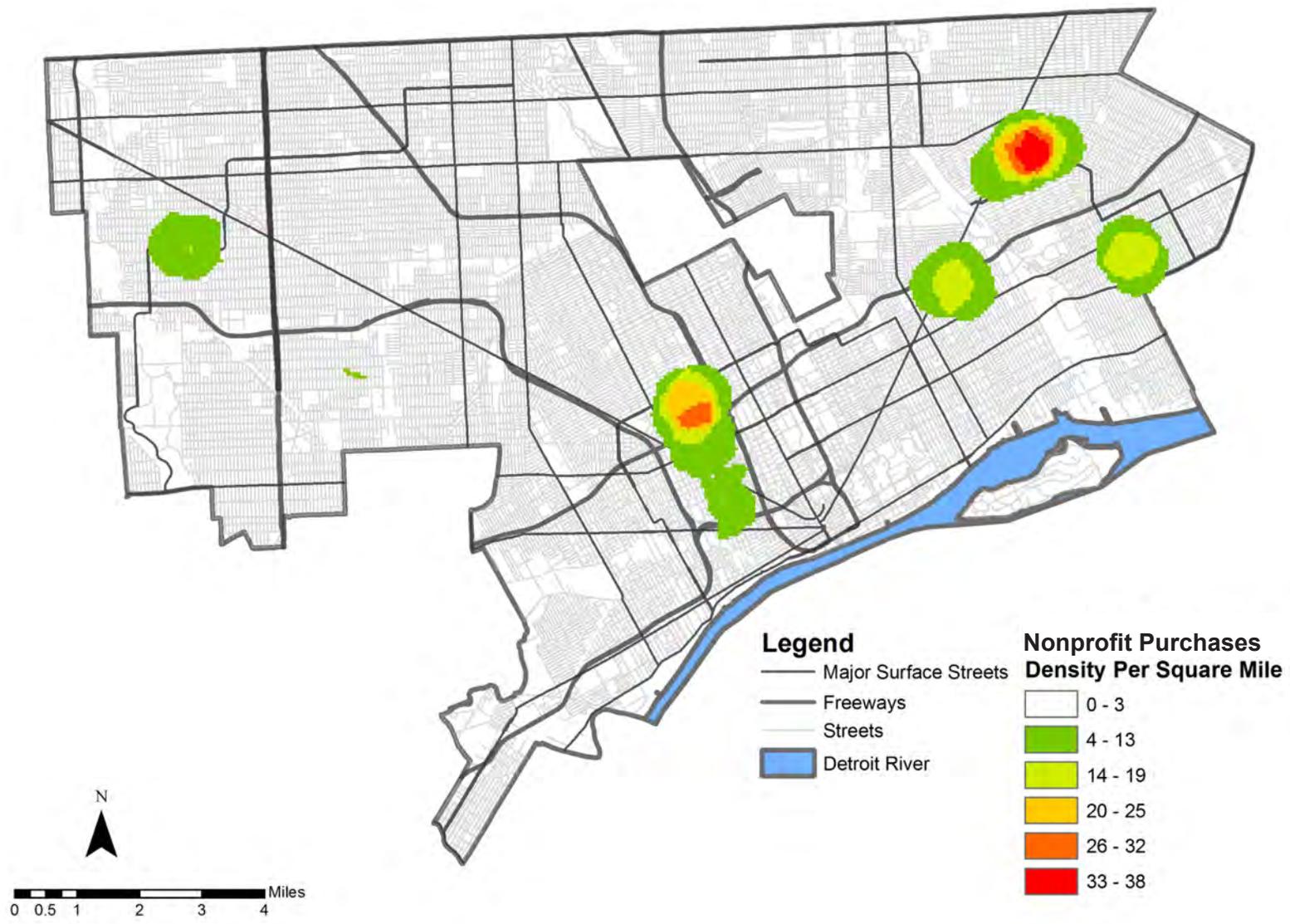
### Buyers repurchase homes

Some former property owners repurchased their properties at auction after tax foreclosure. This scenario was most common for occupied residential structures, less common for commercial properties, and nonexistent for vacant lots. In every case, buyers repurchased their properties during the second auction, when the opening bid is \$500. Almost all owner occupiers who repurchase their own property do so out of hardship and the inability to pay their full tax bill.

United Community Housing Coalition (UCHC) is responsible for the majority of properties repurchased for homeowners.<sup>3</sup> UCHC helped 146 homeowners repurchase their properties in the auction. The strategy has potentially positive effects, as it helps homeowners keep their homes. This contributes to neighborhood stabilization and potentially stems abandonment. However, the county will experience diminished property tax collection rates if high numbers of homeowners purposely ignore their obligations to pay property taxes in hopes of purchasing their properties back at the tax foreclosure auction at a reduced price.

UCHC leaders cited a dearth of information to homeowners in tax foreclosure as well as an unfair foreclosure process as their primary motivation in helping people repurchase their homes.<sup>4</sup> In the opinion of the organization, the auction produces a huge loss of property by homeowners. By helping people repurchase their properties in the

Figure 6.4. Distribution of Properties Purchased by Ten Largest Nonprofit Purchasers, Detroit, 2002-2010



Source: Wayne County Treasurer's Office Auction Data, 2002-2010; ESRI, 2011 (see Appendix C for information about purchaser research sources).

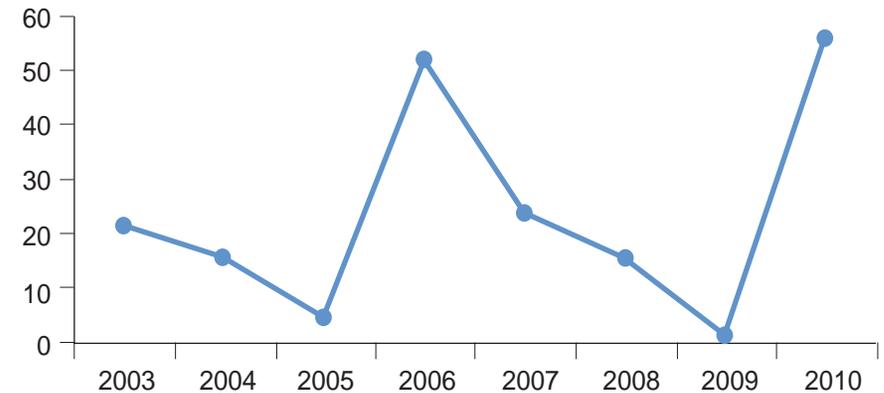
second auction, UCHC saved over \$11,000 for each homeowner helped, while spending an average of only \$1,300 per homeowner to buy back property.

## Nonprofit Developers

A number of nonprofit organizations in Detroit use the auction to purchase properties at low prices in areas they want to develop. These organizations often use properties purchased at auction combined with parcels purchased from the State of Michigan and City of Detroit. This gives these organizations the opportunity to develop more cheaply than they could with properties purchased in the private market. As Figure 6.4 suggests, nonprofit developers typically purchase properties in tight geographic concentrations, making them vulnerable to property speculators.

Community development organizations build a considerable proportion of new homes in Detroit. These homes, often for low- and moderate-income families, serve both to put people into homes and to revitalize Detroit neighborhoods.<sup>5</sup> In recent years, nonprofit developers have become important purchasers in the Wayne County tax foreclosure auctions. As Figure 6.5 shows, the ten largest nonprofit buyers often purchased property at auction and purchased more property in 2010 than the previous three years combined.

**Figure 6.5. Number of Properties Purchased by the Ten Largest Nonprofit Purchasers, Detroit, 2002-2010**



Source: Wayne County Treasurer's Office Auction Data, 2002-2010. See Appendix C for information about purchaser research sources.

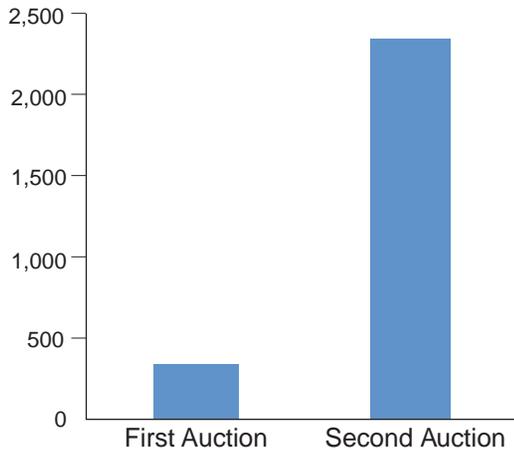
## Bulk Buyers

Bulk buyers represent the smallest category of buyers, yet they bought the largest quantity of properties. Two types of bulk buyers participate in the foreclosure auctions. Investors are large buyers that buy property to rent, reuse, or resell. In contrast, speculators typically focus their attention on property that has potential to bring them a significant profit, either because it is located in an area of public interest or because it is in the way of development. In general, investors appear more concerned with property and neighborhood condition, while speculators seem most interested in property location relative to development plans for

an area. One of the most common types of investor, flippers, focus on quickly reselling property. While these buyers are a hybrid, they most prominently follow the investor pattern of purchasing undervalued structures, and are thus categorized as investors for the purpose of this plan.

The eleven largest bulk buyers purchased 2,664 properties between 2002 and 2010. On average, these bulk buyers paid \$1,924 for each property; all buyers pay an average of \$3,407 per property. As Figure 6.6 shows, bulk buyers most commonly purchased property at the second auction.

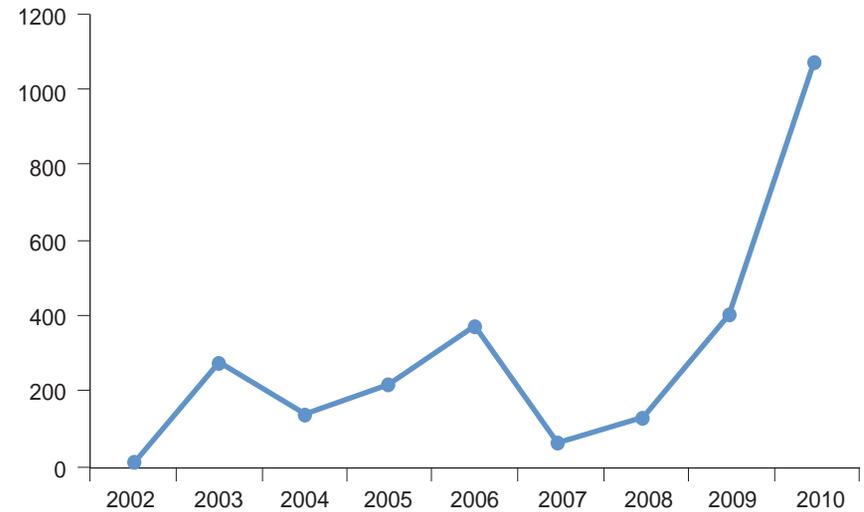
**Figure 6.6. Number of Properties Purchased by Eleven Largest Bulk Buyers, By Auction, Detroit, 2002-2010**



Source: Wayne County Treasurer's Office Auction Data, 2002-2010 (see Appendix C for information about purchaser research sources).

Figure 6.7 illustrates the purchasing by bulk buyers growing sharply since the 2007 auction. The 2009 and 2010 auction accounted for over half of all properties bought by these large bulk buyers.

**Figure 6.7. Number of Auctioned Properties Purchased by the Eleven Largest Bulk Buyers, Detroit, 2002-2010**



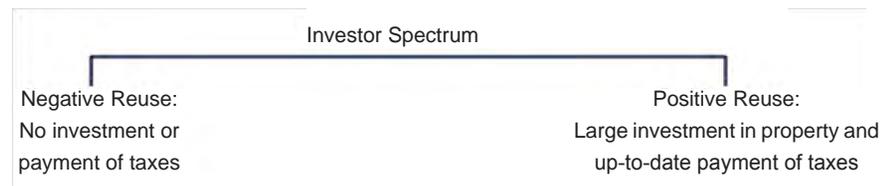
Source: Wayne County Treasurer's Office Auction Data, 2002-2010. See Appendix C for information about purchaser research sources.

**Investors**

Among the 11 largest bulk buyers, six are investors. Most of these investors purchase residential or commercial structures. A wide spectrum of investors exists. At the negative reuse end are buyers who purchase property, invest little to no money, do not pay their taxes, and

extract the last bit of equity left in the house (see Figure 6.8). At the positive reuse end of the spectrum are investors that buy residential or commercial property and invest considerable money to rehabilitate and resell or rent the property.

**Figure 6.8. Spectrum of Investors from Negative to Positive**



At the negative reuse end of the spectrum are buyers who use the auction to acquire inexpensive structures on which they can realize a substantial return on their investments from just a few months of rental income. These “equity extractors” receive returns without investing in the preservation of property. These buyers purchase properties at auction and hold them for as long as they continue to generate a rental profit, often renting the house until the property is uninhabitable. Once they can no longer extract rents from tenants, they allow the property to fall back into tax foreclosure, while continuing to purchase other properties.

Although this pattern of behavior is difficult to quantify citywide, the auction has attracted a number of notable equity extractors since

2002, including five of the eleven largest buyers. Ernest Karr, the subject of a 2002 *Metro Times* exposé, exemplifies the dangers of equity extractors. Karr purchases property at auction, neglects the properties, fails to pay property taxes, and files for tax reductions with the Michigan Tax Tribunal for all of the properties he purchases at auction.<sup>6</sup> He maintains his properties in very poor condition and finds extremely low-income tenants.<sup>7</sup> Figure 6.9 illustrates the conditions at one of his rental properties, which lacked a toilet and shower. Together with his associates, Ernest Karr purchased at least 201 properties in the 2010 auction that the Treasurer’s Office regarded as occupied, primarily on Detroit’s westside.

Toward the positive use end of the spectrum are buyers who purchase properties and show signs of investment. One auction buyer purchased a house in 2006 for \$3,100, invested \$15,500 in “general repairs,” and sold the house in 2008 for \$60,000.<sup>8</sup> The property is current on its taxes and remains in good condition.<sup>9</sup> Figure 6.10 illustrates this reinvestment.

One investor responsible for positive reuse, who asked to remain anonymous, described his business model:

- 1) After the list of properties entering the foreclosure auctions becomes public, the investor looks for housing in good condition.
- 2) The investor bids at auction.
- 3) After acquiring the property, the investor makes repairs to

**Figure 6.9. Bathroom in Home at 12201 Mansfield Street, Detroit, 2002**



Source: Lisa M. Collins, "This Cold House," *Metro Times*, November 16, 2002, accessed March 2011, <http://www2.metrotimes.com/editorial/story.asp?id=4236>. Michigan Tax Tribunal, 2011.

make the property habitable for future tenant.

4) The investor offers flexible financing for these homes on a low money down, rent-to-own basis, including the semi-annual property taxes in the monthly payments. Because the sale

prices of the homes are low, the monthly payments on the houses are comparable to rent.

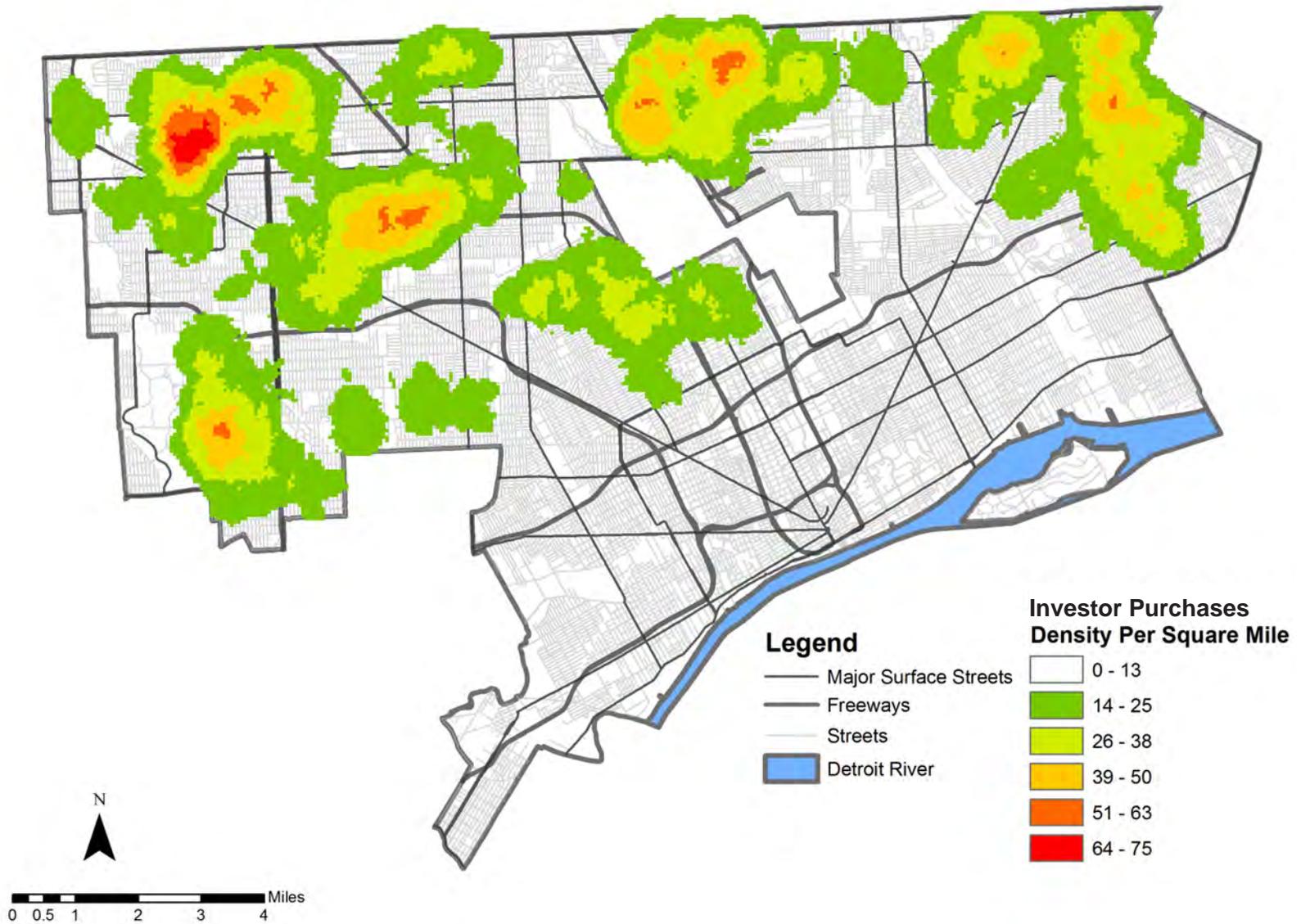
Because investors typically seek well-maintained homes and inexpensive prices, a diverse set of Detroit's neighborhoods attract investors. Figure 6.11 shows this wide-ranging pattern.

