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The Effects on Cities of "Best Practice" in Tax Foreclosure: Evidence from Detroit and Flint

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Abstract:

Although property abandonment affects many cities, little is known about what becomes of that property or what institutional differences lead to varied outcomes. More rapid tax foreclosure in Michigan, touted as best practice nationally, offers the opportunity to investigate who loses property and what property becomes after tax reversion. Two counties’ practices, using different approaches to foreclosure prevention, revealed large differences in the numbers of owner occupants who lost their homes. Use and condition of auctioned properties primarily reflected use prior to foreclosure. However, other, more deliberate ways of selling tax-reverted property enabled many more owner-occupants, next-door neighbors, and developers to purchase and reuse property. The processes for sale of tax-reverted properties can thus determine productive reuse of property with positive effects on surroundings.

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Evidence from Detroit and Flint

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The process of abandonment, tax foreclosure, and sale of tax liens or tax-reverted property moves real estate from previous owners to a public entity and into new ownership. Those new owners then make decisions about use of the property that determine what abandoned areas of the city become. In many cities, this process affects large amounts of property and has a more profound effect on what the city becomes than do planned urban redevelopment efforts that involve much smaller amounts of land.

The scale of abandonment is enormous in many cities of the Northeast and Midwest. Abandonment of housing has resulted in large numbers of dilapidated houses and, following the demolition of these structures, many vacant lots. Analyses at specific points in time in different cities provide a partial picture. Baltimore had 12,700 housing units that the city had judged unfit for habitation by the early 2000s; the city had nearly 14,000 vacant lots (Cohen, 2001, 415-6). As of 2000, Philadelphia had 26,000 vacant houses and 31,000 vacant lots (Kromer, 2002, 6; Hughes 2000, 34-37). As of 2001, between 10 and 11 percent of Cleveland's land parcels were vacant (Dewar 2006, 172). In Detroit close to 90,000 parcels of land, about 18 percent of the city's land area and nearly 23 percent of its land parcels were vacant in 2001 (Detroit Tax Assessor 2001).

When owners stopped paying property taxes, tax foreclosure proceedings sold the properties or tax liens to third parties who could then enforce the lien--collect taxes, interest, and penalties for delinquency or carry out foreclosure (Alexander 2000b). Eventually, much of the property came under the control of city, county, or state governments, depending on the specifics of state law. Therefore, state and local governments became major property owners. In 1999, New York City owned 17,940 housing units in occupied buildings and 7,360 units in vacant buildings, a substantial decline from previous years (Schwartz 1999, 843, 865; Braconi, 1999). In Philadelphia, in 1995, the Planning Commission stated, "A de facto land bank of publicly-owned properties has been created in Philadelphia over the past two decades." As of February 1994, the city government owned 4 percent of all properties in Philadelphia (Philadelphia City Planning Commission 1995, 12-14, 28ff). From 1988 through 2006, nearly 10,000 vacant, tax-reverted properties passed through the ownership of the Cleveland land bank. In Detroit, the numbers dwarfed those in all other cities except New York. The city held about 63,000 tax-reverted properties at some time between 1973 and 2004. In 2006, the city owned approximately 33,000 properties, the state government owned about 6000 properties in the city, and the county owned about 6600 (Bailey *et al*. 2006, 1,3).

So what are the effects on the city of this process of moving property from owners who have stopped paying taxes to public ownership and then to new owners? This paper examines the effects of a new tax foreclosure law in Michigan in the first years of its operation in order to address this question. Reform of Michigan's property tax foreclosure system in 1999 aimed to accelerate the tax foreclosure process while protecting the due process rights of anyone with an ownership claim to the property. The legislation stated, "There exists in this state a continuing need to strengthen and revitalize the economy of this state and its municipalities by encouraging the efficient and expeditious return to productive use of property returned for delinquent taxes." The legislation shortened the period required for foreclosure from approximately seven years to two or three years (Michigan Public Act 123 1999, especially see Sec. 78(1)). The law also ended the sale of tax liens. After a judgment of foreclosure, the foreclosing government, usually the county, offers the property at auction.

Those concerned about vacant and abandoned property in cities have pointed to Michigan's law as a "best practice" model that other state and local governments could consider adopting because it shortens the period that no one cares for abandoned properties and it promises clear title (Brophy and Vey 2002, 11; Keating and Sjoquist 2001, 13-14; Mallach 2006, 79; National Vacant Properties Campaign 2005, 8). However, no systematic look at the results of the new foreclosure and auction system exists, and no evaluation has addressed the question of whether in fact Michigan's system is a "best" or even a "good" practice in its effect on cities. Evaluation of the effects of the law can therefore contribute to the growing but still small literature on cities' handling of vacant and abandoned property (Accordino and Johnson 2000; Schwarz 1999; Bowman and Pagano 2004; Cohen 2001; Dewar 2006). Evaluation can also help urban planning scholars understand how the movement of land from abandonment back into private or nonprofit ownership is affecting cities, for the most part without the notice or intervention of planners.

Research on the Effects of Tax Foreclosure and Tax Auctions on Cities

To learn about how the process of abandonment affects cities, examination of tax foreclosures is especially useful. Tax foreclosure is the primary process that moves property out of the possession of owners who abandon it into government ownership. Furthermore, the government ownership of property following tax foreclosure provides the opportunity for policies to encourage positive reuse after sale to a private owner. As others have noted, across the United States, tax foreclosure practice is "lengthy, cumbersome and filled with doubts and objections" (Alexander 2000a, 5); laws result in "time-consuming procedures that in the end may not give the municipality clear, marketable title" (Mallach 2006, 72). Reform, such as the changes in Michigan, offers the promise of rapid control of abandoned property and clear and marketable title. Introduction of administrative procedures surrounding land disposition and enactment of other enabling legislation (land bank laws in Michigan, for example) can offer a local jurisdiction opportunities to affect how abandoned property is used after resale, advocates argue (Mallach 2006, ch. 8; Kildee 2004).

