Looking Back at the 2017 Tax Foreclosure Auction
2020 Report

A Snapshot of the Impact of Auctioning Thousands of Tax Foreclosed Properties in Detroit Per Year

On the day we were reviewing the final draft of this report, Wayne County Treasurer Eric Sabree announced that he would not foreclose or auction any properties in 2020 due to the coronavirus.

From now until the moratorium ends, there is a need to review, revise, and rebuild Wayne County's and Michigan's tax foreclosure systems into something that truly works for people, properties, and communities.

A policy originally intended to return vacant buildings to productive use quickly should never again separate thousands of people each year from their homes without regard for their situations, putting them at the mercy of speculators and investors.

Tax foreclosure in Detroit has been an emergency in need of serious intervention for a long time. Our hope is that this report - along with the efforts, analyses, and direct actions of many others - contributes to realizing something far better on the other side.

- The Authors, 3/16/20

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About this Report

In 2017 more than 6,000 Detroit properties, including an estimated 2,725 occupied homes, were tax foreclosed and auctioned to the highest bidder by Wayne County.

This report, prepared over the course of 2018 and 2019, looks back to see what has happened to these properties since then. Who bought them and where are they located? How many have gone vacant and how many became occupied? How many are headed back into tax foreclosure already? These and other questions are explored.

The data in this report was brought together from a variety of official city and county sources, as well as in-person assessments of the properties, and in-person interviews with residents. Greg Markus of DAC did the majority of the writing in this report, and DAC members conducted the field data collection.

There is a certain amount of unavoidable subjectivity and imperfection at the edges, as there is with the act of tax foreclosure itself. However, the report is able to make clear the general shape of things and serves as a useful guide for understanding what comes from the auction. It may be updated over time if new information presents itself.

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DETROIT ACTION

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Detroit Action Commonwealth is a 501(c)(3) nonprofit organization with more than 5,000 members and four chapters, each of which meets weekly. Founded in 2008, DAC develops individual and collective power to promote opportunity, advance justice, and challenge root causes of poverty and homelessness.

Loveland Technologies is a Detroit-based company whose goal is to put every parcel in America online, democratizing property information and providing tools for understanding and improving land use. Loveland's website, landgrid.com, provides property data nationwide, mapping and surveying tools, and access to Loveland's expert staff.

The Sociological Initiatives Foundation funds public research projects that defend civil society from powerful interests. The research, often coupled with community organizing and advocacy, investigates laws, policies, institutions, regulations, and practices that limit equality in the United States.

Key Findings

Detroit Action Commonwealth and Loveland Technologies sought to analyze the more than 6,000 properties which went up for sale at the 2017 Wayne County Tax Foreclosure Auction. By gathering and analyzing data from city and county records, and conducting two surveys of auctioned properties, we learned that despite recent reforms the tax-foreclosure and auction process continues to inflict avoidable harm upon vulnerable neighborhoods and their residents. There are more findings worth noting, but here are some highlights:

A

Most tax-foreclosed properties were owned by speculators or landlords, not owner-occupants. Investors owned nearly three out of every four Detroit properties that reverted to county ownership in 2017 as a result of unpaid taxes and penalties. Specifically, 61% of occupied tax-foreclosed residences had been owned by investors, who presumably collected rent from tenants but failed to pay property taxes, while 77% of tax-foreclosed unoccupied structures and 88% of tax-foreclosed lots had been investor-owned.

B

Speculators/investors dominate the tax auction. Three out of four purchased properties went to large investors, with just ten bulk buyers accounting for 26% of all purchases. Small investors were responsible for an additional 20% of property purchases, leaving only 5% of purchased properties in the hands of owners intending to live in them. The auction transformed hundreds of owner-occupied homes into investor-owned rentals. An estimated 740 owner-occupied residences were auctioned in 2017. Investors purchased virtually all of them (93%). Although that number was large, it marked a substantial reduction from prior auctions.

C

Properties transferred to the Land Bank need attention. Of the 1,300 bundled parcels transferred to the Detroit Land Bank Authority via the 2017 tax auction, 79 still had structures on them in late 2018 that were candidates for immediate demolition, and 176 more had structures that were in poor condition and would likely also need to be razed soon. Additionally, 126 buildings in the bundle were open to trespass, and 64 were sites of illegal dumping.

D

The cycle continues. Many of the purchased properties will likely be back in tax foreclosure soon. As of mid-2019, 43% were tax delinquent (i.e., one year unpaid), 5% were subject to foreclosure (two years unpaid), and one property had already been foreclosed.

Recommendations

While a tax foreclosure moratorium is in place due to COVID-19, we recommend a full audit of the impact of auctioning so many properties at scale, and a total re-evaluation of the process given the numerous places where outcomes work against city and resident interests. Here are a handful of starter recommendations.

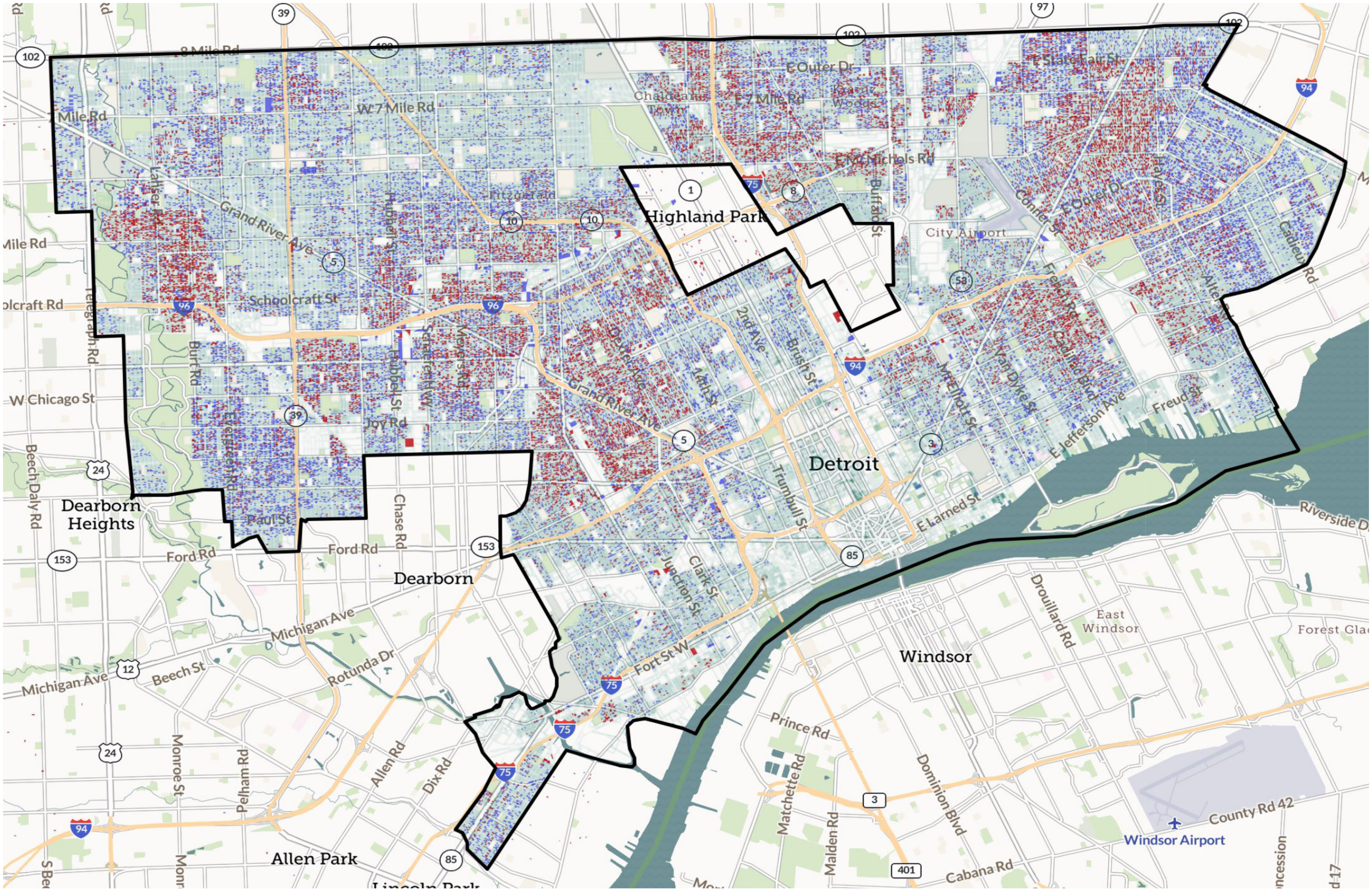
1 **Stop auctioning occupied homes.** Under Michigan law, most low-income owner-occupants are eligible for an exemption from paying property taxes. Effective use of this and other available exemptions will eliminate the vast majority of involuntary tax foreclosures affecting Detroit owner-occupants. As for occupied rental properties, auctioning them disrupts tenants' lives, leaves them vulnerable to predatory land contracts foisted on them by new landlords, and often worsens neighborhood vacancy. The City should increase its exercise of its right of refusal (ROR) to acquire foreclosed rentals and enable their tenants to purchase them, if they so desire, through the recently created Make It Home program.