**Figure 6.10. Property Showing Significant Reinvestment After Purchase at Auction, Detroit**



Source: Google Maps, accessed March 2011, <http://www.google.com>.

Figure 6.11. Distribution of Largest Investor Purchases, Detroit, 2002-2010



Source: Wayne County Treasurer's Office Auction Data, 2002-2010; Detroit Residential Parcel Survey, 2009. ESRI, 2011. See Appendix C for information about purchaser research sources.

## ■ Flipping

The largest subtype of investors, flippers, occur throughout the spectrum. As defined in Chapter 5, flipping refers to instances when a buyer resells an auctioned property for a profit within 12 months of the auction. The most common property flippers are investors who buy houses and sell them soon after auction. Flipping can involve either significant investment or little investment, leading to varying outcomes.

The sample analysis showed that flipped properties tend to sell for significantly higher prices after buyers purchase them at auction. One such property sold in the 2004 auction for \$11,000.<sup>10</sup> Four months after the auction the first buyer resold the property, in March of 2005, for \$120,000 to a second buyer, who secured the property through a mortgage. A mere eight months after issuing the purchase loan, the lenders foreclosed on the second buyer of the property. The rapidity with which this mortgage foreclosure took place suggests that the property owners made few if any payments, a likely indication of fraud. After the lender held the property for six months in its real estate owned (REO) portfolio, the lender sold the property to a fourth buyer for \$23,000.<sup>11</sup>

The fourth buyer flipped the property yet again—within five months—to a fifth buyer who obtained a \$105,400 mortgage in January 2007.<sup>12</sup> In 2010, the Wayne County Treasurer's Office foreclosed on the property after three consecutive forfeitures and attempted to sell it at auction,

but the property received no bids.<sup>13</sup> Currently this property is in “poor” condition, with an overgrown yard; its windows, doors and gutters missing; and its porch collapsing (see Figure 6.12). This property is now in the custody of the Detroit Department of Planning and Development.<sup>14</sup>

**Figure 6.12. Condition of 7014 Burwell Street, Detroit, 2010**



Source: Authors, 2010.

An example of an investor who employs flipping is TLC LLC of New Mexico. TLC markets properties through eBay.com. This buyer purchased 44 properties in the November 2010 auction for a combined total of \$24,500. In the first four months after the auction, this buyer

flipped 18 of the properties (see Table 6.2), with more properties listed on eBay.com showing signs of competitive bidding. To date, TLC has recorded over \$65,000 in sales, an amount that does not include the closing costs described in the seller's eBay.com listings (\$399 for quitclaim deeds, \$699 for warranty deeds, and 10 percent markup of the final sale price). Furthermore, this amount does not consider any rents that TLC collects on occupied properties. Table 6.2 shows a list of some of the properties sold by this organization and the large return on investment received for most properties. Figure 6.13 shows a property purchased at auction by TLC for the \$500 opening bid and subsequently resold on eBay.com for a substantially higher price.

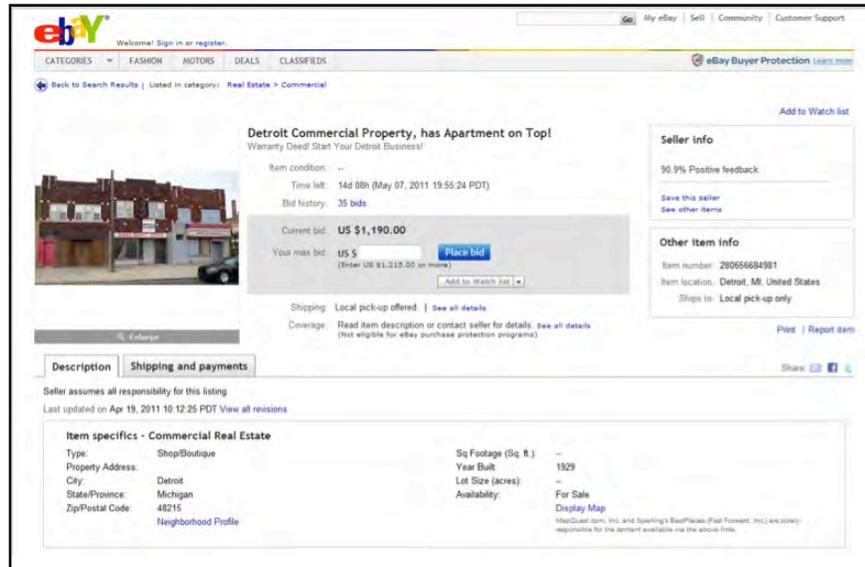
One case of TLC's flipping involved an auto repair business, sold at auction in November 2010. Prior to the auction, James Collins, the property owner, was aware that he had fallen \$6,600 behind on taxes and was facing tax foreclosure. Mr. Collins was unaware, however, that he could have purchased the property at the second auction for \$500, the amount at which his property ultimately sold. Arnas Gineitas, an investor based in New Mexico, purchased the property on behalf of TLC, who offered it to Mr. Collins for an amount he could not afford. Instead of selling Mr. Collins the property, TLC arranged a lease that required a \$2,500 deposit and monthly rent of \$500.<sup>15</sup> Mr. Collins did not know, however, that the property sold again in February 2011 to an individual in Australia for \$6,505.<sup>16</sup> The contractual relationship between the current owner and Mr. Collins is unclear, but Mr. Collins continues to pay monthly rent to TLC.

**Table 6.2. Properties Sold at Auction and Resold by TLC LLC, Detroit**

Property Type	Auction Price	Resale Amount	Months to Resale	Deed Type	Gross ROI
Single-Family Residence	\$500	\$265	4	Quitclaim	-47%
Single-Family Residence	\$500	\$2,718	4	Quitclaim	444%
Single-Family Residence	\$500	\$600	4	Quitclaim	20%
Single-Family Residence	\$500	\$8,135	4	Warranty	1527%
Single-Family Residence	\$500	\$4,220	4	Quitclaim	744%
Commercial Storefront	\$3,000	\$10,100	3	Warranty	237%
Commercial Storefront	\$500	\$6,505	3	Warranty	1201%
Single-Family Residence	\$500	\$1,425	3	Warranty	185%
Single-Family Residence	\$500	\$6,034	3	Warranty	1107%
Single-Family Residence	\$500	\$6,100	3	Warranty	1120%
Single-Family Residence	\$500	\$1,626	3	Warranty	225%
Single-Family Residence	\$500	\$2,125	3	Warranty	325%
Single-Family Residence	\$500	\$2,650	3	Warranty	430%
Duplex Residence	\$500	\$3,050	3	Warranty	510%
Duplex Residence	\$500	\$2,404	2	Quitclaim	381%
Duplex Residence	\$500	\$3,050	1	Quitclaim	510%
Commercial Storefront	\$500	\$1,525	1	Quitclaim	205%
Multi-family Residence	\$500	\$3,050	1	Quitclaim	510%
<b>Total</b>	<b>\$11,500</b>	<b>\$65,582</b>			<b>470%</b>

Source: Wayne County Register of Deeds' Office, 2010; Wayne County Treasurer's Office Auction Data, 2002-2010; Detroit Residential Parcel Survey, 2009.

**Figure 6.13. eBay.com Screenshot of a Property TLC LLC Bought at Auction, Detroit, 2011**



Source: eBay, Inc., accessed April 2011, <http://www.eBay.com>.

## Speculators

Among the 11 largest bulk buyers, five are speculators. These property speculators purchase a large number of properties, and their properties have some of the worst outcomes. In total, speculator-owned properties are likely to receive blight violations, have their property assessments lowered by the Michigan Tax Tribunal, and re-enter foreclosure. Speculators constitute a large problem because they purchase so many properties.

By definition, property speculators aim to reduce the holding costs of their properties. Detroit's five largest speculators who buy properties at the tax foreclosure auctions are no different. In total, these property owners received 472 City of Detroit blight violations but only attended 8 percent of the subsequent blight violation hearings. In contrast, these purchasers scheduled 643 Michigan Tax Tribunal Hearings – hearings where property owners can have their property assessment reduced – and attended nearly all of these hearings. According to the Detroit Department of Administrative Hearings and the Michigan Tax Tribunal, these attendance rates are unusual. (See Appendix C)

Detroit's property speculators usually follow one of two primary business models:

- **Profiteering Obstruction.** Profiteering obstructionists take advantage of the inattention related to large-scale developments, typically sponsored by nonprofits and governmental units. The profiteers purchase these properties at auction and attempt to resell them to those who may want specific properties in the future. Obstructionist speculators purchase many properties hoping for large resale values.
- **Preventative Obstruction.** Preventative obstructionists follow a very similar business model, but take a longer-term approach and attempt to block development altogether, rather than sell the property to any development interests.

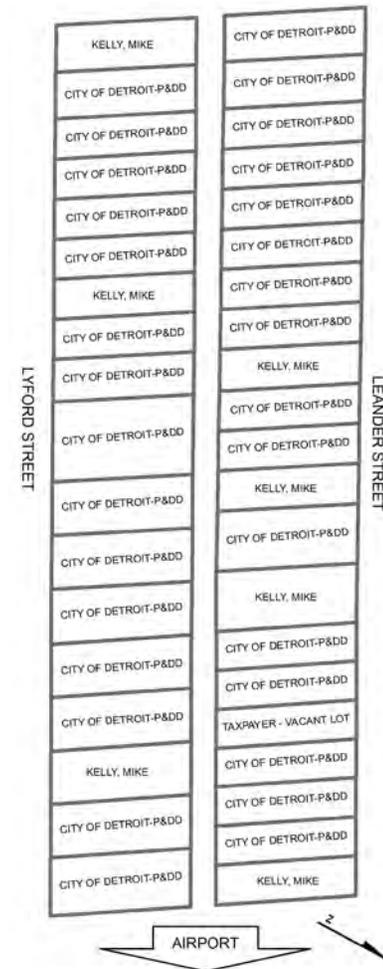
### Profiteering Obstruction

Figure 6.14 illustrates a typical profiteering obstructionist speculator pattern. In this example, near the Coleman A. Young International Airport, Michael Kelly purchased property in the area where the Federal Aviation Administration has ordered the City of Detroit to purchase property. In more than one case, Kelly purchased a property for \$500, only to resell it to the City of Detroit for \$30,000.<sup>17</sup>

A recent article in the *Detroit News* brought many of Kelly's actions to light. The article's author, Christine MacDonald, extensively researched his buying patterns. The results of her investigation lend support to the claim that Kelly purchases many properties, hoping to hit the jackpot with a select few.

Many more examples of Michael Kelly's buying patterns exist. Not only does he purchase properties near development but also directly within it. An example, from the 2009 auction, saw him pay \$95,000 for a parcel of land within the facility of Bridgewater Interiors. He subsequently asked the owner of the company to pay him \$2 million to repurchase the parcel. When the owner declined to pay, he initiated eviction procedures.<sup>18</sup> This type of activity produces direct, negative outcomes for city residents and business owners. Moreover, Kelly's poor track record of paying property taxes on the parcels he buys at auction produce negative financial outcomes for Detroit and Wayne County.

Figure 6.14. Michael Kelly's Profiteering Speculation Near the Coleman A. Young International Airport, Detroit, 2011



Source: Wayne County Treasurer's Office Auction Data, 2002-2010; City of Detroit Assessor's Office, 2009.

Michael Kelly is one of several bulk buyers following patterns such as this. As Figure 6.15 shows, many new development proposals attract considerable obstructionist speculation attention – such as the Detroit River International Crossing (DRIC)/New International Trade Crossing (NITC), and Hantz Farms.

### ■ Preventative Obstruction

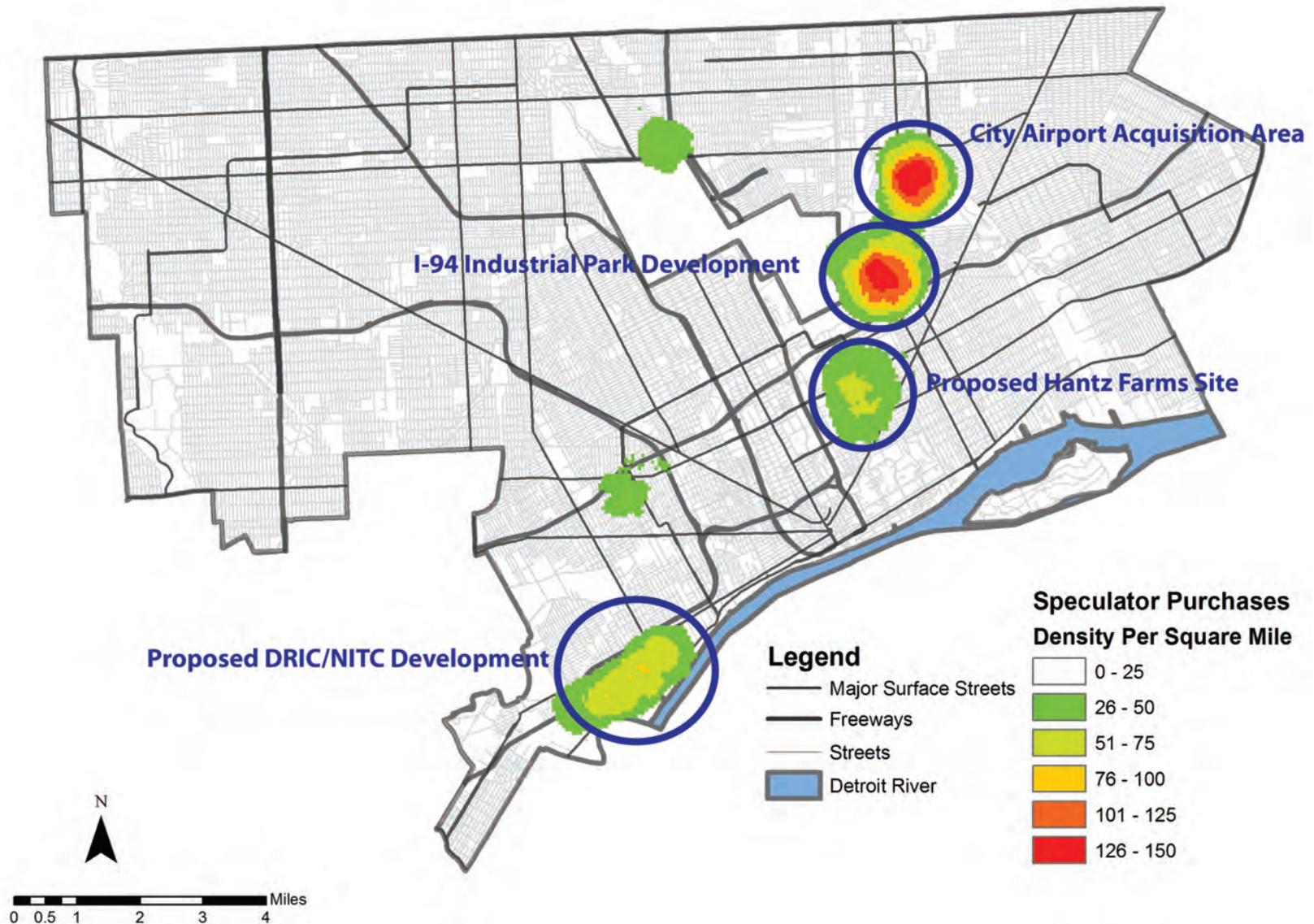
Preventative obstructionists acquire concentrations of property near anticipated development projects in an effort to block – and not necessarily profit from – these new developments. One striking example involves Matty Moroun, owner of the Ambassador Bridge, who has publicly voiced opposition to the proposed DRIC/NITC project. An associate of Matty Moroun purchased 57 percent of all auctioned property sold in the proposed DRIC/NITC development area to stop the potential competing bridge. Obstructionists are disinclined to perform maintenance or make investments in property, although they pay their property taxes since they intend to keep their holdings indefinitely.

One particular concern with purchasers such as Moroun is the condition in which their properties are maintained. Because these investors purchase such large numbers of properties, the maintenance of the properties has a significant effect on Detroit neighborhoods. In Moroun's case, he has purchased hundreds of properties at auction. While he has kept up with property tax payments on many of them, many often remain in poor condition, lacking maintenance or improvement. While

the Detroit train station is the most prominent example of Moroun's failure to maintain his properties, many more examples of vacant, open, and dangerous homes and graffiti-splattered commercial properties exist under his ownership.<sup>19</sup> That he plans to hold these properties long term, in order to exert influence through his landholdings, indicates that they will remain in disrepair.

Despite these general strategies, buyers in these two categories, preventative and profiteering obstruction, often use strategies typical of the other type, when it is more lucrative. For example, Michael Kelly, a leading profiteering obstruction speculator, occasionally adopts a preventative approach when other speculators purchase adjacent property.

Figure 6.15. Concentrations of Speculator Purchases, Detroit, 2002-2010



Source: Wayne County Treasurer's Office Auction Data, 2002-2010; ESRI, 2011. See Appendix C for information about purchaser research sources.

## Conclusion

By examining how residents, nonprofit organizations, investors, and speculators purchase properties at the auction, the Treasurer's Office can discover ways to market properties to those groups that make positive use of properties—homeowners, adjacent owners, and investors who create positive reuse of property. The Treasurer's Office can also identify ways to prevent speculation. The next section of the plan, Chapters 7 through 9, builds on the findings of Chapters 4 through 6 to present strategies for the Treasurer's Office to improve the auction process.