Tax foreclosure affects the character of the city in three major ways: first, through requiring time to obtain control over abandoned property and to produce marketable title; second, by taking property from owners; and, third, by subsequently selling tax liens or foreclosed property. The reform in the Michigan law aimed to deal with the first issue and did indeed speed up the foreclosure process; it also made clear title at the end of the process much more likely than under the old procedures.

Who loses property? Previous research on tax foreclosure processes points out that large numbers of owner occupants may lose their homes. In Cleveland in the early 1970s, more than one-third of the tax-delinquent, occupied residential structures were owner occupied (Olson & Lachman 1976, 97). Two types of owners stop paying property taxes, research argues: those who are abandoning their property and those who have cash-flow problems. The latter do not intend to abandon their property (Mallach 2006, 78-79; White 1986, 323). Therefore, the challenge for policymakers and planners wanting to prevent abandonment and reinforce community development is to put in place procedures to distinguish between these types of delinquencies and to find ways to enable owner-occupants to solve their financial problems, if that is possible.

After tax foreclosure, governments typically offer the tax liens or the foreclosed property at auction. What becomes of property after auction? Research on auctions has focused entirely on the auction process itself—the effects of market conditions and of auction procedures on price and on completion of a sale (for instance, McAfee, Quan, & Vincent 2002; Ong, Lusht, & Mak 2005; DeBoer, Conrad, & McNamara 1992; Ashenfelter & Genesove 1992; Asabere & Huffman 1992; Mayer 1995, 1998). Most notably, discounts in prices of auctioned properties compared to negotiated sales are greatest in depressed markets (Mayer 1998). This suggests that sophisticated speculators can purchase properties at auctions in order to resell at higher prices outside auctions. The price discounts for concentrations of properties in lower-income neighborhoods can cause a high proportion of other owners to abandon their properties and therefore destabilize those neighborhoods (Vandell and Riddiough 1992).

Following auctions, a high percent of properties return to tax delinquency, according to the two existing studies. Between 50 and 60 percent of Cleveland properties sold at tax auctions between 1969 and 1972 were tax delinquent again by 1973 or 1974 (Olson and Lachman 1976, 48). Nearly one quarter of properties auctioned in Brooklyn, New York, from 1990 through 1995 were back in tax delinquency in 1997 (Collignon 2000,16).

How do new owners use their properties? "Even after vacant and tax-delinquent properties are sold for very low sums at sheriff's sale," public officials told Accordino and Johnson (2000, 313), "the new owner…uses them merely as speculative investments." Most of the vacant lots that New York City auctioned in Brooklyn, the South Bronx, and Manhattan remained vacant or became parking lots in the years following their sale. A survey revealed that only 21 of 522 auctioned vacant properties had permanent structures within a few years after sale. The majority of the properties that remained vacant were strewn with garbage (Collignon 2000, 15-16).

Policy analysts and planners offer many suggestions for ways to make sales of tax delinquent properties enhance community development, rather than just raise short-term revenues from sale or move properties out of government ownership (for example, Accordino and Johnson 2000, Mallach 2006, Collignon 2000, Alexander 2005, Citizen's Housing and Planning Association 2000). The recommendations are logical; however, no evaluations exist to assess and explain the effects of such measures.

This research looks again at two major questions about the effects of tax foreclosure on cities: who loses property, and what becomes of property following government auction? Michigan is a useful case to examine because its procedures reflect best practice policy ideas.

Design of the Study

To assess the effects of the Michigan tax foreclosure law, this project looked at the experiences of two cities, Detroit and Flint, where two counties, Wayne and Genesee, implemented the law. The comparison is useful because the two cities face similar demand for land, and, therefore, the market is likely not the explanation for differences in outcomes. Differences between the cities can suggest the effects of different ways of implementing the law. Tables 1 through 3 show indicators of demand for residential land in the two cities. Detroit's population decline began sooner, and the city had lost a larger share of its peak population by 2000 than had Flint (48 percent compared to Flint's 36 percent), but Flint had lost population more rapidly in the previous ten years (an 11 percent loss compared to Detroit's 7.5 percent) (see Table 1). The poverty rates in the two cities were almost identical in 1999 (Table 2). Median household income was slightly higher in Detroit, but per capita income was slightly higher in Flint. Both cities were losing housing stock, but Detroit had lost much more—nearly a third of its peak number of housing units, while Flint had lost 14 percent (Table 3). Detroit had lost a higher percent of its housing in the previous ten years (slightly more than one unit in ten) than had Flint (a loss of slightly over 5 percent of its housing stock), but the ratio of housing units to population in Flint was higher than in Detroit, suggesting that Flint faced more future disinvestment in housing than did Detroit even if population stabilized.

TABLES 1, 2, 3 HERE

Besides the similar, weak-market conditions, some differences suggested a comparison of the two cities could be useful. Genesee County Treasurer Dan Kildee's implementation of the law and introduction of other systems for handling vacant and abandoned property have received widespread national attention and praise (for instance, Kildee 2004; Alexander 2000a). The Genesee County implementation of the law, combined with the use of the 2004 land bank enabling law, introduced a strong role for planning into the handling of tax-reverted property. The county land bank won an Innovations in American Government award in 2007 (Government Innovators Network 2007). In contrast, the implementation of the law in Wayne County, by Treasurer Raymond Wojtowicz, has received extensive criticism. Wayne County did not initially establish strong procedures for notice of those with an interest in the property. Critics said the county took homes from owner occupants (Schmitt 2004; M. Mullane, Michigan Legal Services, & T. Phillips, United Community Housing Coalition, personal communication, 2006). The treasurer's aim was to assure that taxes were collected and to auction property if taxes were not paid; he was not concerned about how property might be used after sale, and Wayne County introduced no planning considerations in the handling of property (R. Wojtowicz, personal communication to E. Dueweke, Dec. 2003).

Where the property came from and what the property became after auction are the two major issues to address in an assessment of the effects of the law. To analyze where the property came from--who lost the property and the type of property it was--required analysis of properties taken for failure to pay property taxes in each city. To assess outcomes in the use of property after foreclosure required a study of properties that had been sold to new owners.