2 **Use the City's "right of refusal" to direct properties to more strategic uses.** The City should use its ROR to acquire unoccupied tax-foreclosed houses in good condition for purchase by reputable nonprofit community development corporations or investors who would agree to maintain the properties and offer them to low-income households. This approach could be particularly effective if the properties were clustered so as to focus the beneficial impact upon particular neighborhoods, such as ones included in the city's Strategic Neighborhood Fund initiative.

3 **Consider a property tax cut and some form of relief for owner-occupied properties.** Detroit has one of the highest property tax rates in the U.S. Even so, collected residential property taxes comprise only a small fraction of the city's total revenues (about 2.5%). Under such circumstances, evidence suggests that a large property tax cut would result in at most a small reduction in revenues, and it could even yield a net gain as a consequence of increased tax compliance and property values. A way to focus the benefits of a property tax reduction upon lower-valued properties, which have been most prone to tax foreclosure, would be to exempt from city taxes, say, the first $10,000 of taxable value for all residential properties. Under such a plan, many Detroit homes would be largely or entirely exempt from city property taxes (although they would still be assessed other local taxes).

4 **Enforce restrictions on who can participate in the tax auction.** Nearly half of the properties purchased in the 2017 auction were tax delinquent as of mid-2019. Wayne County should execute background checks on all LLCs and holding companies that seek to participate in the annual property auction to insure they meet eligibility requirements under Michigan law. Funding this vetting process would be an appropriate use of proceeds from the tax-auction.

5 **Consider non-market solutions.** Assembling tax-foreclosed parcels and ceding or selling them to community land trusts or implementing other models based on the concept of the commons are worthy of serious consideration in light of Detroit's chronically weak property market and prevailing sense of community among residents, as evidenced in their stewardship of agricultural plots and vacant lots and their participation in cooperative ventures of many kinds.



Tax Forclosed and Auctioned Properties Between 2002 and 2019 - The blue properties sold at auction, while the red properties went unpurchased. All told, more than 150,000 properties have been through tax foreclosure with more than 170,000 auction events during this time span.
Source: Wayne County Treasurer, September 2019

Background: Tax Foreclosures and Property Auction

Between 2002 and 2019, some 150,000 properties in Detroit were foreclosed and auctioned online by the Wayne County treasurer because the former owners had failed to pay their property taxes. ***That number equals 45% of all parcels in the entire city, a staggering statistic unparalleled in the United States since the Great Depression.*** Much of the auctioned real estate had been abandoned by its owners: Detroit lost fully one-fourth of its population between 2000 and 2010 and has continued to shed residents since then. On the other hand, tens of thousands of those tax-foreclosed properties had not been abandoned. In many cases they were occupied by owners or tenants even as they were being auctioned.

On the surface, all of this appears perfectly legal, if unfortunate.

Under Michigan Public Act 123, when an owner fails to pay property taxes, the county treasurer compensates the city for the delinquent taxes and then has the right to collect them from the homeowner, along with additional interest, penalties, and fees. If the amount owed remains unpaid after three years, the treasurer attempts to recoup it—and reap a profit, if possible—by auctioning off the property. In Wayne County, the treasurer has offered tax-reverted parcels for sale in a two-part public auction, conducted online annually since 2010.

Look more closely, however, and the story takes a dark turn.

First, many of the tax foreclosures in Detroit resulted from well-documented mismanagement on the part of city government: egregiously outdated property assessments that failed to reflect the collapse of real estate values in the city and a systematic failure to provide low income owner-occupants with an exemption from paying property taxes for which they were eligible under state law. A state-ordered property reassessment that began in 2014 and the settlement of a class-action lawsuit in 2018 appear to have checked the unjust practices. Even so, displaced homeowners received no compensation, and many Detroit households still face foreclosure for being delinquent on taxes they should not have had to pay in the first place.

Second, Wayne County's method of auctioning real estate online with little or no control over who buys what and why has enabled speculators and slumlords literally from all over the world to snap up thousands of Detroit houses for as little as $500 apiece. Many of them flip the properties for a quick profit, often by selling them sight unseen in bundles to other absentee speculators. Others milk them of remaining value by renting them out while neither improving nor paying assessed taxes on them. After a few years, most of the parcels are back in foreclosure.

Overassessed Taxes Contributed to Foreclosures and the Number of Properties at Auction

Over the years many problems with the tax foreclosure process have been identified, from improper notification of foreclosure, to selective and uneven application of foreclosure law, to improper tax assessments that often caused homes to receive higher tax bills than they should.

Research from the Detroit News recently estimated that between 2010 and 2016 Detroit homes were collectively asked to overpay property taxes by $600 million.

According to the over-taxation calculator created by the Detroit News, at least 3,318 of the 4,864 auction properties we visited were likely over-charged on their property tax bills (some properties are absent from the database and could not be checked). The average amount that each property was overcharged between 2010 and 2017 was $3,622, with more than 800 being overcharged by $5,000 or more. This is not a comprehensive analysis, but it indicates that a significant number of 2017 auction properties were overcharged. Read more on over-assessments here:

Atuahene, Bernadette, and Christopher R. Berry. 2019. "Taxed Out: Illegal Property Tax Assessments and the Epidemic of Tax Foreclosures in Detroit" University of California Irvine Law Review, 9 (4): 847–886.

MacDonald, Christine and Mark Betancourt. 2020. "Detroit Homeowners overtaxed $600 million," Detroit News (Jan 9).