## Notes

- <sup>1</sup> To create this table, we standardized and consolidated the bidder names based upon shared bidder numbers, bidder addresses, and/or surnames with similar first name, for all properties sold from 2002 to 2010. See Appendix C.
- <sup>2</sup> Detroit Buildings, Safety Engineering and Environmental Department, 2002-2010. See Appendix A.
- <sup>3</sup> "Coalition Buys Back Foreclosed Houses," *United Press International*, January 9, 2011, accessed January 2011, [http://www.upi.com/Top\\_News/US/2011/01/09/Coalition-buys-back-foreclosed-houses/UPI-84551294603785/](http://www.upi.com/Top_News/US/2011/01/09/Coalition-buys-back-foreclosed-houses/UPI-84551294603785/).
- <sup>4</sup> Interview with Ted Phillips, United Community Housing Coalition, February 8, 2011.
- <sup>5</sup> Interview with Esteria Rogan, Habitat for Humanity, February 16, 2011.
- <sup>6</sup> Lisa M. Collins, "This Cold House," *Metro Times*, November 16, 2002, accessed March 2011, <http://www2.metrotimes.com/editorial/story.asp?id=4236>; Michigan Tax Tribunal, 2011.
- <sup>7</sup> *Ibid.*
- <sup>8</sup> Detroit Buildings, Safety Engineering and Environmental Department, 2002-2010; Wayne County Treasurer's Office Auction Data, 2006; Wayne County Register of Deeds, 2010.
- <sup>9</sup> Wayne County Treasurer's Tax Search, 2011.
- <sup>10</sup> Wayne County Treasurer's Office Auction Data, 2002-2010.
- <sup>11</sup> Wayne County Register of Deeds' Office, 2010.
- <sup>12</sup> *Ibid.*
- <sup>13</sup> Wayne County Treasurer's Office Auction Data, 2002-2010.
- <sup>14</sup> Wayne County Register of Deeds' Office, 2010.
- <sup>15</sup> Interview with former property owner, April 23, 2011.
- <sup>16</sup> *Ibid.*; Wayne County Register of Deeds' Office, 2010.
- <sup>17</sup> Christine MacDonald, "Detroit Area Investor Gains from Others' Real Estate Mistakes," *The Detroit News*, February 3, 2011.
- <sup>18</sup> *Ibid.*
- <sup>19</sup> John Gallagher, "Matty Moroun and His Big Slice of Detroit," *Detroit Free Press*, April 11, 2010.

CHAPTER

7

**RECOMMENDATIONS: THE SHORT-TERM APPROACH TO INCREASING NET REVENUE FROM THE AUCTIONS**

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





The Treasurer's Office faces the immediate challenges of rising tax delinquency and dwindling capacity to recoup property taxes, especially in Detroit (see Chapter 4). Part of meeting these challenges requires solutions to implement in the short term while keeping an eye on long-term effects. This chapter discusses ways that the Treasurer's Office can make changes to the auction process to achieve the goal of increasing net revenue. Chapter 8 will then discuss recommendations that focus on encouraging positive property reuse which can maintain property values and property tax revenues in the long term.

PA 123 restricts the Treasurer's Office in its methods of property disposition by mandating that the Treasurer's Office offers all tax-foreclosed properties at auction at least twice. However, the Treasurer's Office can employ additional auctions beyond the minimum legal requirements to realize more revenues. Automating the auction process in 2010 by working with Bid4Assets helped increase the number of sales, but as Chapters 4 through 6 discuss, the auctions have failed both to dispose of most tax-foreclosed properties and to bring in adequate revenue for properties that do sell. Past studies of auctions (see Chapter 3) show that auctions bring in more revenues when more bidders compete over properties. The Treasurer's Office can achieve this goal by striving to increase the number of bidders and reduce the number of properties in a given auction.

This chapter lays out strategies for pursuing these two avenues of auction improvement and therefore increasing the revenue from the

tax-foreclosure process. The Treasurer's Office can use the menu of options that follows as a comprehensive approach, a combination of solutions, or individual ways to improve the auction process and to increase net revenues.

## Increase the Number of Buyers Participating in Property Auctions

### Facilitate competition in the auctions by reducing risk and increasing access

The Treasurer's Office could increase competition for properties in the auction by increasing the number of buyers bidding on them. Bringing more people into the auctions hinges on building trust in the process and reducing buyer risk through consistency and transparency. The Treasurer's Office can achieve this by building on the experience of its staff with information provision and outreach, which they have shown through resources available on the website and numerous outreach activities.

Having information on the process used for sale and the properties offered usually reduces the risks buyers associate with auctions and encourages more people to participate and bid in good faith. The

Treasurer's Office could use the methods outlined below to instill more trust in the process and help buyers avert some of these risks.

### ■ **Conduct awareness seminars to explain the process to the public**

The Treasurer has already proven his commitment to outreach in the case of tax payment and foreclosure prevention. This commitment could extend to the disposition process as well. To encourage wider participation in property auctions, the Treasurer's Office could invite nonprofit organizations, neighborhood associations, and individual buyers to informational meetings that communicate how the disposition process works, what sort of properties are available, and what the process requires of participants. This would help potential buyers to prepare for the auction, putting them in a better position to acquire properties they desire.

Seminars can take place once or twice after the foreclosure hearing and before the auction itself. The Treasurer's Office staff can both present the process and field questions. The Treasurer's Office can hold seminars for specific buyer groups as well, such as nonprofit organizations. These seminars can explain other possibilities for property acquisition, such as working with the city or county staff to obtain properties under right of refusal (ROR) (see Chapter 8).

Seminars for larger, diverse audiences could take place after the ROR period but before the auctions and would be open to the public.

To include as many people as possible the Treasurer's Office could turn these into webinars. The seminars and webinars could focus on the auction process itself and how people can effectively participate in it. The Treasurer's Office can advertise these events through the Treasurer's website, through umbrella organizations such as Community Development Advocates of Detroit (CDAD), through the City of Detroit website, and through the *Detroit Free Press*.

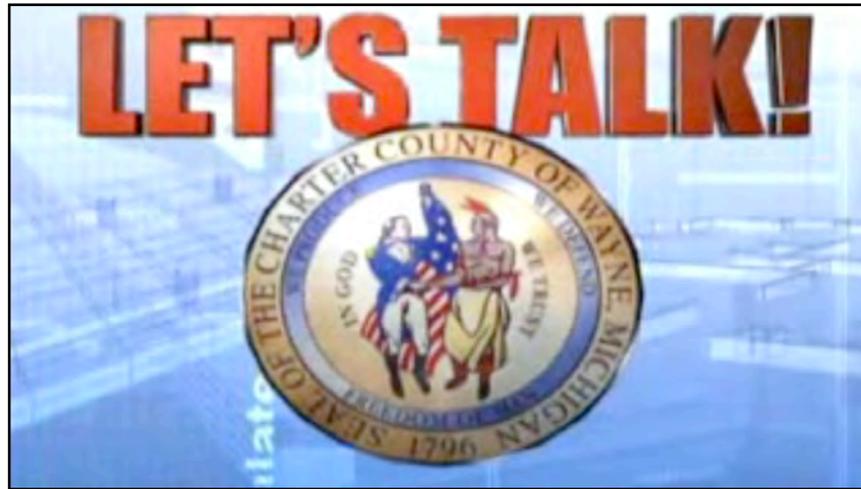
### ■ **Make video tutorials of how the process works and post on the Treasurer's website**

As a less staff-intensive option, the Treasurer's Office could adapt the seminars into web-based tutorials. Rather than scheduling and promoting one or multiple seminars, key staff members could create short videos on the various elements of the process. By addressing these videos to various buyer types and discussing the elements of the process in manageable chunks, the Treasurer's Office could reach out to diverse audiences. The videos could explain the process and offer links to further information and contact details for specific questions.

Tutorials increasingly appeal to organizations with a complex message to convey, especially for institutions that must answer similar questions repeatedly. This online approach saves organizations staff time spent on assisting individuals on a variety of topics, from the use of electronic equipment to filing tax return forms. The Treasurer's Office currently uses tutorials to reach out to taxpayers and explain the online payment process (see Figure 7.1, for example). Such tutorials, posted on the

Treasurer's main webpage, can be an effective tool for reaching out to buyers easily and at very little cost.

**Figure 7.1. Treasurer's Office Video Tutorial Explaining the Tax Payment Process**



Source: Wayne County Treasurer's Office, "Pay Taxes Online," accessed March 2011, [http://www.waynecounty.com/treasurer\\_payonline.htm](http://www.waynecounty.com/treasurer_payonline.htm).

### ■ Offer information on the properties available for sale through an online portal

The Treasurer's Office could increase the ability of potential buyers to participate in auctions by providing an accessible, user-friendly information portal for searching properties. More information can lead to increased participation among those with interest in purchasing property but who lack the knowledge or resources necessary to conduct their own research on properties. Most buyers of large numbers of

properties have employees assess the condition of each property from the street before the auction.<sup>1</sup> Having an authoritative, reliable source that provides more property information for all may encourage some of the types of buyers under-represented in the auction (residents and nonprofit organizations, for instance) to participate and increase competition for properties.

The process for establishing this portal could involve two stages:

#### 1. Collecting information:

Potential sources of information include the database of the City Assessor's Office, the County Treasurer's database, and the Detroit Residential Parcel Survey. In addition, the Treasurer's Office could make use of the property condition information that its own contractors collect when conducting the mandatory visits to the properties prior to foreclosure. This up-to-date information, together with the photo the contractors take, can provide helpful information for potential buyers.

#### 2. Processing and posting information online:

The Treasurer's Office could collaborate with a third party information provider, such as Data Driven Detroit (D3), to process all the information gathered and post it online. Though the information would be available on the Treasurer's website, D3 or another third party information provider could take responsibility for the accuracy of the information.

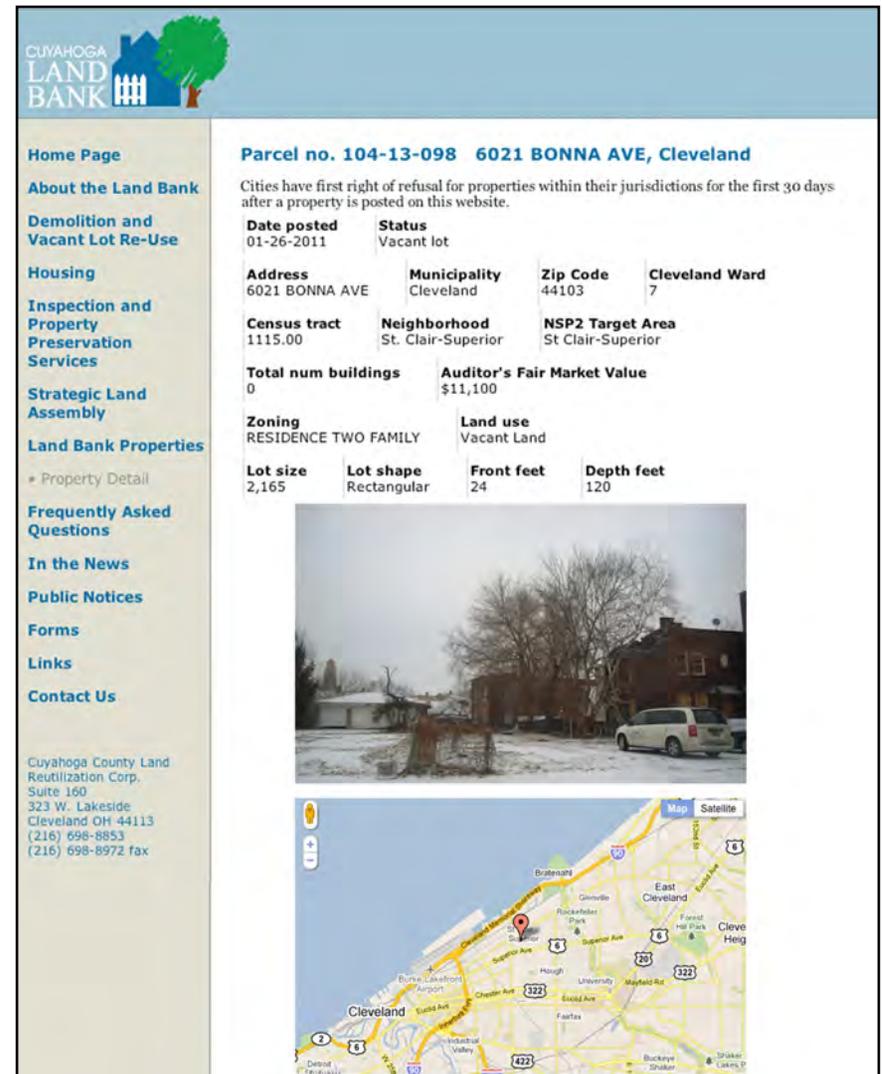
In this fashion, the Treasurer’s Office can avoid some of the liabilities associated with information provision. The Treasurer’s Office could attach additional disclaimers to the information to address liability issues.

Having basic, useful property information, such as zoning, lot size, and assessment value, as well as condition information enables prospective buyers to make more informed decisions. Cuyahoga County’s Land Bank provides a good example of information provision. Their database compiles information on each property and makes it available to interested people through an online portal (Figure 7.2). The Cuyahoga County Land Bank uses the services of a third party information provider, which compiles population and property data about the county and makes them available to the land bank. Both the information provider and the land bank display visible disclaimers about the accuracy of the information on their website.

■ Provide buyers with an information sheet regarding water liens

Some purchasers of auctioned property state that they have later learned that the Detroit Department of Water and Sewerage expects them to pay outstanding water bills. Given that the foreclosure process clears all liens on a property, the Treasurer’s Office could provide a document stating this. The document could make buyers aware of the possibility that the Water Department may not have cleared existing water liens.

Figure 7.2. Cuyahoga County Land Bank Online Portal



Cuyahoga County Land Bank, “All Land Bank Properties,” accessed March 2011, <http://www.cuyahogalandbank.org/properties.php>.

The buyers could then address the issue and not be surprised when outstanding bills arrive. This simple fix is one way the Treasurer's Office can improve the experience of auction participants and promote the goal of increasing revenues through effective customer service.

### ■ Provide clearer title beyond a “quit claim deed”

Though the courts consider quit claim deeds sufficient to satisfy the due process requirements, Michigan title insurers have often been reluctant to insure this type of title.<sup>2</sup> This means that the new owners need to go through additional title clearing procedures after purchase in order to sell their properties for market value or obtain financing for improvements.

The Treasurer's Office could go beyond current practice and the minimum legal requirements to facilitate a smoother process for buyers. By providing an information sheet with all the persons that may still have an interest in the property and making buyers aware that in order to acquire a deed that title insurers will insure, they would need to obtain quit claim deeds from all the people on the information sheet, the Treasurer's Office could help facilitate the process of obtaining insurable title.

However, doing this for all sold properties may be prohibitively expensive and time-consuming to the Treasurer's Office. The Treasurer's Office could try to do this strategically, offering more information about

obtaining an insurable title for properties selling for over \$30,000 (0.5 percent of properties sold in 2010).<sup>3</sup> In addition, for very high value properties, including properties expected to sell at or over \$100,000, the Treasurer's Office could conduct the title clearing process themselves and provide a warranty deed, increasing the marketability of these properties and bringing in higher revenues from these sales. Out of the properties that sold in 2010 only 16 had taxes amounting to more than \$100,000 and only 3 actually sold for more than that.

The strategies described in this section constitute a minimal set of tools for improving access to the tax foreclosure auctions. The fact that several prominent bulk buyers use these methods to quickly resell auctioned properties suggests lost opportunities for increasing auction revenues. For example, the Angel Group bought in excess of 360 properties in the 2010 tax foreclosure auction. The Angel Group specializes in self-financing the “flipping” of properties bought at auction. To facilitate sales, the Angel Group maintains a rudimentary online “portal” (Figure 7.3), providing prospective buyers with images and supplemental information such as the number of bedrooms and bathrooms, unit square footages, and the type of heating and cooling. The Angel Group purchased one property in the 2010 auction for \$5,600 and sold it within several months through a land contract with a \$16,000 principle balance. By adjusting the auction process as suggested in this section, the Treasurer's Office could capture this additional profit that otherwise goes to savvy purchasers.

Figure 7.3. The Angel Group Online Property Information Portal

The screenshot shows a web portal titled "Flipping Properties into Profit". It features a navigation bar with "HOME", "PROPERTY SEARCH", and "CONTACT US". The main content area is titled "Single Family Homes" and displays a large photo of a bungalow. To the right of the main photo are two smaller thumbnail images of the same property. Below the main photo is a "Property Information" table. To the right of the table is a blue button that says "Visit this Property" with the text "Click here to schedule an appointment with one of our representatives". Below that is a red "Tools" button with a map icon and the text "Locate this Property". At the bottom of the listing is a "Property Notes" section.

Property Information	
Street address:	*16599 Stahelin
City:	Detroit
Zip:	48219
Bed/Baths:	3/1
Square Feet:	787
Style:	Bungalow
Type:	
Cross Street:	Southfield/Mcnichols
Heat:	GFA

Financial Information	
Asking:	27000.00
Appraisal:	
Area comps:	\$52,000.00
Terms:	Cash/Mortgage/Land Contract

**Property Notes**  
Needs a little bit of work. great area! Offer being accepted!

Source: Detroit Property Exchange, accessed April 2011, <http://www.detroitpropertyexchange.com>.

Reduce the Number of Properties in each of the Auctions by Using More than Two Auctions

Sort properties and sell in different auctions

The Treasurer's Office can reduce the number of properties in the two required auctions by sorting properties and selling them in additional, separate auctions. This means that the Treasurer's Office could organize more than one minimum bid auction prior to the required auction at the minimum bid price (equal to total taxes, interest, and fees). Then for properties that do not sell, the Treasurer's Office can still organize one final auction with an opening bid of \$500. Such a process would not contravene the provisions of PA123, as the law mandates at least two auctions for each property, one for the minimum bid equal to the taxes, interest, and fees and another one for no minimum bid.