To analyze the two cities' experiences under the two counties' implementation of the law, I obtained lists of all properties foreclosed in Detroit in 2002 and 2003 and in Flint from 2002 through 2004. I took a random sample of these properties to investigate who lost property to tax foreclosure and what happened to property after auction. To compare the auction outcomes with those of other ways of handling tax-foreclosed property, I took a random sample of Flint properties that had not been auctioned but had been placed in the land bank, from a list obtained from the land bank. I took a random sample of properties in Detroit that had been foreclosed under the old law and sold by the City of Detroit from a list obtained from the Detroit Planning and Development Department. Table 4 summarizes the structure of the samples.

TABLE 4 HERE

To learn about who lost the property and how the property was used prior to foreclosure, I obtained data from the assessor's office in each city and from the register of deeds in each county to learn as much as possible about ownership and type of use just before foreclosure. To learn about the outcomes after sale, I visited all sampled properties that had been auctioned and all properties in the comparison samples and rated their conditions using an assessment tool for vacant lots and for structures. For the auctioned properties and for the comparison properties I then used city assessor data, county register of deeds data, and subsequent county auction lists to add to what I had observed. I constructed a data record for each property and wrote a "property story" for each property to assure I could make sense of what had occurred. The constructed databases are the source of the analyses reported below.

What kind of property goes into foreclosure?

The types of properties entering foreclosure differed between Detroit and Flint. As Table 5 shows, half the properties that went through the foreclosure process in Detroit had homes on them; in Flint about 37 percent of the properties had residential structures. In both cities, the share of properties that had residential structures needing demolition was about 45 percent of the properties with houses. Flint foreclosures included a considerably larger share of vacant land than did Detroit's. Nearly all of these vacant properties once had housing on them. The two cities were similar in that little of the foreclosed property was commercial or industrial or parking.

TABLE 5 HERE

Because the reform of the property tax foreclosure law speeded up the process of taking property from owners who did not pay their taxes, it increased concerns that homeowners could lose their homes, that the procedures would not distinguish between homeowners who did not intend to abandon their homes and others. This potential problem is generally understated in discussions of tax foreclosure reform and was nearly ignored as the Michigan legislature considered changes (Mallach 2006, 79; Citizens Research Council 1999; House Legislative Analysis Section 1999). In Detroit about 27 percent of the residential structures may have been owner occupied at the time the property was forfeited (Table 5). In Flint about 12 percent of properties with residential structures may have been owner occupied.[1]

Why did Genesee County foreclose on so many fewer homeowners than did Wayne County? As the new law took effect, the Genesee County Treasurer instituted a foreclosure prevention program. The Treasurer's Office contracted with legal services to try to contact the occupants of every housing structure in foreclosure and to give them information about assistance in avoiding foreclosure. The foreclosure prevention specialist assisted homeowners who came to her office for help. She offered them a range of ways to postpone foreclosure and to redeem their property. Few homeowners who sought her help lost a home in the first year because they could postpone tax payments at least once for hardship reasons. Furthermore, state law allows homeowners in poverty not to pay property taxes as long as they certify their poverty status each year (MCL 211.7u). Many homeowners, however, may never have come to the foreclosure prevention office for assistance. In addition, some homeowners lost their homes when they could not find ways to budget for the payment of property taxes despite assistance (C. Town, Genesee County Treasurer's Office, personal communication, June 2006; Grove 2007).

In Detroit, in contrast, the Treasurer's Office provided a list of occupied properties to legal aid lawyers shortly before the auction. In what seemed like a chaotic and desperate effort to save homes for low-income homeowners, the lawyers scrambled to contact everyone living in property the county planned to auction. They helped prevent loss of property for homeowners who responded. After properties were auctioned, they represented property owners who had lost homes and succeeded in having foreclosures vacated in numerous cases (M. Mullane, Michigan Legal Services, and T. Phillips, United Community Housing Coalition, personal communication, 2006). The difference in the share of owner-occupied foreclosures between Detroit and Flint suggests the greater effectiveness of the Genesee County foreclosure prevention program in contrast to the Wayne County dependence on legal aid lawyers' striving to reach hundreds of possible homeowners quickly.[2]

The stories of the foreclosure prevention specialist in Flint and the legal aid lawyers in Detroit showed how difficult foreclosure prevention is. Those faced with losing homes included elderly individuals temporarily away from their residences for health reasons and individuals whose reading or English speaking skills were poor. In Detroit, the notices that homeowners received from the Treasurer's Office were written in legal language, and many residents did not understand them.

The stories also showed the dilemmas in defining homeownership in a low-income housing market. The foreclosures affected many who thought of themselves as homeowners but were not legally so. Individuals who thought they had inherited their homes had not received notice of foreclosure because the property had never gone through probate. The legal aid lawyers in Detroit said they could easily spend all their time handling the large number of probate cases. In some instances, occupants said that deceased relatives had left the property to them, but because they were not spouses or descendents of the previous owners, the probate process could not give them ownership. Other occupants of homes had completed payment on a contract for deed but had never registered the deed. Many other sales were also never registered. The foreclosure prevention specialist in Flint and the legal aid lawyers in Detroit prevented many of these households from losing their homes by resolving the ownership issues, but others no doubt lost their homes.

What Happens to Tax Reverted Property after Auction?

After a judgment of foreclosure, the county treasurer auctions the property. The treasurers in the two counties handled the auctions differently. In Wayne County, the treasurer's aim was to sell as much property as possible at the auction and to get as much money for property as soon as possible through sales. All tax-reverted properties from the year's foreclosure proceedings were available for purchase at the auction. The properties that did not sell at three successive auctions that concluded in November were transferred to the jurisdictions where they were located except that the City of Detroit refused to accept the unsold properties after 2002. Detroit properties therefore remained in the ownership of the county treasurer. The amount of property the treasurer owned grew each year (Bailey et al. 2006).