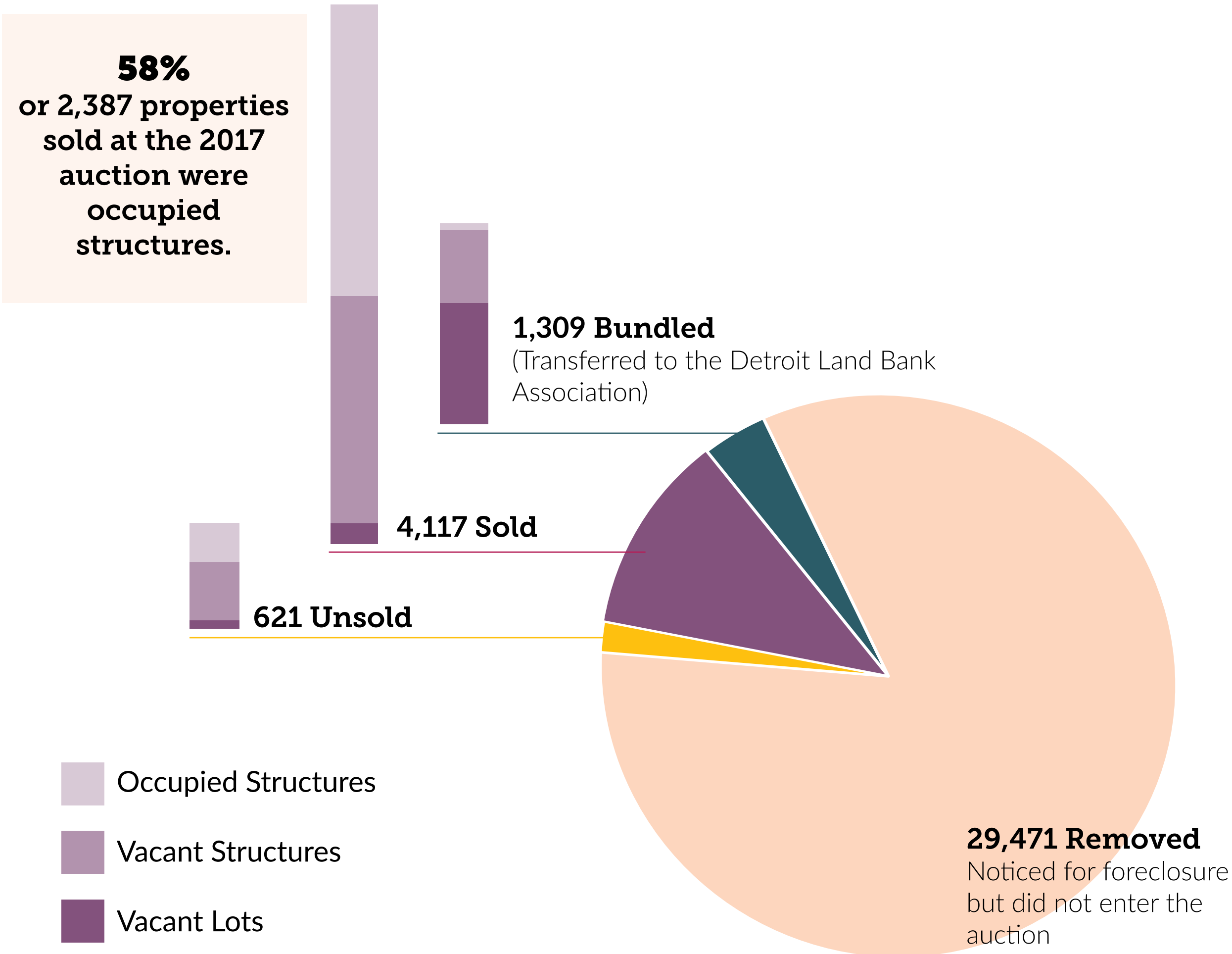
The 2017 Wayne County Auction

In late 2016 the Wayne County treasurer issued “show cause” notices to 35,521 Detroit properties—nearly one out of every eight taxable real estate parcels in the city. Under public pressure to prevent thousands of Detroiters from suddenly losing their homes, city and county officials improvised an array of options through which properties could be rescued from foreclosure, at least temporarily. This occurred mostly by owners entering into tax payment plans with the county, along with reductions in associated interest.

Ultimately, 6,338 properties reverted to county ownership at the end of June 2017. Using county records, we determined that investors, most of whom did not live in Detroit, were responsible for nearly three out of every four tax foreclosures in 2017. Owner-occupants accounted for only a quarter of the foreclosures. Looking specifically at properties that were occupied at the time of foreclosure, 61% of them had been owned by landlords who presumably collected rent from tenants but failed to pay property taxes. Additionally, 77% of foreclosed unoccupied structures and 88% of foreclosed vacant lots had been owned by investors.

2017 Tax Foreclosure Auction: Outcomes for Properties

35,521 Total Properties



Occupancy data as shown here in bar charts is drawn from Auditor records and was generated in the fall of 2016. Workers visited every property as part of the pre-auction process.
Source: Wayne County Treasurer

Prior to the auction, Wayne County and the City of Detroit used their rights of refusal to purchase approximately 225 tax-foreclosed properties using donated funds. Ultimately, the 2017 county auction included 6,049 Detroit parcels.

A total of 1,309 of them (22%) were offered for sale only as a bundle. The bundle was composed almost entirely of vacant lots and unoccupied structures, with virtually all of the structures being candidates for demolition. The purpose of bundling the real estate was to discourage private bidders from purchasing the properties, thus enabling their ownership to be transferred efficiently to the Detroit Land Bank Authority. The Land Bank administered the city's massive demolition program at the time.

Nineteen structures in the so-called blight bundle were in good condition, however, and 100 more were in fair condition, based upon our drive-by inspections of them one year after the auction. We were unable to determine why those properties were selected for the blight bundle.

Setting aside the blight bundle, 60% of the 4,561 auctioned parcels with structures were believed to be occupied, according to county records. Nearly all of the occupied properties found buyers (92%), as did 81% of the unoccupied ones and 73% of the vacant lots. Occupied homes are attractive to investors, because they have potential tenants or re-purchasers already living in them. Consistent with investors' preference for buying already occupied houses, the median price paid in the auction for an occupied structure in Detroit was $5,850, while for an unoccupied structure it was $4,300.

Make It Home Program

2017 was the first year of the United Community Housing Coalition's Make it Home program, supported by the Quicken Loans Community Fund and the City of Detroit, in which some occupied tax foreclosures were removed from the auction during the Right of Refusal period. Philanthropic money was used to cover the back taxes on the homes, and current occupants were given time to purchase the home.

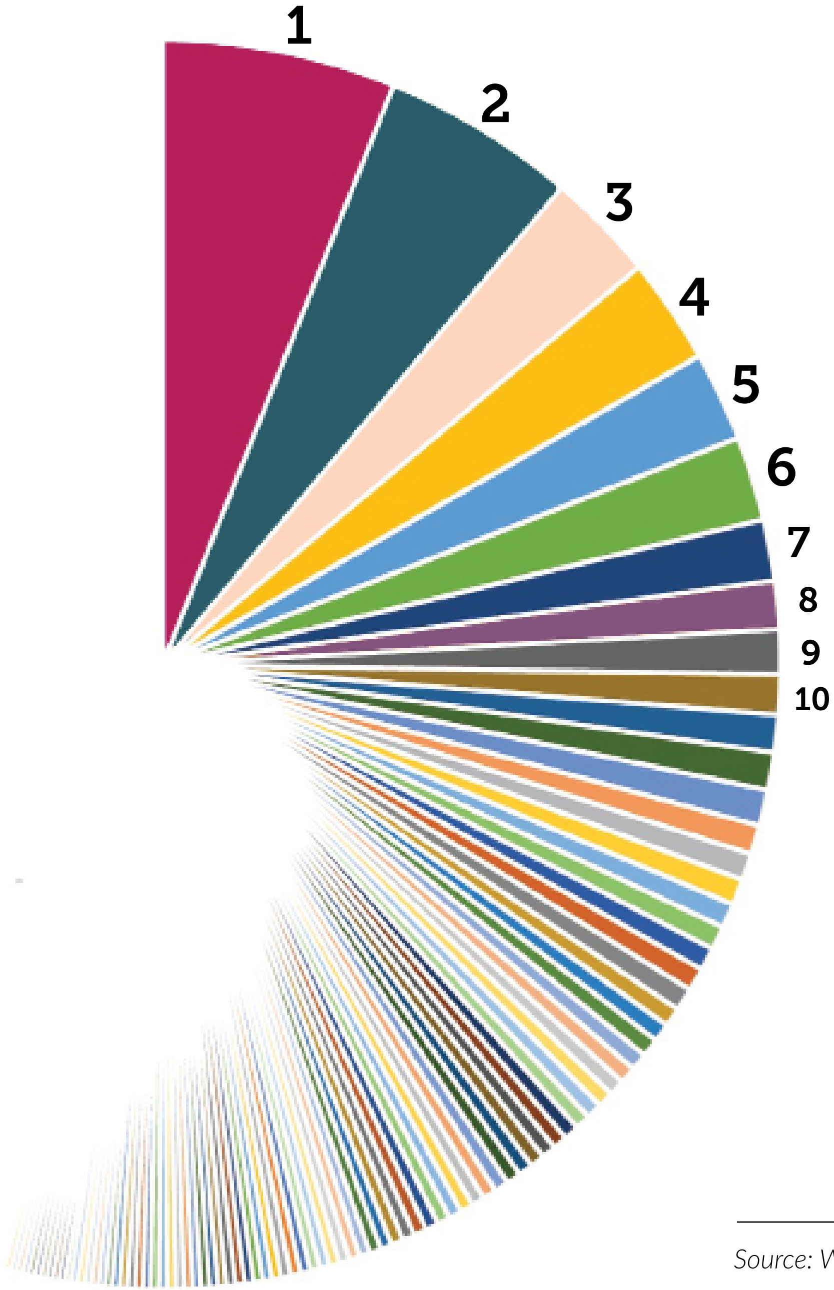
The program proved to be a successful intervention and has grown in subsequent years. The following numbers were supplied by UCHC:

2017: 80 in Make it Home program
Runyan, Robin. "Quicken, UCHC partner to turn 80 renters into homeowners". Curbed Detroit (Oct 4, 2017).