In the short run, sorting properties by type or some other criterion could achieve the purpose of having fewer properties in one auction and could help buyers target the specific properties they desire. In the long run, selecting and disposing of property before the auction by using city, county, and state right of refusal (ROR) could decrease the number

of properties that go into the auctions overall, but such changes also require more time and coordination with other governmental entities (see Chapter 8).

When high numbers of properties go to auction at the same time, the risk increases that buyers treat them as generic commodities. If buyers treat properties as generic commodities, the value buyers put on specific properties decreases, so the sales prices decrease as well. This phenomenon reduces revenues coming from auctions. The Treasurer's Office could reduce the number of properties offered at one time, in order to encourage buyers to examine properties more carefully and bid on all properties that interest them.

In addition, dumping property on a weak market not only reduces the value of these properties but also destabilizes neighborhoods and increases the risk of more properties' reaching foreclosure in the following years. Chapter 8 offers suggestions for how the Treasurer can contribute to the stabilization of neighborhoods while increasing the long-term revenues coming from the disposition of tax foreclosed properties.

### ■ Sort by land use type

Sorting properties by land use type breaks the large listing of auction properties into more manageable chunks, allowing bidders to make smarter decisions. This is possible because the smaller, homogenously organized groups help bidders quickly focus their energies where their

interests lie. For example, bidders interested in commercial properties do not have to search through listings of residential structures or vacant residential lots. Figure 7.4 offers an example of property sorting for the properties offered at auction in 2009.

**Figure 7.4. Example of Sorting Property by Land Use Type**

TOTAL PROPERTIES: 8,012
RESIDENTIAL VACANT LOTS: 4,591
RESIDENTIAL STRUCTURES: 2,868
COMMERCIAL/INDUSTRIAL PROPERTIES: 553
In 2009, the Treasurer's Office offered more than 8,000 properties in one auction. If the Treasurer's Office sorted these properties into broad categories, buyers would know something more about the properties from the start. Sorting properties allows buyers to focus their attention on properties they desire without having to go through long listings of property arranged by property ID.

Source: Detroit Residential Parcel Survey; Wayne County Treasurer's Office Auction Data, 2009.

Sorting properties into categories such as "vacant residential lots," "residential structures," and "commercial/industrial property" can give investors an idea up front of the general character of the properties available. Investors can then peruse these large category listings and identify properties of interest based on more specific characteristics, such as location and condition. Chapter 8 will describe more careful and complicated options for selecting properties. Sorting properties into large categories is a straightforward endeavor that the Treasurer's Office could pursue independently.

### ■ Sort by property characteristics

The Treasurer's Office could also organize properties according to more specific characteristics, such as condition, location, and usable square footage. Location, in particular, is a key property characteristic that can often be a deal-breaker for potential purchasers deciding whether or not to buy.

The Treasurer's Office could use this in-depth sorting method as an alternative to sorting by property type or could employ it within the broader land use categories for a more accessible combination of property information. Under this method, separate auctions could be organized for "high quality residential and commercial structures," "vacant lots/commercial lots of interest to adjacent homeowners/businesses," and "all remaining property." For the properties that do not sell, the Treasurer's Office can hold a final auction for the opening bid of \$500. Washtenaw County has implemented a similar strategy, as Figure 7.5 details.

However, as the example in Figure 7.5 also points out, this strategy requires more effort in publicizing and reaching out to potential buyers through open houses or direct mail. Selecting out the property to sell in this manner also requires more sophisticated mapping and sorting techniques, to identify high value property or adjacent homeowners who may be interested in vacant lots. To achieve this, the Treasurer's Office could hire a mapping expert or contract out to an entity such as Data Driven Detroit to perform the sorting and mapping of properties.

### Figure 7.5. Example of Sorting Property by Characteristics

In 2010, the Washtenaw County Treasurer's Office held four separate auctions, as follows:

- The first auction was an online auction where the Treasurer's Office sold higher-quality properties that did not require repairs. Before this auction the Treasurer held two open houses, allowing potential buyers to inspect the properties.
- The second auction was a live auction targeted towards property owners seeking to buy adjacent parcels. The Treasurer's Office publicized this auction by determining which properties were adjacent to the properties for sale and sending information about the auction to the taxpayers of those neighboring properties.
- The third auction was another internet auction. In this auction, all properties were offered for sale except for properties with technical problems such as a demolition order or an owner who declared bankruptcy. This was the last auction where properties sold for the minimum bid of taxes, interest, and fees owed.
- The fourth and final auction was an internet auction of all properties except ones with technical problems. The bidding started at \$300.

Source: Interview with Catherine McClary, Washtenaw County Treasurer. October 2010.

Sorting in this manner can allow the desirable characteristics of some properties to shine through for more potential purchasers. As Chapter 4 demonstrates, the current property sale process led to the sale of the majority of properties at prices below taxes owed.

By selling higher-value properties in a separate auction and calling attention to the characteristics that add to their value, the Treasurer's Office could realize higher prices on these properties and more revenues overall through increased interest and competition for properties. In fact, some property buyers' behavior reveals how selling these properties indiscriminately results in auction buyers making a profit that the Treasurer's Office could try to capture. Table 7.1 points out cases when auction property buyers resold the property within a year for four or more times what they paid at auction. Based on the sample research (see Appendix B) about 19 percent of residential structures bought at auction resell within one year for much higher prices.

## Conclusion

The property auction is the bedrock of Wayne County's short-term approach to the revenue challenges of tax-foreclosure. While it partially achieves the goal of quick property disposition, the auction process, as currently structured, achieves poor results in recovering the taxes owed. The suggestions in this chapter show how the Treasurer's Office could change the auction system to capture more of this lost value, boosting net revenue in the short term.

The next chapter will discuss strategies that the Treasurer's Office can employ to increase net revenue over the long term by encouraging positive property reuse. By focusing on the reuse of property after the auction, the Treasurer's Office can contribute to stabilizing neighborhoods and stemming the tide of foreclosures in the City of Detroit.

**Table 7.1. Missed Revenue Opportunity: Sampled Cases of Flipping of Auctioned Detroit Properties**

Property Type	Auction Year	Winning Bid	Reported Resale Amount	Months to Resale	Deed Type	Gross Return on Investment
Duplex residence	2003	\$3,000	\$24,675	9	Warranty	723%
Single-family residence	2003	\$950	\$28,000	6	Quitclaim	2879%
Side lot	2004	\$300	\$2,175	9	Grant	625%
Single-family residence	2004	\$11,000	\$120,000	6	Warranty	991%
Single-family residence	2005	\$2,700	\$65,000	11	Warranty	2307%
Single-family residence	2006	\$16,000	\$63,000	12	Quitclaim	294%

Source: Wayne County Register of Deeds' Office, 2011.

## Notes

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- <sup>1</sup> Interview with investor participating in Wayne County foreclosure auction, March 2011.
- <sup>2</sup> Interview with Matthew Weber, University of Michigan, April 3, 2011.
- <sup>3</sup> Wayne County Treasurer's Office Auction Data. See Appendix A.

CHAPTER

8

**RECOMMENDATIONS: ENCOURAGING POSITIVE REUSE OF PROPERTY TO INCREASE LONG-TERM REVENUES**



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



As discussed in Chapter 7, the Treasurer's Office can address dwindling property tax collection revenues with short-term changes to the auction process. However, the Treasurer's Office can play an important role in shaping the City of Detroit over the long haul by increasing the positive reuse of properties going through the foreclosure process. By improving how properties are used after foreclosure, the Treasurer's Office can contribute to the stabilization of neighborhoods as well as to the bottom line of increasing net revenue. The Treasurer's Office can contribute to ensuring that viable parts of the city maintain their vitality and that largely vacant areas get used in a manner that contributes to the public good.

By encouraging positive reuse of foreclosed properties the Treasurer can also ensure that long-term net revenues to the Treasurer's Office increase. More stable neighborhoods mean fewer foreclosures, fewer properties going to auction and ultimately less money that the Treasurer needs to borrow and recoup each year. More stable neighborhoods mean a more stable tax base and less money going to passing properties through the foreclosure process. More stable neighborhoods mean more stable property values and an increased likelihood that properties that do go to auction sell for higher prices. If the Treasurer's Office prioritizes positive reuse of property after foreclosure and sale over realizing immediate funds to repay bonds, the Treasurer's Office will ultimately achieve revenue goals more successfully as well.

As Chapter 3 demonstrated, auctions do poorly in encouraging positive reuse of property. To encourage positive reuse requires approaches that focus on post-sale property outcomes. Chapter 5 outlined three major factors affecting property outcomes: location, property type and buyer type. Realizing the benefits of positive property reuse requires more strategic disposition methods that take into account these factors.

This chapter focuses on methods the Treasurer's Office can employ to manage properties outside the auction process. It also describes ways that the Treasurer's Office can encourage buyers with more interest in the positive reuse of property to participate in the disposition process and discourage buyers with less interest in positive reuse from participating.

Along with an overview of several options, this chapter will provide implementation strategies for each recommendation, linking actions with potential partners for each task. Most of the recommendations in this chapter require some degree of collaboration and coordination with other entities engaged in managing foreclosed properties in Detroit.

## Encourage Use of the Right of Refusal for Government Programs

### Ensure that local stabilization efforts inform the disposition of property

The right of refusal (ROR) is a powerful tool that PA 123 put in place to allow local governments to intervene in the sale of foreclosed properties and steer it toward more positive outcomes. However, with the number of properties offered at auction reaching close to 12,000 in 2010, City of Detroit officials and planning staff can have significant difficulties figuring out which properties to submit to the ROR process. The Treasurer's Office could streamline the ROR process by working with partners such as the City of Detroit Planning and Development Department (P&DD), and Wayne County and Detroit land banks and even the Michigan Land Bank Fast Track Authority to flag properties for acquisition by the City of Detroit, Wayne County or the State of Michigan. By making sure that the ROR process facilitates the acquisition of all properties of interest to any of the three levels of government involved, the Treasurer's Office gains more revenues from the disposition process, reduces the numbers of properties that reach the auction and reduces the costs of organizing the auction. By making sure that the ROR process works properly,

the Treasurer's Office also contributes to local land development and reuse efforts as the examples below will show.

### Establish selection criteria for potential ROR properties

To establish a stronger ROR process, the Treasurer's Office could work with partners in Detroit such as P&DD or the Detroit Land Bank Authority, as well as with state and county land banks to develop a set of criteria for selecting ROR properties for that year. The criteria would depend on the interests and plans of these different stakeholders and would probably differ from one period of time to another. For example, the Detroit P&DD may want to acquire properties in areas of public projects such as the Neighborhood Stabilization Program areas or the area adjacent to the Coleman A. Young International Airport where the FAA ordered the city to acquire land.

The State of Michigan may want to acquire property in areas of state projects such as the proposed international bridge crossing, while the Detroit Land Bank may want to acquire properties for potential programs such as a side lot program or a rent-to-own housing program. Whatever the criteria, the Treasurer's Office could reach out to these entities to decide on a strategy and facilitate their access to foreclosed properties in the Treasurer's custody.

Land banks are generally good partners for establishing selection criteria, because one of the first steps in establishing a land bank is to decide what property it will handle. Furthermore, the Detroit Works Project may produce land use goals for the city government that will clarify acquisition strategies for the Detroit Land Bank.

As an example of what type of criteria the Treasurer’s Office may establish with its partners, Table 8.1 shows the acquisition criteria for the Genesee County and the Cleveland Industrial Land Bank Authorities. A closer look at one of these criteria, “properties for assemblage,” reveals how criteria can facilitate decisions about whether or not a property has sufficient potential to merit acquisition. The criterion “properties for assemblage” focuses on picking properties that would contribute to assembling multiple tracts of land for larger development projects. For example, if the City of Detroit wanted to assemble land to support the city airport’s development, a “properties for assemblage” criterion would lead to selecting properties within, adjacent to or near the airport to facilitate development on that site. Having a set of clear criteria can help the Treasurer’s Office articulate priorities and justify the selection of specific properties in a purposeful way.

**■ Identify areas of interest through mapping**

Based on the set of criteria, the Treasurer’s Office in collaboration with a data analysis third party can map and select the foreclosed properties and communicate with City of Detroit, county and state officials about the existence of these properties in the

**Table 8.1. Property Selection Criteria for Selected Land Banks**

Genesee County Land Bank	Cleveland Industrial Land Bank
Requests by nonprofits	Property whose redevelopment will retain existing manufacturing/industrial jobs
Requests by municipalities	Properties contiguous to existing industrial or commercial use
Residential properties that require no need for substantial rehabilitation	Properties contiguous to existing infrastructure
Vacant properties for side lots	Properties for assemblage
Properties that support strategic neighborhood stabilization and revitalization plans	Properties near existing desirable industries such as bio-medical/tech
Properties that would form part of a land assemblage development plan	Geographic priorities of neighborhood economic redevelopment plans

Source: Genesee County Land Bank, “Priorities, Policies and Procedures,” Internal Document, (November 22, 2004): 1; Cleveland State University, “Strategy for the Implementation of an Industrial Land Bank,” (September 2005): 22-3.

auction offering for a given year. Providing sets of properties that government officials could consider can speed up the ROR acquisition process and might result in a larger number of properties removed by ROR before they reach the first auction.

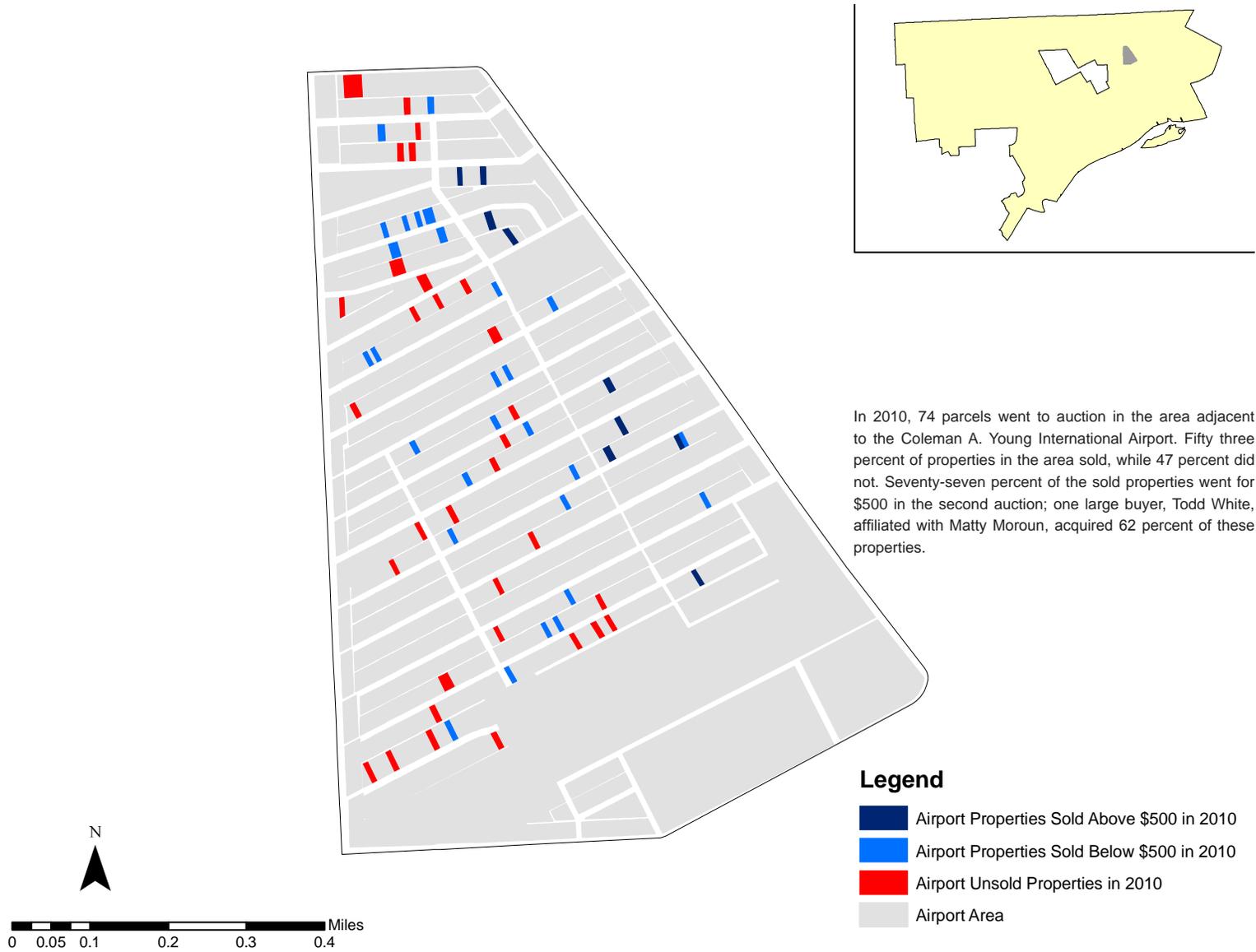
A partner with analysis and mapping skills, such as Data Driven Detroit (D3), can help with the selection process and deliver maps and lists of properties that fit certain characteristics.

Table 8.2 provides two examples of how the Treasurer’s Office can select property based on different criteria.