In Genesee County, in contrast, the treasurer "bundled" large numbers of properties. The law required that all foreclosed properties be offered at auction, but the bundle was unattractive to bidders because of its cost, the uncertain character of the many properties it included, and bidders' inability to select a few desired properties from the bundle. The minimum bid for the bundle covered the unpaid taxes, fees, penalties, and interest; cost of administering the sale; demolition liens; and other expenses that the county had borne in handling the properties. By 2006, the Genesee treasurer included all occupied houses, all residential properties requiring demolition, and many vacant lots in the bundle along with some higher value properties located outside Flint. The purpose of bundling was to enable the county to gain control of properties that could affect the use of land and the quality of life. No one bid on the bundle, and the treasurer then transferred the property into the land bank.

Did the two counties' auctions lead to different outcomes for properties following the auctions? The next sections look at the use of properties, the condition of properties, and the tendency for properties to return to tax delinquency.

Property Use after the Auctions

The uses of properties in the two cities after auction showed that the intention of the legislation, the "efficient and expeditious return to productive use" of property taken for non-payment of taxes, was rarely met. The auctions do not facilitate the purchase of homes by new owner occupants, do not help adjacent owners to expand their properties, and do not contribute to land assembly for new development (see Table 6). A large amount of the property remained vacant with no sign of ownership or use. Outcomes differed between the two cities mainly because the types of properties that had been foreclosed had differed.

Nearly half the property sold in Detroit and one-third of the property sold in Flint had structures that predated foreclosure. Most of these structures (close to 90 percent in both cities) were housing. About 17 percent of the housing in Detroit and close to 12 percent in Flint likely became owner occupied after the auction. The transition from previous ownership to new ownership following the auctions reduced owner occupancy in Detroit (but not in Flint) because a higher percent of houses had been owner occupied before foreclosure. Investors were more able than prospective homeowners to meet the conditions for purchasing at the auction—to pay cash within a day for the full amount of the bid for a house—and to assume the risk that property sold “as is” would have no environmental problems and no squatters.

TABLE 6 HERE

A large share of the auctioned property was vacant land. Nearly half the auctioned properties in Detroit and nearly 60 percent in Flint were not redeveloped and not added to an adjacent owner’s property. Nearly 80 percent of this property remained vacant lots with no evidence of use in both cities. About 20 percent of land not redeveloped was used in some way—for gardens, play areas, storage, or parking, for instance. Adjacent owners rarely acquired property at the auctions—less than 2 percent of properties in Detroit and only 4 percent in Flint. Of the property purchased by adjacent homeowners who might be expected to reuse the property, two-fifths of the properties in Detroit and 54 percent of the properties in Flint remained vacant with no sign of use. Very few properties were used for new development of any type.

The findings about outcomes following auctions show differences between the two cities due only to the kind of property that goes through tax foreclosure. But how do auction outcomes differ from outcomes for different types of sales of tax-reverted property? Tables 7 and 8 compare auction outcomes with outcomes following the Flint land bank's managed sale of property and the Detroit Planning and Development Department's sale of property received through the old tax foreclosure system. The differences show the greater benefits in reuse of property from different kinds of sales.

The Detroit department received property after foreclosure under Michigan's old tax foreclosure law. Under that law, the foreclosure process lasted six years or more and often produced clouded property titles. The department has sold the property in a variety of ways since the mid 1970's. The sales process changed with each mayoral administration but generally involved review of a development plan and a site plan for purchase of five or more properties at a time. For sales of smaller numbers of "surplus" properties, the department instituted a variety of programs to increase sales of properties, offering adjacent lots to homeowners for reduced prices, for instance. The department received considerable criticism for its lack of transparent systems and numerous other problems in the sale of its property (Bailey et al. 2006; Dewar 2006).

The uses of Detroit property sold at auction were quite different than for Detroit property sold from the inventory of the Planning and Development Department (see Table 7). In comparison with the auction, the Planning and Development Department sold less property with preexisting structures. Many more homes had been destroyed during the long foreclosure period and the years of the city's ownership of the property—a situation the new law sought to prevent. A much smaller share of properties sold by the Planning and Development Department were neither redeveloped nor added to an adjacent owner's property. A much higher share of properties sold by the department were added to an adjacent owner's property, a result of the department's promotion of the sale of lots to adjacent owners. Ten percent of the sold properties, more than the share after the auction, were redeveloped, most often for housing.

TABLE 7 HERE

In Flint the Genesee County Land Bank aimed to improve the quality of life in Flint through the management, sale, and redevelopment of tax-reverted property. The staff worked with neighborhood organizations on reuse of property in selected areas, hired consultants to develop plans for riverfront areas, redeveloped an office building downtown, sponsored a program to sell property to adjacent land owners, and "banked" other property to reduce the supply of land available for purchase and to try to raise the value of remaining, privately owned property. In contrast to the sale of property through the auction, the sale of property through the land bank aimed to strengthen the market for land in Flint, make Flint a better place to live, and ultimately increase the tax base.

The uses of property sold by the land bank differed substantially from property sold at the auction. Much less of the land bank property had preexisting structures because the land bank received property with derelict structures and carried out demolitions. When the land bank did sell houses, these were much more likely to become owner occupied than houses sold through the auction because the land bank aimed to sell to purchasers who would care for property. The investors to whom the land bank sold included individuals who were rehabilitating homes to strengthen neighborhoods. Adjacent property owners acquired a large percent of properties that the land bank sold, but only a slightly higher proportion of this type of property showed evidence of use. A much larger share of the properties sold at auction remained undeveloped and not part of an adjacent owner's property. Four-fifths of this type of property had no sign of use no matter how it had been sold.

TABLE 8 HERE

In sum, the sales of properties through the Detroit Planning and Development Department and through the land bank in Flint resulted in more properties' moving into uses that were more likely to remain the "productive use" that the new Michigan law aimed to encourage. Auctions required by the new law were not the best way to bring about the "efficient and expeditious return to productive use" of tax-reverted property.

Conditions of Properties following Auctions

Besides the use of the property, the condition of the auctioned properties could have significant effects on the surrounding neighborhoods. As Figure 1 shows, vacant lots auctioned in Flint tended to be in better condition in 2005 and 2006 than those auctioned in Detroit. In both cities, however, a substantial share of auctioned vacant lots were in poor condition. Housing auctioned in Detroit was more likely to be in good condition than that auctioned in Flint. A higher percent of housing auctioned in Flint was in poor condition. Close to the same share of housing in both cities needed to be demolished.