2018: 520 in Make it Home program

2019: 557 in Make it Home program
"Nearly 600 Detroiters becoming homeowners thanks to partnership between Quicken Loans Community Fund, United Community Housing Coalition and City of Detroit". Press release, Quicken Loans Community Fund (March 16, 2019).

Who Bought Properties in the Auction?



Top Buyers in the 2017 Tax Foreclosure Auction

1,488 Total Buyers

1 **S. Hagerman** (308 properties)

2 **Gerardo Lozano** (256 properties)

3 **City Life Homes, LLC** (143 properties)

4 **Mike Grigo** (139 properties)

5 **Amarras Investments, LLC** (117 properties)

6 **RHMS Group, INC.** (110 properties)

7 **Ebicado, LLC** (80 properties)

8 **Core International Detroit** (63 properties)

9 **JVS Management Group, LLC** (58 properties)

10 **Keystone Fund, LLC** (52 properties)

The top 10 buyers in the 2017 auction accounted for more than 25% of all properties sold.

75% of all buyers were large investors (purchasers who bought 5+ properties at auction).

Source: Wayne County Treasurer

Who bought properties in the auction?

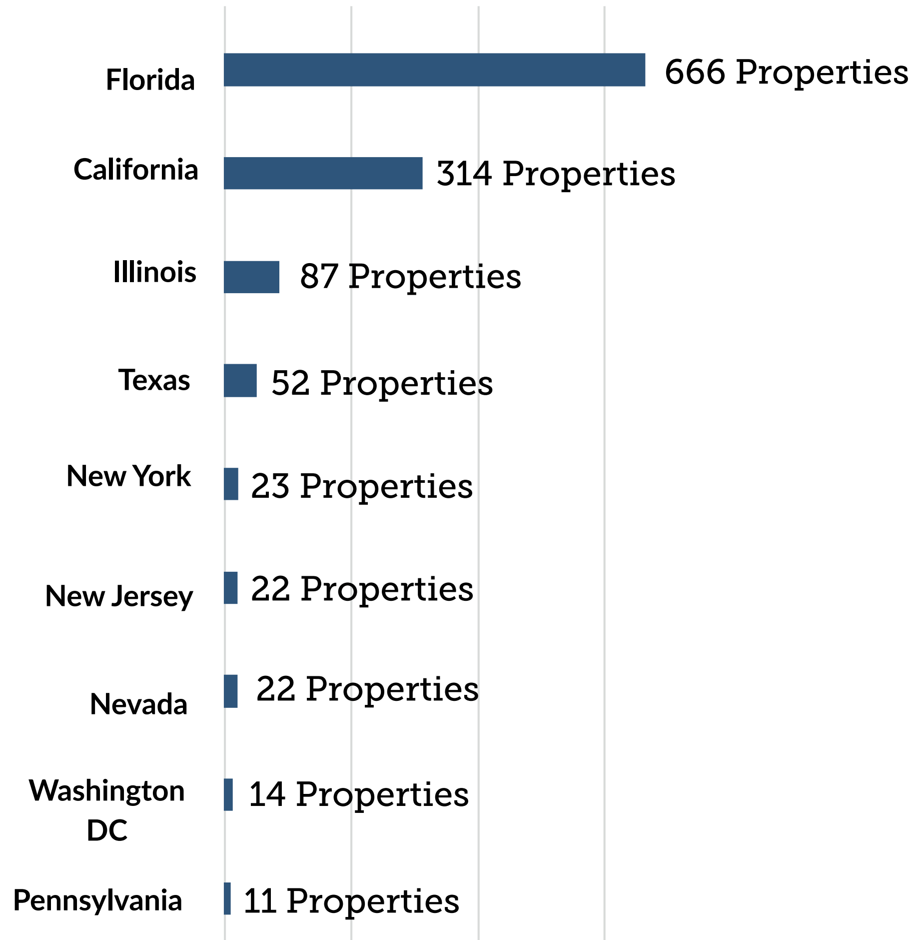
County records list the entities to which deeds were issued for parcels sold in the auction. We coded the buyers as individuals, small investors, or large investors, based upon the number of properties they purchased and whether the deed was issued to an individual or to an investment group (typically a limited liability corporation, or LLC). Auction purchases were heavily dominated by investors, and particularly by large investors, who collectively bought three out of every four parcels sold in the 2017 auction. In fact, six entities collectively accounted for 20% of all purchases, and the top 20 buyers accounted for more than one-third of all purchases. Only 5% of auctioned properties with structures were purchased by households that intended to live in them.

29% of properties were sold to buyers outside Michigan.

Out of 3,165 properties sold to Michigan buyers, 74% sold to buyers outside the city of Detroit.

Top Out of State Buyers in the 2017 Tax Foreclosure Auction

1,488 Total Buyers



Source: Wayne County Treasurer

What Happened to the Auctioned Properties?

Home ownership is not appropriate for everyone, and there is nothing intrinsically unethical about investors purchasing properties to re-sell or to rent. Indeed, too few affordable rental properties can impose a significant hardship on low-income households. What matters from the perspective of neighborhood residents and the city as a whole is the extent to which landlords act responsibly; maintaining their properties in good repair and paying their property taxes on time. Our study provides evidence that speaks to these matters.

Based upon data that Wayne County provided, 37% of properties with structures that were purchased in the 2017 auction were unoccupied at the time. Approximately one year later, we found that 54 of those 3,987 parcels had become vacant lots. As for the balance, 41% appeared to be unoccupied.

Such a high vacancy rate indicates that the auction leaves a good deal to be desired if an objective is to stabilize neighborhoods. The likelihood of vandalism increases markedly when a property lays vacant, and vacant properties can also become sites for criminal activity, including arson. Notably, properties purchased in the auction by investors were nearly twice as likely to be vacant one year post-auction as compared with houses purchased by intended owner-occupants.

As for the condition of the purchased properties, our drive-by survey revealed a mixed picture. On

37% of properties with structures that were purchased in the 2017 auction were unoccupied at the time.

Approximately one year later 41% of the 3,987 parcels appear to be unoccupied.

Source: Sadly, there are pictures from the Treasurer's notification visits to these properties, but there's no key for knowing which picture is which property! We will update this information if the key can be found.

Instead, pictured are properties from the MCM survey in 2014, and the same property when DAC surveyed the property after the auction in 2017/2018.

the one hand, 43% of them appeared to be in good condition a year after they were purchased in the tax auction. On the other hand, more than 21% were blighted: either in need of major repairs or damaged beyond practical repair and thus a candidate for demolition.

Additionally, 124 purchased structures showed fire damage, 221 had illegal dumping on or in front of the premises, and 261 were open to trespass. We do not have information on the condition of the properties at the time of their purchase. Even so, the fact that a year later nearly one-fourth of them were blighted, were sites of dumping, or were open to trespass indicates that selling properties through the tax auction leaves much to be desired in terms of returning them to productive use or minimizing their negative impact upon neighborhoods.

According to county records, only about half (52%) of the properties purchased in the 2017 auction were current on their property taxes as of mid-2019: 43% were delinquent on their taxes (i.e., one year unpaid) and 5% were subject to foreclosure (two years unpaid).

What happened to the blight-bundle properties?

Approximately one year post-auction, 144 of the 519 blight-bundle properties that had structures on them (28%) had become vacant lots. Many of those lots showed signs of recent demolition. We take these results to indicate that the city's program to demolish blighted, unrepairable properties was proceeding in a reasonably timely fashion. That said, of the 375 blight-bundle parcels that still had structures on them in late 2018 and which were thus under the ownership of the Detroit Land Bank Authority, 126 were open to trespass (34%) and 64 were sites of illegal dumping (17%). In other words, about half of the properties under DLBA's control that our surveyors visited were not in conformance with local ordinances.