**Table 8.2. Selection Criteria for ROR Properties of Interest to Governments**

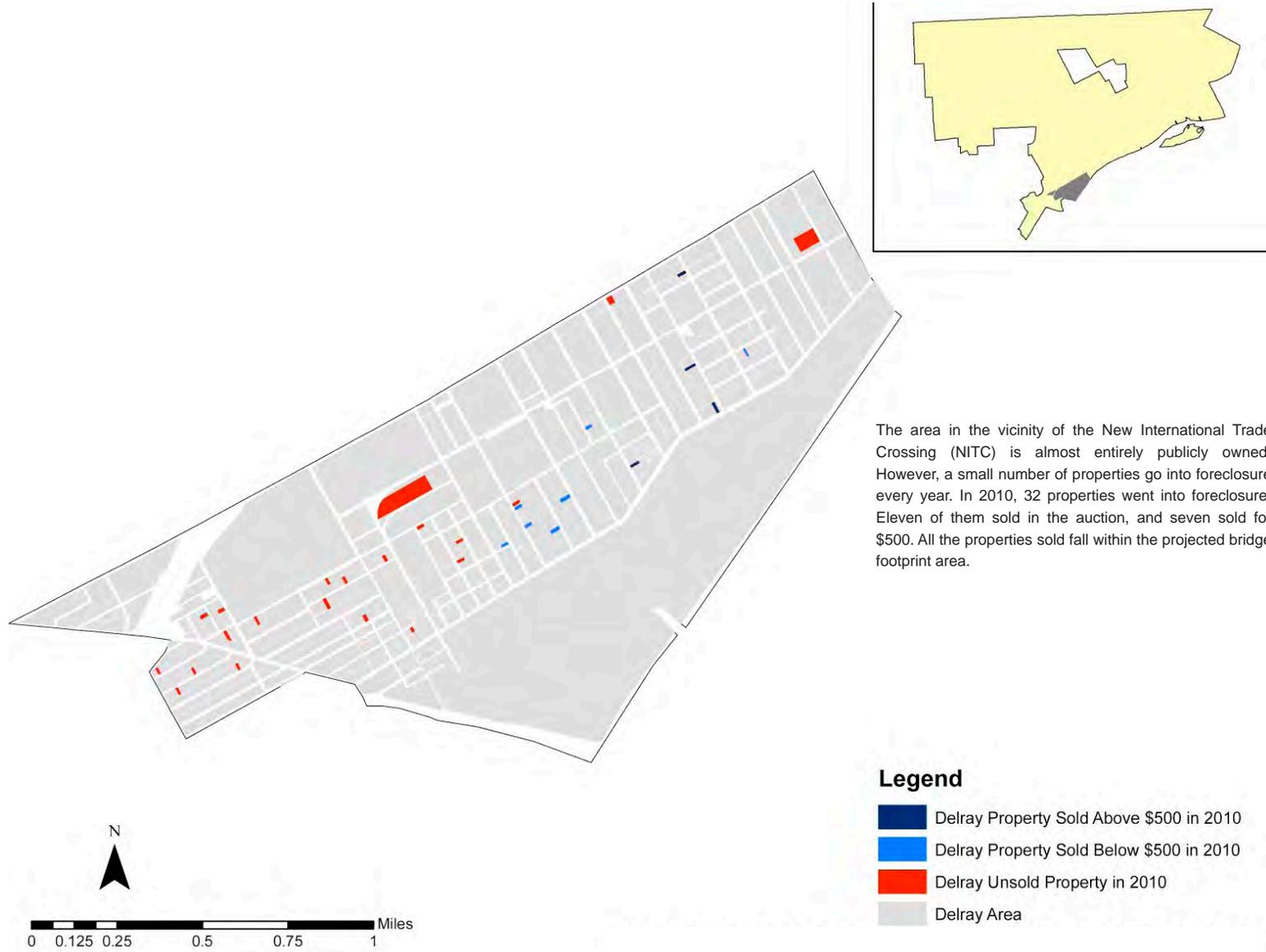
Criterion	Reasoning
<p>Select properties in areas of public projects where either the City of Detroit or another government entity would need/want to acquire property</p>	<p>Areas in the vicinity of public projects such as the Coleman A. Young Airport expansion area (Figure 8.1), the new international crossing area (Figure 8.2), or areas that are part of Detroit’s Neighborhood Stabilization Program (NSP) (Figure 8.3) represent areas of interest for the city and state governments. Because of the anticipated development, these areas are also areas of intense interest from speculators in the auction. The City of Detroit or the State of Michigan would want to acquire these properties before they sell at auction, as the price of acquiring them this way is much less than a speculator’s asking price or the price of acquiring them through eminent domain later.</p>
<p>Select properties in areas where the City of Detroit intends to reduce city services and infrastructure investment</p>	<p>If the Detroit Works Project recommends encouraging residents to move from nearly empty areas of the city, city officials may want to acquire residential structures in areas where the potential to reduce services exists. If these properties go into foreclosure, a city agency can acquire them for the back taxes, interest and fees instead of letting them go to large buyers who will try to obtain a significant profit from the sale of those properties later. The example in Figure 8.4 assumes that city officials would want to reduce services in areas that are nearly completely vacant. The example identifies residential structures that are either the last on their block or one of two or three residential structures on their block. However, this is only one way that the planners behind the Detroit Works Project may choose to measure vacancy. Other measures, such as the percent of vacant houses, or vacant lots in a block group or a census tract, would yield different results.</p>

**Figure 8.1. Properties Offered at Auction in the Coleman A. Young International Airport Area, Detroit, 2010**



Source: Detroit Residential Parcel Survey, 2009; Wayne County Treasurer's Office Auction Data, 2010.

**Figure 8.2. Properties Offered at Auction in the New Bridge Expansion Area, Detroit, 2010**



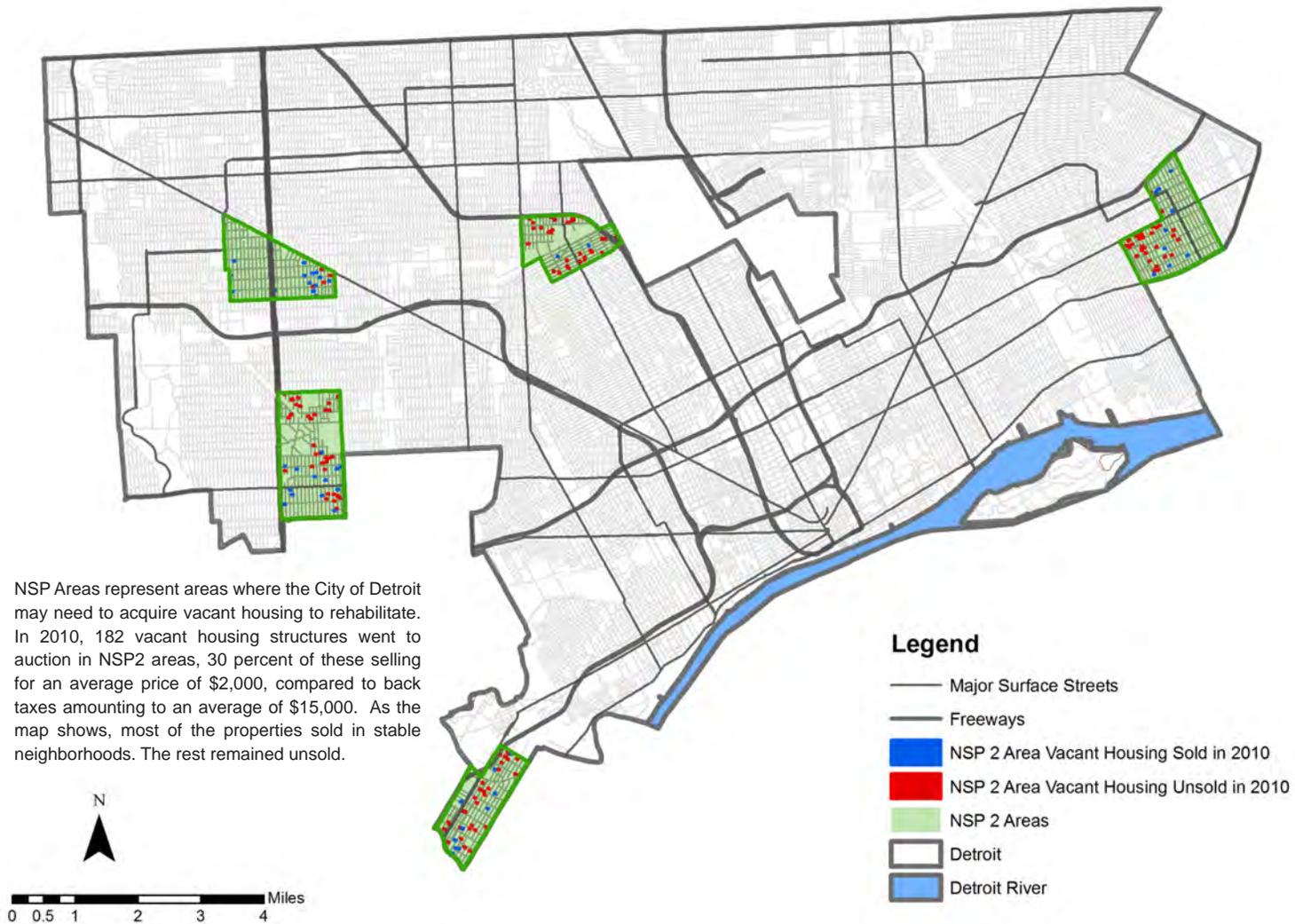
The area in the vicinity of the New International Trade Crossing (NITC) is almost entirely publicly owned. However, a small number of properties go into foreclosure every year. In 2010, 32 properties went into foreclosure. Eleven of them sold in the auction, and seven sold for \$500. All the properties sold fall within the projected bridge footprint area.

**Legend**

- Delray Property Sold Above \$500 in 2010
- Delray Property Sold Below \$500 in 2010
- Delray Unsold Property in 2010
- Delray Area

Source: Detroit Residential Parcel Survey, 2009; Wayne County Treasurer's Office Auction Data, 2010.

**Figure 8.3. Vacant Housing Offered at Auction in NSP2 Areas, Detroit, 2010**



NSP Areas represent areas where the City of Detroit may need to acquire vacant housing to rehabilitate. In 2010, 182 vacant housing structures went to auction in NSP2 areas, 30 percent of these selling for an average price of \$2,000, compared to back taxes amounting to an average of \$15,000. As the map shows, most of the properties sold in stable neighborhoods. The rest remained unsold.

Source: ESRI, 2011, Detroit Vacant Property Campaign, 2010, Wayne County Treasurer's Office Auction Data, 2010.

**Figure 8.4. Structures in Vacant Areas, Detroit, 2009****Since 2002:**

- 3 foreclosed houses were the last ones on the block. All of them sold and two of them went to bulk buyers.
  - 32 foreclosed houses were one of the last two houses on the block. 46 percent of these sold, and 50 percent of sold properties were purchased by bulk buyers.
  - 54 foreclosed houses were one of the last three houses on the block. 30 percent of these sold, and 44 percent of sold properties were purchased by bulk buyers.
- Though this example shows few properties that city officials would need to acquire under this criterion, the numbers grow exponentially as one moves from one to two to three properties on a block. Depending on the actual criteria the City of Detroit will finally use, city officials may take a large number of properties from the Treasurer before the auction.

Source: Google Maps, accessed April 2011, <http://www.google.com>; Detroit Residential Parcel Survey, 2009; Wayne County Treasurer Auction Data, 2009-2010.

### Facilitate the purchase of property through the ROR process by city, county and state

The Treasurer's Office could present city officials with evidence of the benefit of acquiring properties under the right of refusal. Clear lists of properties that fit the interest of city, county and state governments can facilitate this process. In addition, in the case of city government, the Detroit Land Bank Authority can serve as an ally in assisting the City of Detroit in acquiring properties. This will become increasingly clear if the Land Bank assumes a more important role in holding, maintaining and marketing property in the city. The Wayne County Land Bank and the Michigan Land Bank Fast Track Authority can assist at their respective levels of government.

One issue with taking properties during the ROR period is cost. Local governments may find themselves unable to pay for the taxes, interest, and fees on the properties they want. However, if the Treasurer's Office follows the provision of PA 123 that local governments using ROR will only pay the taxes interest and fees that other government units have levied, the City of Detroit may be in a better position to acquire these properties. In 2008 the City of Detroit levied 33% of the total tax levy for Detroit properties.<sup>1</sup> If for example, the city would decide to acquire a property in an NSP2 area that had a minimum bid of \$15,000 they would only have to pay approximately \$10,000. Another solution to this problem would be a second ROR period, during which local

governments can acquire property at a reduced price (see Chapter 9). Though the price obtained for ROR properties by the Treasurer's Office is less than the total taxes owed, benefit exists in reducing the number of properties that go to the auction. As discussed in Chapter 7, auctions function best when the seller offers fewer properties. Not only that, but by ensuring that foreclosed properties get used in a positive manner to advance local efforts, the Treasurer's Office increases the likelihood that fewer properties will reach foreclosure in future years.

## Encourage Positive Reuse through

### Deliberate Marketing to Specific Buyers

Identify buyers with more interest in the positive reuse of property and develop strategies for promoting their participation in the disposition process

As Chapter 6 demonstrated, certain types of buyers have more interest in the positive reuse of property than others. Community development corporations and Detroit residents – potential future homeowners, homeowners interested in expanding their properties, businesses looking to acquire vacant land for parking, even some of

the landlords who care about the neighborhoods -- are among these more desirable buyers. The auction process does not promote their participation, and even more information about the process and properties involved (as Chapter 7 recommends) may fail to attract a

significant number of them. For these reasons the Treasurer's Office could try to involve them in the disposition process more intentionally.

#### ■ Develop strategies for different buyer types

**Nonprofits:** The Treasurer's Office could reach out to nonprofits and inform them of the properties becoming available in their areas and the different options for acquiring properties. The Treasurer's Office could leverage its relationships with nonprofit organizations in Detroit, forged as part of the tax foreclosure prevention program, to facilitate access to property for those organizations that have the capacity to acquire land. Encouraging nonprofit organizations to participate more in the disposition process also requires the Treasurer's Office to work on establishing relationships with people responsible for the ROR process in the city and county governments (see previous section of this chapter). In addition, the Treasurer's Office would need to strengthen its relationships with the Detroit and/or Wayne County land banks. Options for nonprofits to acquire property include:

- **Acquiring property through the Wayne County Land Bank:**

Nonprofits seeking to acquire specific properties for a project could ask the Wayne County Executive to remove the properties from the auction offering, through the right of refusal and transfer them to the Wayne County Land Bank. The land bank then can act as a vehicle to pass these properties along. The properties would be cheaper than the auction minimum bid since they would not include county taxes, interest, and fees. They would also have clear title after passing through the land bank. However, this option would only work for nonprofits that can afford to purchase the property from the land bank quickly, for the entire sum. Many nonprofits may find this prohibitive. The Treasurer's Office already sends out lists of properties, that the Wayne County Land Bank advertises to nonprofits in an attempt to revive Project SAVED (see Figure 8.5).<sup>1</sup> However, this practice has failed to attract many nonprofits. This could be more effective if the law were changed to allow local governments to acquire property through ROR for less than the minimum bid in the first auction (see Chapter 9).

- **Acquiring property through the Detroit Land Bank:** The Detroit Land Bank may offer a better solution for recreating a program like Project SAVED. As Figure 8.5 shows, Project SAVED had a few characteristics that made it successful under the old foreclosure law. One important one was the low cost of acquiring property. Channeling properties through the Detroit Land Bank may facilitate lower acquisition costs for nonprofits. Since the City of Detroit would have to ROR the properties before they go to the land bank, their price would already

not include the city taxes, interest and fees, which would amount to a larger part of the minimum bid than the county taxes. In addition, the Detroit Land Bank may be able to subsidize acquisition of these properties by applying for public grants, or grants from foundations. Furthermore, the land bank would benefit from the receipt of 50 percent of the property specific taxes on sold property for five years after sale.<sup>2</sup> This may create incentives to further lower the price of acquisition to make the properties more attractive to a nonprofit organization. The land bank can also hold the property – be it housing in need of rehabilitation, commercial property, or vacant lots for a future project by the nonprofit – until the nonprofit organization has assembled all resources needed to undertake the project. As the examples in Figures 8.6 and 8.7 suggest, nonprofits generally do not take on many properties at once and would benefit from the option of taking on properties gradually.

### Figure 8.5. Project SAVED

Through Project SAVED under the previous tax foreclosure law, the State Department of Natural Resources (DNR) conveyed tax reverted properties to Wayne County, and the county sold those properties to qualifying nonprofits for \$300 per transaction during the 1990s, ending as the new law took effect in the early 2000s. The county sold up to five parcels per transaction.

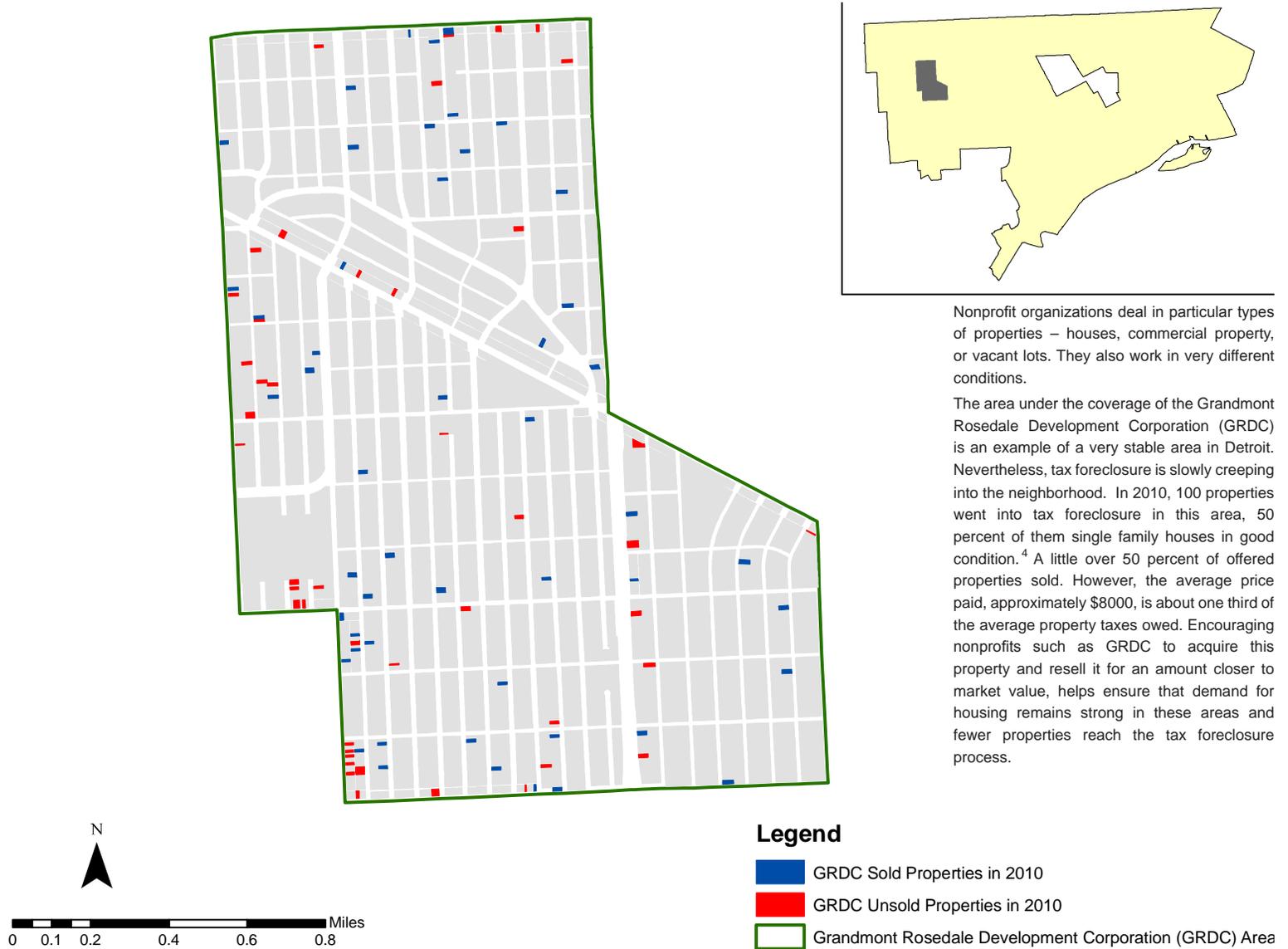
A nonprofit could qualify for the program if the City of Detroit or the Michigan State Housing Development Authority certified it as a Community Housing Development Organization to receive HOME funds from the U. S. Department of Housing and Urban Development. A nonprofit also could qualify for the program by submitting an application to the Housing Division of the Wayne County Department of Jobs and Economic Development. After the Housing Division approved a nonprofit, Housing Division staff put the nonprofit on a mailing list to receive information about properties available through Project SAVED.