FIGURE 1 HERE

The conditions of properties sold in other ways contrasted sharply with those of properties sold at auction. A much larger share of vacant lots sold by the Detroit city government were in good condition compared to those auctioned in Detroit. The condition of housing was similar except that less housing sold by the city department required demolition. Flint properties sold by the land bank were in much better condition than those sold through the Flint auction, whether they were vacant lots or houses.

In sum, analysis of the condition of the properties shows that auctions are not the best way to sell property if the hope is to assure productive uses that have positive effects on surroundings.

Subsequent Foreclosures of Properties

Following the auctions, many properties returned to foreclosure within a few years. In numerous cases, the new owners never paid property taxes, and the treasurer owned the properties again within three years of the initial auction. As Table 9 shows, this was much more marked for auctioned property in Flint than in Detroit. More than 40 percent of the sampled Flint properties sold at the Genesee County auctions were foreclosed again by 2007, in contrast to 20 percent foreclosed again in Detroit. However, most of the Flint properties that reentered foreclosure had been sold at the first auction in 2002. Far fewer auctioned properties returned to foreclosure as the treasurer's office became more selective about the properties offered for auction and bundled more properties. The bundled properties went into the land bank where more policies and procedures could guide the sales. None of the sampled properties that the land bank had sold returned to foreclosure. In Detroit, the share of auctioned properties going back into foreclosure was much larger than of those that had been sold by the Detroit Planning and Development Department. In Detroit, one investor's properties accounted for 22 percent of the auctioned properties that returned to foreclosure.

The high rates of subsequent foreclosure suggest either that buyers miscalculated their ability to pay taxes or more likely that purchasers were often investors seeking to sell the properties quickly to other purchasers at higher prices or were "milking the equity" from the property for a short time (Alexander 2000b, p. 757).

In sum, this examination of what happens to properties after auction shows that for the most part auctions do not return property to productive reuse. They frequently fail to get properties back onto the tax rolls. Other ways of selling tax-reverted property are more successful in returning properties to productive use.

Who Buys Properties at Auctions?

The purchasers make decisions about how to use the tax-reverted properties they buy. Who are the purchasers at the auctions? Individuals and corporations were the most frequent buyers at the Detroit auctions. Individuals purchased most of the properties at Flint auctions (see Table 10). In Flint, 71 percent of sampled properties were purchased by individuals who bought multiple properties. In Detroit, buyers of multiple properties purchased close to 40 percent of the sampled properties.

TABLE 10 HERE

A large share of auctioned properties were sold again within a year, a reflection of purchasers' interest in flipping property. In Flint, about 23 percent of properties were resold in the next year; in Detroit around 17 percent were resold. In contrast, none of the sampled Flint properties the land bank sold had been sold again by 2007. Four percent of the properties sold by the Detroit department were resold in a year, excluding ones transferred immediately to nonprofit development organizations through state and county programs.

Generally, the purchasers at the auctions seemed to be of three types. A small group, including most nonprofit organizations, purchased property to redevelop, to live in, or to enlarge their existing property. A much larger group of purchasers were what a housing court judge in Buffalo, New York, termed "over enthusiastic investors" (Nowak, comments at conference of National Vacant Properties Campaign, Pittsburgh, PA, 2007). They bought property to sell again or to rent but often were too optimistic about the returns they would receive on their investment. A few of them rehabilitated homes for sale. A large share of these investors lived in Flint or Detroit or their suburbs. A third, smaller group were speculators, seeking to extract value from properties for which little or no demand appeared to exist, capitalizing on others' lack of knowledge and information. Although few worked in this way, they dealt with such a large number of properties that they had a major impact on the effects of the auction.

The purchasers who could improve the character of abandoned areas of the city—prospective homeowners, adjacent owners, and developers—rarely purchased properties through the auction. As discussed earlier, few auction sales resulted in owner-occupied homes or additions to adjacent owners' property, and the sales by the Detroit department and the land bank led to more of these. Looking at two types of purchasers who are active in abandoned areas of cities shows more about the processes; these are nonprofit developers and homeowners who purchase numerous lots around their homes, creating "new suburbanism" (Interboro Partners 2008).

Nonprofit developers, often the only developers interested in working in heavily abandoned areas of cities, were largely absent from the auctions. Those few who purchased through the Detroit or Flint auctions reused none of the sampled properties by 2005, from one to three years after purchase. Of the properties that nonprofit developers had purchased from the Detroit department (about 5 percent of the sample), 40 percent had been reused for new housing or for open space. Although nonprofit developers purchased a small percent of the properties the Detroit department sold, most of properties that nonprofit developers reused came from the city inventory (Dewar 2007). None of the sampled properties the land bank sold had gone to nonprofit developers, although the land bank planned to encourage nonprofit developers' reuse of land.

Why had nonprofit developers purchased so rarely from the auctions? In the first year at least, nonprofit developers did not realize that the auction could be a source of properties in the areas where they were working. Later, the director of one nonprofit developer in Detroit related that when her organization sought to acquire a particular property at the auction, an investor bid up the price to a level the organization could not pay. The treasurer's auction rules kept nonprofit developers from buying property, another development director of a nonprofit stated, because the organizations could not get cash to pay quickly enough (McDonald 2006). The real estate director for the nonprofit developer that purchased the largest amount of property from the auctions in Detroit said that his organization had hoped to use the auctions to help assemble land for new housing development. However, the organization could not reuse the land immediately, and by 2006, the property tax bill for the land they held had become very large. The director of the organization quipped that the organization was in danger of going "land bank-rupt." They needed another entity to hold land for the organization as they assembled other property and arranged financing. The Genesee County Land Bank fulfilled this function in Flint, but Flint's nonprofit developers had little capacity to carry out development projects so had less need for this kind of assistance as of 2006.

In abandoned areas of cities, some homeowners acquire numerous adjacent and nearby lots to consolidate into large areas around their homes. Often fenced, these are a prominent feature of heavily abandoned areas (Doherty et al. 2008, 58; Interboro 2008). Table 11 shows the percent of purchases from the auctions, the Detroit department, and the land bank in Flint that were by homeowners adding to the properties around their homes. These purchasers rarely bought at the auction, but they were frequent customers of the Detroit department and of the land bank.