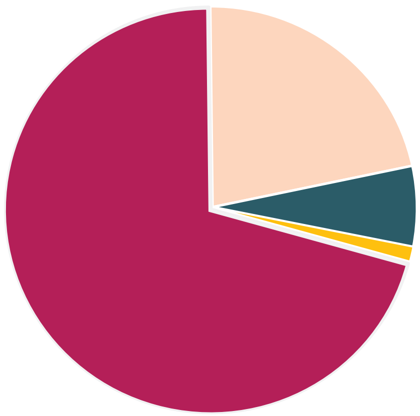
Occupancy of Auction Properties Over Time

Occupancy of Properties Sold in 2017 Auction

Occupied Structure · Vacant Structure · Possibly/Partially Occupied Structure · Vacant Lot

2014

5,006 Total Properties

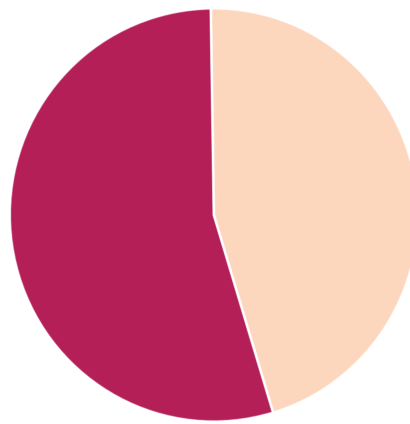


Occupied Structure: 70% (3,510)
Vacant Structure: 22% (1,089)
Possibly/Partially Occupied: 6% (311)
No structure: 2% (96)

Source: Motor City Mapping

2016

5,078 Total Properties

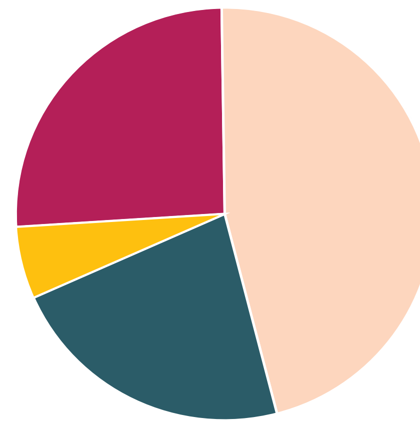


Occupied Structure: 55% (2,772)
Vacant Structure: 45% (2,305)
Possibly/Partially Occupied: NA
No structure: >1% (1)

Source: Wayne County Treasurer's Office

2017/2018

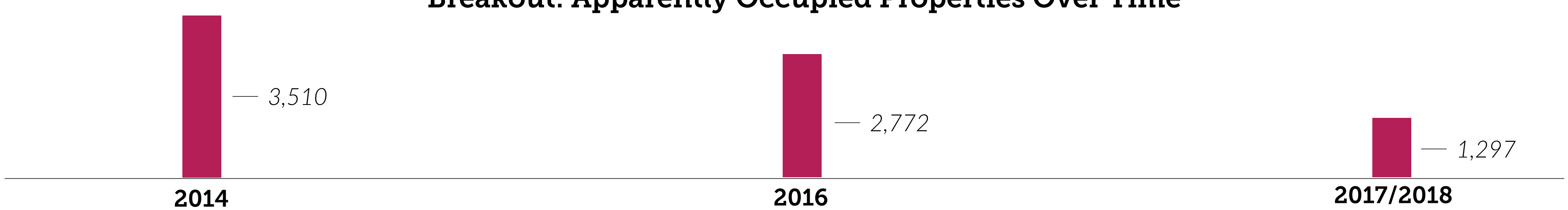
5,079 Total Properties



Occupied Structure: 26% (1,297)
Vacant Structure: 47% (2,379)
Possibly/Partially Occupied: 23% (1,188)
No structure: 4% (215)

Source: DAC Post-Auction Survey

Breakout: Apparently Occupied Properties Over Time



2019 Door-Knock Survey

In the summer of 2019 we re-visited a random sample of 400 residential properties (almost entirely single-family homes) that our surveyors judged to be occupied in late 2018. About one third of them (N=136) appeared to be vacant at the time of the visit. An occupant was interviewed at 132 of the remaining homes, for a response rate of 50%.

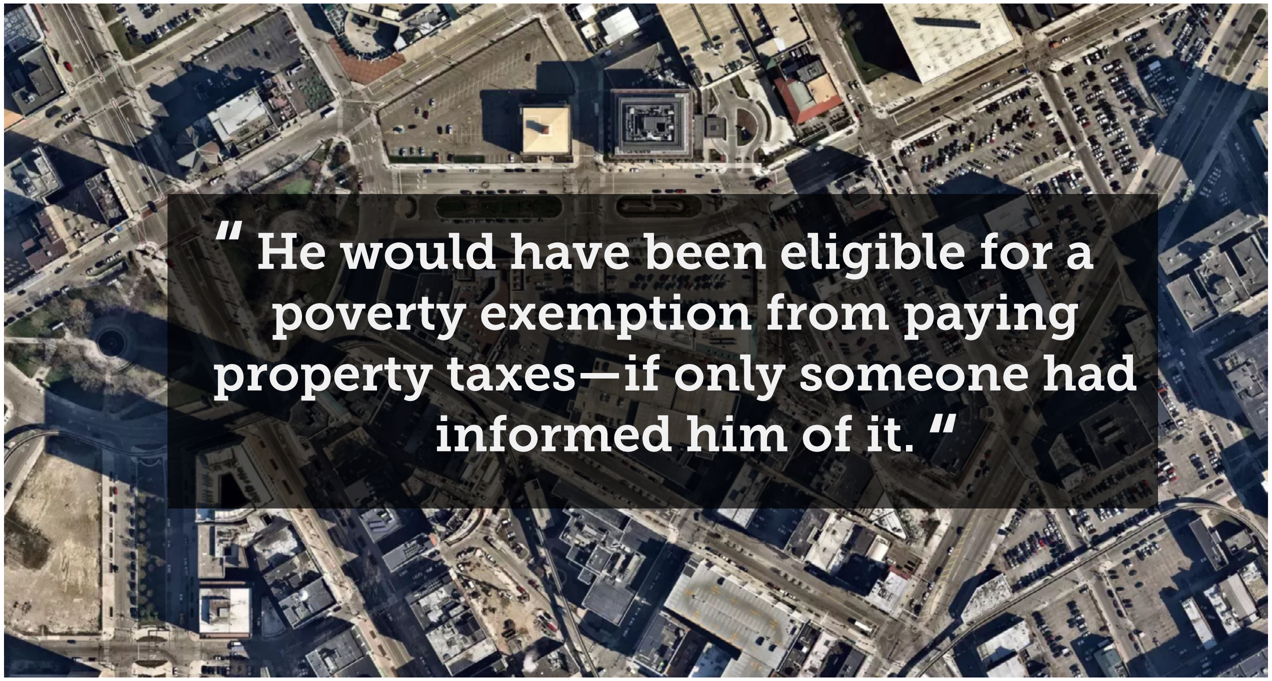
Three-fourths of the respondents (N=100) said they were renters, while 17% (N=22) said they owned their home. The remaining 8% (N=10) said they were "something else"—either a relative or friend taking care the house or someone living in it but not paying rent.

When asked, only eight occupants (6%) said they had purchased their homes through the tax foreclosure auction. They all went on to describe special circumstances about their purchases. Three respondents volunteered that they had worked with United Community Housing Coalition (UCHC) to get their homes back after they had been foreclosed unfairly. In three other cases, the house had been owned by a family member or relative. In another case, the buyer had grown up on the block and had gotten permission from the former owner to buy the foreclosed property in the auction. In the remaining case, a family living across the street had purchased the foreclosed house for their daughter, who now resided in it. Six additional owners indicated that they had purchased their homes from a person or company that had obtained it in the auction.

Four occupants said they had owned the houses in which they were currently living but had lost them to tax foreclosure and were renting from the new owners. One of them was an 84 year-old gentleman who invited the surveyor inside his run-down house on Detroit's East Side to talk. He said he had lived in the house for 51 years but had lost it to tax foreclosure in 2017. His living conditions and his age plainly indicated that he would have been eligible for a poverty exemption from paying property taxes—if only someone had informed him of it. He said he had signed a land contract to buy the house back from the present owner but that he had not heard from the owner in some months, and so he had stopped making payments. When the interviewer asked the man what he thought would happen to the house, he replied, "It looks like it will just get foreclosed again."