The DNR Land and Mineral Service division would send the Housing Division a list of tax foreclosed properties available in Wayne County. The Housing Division then sent each participating organization a list of the properties available in the organization's service area and a form that the organization could use to indicate which properties it wanted to acquire.

To close on the property, the organization needed to pay an administrative fee to the Wayne County Treasurer and execute a Letter of Understanding describing the terms and conditions of the property transfer.

Source: Taylor Teasdale, "Land Acquisition Procedures Manual, A Guide to Acquiring Real Property in the City of Detroit," Legal Assistance to Urban Communities Clinic, University of Michigan (2000).

**Figure 8.6. Properties Offered at Auction in the Area Covered by Grandmont Rosedale Development Corporation, Detroit, 2010**

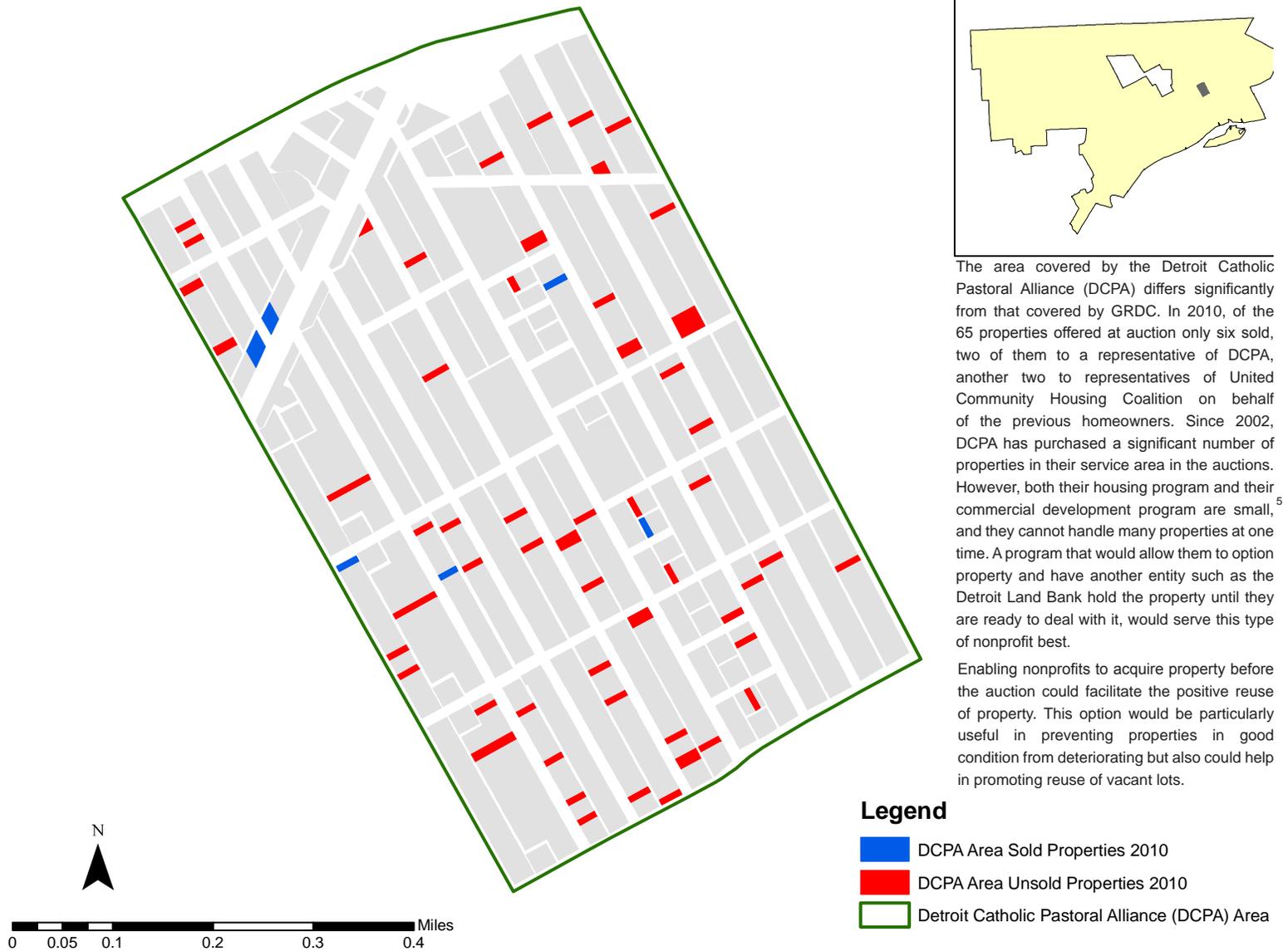


Nonprofit organizations deal in particular types of properties – houses, commercial property, or vacant lots. They also work in very different conditions.

The area under the coverage of the Grandmont Rosedale Development Corporation (GRDC) is an example of a very stable area in Detroit. Nevertheless, tax foreclosure is slowly creeping into the neighborhood. In 2010, 100 properties went into tax foreclosure in this area, 50 percent of them single family houses in good condition.<sup>4</sup> A little over 50 percent of offered properties sold. However, the average price paid, approximately \$8000, is about one third of the average property taxes owed. Encouraging nonprofits such as GRDC to acquire this property and resell it for an amount closer to market value, helps ensure that demand for housing remains strong in these areas and fewer properties reach the tax foreclosure process.

Source: Detroit Residential Parcel Survey, 2009; Wayne County Treasurer’s Office Auction Data, 2010.

**Figure 8.7. Properties Offered at Auction in the Area Covered by the Detroit Catholic Pastoral Alliance Area, Detroit, 2010**



The area covered by the Detroit Catholic Pastoral Alliance (DCPA) differs significantly from that covered by GRDC. In 2010, of the 65 properties offered at auction only six sold, two of them to a representative of DCPA, another two to representatives of United Community Housing Coalition on behalf of the previous homeowners. Since 2002, DCPA has purchased a significant number of properties in their service area in the auctions. However, both their housing program and their commercial development program are small,<sup>5</sup> and they cannot handle many properties at one time. A program that would allow them to option property and have another entity such as the Detroit Land Bank hold the property until they are ready to deal with it, would serve this type of nonprofit best.

Enabling nonprofits to acquire property before the auction could facilitate the positive reuse of property. This option would be particularly useful in preventing properties in good condition from deteriorating but also could help in promoting reuse of vacant lots.

Source: Detroit Residential Parcel Survey, 2009; Wayne County Treasurer's Office Auction Data, 2010.

**Purchasers of Adjacent Vacant Lots:** Numerous property owners purchase vacant lots adjacent to their properties (see Chapter 6). These buyers enhance the value of vacant lots in stable areas and help stabilize areas of Detroit suffering from more vacancy. Through outreach, the number of adjacent lot purchases could increase, helping to reduce the number of vacant lots that end up in the Treasurer’s inventory after the auctions and eventually in the City of Detroit inventory, while potentially increasing their value through productive reuse.

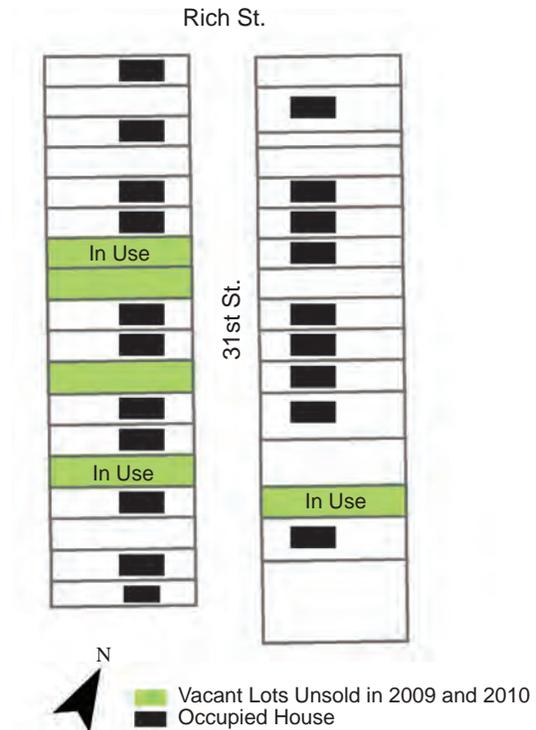
The Treasurer’s Office could facilitate access for these potential buyers in several ways:

- 1) Directly market these lots to adjacent homeowners by mapping these lots and sending postcards to adjacent homeowners to inform them of the upcoming auction. Alternatively, the Treasurer’s Office can hold an auction specifically for these lots, as mentioned in Chapter 7.
- 2) Map the lots in nonprofit service areas, and have these local organizations market the lots to potential homeowner buyers. This would further promote the participation of adjacent homeowners in the auction.
- 3) Work with the City of Detroit to acquire these lots through right of refusal and to transfer them to the Detroit Land Bank. The land bank

can then start a side lot program and market and sell these properties to potential buyers.

Figure 8.8 shows how some areas of the city have had up to five vacant lots or more in a two-block radius go to auction in the last two years. Overall in 2009 and 2010, 5,315 residential vacant lots went unsold. Of these, 2,665 (50%) were adjacent to one or more occupied homes;<sup>6</sup>

**Figure 8.8. Missed Opportunities for Vacant Lots Unsold at Auction in 2009 and 2010**



Source: Detroit Residential Parcel Survey, 2009; Wayne County Treasurer’ Office Auction Data, 2009-2010.

1,829 were adjacent to one occupied home, 659 were adjacent to two occupied homes, 177 were adjacent to three or more occupied homes. In the case shown in Figure 8.8 residents already use three of the five unsold lots offered in the auctions. Not facilitating access to these foreclosed properties for homeowners who wish to enlarge their property represents a missed opportunity.

**Future Homeowners:** Through the ROR process, government entities can create flexibility for buyers seeking to become homeowners, allowing them to acquire unoccupied homes in good condition. As Chapter 6 shows, few homeowners have purchased homes through the foreclosure auction. The auction is a difficult way for future homeowners to buy property, especially since they have to pay the entire sum a short time after the auction.

To encourage the participation of buyers seeking to become homeowners, the Treasurer's Office could encourage the City of Detroit to ROR housing in good condition and transfer it to the Detroit Land Bank. The land bank can then market the property through a traditional brokered sale system which allows homeowners to complete

paperwork and line up financing for acquiring the property. The land bank can sell these properties closer to market value and therefore not depress property values in Detroit neighborhoods, thus contributing to the long-term stabilization of these neighborhoods.

In areas of Detroit with active community development corporations, these organizations could serve a marketing role, publicizing properties the land bank offers in their coverage areas.

**Businesses:** Small businesses adjacent to commercial vacant lots may also purchase property in the auctions, if they know that the Treasurer's Office auctions property of interest. Chapter 6 showed that businesses have purchased property in the past, especially those businesses that need additional parking or storage space.

The Treasurer's Office could map commercial vacant lots and communicate their availability to adjacent businesses via postcards. This would encourage businesses to participate in the auction. Larger businesses or business associations rehabilitating commercial property may be interested in buying commercial structures. They may also serve as outlets for publicizing auction offerings in their areas.

Encouraging businesses to acquire property in the auction not only increases the proceeds from the auction but also contributes to the positive reuse of these properties. The example in Figure 8.9 shows how business owners who purchase commercial lots can improve commercial areas in the city.

**Figure 8.9. Business Owner's Reuse of Commercial Property Bought at Auction, Detroit, 2003 and 2010**



Source: Wayne County Treasurer's Office Auction Data 2003, Authors, 2010.

## Develop Strategies to Discourage

### Negative Reuse

In addition to encouraging positive reuse of tax-foreclosed properties, the Treasurer's Office could employ policies to discourage negative reuse without excluding buyers from the property auction. The Treasurer's Office could require prepayment of taxes, make vacant property registration mandatory, or set reuse conditions on auction bids. Such policies could discourage some purchasers from buying properties at the auction, but a substantial share of these purchasers never pay property taxes, and the properties go through foreclosure again. Discouraging such purchasers could save the Treasurer the cost of foreclosing again on the same property.

## Make Prepayment of Taxes a Requirement for the Auction

The Treasurer could modify the rules of the auction, especially in the case of the no minimum bid auction, to require buyers to pay a portion of the upcoming taxes upon closing the sale. The Treasurer could set an amount as low as the taxes for the next six months or as high as the taxes for the next two years. This rule could apply to all buyers or only to buyers that purchase a larger number of properties, say more than five properties, in one auction. It could also apply only to vacant land purchasers who are not adjacent owners or to properties bought for under \$1000. Making prepayment of taxes mandatory does not constitute a disincentive for the auction buyers, since these taxes are the buyer's responsibility anyway. However, it does ensure that auctioned properties do not return to foreclosure without ever having paid taxes (see Chapter 5).

## Make Vacant Property Registration Mandatory

The Treasurer's Office could also require that the buyer register any structure determined to be vacant with the City of Detroit upon purchase. Under the Detroit Vacant Property Registration Ordinance, all owners of vacant structures, whether residential or commercial, must register their property with the City's Building and Safety Engineering

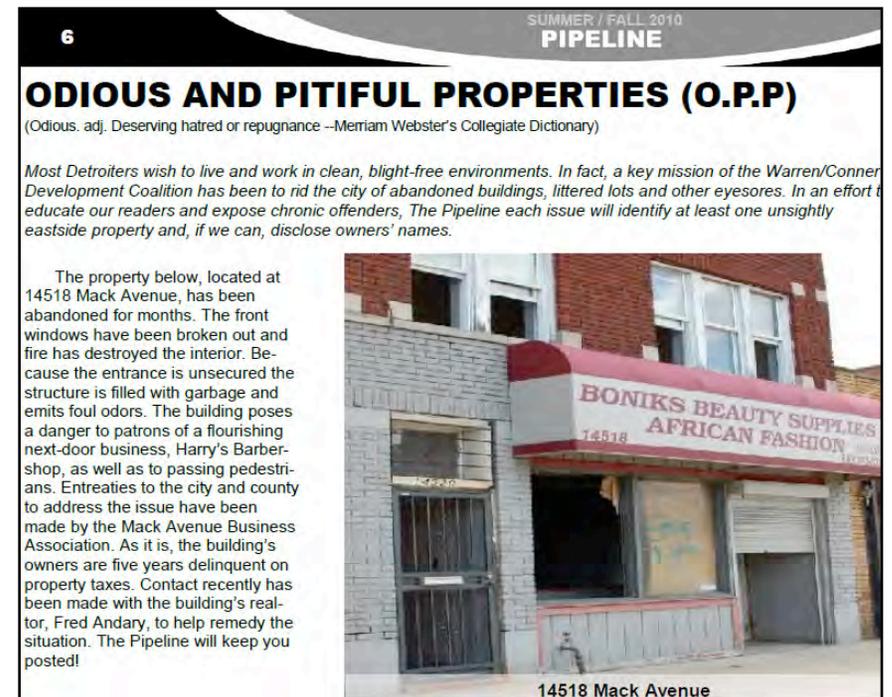
Department and receive a certificate of ownership. The owner must complete the registration each year as long as the structure remains vacant. Failure to register the property results in fines depending on the type of property (commercial, single family/multi-family residential). The fines increase for every year the property owner fails to register the property. Once the property owner registers the property once, the City of Detroit can better know to whom they must send blight violations, fines, and other penalties, if the owner fails to maintain the structure up to code. In addition, the information that registration provides helps community groups encourage enforcement of blight violations through public pressure. Figure 8.10 shows how community groups can exercise pressure on property owners that neglect their properties, through articles in the organization's newsletter or other measures. This requirement does not necessarily deter buyers from purchasing at auction, since the initial registration fee is low (\$50 for single-family residential structures), but it does help the City of Detroit ensure that property owners treat their properties responsibly.<sup>7</sup>

### Set Reuse Conditions on Auctioned Property

While the winning bidder in an auction typically wins solely based on the price offered at auction, the Treasurer could modify the rules of the auction to require some guarantee of positive reuse. Further guarantees may include a requirement that the buyer maintain the property. This requirement could mean as little as cutting the grass on a

vacant lot, or securing open and dangerous buildings, or rehabilitating and bringing structures up to code. Such a requirement would require a claw-back in case of infringement, ranging from a fine to the property's reverting to ownership by a public entity. A reverter clause on property purchased at auction may stipulate that if properties are not maintained up to code, they would revert back to the Treasurer's Office or to the City of Detroit. Though hard to enforce, such a clause may deter unscrupulous buyers from neglecting their property.