TABLE 11 HERE

Two examples of speculators illustrate their modes of operation. In 2002, Tony Masarweh purchased 90 of the Flint properties sold at the auction, about 20 percent of all the properties sold, via the internet. He lived in Campbell, California, and was well known in many parts of the country for his land speculation. Analysis of properties Masarweh purchased that appeared in the sample of auctioned properties showed that he sold 87 percent within the year, for somewhat over eight times the amount he had paid for properties, including those not sold. Buyers of Masarweh's Flint lots lived in Georgia, California, Oregon, Texas, Illinois, Nevada, Maryland, Ohio, Massachusetts, North Carolina, Tennessee, Michigan. All the properties that Masarweh did not sell went back into tax foreclosure, almost all of them with no taxes ever paid. One third of the new owners of the properties Masarweh sold also sold the properties again, but they often received less money than they had paid. Most of those who purchased from Masarweh also had allowed their property to be foreclosed again by 2007.

In Detroit, Michael Kelly and his colleagues from Detroit Leasing Company were a familiar sight at all the auctions. Their purchases showed they had done considerable research in choosing properties to buy. By 2007, however, slightly over one third of the sampled properties that Detroit Leasing bought at the2002 and 2003 auctions had been foreclosed for unpaid taxes again. Detroit Leasing had sold between 10 and 15 percent of the sampled properties the company had purchased.[3] A controversy showed how Detroit Leasing sought to make money. Detroit Leasing bought a parcel of land that was part of a church parking lot and then offered to sell the property back to the church. In a case that went to the state supreme court, the church challenged the legality of the county's foreclosure notice and won back their property (Wayne County Treasurer v. Perfecting Church, MI Supreme Court, May 23, 2007).

Conclusion

What does this analysis of the outcomes of Michigan's new foreclosure process show? First, more rapid tax foreclosures take homes from low-income homeowners unless a strong foreclosure prevention program aids homeowners in formalizing their ownership and in using various assistance programs that aid veterans, homeowners in poverty, and others. A strong foreclosure prevention program can considerably reduce the number of owner-occupants who lose their homes.

Second, in the words of Dan Kildee, Genesee County Treasurer, the "liquidation model" of handling tax-reverted property fails to return property to productive use and fails to strengthen neighborhoods where foreclosures occur. The two counties' auctions had similar outcomes: property use after the auctions was nearly the same as it had been before the auctions; and a high percent of auctioned property quickly went back into foreclosure. In contrast, more deliberate methods of selling property led to quite different outcomes after the sales despite very weak demand for land. Using different types of sales, more property went into the hands of homeowners, next-door neighbors, and nonprofit developers who had an interest in the uses and condition of the property. Under auction rules that allowed no opportunity to determine the condition of property and required full payment within a day, investors and speculators had an advantage. The outcomes for the properties sold by the Genesee County Land Bank and by the Detroit department showed that even limited amounts of planning and managing property sales could help make the sale of tax-reverted properties more beneficial to neighborhoods.

The results show that planners and policymakers have choices in what becomes of abandoned property, even in weak markets. They can sell tax-foreclosed property quickly through auctions to receive some immediate revenue but will then allow neighborhoods to bear the damaging consequences of prolonged disinvestment in those properties. On the other hand, they can sell the property more deliberately and institute processes that enable and encourage those who want to use property in positive ways to do so.

Notes

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[1]The determination of owner occupancy is uncertain enough that these numbers are undoubtedly inexact, but because the same approach determined owner occupancy in both cities and the county and city records are unlikely to differ in quality, the scale of the difference between the two cities is likely accurate. Owner occupancy was determined for properties with structures on them by comparing the address of the taxpayer of record and the address of the property in assessors' records; if these were the same, the property was considered possibly owner occupied. Records in the registry of deeds were also consulted to find the identity and address of the owner. Finally, if a structure was demolished soon after the judgment of foreclosure, it was classified as derelict or unoccupied even if other records suggested it was owner occupied. Michigan offers homeowners an exemption from up to 18 mills of the local school operating millage on a home that is a principal residence (Principal residence exemption 2008). This exemption is noted in assessors' records. However, many low-income homeowners do not file for the exemption, and many landlords do, so the presence of this exemption does not assure that a home is owner occupied.

[2] As of 2007, the Wayne County Treasurer's Office was reorganizing and increasing resources committed to helping homeowners avoid foreclosure (Grove 2007; Gray 2007).

[3] The deeds for transfer of Detroit Leasing property to others did not include an accurate price so Detroit Leasing profits from sales cannot be determined.

Table 1. Population change (000) since peak population census

Detroit	**1950**	**1990**	**2000**	**change 1950-2000**	**change 1990-2000**
	1,849.6	1,028.0	951.3	-48.6%	-7.5%
Flint	**1960**	**1990**	**2000**	**change 1960-2000**	**change 1990-2000**
	196.9	140.8	124.9	-36.6%	-11.2%

Source: Andriot 1993; U. S. Bureau of the Census 1990, 2000a.

Table 2. Poverty Rate and Income in Detroit and Flint, 1999

	Poverty Rate	**Median Household Income**	**Per Capita Income**
Detroit	25.6%	$ 29,526	$ 14,717
Flint	26.4%	$ 28,015	$ 15,733

Source: U. S. Bureau of the Census 2000c.

Table 3. Housing Units in Detroit and Flint, 1970-2000 (000)

	1970	**1990**	**2000**	**% Change 1970-2000**	**%Change 1990-2000**
Detroit	497.8	374.1	336.4	-32.4%	-10.1%
Flint	64.2	58.7	55.5	-13.7%	-5.6%

Source: U.S. Bureau of the Census1971, 2000b.

Table 4. Sample for study of effects of the 1999 tax foreclosure reform law.