A review of county records indicates that the elderly occupant is responsible for paying the property taxes. It is entirely possible he is unaware of that fact. Searching the tax records, we learned that the house had been purchased

The DAC team during training, October 2018 by the second-largest bulk buyer of real estate in the 2017 tax auction. It is common practice for short term investors to purchase occupied tax foreclosed properties in the auction and then immediately offer them, after a healthy mark-up, to the former owners via a land contract, lease-purchase agreement, or similar form of rent-to-own contract. As in the case of the gentleman encountered in our survey, the contract may require that the tenant/buyer, rather than the deed holder, pay the property taxes. The properties are also typically sold on an "as-is" basis, with the former owner—and now tenant/buyer—responsible for maintenance of the property and for making any needed repairs. In contrast to a conventional mortgage, purchasers in a land contract typically accrue no equity in the property and may be evicted if they fall behind on their payments.



Tax Foreclosure's Contribution to Blight

In 2019 Detroit City Council voted down a request to borrow money to tear down more vacant houses in the city.
One of the reasons for this defeat is that forces like tax foreclosure continue to contribute to more homes going vacant, and the feeling of politicians and residents alike is increasingly that resources should be put toward plugging this "hole in the bucket" rather than simple demolition. Ongoing data collection and analysis in Detroit makes an increasingly strong case that a reevaluation of the tax foreclosure process is overdue, much of which can be found cited throughout this report.

Kaffer, Nancy. "Mayor Duggan, your $250M plan to end blight isn't going to work" Detroit Free Press (Sept 20, 2019)

Newman, Eli. "Detroit City Council rejects Duggan's blight bond proposal. Now what?" WDET (Nov 20, 2019)

Recommendations — and Obstacles

Blood Money

According to documents made available after originally being denied in a Freedom of Information Act request, between the years 2009 and 2016 Wayne County brought in more than $300 million, countywide, from late tax payments and the auction than they would have if people had paid their taxes on time. The vast majority, perhaps 80-90%, comes from Detroit alone.

Michigan law allows counties to keep the profits from tax foreclosure auction sales. The Michigan Supreme Court is currently deciding whether or not this violates the US Constitution. While it is our considered opinion that the profits from the auction indeed are a major factor in the counties' inaction, Wayne County Executive Warren Evans would disagree. In a 2016 interview with WDET, he referred to money made from late taxes and the auction as "blood money".

WDET host Stephen Henderson: "Is that an incentive to keep things the way they are with tax foreclosures? In other words, if you didn't have that money the financial strain would be worse. Is that one of the reasons that the Treasurer doesn't entertain a different way?

Evans: "No. No question. That would be blood money. I mean there's no doubt that the revenue is helpful, but anybody who would want to keep the status quo in order to bring in the revenue shouldn't be in government."

Altogether, 15 respondents (11%) said they had signed a land contract or rent-to-own agreement with the current property owner. We asked them and other tenants whether they were having any problems with the owners. Fourteen said they were (13%), 84 said they were not (76%), and the remainder (N=13, or 12%) declined to answer or were unsure. The problems they mentioned all had to do with repairs or maintenance of the property, particularly plumbing issues. Some tenants mentioned problems with flooding in basements when it rains, a fairly common problem in Detroit neighborhoods.

Prior research has shown that a public property auction suffers from many shortcomings in the context of a weak real estate market. Competition among bidders tends to be constrained, transaction prices tend to be lower than in managed forms of sales, and investors and speculators dominate potential owner-occupants. All of these shortcomings have been evident in the annual Wayne County tax auction. The county and the state introduced reforms intended to mitigate some of the problems, but with little effect.

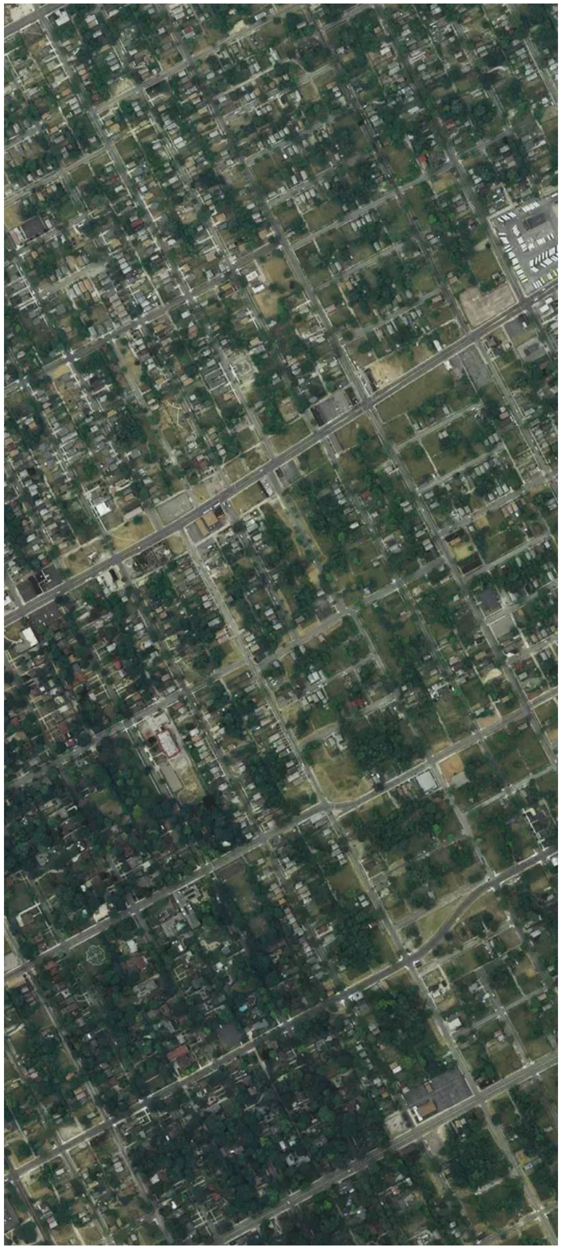
For example, in 2011 the county treasurer added a reverter clause to the deed issued to buyers of auctioned properties. The clause required that owners maintain their properties in good order and stay current on their assessed taxes. After a few years, however, it became evident that enforcing the clause would require more resources than the county could muster.

Moreover, there was the question of what the county would do with reverted properties, some of which could have had tenants in them. The properties could be re-auctioned, but they might well end up being bought by other scofflaw speculators (or by the same ones, operating under new names), and thus the county would find itself back in the same situation. Meanwhile, the county would be liable for maintaining the properties and, possibly, for evicting the tenants. The reverter clause was eliminated in 2015.

In the same vein, a state law enacted in 2015 bans former owners from repurchasing their foreclosed properties through the auction, a tactic many of them employed to erase accumulated tax liabilities. Speculators continue to do so through middlemen or simply by changing the names of their companies, however. Wayne County claims that investigating and prosecuting possible violations is impractical.

A number of feasible auction reforms would stimulate greater participation by prospective owner-occupants, who are more likely to stabilize neighborhoods than absentee investors are. Recommendations that experts have suggested include: offering property inspections prior to the auction, offering financing options, and providing a clear title to purchasers rather than a quit-claim deed, as is done currently.

Perhaps the best way to improve the auction, however, is to divert occupied and strategically



located tax-foreclosed properties from entering it in the first place. For example, in 2017 the city exercised its right of refusal (ROR) to purchase approximately 80 rental properties slated for the tax auction and, with the nonprofit UCHC acting as the administrative intermediary, offer them for sale to their tenants at nominal cost. The program was expanded in 2018 to include a limited number of low-income owner-occupants. The city could further expand the program to reserve unoccupied tax-foreclosed houses in good condition for purchase by nonprofit community development corporations or reputable investors who would agree to repair and maintain the properties and offer them to low-income households. This approach could be particularly effective if the ROR properties were clustered so as to focus the potential beneficial impact upon particular neighborhoods, such as ones included in the city's Strategic Neighborhood Fund initiative.