**Figure 8.10. Article From the Warren/Conner Development Coalition Newsletter**



Source: Warren/Conner Development Coalition, *The Online Pipeline*, Summer/Fall, (2010): 6.

The type of conditions that the Treasurer chooses would depend on his assessment of their impact on the auction. More conditions may discourage buyers, while no conditions encourage buyers who do not have an interest in the positive reuse of the property. However, even few conditions may serve to make buyers more responsible for the properties they buy. Chapters 5 and 6 have shown that the type of buyer purchasing property at auction is a good indicator of the outcome that properties have. The type of buyer also points to a higher or lower chance the new owner continues to pay taxes on the property after the auction. Promoting buyers with direct interest in the positive long-term use of property, while making buyers with less interest in the positive reuse of property more responsible, can have positive effects both on the City of Detroit and on the Treasurer's Office foreclosure situation.

## Conclusion

The Treasurer's Office could realize an increase in net revenue over time by focusing on the outcomes of properties. Encouraging productive reuse of tax-foreclosed properties can eventually increase revenue through neighborhood vitality and tax base stability. Fewer properties will enter foreclosure, and more of the foreclosed properties will sell at the auction for higher prices.

If the Treasurer's Office makes sustained efforts to dispose of property in a manner that takes into consideration the use that the new owners will give to that property, the effects may not become visible right away, but they the effort will eventually pay off.

The Treasurer's Office can make adjustments to practices that take this longer term approach, in addition to the short-term changes for the auction recommended in Chapter 7. However, simply adjusting practice may not be sufficient. Consequently, Chapter 9 will discuss possible changes to state law that could enable the Treasurer's Office to meet the goals of increasing net revenue and positive reuse of property.

## Notes

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- <sup>1</sup> City of Detroit Finance Department, accessed April 2011, <http://www.ci.detroit.mi.us/DepartmentsandAgencies/Finance/TreasuryDivision/FAQs.aspx>,
- <sup>2</sup> Interview with Jim Bickley, Wayne County Treasurer's Office, April 2011.
- <sup>3</sup> Tax Reverted Clean Title Act, 2003 Public Act 260, Sec. 102 (5) (MCL 211.102), accessed April 2011, <http://legislature.mi.gov/doc.aspx?mcl-Act-260-of-2003>.
- <sup>4</sup> Detroit Residential Parcel Survey, 2009.
- <sup>5</sup> DCPA website, accessed April 2011, <http://www.dcpasite.org/What%20we%20do.htm>.
- <sup>6</sup> Detroit Residential Parcel Survey, 2009.
- <sup>7</sup> Community Legal Resources, "Detroit Vacant Property Registration Ordinance Proposal," (April 2010): 27-29.



# CHAPTER 9

## CHANGES TO MICHIGAN LAW



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



The legal framework surrounding tax foreclosure can provide for a better disposition process for tax-foreclosed properties. This chapter will address ways that the state legislature can change current law to make those improvements. The following sections will describe the current situation under the existing legal framework and then suggest changes in the following areas:

- Changes in the notification process
- Changes to the interest for nonpayment of property taxes
- Changes to the second auction
- Changes to restrict neglectful property owners
- Changes in the right of refusal process

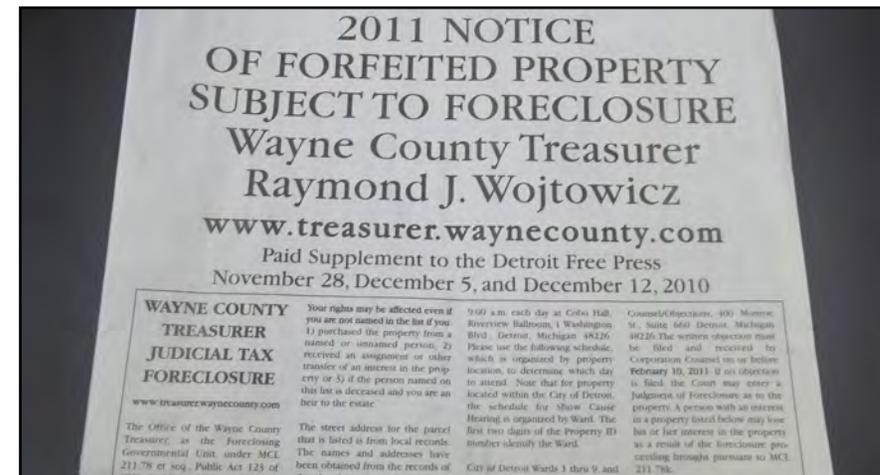
## Changes in the Notification Process

### Current Situation

PA 123 requires treasurers' offices to publish in a local newspaper all the properties going into the foreclosure process in a given year.<sup>1</sup> This is costly, especially in counties where a large number of properties go into forfeiture every year. In 2010, the Wayne County Treasurer's Office spent approximately \$500,000 to publish a list of the 26,000 properties facing foreclosure and all persons with an interest in those properties (see Figure 9.1). Newspaper notices are inefficient because

property owners cannot easily search for their properties. To find properties in the newspaper notice, property owners must search by ward and parcel number, information that many property owners cannot easily access.

**Figure 9.1. Notice of Forfeited Property Subject to Foreclosure, 2011**



Source: Authors, 2011

### Suggestion

#### ■ Allow Electronic Posting of Notices

The legislature could amend PA 123 to allow publishing of notices online instead of by newspaper and save the county hundreds of thousands of dollars. For those without internet access, the Treasurer's Office could create an automated dial-up system or mail inexpensive postcards to residents, providing details on where, how, and when those with an interest in a property can access the property list. The

Michigan Municipal League has suggested new legislation to allow local governments to post all notices online rather than in newspapers.<sup>2</sup> Figure 9.2 provides examples of states that have similar laws in place.

The Wayne County Treasurer’s website allows property owners to check the tax status of all properties by searching either by property address or parcel number. More publicity of this site can accustom people to using an online tool for checking tax status until the legislature can amend the law (Figure 9.3).

**Figure 9.2. Online Notice Legislation**

Seventeen states publish notices online, in addition to their newspaper publications. These include California, Connecticut, Illinois, Indiana, and others.

The Utah legislature passed an amendment to its public notice and publication law that phases out newspaper notices, replacing them with online notices on a public website. In 2010, governmental units began publishing notices through both a newspaper of large circulation and on the website. Starting in 2012, however, online publication becomes mandatory and the newspaper publication will be optional. The online notice must be on a public website and the notice provider may not charge more than \$10 for publication.

Source: Utah State Legislature, “Utah Code: Title 45, Publication and Broadcasting,” amended in 2010, accessed April 2011, <http://le.utah.gov/~code/TITLE45/TITLE45.htm>.

**Figure 9.3. Wayne County Property Tax Listing System**

**Property & Tax Information**

Municipality	Parcel ID	Property Type
01 - DETROIT	19000826	REAL

**Property Address**

**Taxpayer(s)**

Tax Year	Tax	Interest & Fees	Amt. Due	Status
2007	\$469.76	\$495.51	\$965.27	FORFEITED
2008	\$465.94	\$150.13	\$616.07	FORFEITED
2009	\$577.94	\$351.82	\$929.76	FORFEITED
<b>TOTALS</b>	<b>\$1,513.64</b>	<b>\$997.46</b>	<b>\$2,511.10</b>	
<b>TOTAL TAX AMOUNT DUE</b>			<b>\$2,511.10</b>	
<b>if paid on or before 3/31/2011</b>				

**2010 DATA HAS NOT BEEN RECEIVED FROM THE MUNICIPALITY. ADDITIONAL TAXES OR ADJUSTMENTS MAY BE DUE FOR THE CURRENT YEAR. PROPERTY TAX INFORMATION IS VALID AS OF BUSINESS DAY 3/11/2011. PER OUR RECORDS THERE ARE NO OTHER OUTSTANDING DELINQUENT TAXES FOR THIS PARCEL.**

[<< Go Back](#)
[<< New Search](#)
[Definitions](#)

**Pay Now!**

OR **CLICK BELOW**

**Create/View Payment Schedule and Make Partial Payment**

Source: Wayne County Treasurer Website, “Pay Your Taxes Online,” accessed February 2011, [http://www.waynecounty.com/treasurer\\_payonline.htm](http://www.waynecounty.com/treasurer_payonline.htm).

## Changes to Interest for Nonpayment of Property Taxes

### Current Situation

For properties forfeited to the Treasurer, the interest rate on overdue taxes is 18 percent per year.<sup>3</sup> This results in situations where homeowners cannot redeem their properties because of high interest and fees. PA 123 allows no reductions or exceptions to fees and interest changed for overdue taxes.

As explained in Chapter 2, this interest creates a revenue stream for the county. However, the cumulative effect of the interest presents a burden for low-income homeowners, and the high interest rate increases the likelihood of a property entering foreclosure. While this interest rate creates a disincentive for becoming delinquent on property tax, an annual interest rate of 18 percent can accumulate over time into an insurmountable debt for low-income homeowners.

Adjustments to Michigan law could allow the Treasurer to lower the interest rate to encourage repayment of property taxes and help property owners avoid foreclosure.

### Suggestion

#### ■ Allow Treasurer to Waive or Lower Interest

The state legislature could amend PA 123 to allow each county treasurer the option to adjust interest rates on delinquent taxes. Allowing county treasurers the option to determine interest rates would allow each treasurer to set a rate that better reflects local conditions and meets that treasurer's goals. By lowering interest rates, the Treasurer can increase productive use of property by helping homeowners stay in their homes and preventing these houses from becoming empty and blighted. Figure 9.4 provides examples of similar legislation in other states.

Other amendments to reduce the interest rate can create an incentive for taxpayers to pay their delinquent taxes prior to forfeiture. For example, an amendment could allow the Treasurer to forgive interest upon repayment of delinquent taxes in special cases. Another amendment could allow taxpayers to keep their interest rate at 12 percent by entering into a payment agreement with the Treasurer's Office before the interest rate rises to 18 percent.

### Figure 9.4. Legislation Lowering the Interest Rate

In many states the interest rates applied to delinquent property taxes increased during the 1970s and 1980s in response to historically high inflation. Interest rates nevertheless vary significantly among the states, ranging from as little as 8 percent to more than 24 percent per annum. The majority of states currently apply some combination of interest and penalties for delinquent taxes amounting to 18 percent interest per annum.

Some states, such as Rhode Island, Delaware, New York, and Maine allow local governments the option to determine the interest and penalties charged for delinquent taxes.

In the context of a low-interest-rate environment nationally, several states are moving toward reducing the interest and penalties associated with delinquent taxes. State Legislatures in Connecticut and New Hampshire are considering bills to reduce interest rates for delinquent property taxes from 18 percent to 12 percent and 9 percent, respectively. One legislator in Alabama has recently spoken out against punitive interest rates in the state.

Kansas maintains interest rates for delinquent property taxes that fluctuate annually based on the IRS schedule of interest owed for the underpayment of taxes. Similarly, Utah links the interest on delinquent taxes to a floating federal funds rate, with lower and upper bounds of 7 and 10 percent (plus a penalty of 2.5 percent), setting a limit to the range of allowable interest rates. Utah's law, which took effect in 2003, allows interest rates to fluctuate in accordance with inflation trends while reducing debt burdens for property owners with tax delinquencies.

Source: State of Connecticut General Assembly, "Substitute House Bill No. 5269," accessed April 2011, <http://www.cga.ct.gov/2010/FC/2010HB-05269-R000422-FC.htm>; New

Hampshire Liberty Alliance, "House Bill 457, accessed April 2011, <http://www.nhliberty.org/bills/view/2011/HB457>; Jeff Hansen, "Alabama Legislator Seeks to Reform Property Tax Law," *The Birmingham News*, January 18, 2011; Internal Revenue Service, "Internal Revenue Code, Section 6621," accessed April 2011, <http://www.irs.gov/pub/irs-drop/rr-05-15.pdf>.

## Changes to the Existing Auction Process

### Current Situation

Currently, the Treasurer's Office offers properties in two auctions. In the first auction, the Treasurer offers properties for the taxes, fees, and interest owed.<sup>4</sup> In the second auction, the Treasurer's Office offers properties for an opening price of \$500, which reflects the cost of organizing the sale.<sup>5</sup> Because the second auction offers buyers the option to purchase properties at significantly discounted prices, this second auction reduces the incentive for buyers to bid in the first auction. With fewer bidders purchasing properties in the first auction, the Treasurer's Office may take in less revenue from sales than if bidders knew they did not have the opportunity to purchase property for a much lower price in the second auction.

Buyers' reluctance to buy properties for at least the total amount of taxes owed plus fees and interest may suggest that these properties are not worth the minimum bid in the first auction. Some properties may be worth little above the \$500 reservation price in the second

auction, while other properties are worth much more than \$500 but still less than the first auction's minimum bid (Figure 9.5). An oversupply of properties at auction results in more valuable properties selling for less than their market value (see Chapter 3).

**Figure 9.5. Property Sold for \$500 in Second Auction, Detroit, 2010**



Source: Authors, 2010.

In Wayne County, the presence of the second auction may result in fewer properties selling in the first auction for the total of taxes, fees, and interest and more properties selling in the second auction for the opening bid amount. However, without a second auction, the Treasurer could have a much larger inventory of properties after auction. With a larger inventory of unsold properties, the Treasurer would collect even less tax revenue and spend more on property maintenance. Therefore, the second auction produces mixed results.

## Suggestion

### ■ Allow Flexibility for Second Auction

To account for the different situations of county treasurers in Michigan, the law could allow more flexibility in the conduct of the auctions. For example, the legislature could amend the law to allow the Treasurer to select higher value properties to sell through realtors rather than through the second auction. Alternatively, the law could allow each treasurer to decide whether to cancel the second auction altogether. Cancelling the second auction for some or all properties could increase revenue at the first auction by removing the opportunity for buyers to wait to purchase property at a lower price.

### ■ Allow Use of Variable Minimum Bids in the Second Auction

The legislature could amend PA 123 to allow the Treasurer to set variable minimum bids in the second auction, because allowing a reservation price over \$500 for more valuable properties will ensure that bids on these properties more closely reflect their market values. Creating variable minimum bids for the second auction can increase revenues for the Treasurer by preventing at least some higher-value properties from being undervalued at auction.

## Changes to Restrict Neglectful Property

### Owners

#### Current Situation

Currently, the law lacks provisions to prevent neglectful property owners from participating in the auction. When purchasers neglect to pay their property taxes and allow properties to fall back into foreclosure, this creates additional costs for the Treasurer's Office which must expend resources to re-foreclose on the properties and offer them for auction again (Figure 9.6). Restricting property owners with a history of neglect from participating in the auction can save the Treasurer's Office the money it would spend on re-foreclosure.

#### Suggestion

##### ■ Allow for Restrictions on Purchasers

The legislature could amend PA 123 to allow the Treasurer's Office to impose restrictions on bidders in an effort to weed out purchasers that let properties fall back into foreclosure.

- The Treasurer's Office could restrict purchasers who owe unpaid taxes within the county from bidding in the auction or closing on properties. This restriction is not perfect because bidders can create limited liability companies (LLCs) to conceal their identities and purchase properties even if they owe unpaid property taxes within the county, but this restriction does impede these bidders from entering the auction. Figure 9.7 provides an example of Pennsylvania's law barring property owners with delinquent taxes from purchasing tax-foreclosed properties.
- The Treasurer can more effectively recoup property tax revenue and discourage property speculation if a law bars property owners from transferring ownership on their properties while they owe delinquent taxes. This measure would require property owners to pay delinquent taxes before transferring ownership on their property. Figure 9.8 provides examples of similar laws in place in Maryland and Minnesota.

**Figure 9.6. Property Purchased by an LLC in 2006 That Was Forfeited Once Again, Detroit, 2010**



Source: Authors, 2010.

**Figure 9.7. Legislation Restricting Purchases by Buyers with Delinquent Taxes**

Pennsylvania's Real Estate Tax Sale Law prevents people who have delinquent taxes in the jurisdiction where they are purchasing property from bidding in tax-foreclosed property sales. Bidders must sign an affidavit certifying that they neither owe taxes nor own the property that they intend to purchase. Furthermore, bidders must not have had a landlord license revoked in any of the jurisdictions where they intend to buy property. Bidders must sign this affidavit after they have successfully bid in the auction.

Source: *Pennsylvania Real Estate Tax Sale Law. Act 133, P.L. 1368, No. 542, enacted December 21, 1998. Now 72 P.S. § 5860 et seq.*

**Figure 9.8. Legislation Restricting Transfer Rights**

The Maryland real property code, as of 2005, restricts transfer of property as follows:

“Except as provided in subsection (c) of this section, property may not be transferred on the assessment books or records until:

- (i) All public taxes, assessments, and charges currently due and owed on the property have been paid to the treasurer, tax collector, or director of finance of the county in which the property is assessed; and
- (ii) All taxes on personal property in the county due by the transferor have been paid when all land owned by him in the county is being transferred.”

Minnesota instituted its restrictions on transfer of property in 2010:

“When: (a) a deed or other instrument conveying land, (...) is presented to the county auditor for transfer, the auditor shall ascertain from the records if there be taxes delinquent upon the land described therein, or if it has been sold for taxes. (...) If there are taxes delinquent, the auditor shall certify to the same; and upon payment of such taxes, or in case no taxes are delinquent, shall transfer the land upon the books of the auditor's office, and note upon the instrument, over official signature, the words, ‘no delinquent taxes and transfer entered,’ or, if the land described has been sold or assigned to an actual purchaser for taxes, the words ‘paid by sale of land described within;’ and, unless such statement is made upon such instrument, the county recorder or the registrar of titles shall refuse to receive or record the same (...)”