City	**Origin of the property prior to foreclosure**	**Outcomes for the property after sale**	**Comparison sample for outcomes for property**
Detroit	Random sample of tax-foreclosed properties, 2002-03. Total=334 properties	Random sample of auctioned properties, 2002-03. Total=200 properties.	Random sample of tax-reverted properties under the old law sold by Detroit Planning and Development Department, 1980s-2004. Total = 198 properties.
Flint	Random sample of tax-foreclosed properties, 2002-04. Total=399 properties.	Random sample of auctioned properties, 2002-04. Total=199 properties.	Random sample of properties foreclosed at the same time that went into the land bank instead of into the auction. Total = 200 properties. The land bank subsequently sold 58 of these properties.

Table 5. Property Use Prior to Foreclosure in Detroit and Flint

Use	Detroit Percent	Flint Percent
Homes	49.2%	37.1%
Percent of homes that were:		
Owner-occupied	27.8%	11.8%
Renter-occupied	22.5%	42.5%
Unoccupied or derelict	47.0%	45.1%
Could not be determined	1.4%	0.7%
Commercial/ industrial building	2.0%	1.3%
Parking	1.7%	
Vacant land	47.0%	61.5%
Could not be determined		0.3%
Total	100.0%	100.0%
Total number in sample	334	399

Chi square (calculated for types of homes, commercial/industrial, parking, vacant land, and could not determine) = 43.40 ($p<.001$)
d.f. = 7

Sources: Field observation of uses in 2005; Detroit: Wayne County Office of the Treasurer 2005; City of Detroit Planning and Development Department 2002; Wayne County Register of Deeds; Flint: Genesee County Office of the Treasurer 2005; City of Flint Tax Rolls 2001, 2002, 2003; Genesee County Register of Deeds 2002-2007.

Table 6. Uses of Properties after Sale at Auction

Type of use in 2005	Detroit Percent	Flint Percent
Structures predating foreclosure	49.6%	33.8%
Housing	43.9%	29.7%
Percent of housing that was:		
Likely owner-occupied	16.8%	11.6%
Added to adjacent owner's property	1.3%	2.1%
Industrial/commercial	3.4%	1.8%
Parking or Garage	2.3%	1.0%
Other	0.0%	1.2%
Land not redeveloped and not added to adjacent owner's property	47.5%	58.5%
Percent of land not redeveloped that was:		
Vacant	78.0%	78.3%
Open space with use*	22.0%	21.7%
Parking	10.5%	7.4%
Other	19.1%	14.7%
Added to adjacent homeowner's property	1.4%	4.1%
Percent added to adjacent homeowner that was:		
Vacant	41.7%	54.4%
Open space with use	58.3%	45.6%
Part of a new development project	1.1%	3.4%
Added to adjacent nonresidential property but not used for new development	0.5%	0.2%
Total	100.0%	99.9%
Total number in sample	200	199

*Types of uses sum to more than total because some properties have more than one use.

Chi square (calculated for structures predating foreclosure, land not redeveloped, added to adjacent homeowner property, part of new development, and added to adjacent nonresidential) = 13.34*
d.f. = 4
*$p < .01$
Sources: Field observation of uses in 2005; Detroit: Wayne County Office of the Treasurer 2005; City of Detroit Finance Department 2005; Wayne County Register of Deeds 2002-2007; Flint: Genesee County Office of the Treasurer 2005; City of Flint Assessment Division 2006-07; Genesee County Register of Deeds 2002-2007.

Table 7. Percent of Detroit Properties by Use after Auction Compared to Use after Sale from City-Owned Inventory

Type of use in 2005	Sold through Auction	Sold from Detroit Inventory
Structures predating foreclosure	49.6%	35.2%
Housing	43.9%	30.2%
Percent of housing that was:		
Likely owner-occupied	16.8%	53.3%
Added to adjacent owner's property	1.3%	3.3%
Industrial/commercial	3.4%	4.0%
Parking or Garage	2.3%	1.0%
Land not redeveloped and not added to adjacent owner's property	47.5%	26.1%
Percent of land not redeveloped that was:		
Vacant	78.0%	61.5%
Open space with use*	22.0%	38.5%
Parking	10.5%	17.3%
Other	19.1%	26.9%
Added to adjacent homeowner's property	1.4%	27.1%
Percent added to adjacent homeowner that was:		
Vacant	41.7%	22.2%
Open space with use	58.3%	75.9%
Home addition	0.0%	1.9%
Part of a new development project	1.1%	10.1%
Percent new development as:		
Housing	0.0%	20.0%
Percent of new housing that was:		
Owner occupied		50.0%
Parking or garage	50.0%	40.0%
Industrial/commercial	50.0%	25.0%
Added to adjacent nonresidential property but not used for new development	0.5%	1.5%
Total	100.0%	100.0%
Total number in sample	200	198

*Types of uses sum to more than total because some properties have more than one use.

Chi square (calculated for structures predating foreclosure, land not redeveloped, added to adjacent homeowner property, part of new development, added to adjacent nonresidential property) = 78.88*
d.f. = 4
* $p < .001$

Sources: Field observation of uses in 2005; Wayne County Office of the Treasurer 2005; City of Detroit Finance Department 2005; Wayne County Register of Deeds 2002-2007; City of Detroit Planning and Development Department 2005.

Table 8. Percent of Flint Properties by Uses after Auction Compared to Uses after Land Bank Sales

Type of use in 2005	Sold through Auction	Sold from Land Bank
Structures predating foreclosure	33.8%	15.5%
Housing	29.7%	13.8%
Percent of housing that was:		
Likely owner-occupied	11.6%	25.0%
Added to adjacent owner's property	2.1%	12.5%
Industrial/commercial	1.8%	1.7%
Parking or Garage	1.0%	0.0%
Other	1.2%	0.0%
Land not redeveloped and not added to adjacent owner's property	58.5%	29.3%
Percent of land not redeveloped that was:		
Vacant	78.3%	82.4%
Open space with use*	21.7%	17.6%
Parking	7.4%	0.0%
Other	14.7%	17.6%
Added to adjacent homeowner's property	4.1%	46.6%
Percent added to adjacent homeowner that was:		
Vacant	54.4%	48.1%
Open space with use	45.6%	48.1%
Garage		3.7%
Part of a new development project	3.4%	0.0%
Percent of new development that was:		
Housing	36.5%	
Percent of housing that was:		
Owner-occupied	50.0%	
Industrial/commercial	29.1%	
Parking or garage	29.1%	
Added to adjacent nonresidential property but not used for new development	0.2%	8.6%
Total	100.0%	100.0%
Total number of properties	199	58

*Types of uses sum to more than total because some properties have more than one use.