At least as important as improving methods of managing the disposition of tax-foreclosed properties is reducing the number of such foreclosures in the first place. Consistent with prior studies, we found that roughly three-quarters of Detroit tax foreclosures involve investor-owned properties. The dilemma facing the city is that actions to bring more of those landlords into tax compliance may only increase the foreclosure rate. Until residential property values increase to the point where it is uneconomic for short-term speculators to allow their houses to fall into tax foreclosure, many of them will continue to do so. It may be strategic, therefore, for the city to explore incentives to encourage responsible investors with longer time horizons while also doing what it can to discourage irresponsible ones—particularly ones who are among the small number of bulk buyers who account for an outsized percentage of tax auction purchases and subsequent foreclosures.

Although numerically less prominent than tax foreclosures of investor-owned properties are, the loss of owner-occupied homes to tax foreclosure is more harmful to neighborhoods and to households, and so it behooves the city, the county, and the state to do everything in their power to minimize it. Unlike investors, few homeowners intentionally let their properties default into tax foreclosure. Our conversations with individuals who experienced that fate are consistent with what other research has found: in every instance, either the owner would have qualified for a low-income exemption from paying taxes, was unaware of the imminent foreclosure (e.g., because of advanced age, limited literacy, or not having received notice), or was experiencing a personal hardship that prevented them from acting in a timely manner to avert foreclosure. In a city struggling to stabilize neighborhoods and arrest continued population loss, putting households such as these through a tax foreclosure that is often avoidable is as senseless as it is heartless.

A primary reason why the number of auctioned Detroit properties has declined substantially since 2015 is that thousands of homeowners have enrolled in payment plans with the county treasurer, mostly during the annual show-cause hearings. The treasurer's office has not disclosed how many of those participants are current on their payments, however, and a 2019 study conducted by reporters with the Detroit News indicates that many owners on payment plans could soon lose their homes. According to the Detroit News report, almost 40% of the initial group of homes enrolled in the county's payment plan either had been foreclosed or were off their plans and at immediate risk of foreclosure. For nearly a quarter of the properties in the Detroit News study, the total amount owed was greater than it had been three years earlier. Along the same lines, the 2018 Neighbor to Neighbor study noted that although the number of owner-occupied properties reaching the auction had declined by 88% between 2015 and 2018, the number of tax-delinquent properties had declined by only 8% over the same period.

As these worrisome facts reveal, the root cause of Detroit's chronic tax-foreclosure problem is the city's singularly high property tax rate coupled with the considerable incidence of poverty among the city's population, including its homeowners. A sustainable solution must address that root cause directly. An imperfect but important instrument that does this is Detroit's Homeowner Property Tax Assistance Program, or HPTAP. For years the process of obtaining the HPTAP exemption in Detroit was undeniably opaque, cumbersome, and capricious. As a result, only a small fraction of eligible households got one, and even they needed to re-apply every year to retain it. As part of its 2018 settlement of a class-action lawsuit filed by the ACLU and NAACP, the city agreed to streamline the HPTAP process and publicize the program. More outreach and assistance is needed, however. Available information indicates that, even now, the majority of potentially eligible homeowners have not applied for the HPTAP exemption.

“ The root cause of Detroit's chronic tax-foreclosure problem is the city's singularly high property tax rate coupled with the considerable incidence of poverty among the city's population. ”

Another policy option is to reduce residential property taxes. To the degree that such taxes are capitalized into real estate prices, a tax reduction would result in price increases, other things being equal. In Detroit, with its very high property tax rate, a rate cut would therefore result in a much smaller reduction in revenues than a static analysis would suggest and could even produce a net gain as a consequence of increases in both property values and tax compliance.[2]

A way to focus the beneficial impact of a rate reduction upon lower-valued properties, which have been most prone to tax foreclosure, would be to exempt, say, the first $10,000 of taxable value for residential properties. Residential property taxes currently account for only approximately 2.5% of total revenues in Detroit, and so a modest tax reduction could yield significant benefits at little (or even no) cost.

Nonmarket solutions, such as assembling vacated parcels and ceding or selling them to community land trusts or other models based on the concept of the commons are also worthy of serious consideration in light of Detroit's chronically weak property market and prevailing sense of community among residents, as evidenced in their stewardship of agricultural plots and vacant lots and their participation in cooperative ventures of many kinds.

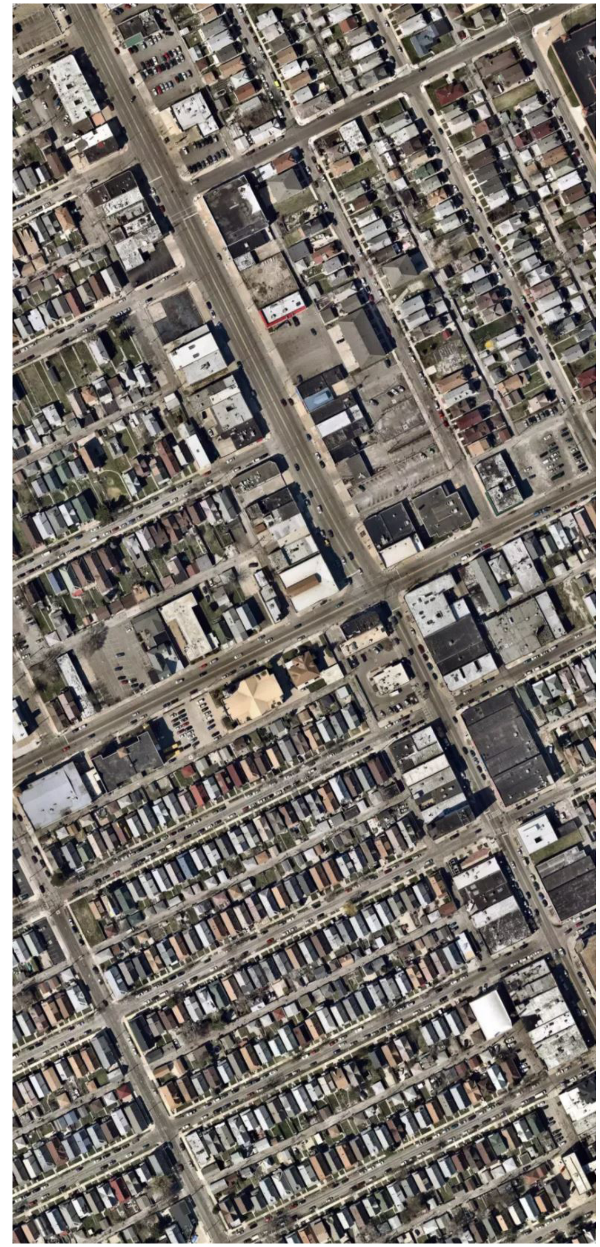
City and county officials concede the problems resulting from Detroit's high rate of tax foreclosures and largely unregulated auctioning of tax-reverted properties. The results of our study of the 2017 tax auction and its consequences provide ample evidence of those problems. Both units of local government have also implemented programs to mitigate some of the injustices and bureaucratic failures of the property tax assessment, collection, foreclosure, and auction system. Those reforms are significant, and they should be acknowledged as such.

That said, it is equally important to acknowledge that the reforms were implemented only as a result of unceasing publicity and pressure.

For example, in their response to the 2016 class-action lawsuit, the city administration did not deny that Detroit properties were over-assessed. Instead, the city's then-corporation counsel, Butch Hollowell, claimed that halting tax foreclosures until such time as property assessments in Detroit were conducted in accordance with state law "would violate compliance with the Plan of Adjustment, indefinitely prolong state oversight of city operations and threaten basic city services to all Detroiters." In other words, the city ought not be required to follow the law and assess properties accurately, because doing so could upset its finances. Much the same thing happened when the (ultimately enacted) proposal to simplify the cumbersome HPTAP was before the city council in 2018. Prior to the vote, the city's chief financial officer expressed concern about revenues that would be foregone if every eligible household actually received the exemption it merited.

The City of Detroit emerged from bankruptcy in late 2014 and its financial condition, although improving, remains fragile. Because Wayne County makes the city whole with respect to unpaid property taxes, Detroit officials have been reticent to reduce the tax burden on residential property owners, including low-income Detroiters—even if the abandonment, blight, evictions, and depressed property values resulting from the current dysfunctional, inequitable system run contrary to the city's longer-term interests.