Source: Maryland State Legislature, “Maryland Code, Real Property § 3-104,” accessed April 2011, [http://mlis.state.md.us/asp/statutes\\_respond.asp?article=grp&section=3-104&Extension=HTML](http://mlis.state.md.us/asp/statutes_respond.asp?article=grp&section=3-104&Extension=HTML); Minnesota State Legislature, “Minnesota Statutes § 272.12, 2008, accessed April 2011, <https://www.revisor.mn.gov/statutes/?id=272.12>.

## Changes in the Right of Refusal Process

### Current Situation

The state, county, or city can take property under the right of refusal (see Chapter 2). The state, county, or city may exercise the right of refusal before either the first or second auction by purchasing property for the greater of minimum bid of the taxes, interest, and fees owed to entities other than themselves, or the fair market value of the property. Through the right of refusal process, the City of Detroit could purchase properties to transfer to the Detroit Land Bank, for example.

### Suggestion

#### ■ Allow the State, County, or City to Purchase Property at a Lower Price

The legislature could amend PA 123 to allow the state, county, or city to purchase property for the second auction's reservation price, which in Wayne County is \$500, prior to the second auction. By creating a greater incentive for the state, county, or city to purchase property between auctions, this amendment could increase revenue for the Treasurer's Office by creating less incentive for prospective bidders to wait until the second auction to purchase property. This amendment can also increase positive reuse of property by encouraging local governments

to purchase property to meet their planning goals and on behalf of nonprofit developers.

## Conclusion

### Empowering Counties to Improve the Process Locally

The current legal framework ties the hands of county treasurers throughout the state. By making minor changes in the law, the legislature can give treasurers the ability to adjust the foreclosure administration process in ways that allow them to run a more cost-effective process that reduces harm to owner occupants. Furthermore, these legal changes will also help the Wayne County Treasurer's Office meet its goals to increase revenue, decrease administrative costs, and increase the positive reuse of auctioned properties.

## Notes

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<sup>1</sup> Delinquent Property Tax Foreclosure Act, 1999 Public Act 123, Sec. 78i (MCL 211.78), accessed September 2010, <http://www.legislature.mi.gov/documents/1999-2000/publicact/htm/1999-PA-0123.htm>.

<sup>2</sup> Michigan Municipal League, "Local Leaders Respond to Gov. Snyder's Invitation and Propose Government Reforms," Press release, January 26, 2011, <http://www.mml.org/pdf/newsroom/mediaroundtable-release.pdf>.

<sup>3</sup> Delinquent Property Tax Foreclosure Act, 1999 Public Act 123, Sec. 78g (3) (b) (MCL 211.78).

<sup>4</sup> Delinquent Property Tax Foreclosure Act, 1999 Public Act 123, Sec. 78m (4) (MCL 211.78).

<sup>5</sup> Delinquent Property Tax Foreclosure Act, 1999 Public Act 123, Sec. 78m (5) (MCL 211.78).

<sup>6</sup> Delinquent Property Tax Foreclosure Act, 1999 Public Act 123, Sec. 78m (3) (MCL 211.78); Delinquent Property Tax Foreclosure Act, 1999 Public Act 123, Sec. 78m (1) (MCL 211.78).



# APPENDICES



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



## Appendix A - Data Sources

### **City of Detroit Assessor's Office, 2009.**

The Assessor's data include parcel identification number, address, the current taxpayer, taxpayer address, the area of property, taxable value, and date of last sale.

### **Detroit Buildings, Safety Engineering and Environmental Department, 2002-2010.**

The building permit data from the Detroit Buildings, Safety Engineering and Environmental Department include applicant, permit requested, fee, property location, parcel number, type of project, and property zoning.

### **Detroit Department of Administrative Hearings, 2011.**

The Department of Administrative Hearings online Blight Violation Number tool provides information about blight violations and hearing attendance rates by address and property owner.

<http://www.ci.detroit.mi.us/DepartmentsandAgenciesDepartmentofAdministrativeHearings/TicketSearch.aspx>.

### **Detroit Residential Parcel Survey, 2009.**

The Detroit Residential Parcel Survey data set provides address, parcel number, property type, condition, occupancy, vacancy, and lot

improvements for every residential vacant lot and every residential structure with four or fewer housing units. The parcel survey file also served as the base parcel map of the City of Detroit for most maps. <http://datadrivendetroit.org/>.

### **Detroit Vacant Property Campaign, 2010.**

The Detroit Vacant Property Campaign data set includes the boundaries for Neighborhood Stabilization Program 1 and 2 target areas.

### **ESRI, 2011.**

ESRI's TIGER/Line data sets provide files for national boundaries, state boundaries, census block groups, census tracts, water bodies, municipal boundaries, rivers, and roads.

<http://www.census.gov/geo/www/tiger/tgrshp2010/tgrshp2010.html>.

### **Michigan Department of Energy, Labor & Economic Growth, 2011.**

The Department of Energy, Labor & Economic Growth Corporation Division business entity search provides online access to ownership and residence data for Michigan business entities.

[http://www.dleg.state.mi.us/bcs\\_corp/sr\\_corp.asp](http://www.dleg.state.mi.us/bcs_corp/sr_corp.asp).

### **Michigan Tax Tribunal, 2011.**

The Michigan Tax Tribunal search tool offers specific data about applications to reduce tax assessments, hearing attendance, and

Michigan Tax Tribunal decisions by address and owner.  
[http://www.dleg.state.mi.us/ham/tax/sr\\_taxdoc.asp](http://www.dleg.state.mi.us/ham/tax/sr_taxdoc.asp).

### **Wayne County Register of Deeds' Office, 2010.**

The Wayne County Register of Deeds Real Estate Index provided information for sampled properties following tax foreclosure, including tax payment status, lis pendens (lawsuits), demolition liens, sale of property, and mortgages.  
<http://www.waynecountylandrecords.com/>.

### **Wayne County Treasurer's Office Auction Data, 2002-2010.**

The auction data set includes all parcels offered at auction, and whether sold, not sold (missing for 2010) or taken by the city, county, or state before the auction (right of refusal). To obtain unsold properties for 2010, we downloaded the list of properties to be offered at auction and compared this with the data on properties sold or taken through right of refusal. For sold parcels, the database includes the bidder name, bidder address, bidder number, price, date of sale, parcel ID, auction parcel address, occupancy status (2006-2010), and the minimum bid which is equal to the amount of taxes, interest and fees owed (2004-2010 only).

### **Wayne County Treasurer's Office Property Tax Listing System, 2011.**

This site provides up-to-date taxpayer, parcel number, address, and tax payment information on all properties in Detroit.  
[http://www.waynecounty.com/treasurer\\_payonline.htm](http://www.waynecounty.com/treasurer_payonline.htm).

### **Wayne County Treasurer's Office Auction Data, Pictures, 2002-2010.**

Taken at the time of foreclosure, the Treasurer's Office's pictures include one or more pictures for every property entering tax foreclosure in Wayne County. Only pictures of sampled properties (see Appendix B) were retrieved.

## Appendix B - Investigation of Outcomes for a Sample of Auctioned Properties

We randomly sampled 199 properties that sold at auction from 2002 to 2008. Next, we visited every parcel in a vehicle and recorded our observations using a property rating tool (see “Property Rating Tool”) based on the one used by the Detroit Residential Parcel Survey. We evaluated the properties by use (for example, residential structure, commercial structure, vacant lot), current condition, signs of neglect (for example, high grass), and occupancy.

After we entered our observations from the windshield survey into a database, we researched every sample parcel through the Wayne County Register of Deeds Real Estate Index. From the Register of Deeds, we downloaded the documents on each sample property from the date the property sold at auction until the present day. We wrote summaries of the information found, and also created a spreadsheet to code information such as the number of times a property sold after auction, whether the property experienced subsequent forfeiture and foreclosure, and whether the city currently owns the property.

In addition, we researched blight violations on these properties through the Detroit Department of Administrative Hearings online Blight Violation Number tool. We conducted a tax search on the Treasurer’s Property Tax Listing System to see if the sample properties were currently delinquent on taxes. We used building permit data from the Detroit Buildings, Safety Engineering and Environmental Department to measure and compare investment and demolition of sampled properties.

We requested from the Treasurer photos of these properties from the time of auction and coded those based on the Detroit Residential Parcel Survey rating tool, taking care to note when a structure had been demolished. We used these photos and ratings to analyze change in property condition over time. (See the following pages for the rating sheets and definitions)

## Property Rating Tool

### Residential Structure

- Street Address / Name: \_\_\_\_\_
- Parcel ID#: \_\_\_\_\_
- Picture#: \_\_\_\_\_

1	<b>TENANCY</b>	
	Occupied	
	Vacant	
2	<b>JUSTIFICATION CODE OR REASON</b>	
3	<b>TYPE</b>	
	Single Family	
	Duplex	
	Multi Family	
	Apartment Building - #Units	
4	<b>VOD</b>	
5	<b>CONDITION RATING</b>	
	Good	
	Fair	
	Poor	
	Demolish	
6	<b>CONDITION CHECKLIST</b>	
	Evidence of Fire	
	Evidence of Water Damage	
	Structurally Unstable	
	Water and/or Gas Cut	
	Grass or Weeds Above 8"	
	Abandoned Vehicles	
	Dumping of Garbage or Debris	
	Other (explain)	
	<b>ADJACENCY</b>	
	Better than surrounding block face	
	Same as surrounding block face	
	Worse than surrounding block face	
7	<b>OTHER COMMENTS</b>	

### Commercial Structure

•Street Address / Name: \_\_\_\_\_

•Parcel ID#: \_\_\_\_\_

•Picture#: \_\_\_\_\_

1	<b>TENANCY</b>	
	Occupied	
	Vacant	
2	<b>JUSTIFICATION CODE OR REASON</b>	
3	<b>TYPE OF BUSINESS USING PARCEL</b>	
4	<b>VOD</b>	
5	<b>CONDITION RATING</b>	
	Good	
	Fair	
	Poor	
	Demolish	
6	<b>CONDITION CHECKLIST</b>	
	Evidence of Fire	
	Evidence of Water Damage	
	Structurally Unstable	
	Water and/or Gas Cut	
	Grass of Weeds Above 8"	
	Abandoned Vehicles	
	Dumping of Garbage of Debris	
	Other (explain)	
7	<b>ADJACENCY</b>	
	Better than surrounding block face	
	Same as surrounding block face	
	Worse than surrounding block face	
8	<b>OTHER COMMENTS</b>	

### Vacant Lot

- Street Address / Name: \_\_\_\_\_
- Parcel ID#: \_\_\_\_\_
- Picture#: \_\_\_\_\_

1	<b>USE OF LOT</b>	
	Is the lot being used? (only being mowed is not sufficient)	
	Does the lot appear to be used by adjacent property?	
	Comment on use	
2	<b>CONDITION CHECKLIST</b>	
	Is there a structure on the lot	
	Grass or weeds exceeding 8"	
	Abandoned vehicle or boat	
	Dumping of garbage or debris	
	Is the lot fenced	
3	<b>CONDITION RATING</b>	
	Good	
	Fair	
	Poor	
4	<b>COMMENTS</b>	

To maintain consistent coding across survey teams, we followed instructions for surveying properties provided in a Microsoft PowerPoint slideshow created by Danielle Lewinski at Community Legal Resources. These instructions are also available in the Detroit Vacant Property Campaign’s “Vacant Properties Toolbox: Complete Guidebook”, pages 23 and 24 (<http://detroitvacantproperty.org/technical/toolbox.pdf>).

We evaluated property condition using the following definitions, based on the Detroit Residential Parcel Survey with some modifications.

## Property Rating Tool Definitions

**Tenancy:** Is the structure occupied or vacant.

### Common characteristics of a vacant residential building:

- Water damage (**WD**)
- Fire damage (**FD**)
- Boarded or Broken Windows (**BW**)
- Major structural damage (**SD**)
- Long-term security measures (bolted doors, chain locks, barbed wire) (**SC**)

### Common characteristics of occupied residential buildings:

- Lawn well kept (**LK**)
- Generally looks well kept (**GK**)
- Recent construction, recent repairs, recent remodeling (**RC**)
- Visible activity (**VA**)

### Common Characteristics of vacant commercial building:

- Water damage (**WD**)
- Fire damage (**FD**)
- Boarded or broken windows (**BW**)
- Major structural damage (**SD**)
- Long-term security measures (bolted doors, chain locks, barbed wire) (**SC**)

- No signage (**NS**)
- Damaged signage (**DS**)
- For sale/for lease sign (**FS**)
- Graffiti (**G**)
- Eviction notice (**EV**)
- Empty interior (**EI**)
- Trashed interior (**TI**)
- Under construction (**UC**)

### Common characteristics of occupied commercial building:

- Lighting (**L**)
- Open/closed sign (**OS**)
- New or well-kept signage (**S**)
- Recent construction, recent repairs, recent remodeling (**RC**)
- Visible activity (**VA**)

**Characteristics requiring investigation:** roll-down doors, old mail.

**Vacant, Open and Dangerous (VOD):** Structure has open point of entry, such as a broken or missing window and/or door.

**Condition Rating:****[Residential structure(s) present]**

- **Good:** Well maintained; structurally sound; no more than 2 minor repairs; partially constructed new construction (e.g.: fix gutter, some paint needed).
- **Fair:** Building requires one or two improvements. Necessary improvements may include restoring sidewalks, repairing broken windows, removing bricked-in windows, washing windows, repairing minor masonry damage, power washing the facade, installing lighting, unifying exterior design, and/or removing nonconforming security measures.
- **Poor:** More than two of the above improvements are needed and/or there is some structural damage. (Structural damage means that a building can serve a day-to-day purpose, but structural repairs are necessary).
- **Demolish:** Building needs major structural repairs. For example, building has incurred severe water and fire damage and needs new walls, structural supports, roof and/or foundation. Such buildings cannot serve a day-to-day purpose and mostly likely need to be torn down.

**[Vacant Lot - No residential or commercial structure present]**

- **Good:** Well-maintained or mowed and/ or landscaped (Grass below 8") with no trash.
- **Fair:** Unmowed, weedy, branches down (Grass taller than 8") and/or some trash, minor yard work or clean up needed.
- **Poor:** Significantly overgrown or completely graveled (Greater than 50% of lot covered with extensive brush, shrubbery grass over 24") and/or piles of trash or debris.

## Appendix C - Purchaser Research

### Sources

Research on purchasers had two primary purposes: identifying related or affiliated purchasers and categorizing purchasers by purchaser type. We used two approaches to answer these two related questions. To answer the first question, we created a running narrative about each of the largest purchasers, adding details about their businesses and partnerships as we found them. To construct these individual purchaser background narratives, we referred to the following sources on multiple occasions:

- *City of Detroit Auditor General's Office*. <http://www.ci.detroit.mi.us/CityCouncil/LegislativeAgencies/AuditorGeneral.aspx>.
- *City of Detroit Assessor's Office*. Data File.
- *Detroit Department of Administrative Hearings*. <http://www.ci.detroit.mi.us/DepartmentsandAgencies/DepartmentofAdministrativeHearings/TicketSearch.aspx>.
- *Detroit Free Press*. <http://www.freep.com>.
- *Detroit News, The*. <http://www.detnews.com>.
- *Detroit Residential Parcel Survey*. Data File. <http://www.detroitparcelsurvey.org>.
- *eBay, Inc*. <http://www.eBay.com>.
- *Facebook*. <http://www.facebook.com>.
- *Google.com*. <http://www.google.com>.
- *LexisNexis*. <http://www.lexisnexis.com>.
- *LinkedIn.com*. <http://www.linkedin.com>.
- *Metro Times, The*. <http://metrotimes.com>.
- *Michigan Department of Energy, Labor & Economic Growth*. [http://www.dleg.state.mi.us/bcs\\_corp/sr\\_corp.asp](http://www.dleg.state.mi.us/bcs_corp/sr_corp.asp).
- *Michigan Tax Tribunal*. [http://www.dleg.state.mi.us/ham/tax/sr\\_taxdoc.asp](http://www.dleg.state.mi.us/ham/tax/sr_taxdoc.asp).
- *Myspace.com*. <http://www.myspace.com/>
- *New York Times, The*. <http://www.nytimes.com/>
- *Public Records Directory*. [http://publicrecords.onlinesearches.com/MI\\_Wayne.htm](http://publicrecords.onlinesearches.com/MI_Wayne.htm).
- *Wayne County Register of Deeds' Office Real Estate Index*. <http://www.waynecountylandrecords.com>.
- *Wayne County Treasurer's Office Auction Data*. Data File.
- *WDET*. <http://www.wdetfm.org>.
- *White Pages, The*. <http://www.whitepages.com>.
- *White Pages Reverse Phone Lookup*. [http://www.whitepages.com/reverse\\_phone](http://www.whitepages.com/reverse_phone).
- *Whois.net*. <http://www.whois.net>.
- *WXYZ*. <http://www.wxyz.com>.
- *Yellow Pages, The*. <http://www.yellowpages.com>.
- *Zillow.com*. <http://www.zillow.com>.

After identifying related purchasers and consolidating bidder names in our database, we sorted the largest purchasers into one of a number of different categories (see Chapter 6). For this part of the analysis, we used the following methods for each bidder type:

- **Individual Residents.** After confirming that small-scale auction buyers were not affiliated with large buyers, we verified that buyers maintained a primary residence in the City of Detroit.
- **Side Lot Purchasers.** To identify side lot purchasers, we assessed whether vacant lots sold at auction were purchased by adjacent homeowners. Using geographic information systems (GIS), we identified whether the bidder's address was an occupied house next door to the vacant lot he purchased.
- **Nonprofit Organizations.** Drawing upon personal knowledge, interviews, business entity searches, and google searches, we identified purchasers who were affiliated with a 501(c)(3) organization at the time of their auction purchase.
- **Investors.** To identify investors, we combined information from our purchaser background research with spatial and numeric GIS data to confirm that these bidders sought properties to rent, reuse, or resell.
- **Speculators.** To identify speculators, we integrated information from our purchaser background research with spatial and numeric GIS data to confirm that these bidders sought vacant property not for reuse but for its location and proximity to nearby development.