As for Wayne County, it entered into a state of financial emergency just weeks after Detroit emerged from bankruptcy. Although then-Governor Rick Snyder released the county from a consent agreement in late 2016, it still faces significant financial challenges. Revenues the county treasurer collects in the form of penalties, fees, and interest on late property tax payments along with proceeds from the annual property



Conclusions

auctions have been essential to balancing the county's annual budgets.

Public officials thus appear to be caught in a bind between, on the one hand, a desire to advance tax policies that not only advance equity and fairness but also bolster neighborhoods in the long run and, on the other hand, a necessity to raise revenues to balance deeply constrained budgets in the short run.

One might feel sympathy for them were it not for the fact that those same public officials consistently find ways to grant tax relief and provide other incentives for billionaires' development projects in downtown and midtown and for residents of more privileged neighborhoods. As Joshua Akers and Eric Seymour observed in a recent University of Michigan research paper, "It is important to acknowledge the resource constraints in Detroit, Wayne County, and Michigan, yet … where those constraints are applied is a political choice."

Our investigation of the 2017 Wayne County tax-foreclosure auction and its consequences found that the auction served primarily to cycle thousands of Detroit properties among investors and speculators, many of whom lived elsewhere. Among the more than 6,000 parcels listed in the 2017 auction, 61% of the occupied residences, 77% of the unoccupied structures, and 88% of the vacant lots were investor-owned when they were foreclosed. Investors also dominated purchasing in the auction. Three out of four purchased properties went to large investors, with ten bulk buyers collectively accounting for one-quarter of all purchases. Small investors were responsible for an additional 20% of property purchases, leaving only 5% ending up in the hands of owner-occupants.

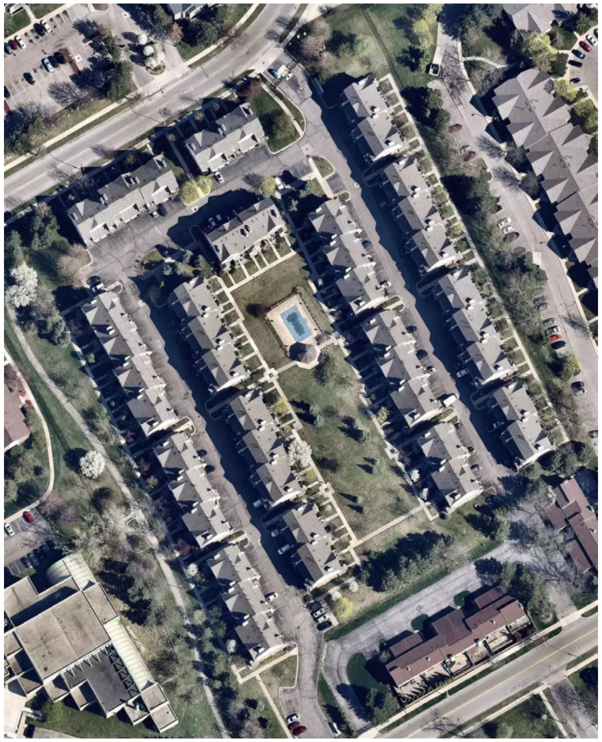
Even though the vast majority of tax-foreclosed properties had been investor-owned, the auction nevertheless transformed hundreds of owner-occupied homes into investor-owned rentals. An estimated 740 properties in the 2017 auction were owner-occupied residences. Investors purchased virtually all of them (93%).

Many properties purchased in the 2017 auction will likely be back in tax foreclosure soon. Only about half of them were current on their property taxes as of mid-2019. More than 40% were delinquent (i.e., one year unpaid), 5% were subject to foreclosure (two years unpaid), and one property had already been foreclosed.

The auctioning of tax-foreclosed properties leaves much to be desired as a vehicle for promoting responsible property maintenance. More than one in five of the properties with structures that were purchased in the 2017 auction were blighted when we visited them in late 2018: 724 structures were in poor condition and an additional 99 required demolition. Many of the properties transferred in 2017 to the Detroit Land Bank via the "blight bundle" were blighted, open to trespass, or sites of illegal dumping in late 2018, as well.

Of course, not every instance of a property being foreclosed and sold in the tax auction led to a bad outcome. Of the purchased properties with structures, 36% were in good or fair condition when we visited them in 2018, showed no evidence of dumping, were current on property taxes as of mid-2019, and were occupied (or possibly occupied) in at least one of those years. Properties purchased by small or large investors or by owner-occupant households were about equally likely to satisfy all of those conditions.

On balance, however, the institutionalized process of foreclosing on thousands of properties for nonpayment of taxes and then



Recommendations Re-cap

1. **Stop auctioning occupied homes.**
2. **Use the City's "right of refusal" to direct properties to more strategic uses.**
3. **Consider a property tax cut.**
4. **Enforce restrictions on who can participate in the tax auction.**
5. **Consider non-market solutions.**

auctioning them off en masse annually over the Internet largely to absentee investors and speculators is demonstrably not conducive to the long term well-being of Detroit neighborhoods and their residents.

As for feasible reforms to improve the process of tax foreclosures and auctions and, more fundamentally, reduce such foreclosures in the first place, empirical findings and simple logic lead to any number of sensible policy recommendations that would increase fairness, reduce tax foreclosures, decrease real estate predation, support rather than undermine neighborhoods, and thereby improve the quality of life in Detroit over the long term.

Politics tends to be conducted over the short term, however. For now, it appears that public officials in the City of Detroit and, particularly, in Wayne County are relying upon the dysfunctional tax-foreclosure machine to get them from one year to the next. It is likely, therefore, that it will take more than sensible policy recommendations to change the status quo. It will take organized, resolute political action.

How We Conducted This Study

Data Sources

Loveland collected the property data for our study from a variety of sources. They acquired the historical tax foreclosure data from the Wayne County treasurer's office by means of a Freedom of Information Act (FOIA) request, the property tax payment status information from the county treasurer's online tax payment site, and parcel, assessment, and ownership information from the City of Detroit assessor's office and Detroit Open Data Portal. Outlier Media provided Loveland with the tax-foreclosure auction results and buyer information, which Outlier secured via a FOIA request to the treasurer's office. We supplemented the data obtained from official sources with information we collected through two surveys, described below.

Surveying Methodology

A team of trained community researchers from DAC conducted the first survey, which took place between late October and mid-December of 2018-approximately one year after the 2017 auction. It consisted of a drive-by survey of every Detroit property listed in the 2017 Wayne County tax auction that had a structure on it according to county records. Surveyors used smartphones and tablets equipped with the Landgrid software application developed by Loveland to photograph and record information on 95% of the 5,080 properties. We surveyed all but a handful of the remaining 5% using the street view on Google Maps available for approximately the same 2018 time period. Surveyors, often working in pairs, graded each property's external condition, the presence of fire damage or dumping, whether it appeared to be occupied, and, if unoccupied, whether it was visibly open to trespass.

The second survey took place between June and August of 2019. For it, we visited the addresses of a simple random sample of 400 properties that had been coded as being occupied during the first survey. We attempted to interview an occupant at each property. (The properties were almost entirely single-family homes.) The brief survey asked how long the current occupants had lived in the house, and whether they rented, owned it, or "something else." Renters were asked whether they had experienced any problems with the owner and, if so, what kind. They were also asked whether they were on a rent-to-own plan or land contract and whether they had owned the house before they began renting it. Owners were asked if they had purchased the house in the county tax auction. A total of 134 properties in the sample (34%) appeared to be vacant when they were visited in the second survey, indicative of the high degree of turnover in many Detroit neighborhoods. An occupant was interviewed at 132 of the remaining residences, for a response rate of 50%. In virtually all of the remaining cases, no one was home at the time of the visit. In only six instances (2%) did someone answer the door but decline to be surveyed.

Notes and References

Notes

Greg Markus at DAC did the bulk of research on this project, including a companion detailed paper which will soon be published. Jerry Paffendorf and Nick Downer at Loveland Technologies helped with data assembly, graphic creation, and analysis for this report. The photo contained in the cover image is from Alex Alsup's excellent 'GooBing Detroit' site.

All satellite images seen in this report are provided via Mapbox.

The Wayne County treasurer's online tax payment site is https://pta.waynecounty.com.

The City of Detroit Open Data Portal is https://data.detroitmi.gov/pages/parcel-viewer.

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