Chi square (calculated for structures predating foreclosure, land not redeveloped, added to adjacent homeowner property, part of new development, added to adjacent nonresidential property) = 88.85*
d.f. = 4
*p< .001

Sources: Field observation of uses in 2005; Genesee County Office of the Treasurer 2005; City of Flint Assessment Division 2006-07; Genesee County Register of Deeds 2002-2007

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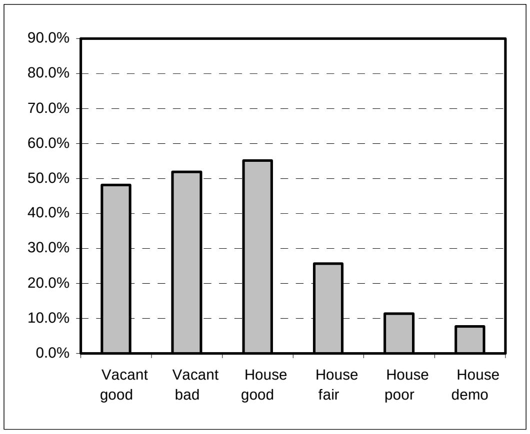
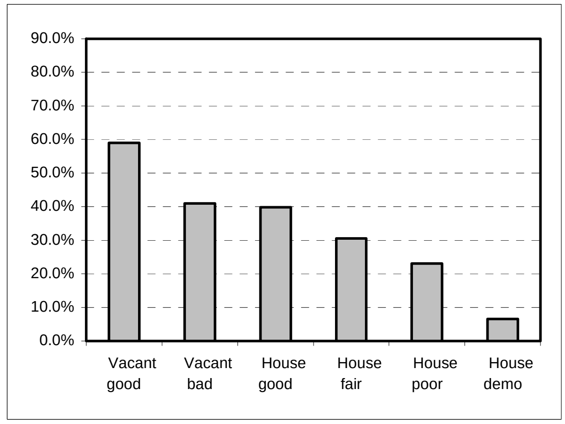
Figure 1. Condition of Vacant Properties and Houses Following Different Types of Sales in Detroit and Flint

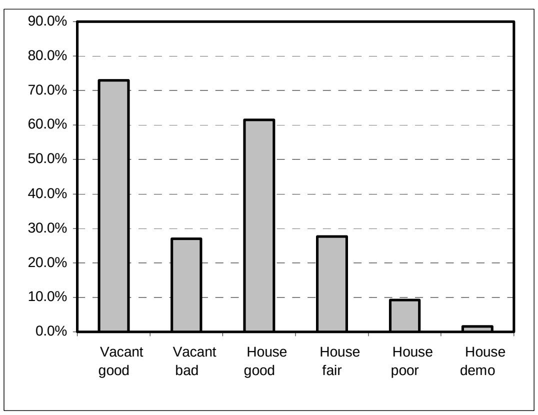
Detroit Auctioned



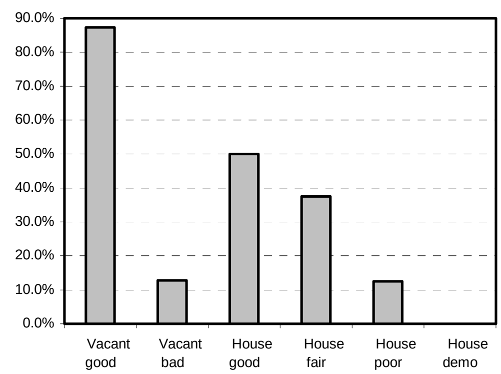
Flint Auctioned



Detroit City Inventory



Flint Land Bank



Sources: Field observation of uses in 2005; Detroit: Wayne County Office of the Treasurer 2005; Flint: Genesee County Office of the Treasurer 2005. Instruments for rating conditions available from the author.

Table 9. Foreclosures of Properties Following Auction or Sale

	Percent of sampled properties foreclosed again by 2007
Auctioned in Detroit	19.9%
Auctioned in Flint	42.8%
Sold by Detroit department	2.5%
Sold by land bank in Flint	0.0%

Sources: Detroit: Wayne County Treasurer 2005; City of Detroit Planning and Development Department 2005; Wayne County Register of Deeds 2002-2007; Wayne County Treasurer 2005-07; Flint: Genesee County Office of the Treasurer 2005; Genesee County Register of Deeds 2002-2007; Genesee County Office of the Treasurer, 2005-2007.

Table 10. Types of Purchasers of All Properties at Auctions

	Number of Properties	Percent
Detroit, 2002, 2003		
Individuals	788	50.4%
Corporations	631	40.3%
Nonprofit organizations	40	2.6%
City government	21	1.3%
County government	47	3.0%
Sent to city government after failure to sell	38	2.4%
Total	1565	100.0%
Flint, 2002, 2003, 2004		
Individuals	510	90.6%
Corporations	34	6.0%
Nonprofit organizations	19	3.4%
Total	563	100.0%

Sources: Detroit: Wayne County Treasurer 2005; Genesee County Office of the Treasurer 2005.

Table 11. Percent of Sampled Properties Sold to a Homeowner Assembling Two or More Additional Properties Around the Home

Type of Sale	Multiple properties assembled around a home	
	As percent of residential properties sold to individuals	As percent of sampled properties
Detroit auctioned	2.3%	1.1%
Flint auctioned	1.4%	1.2%
Sold by Detroit department	19.3%	14.1%
Sold by land bank in Flint	21.6%	14.3%

Sources: Genesee County Office of the Treasurer 2005; City of Flint Assessment Division 2006-07; Genesee County Register of Deeds 2002-2007; Wayne County Office of the Treasurer 2005; City of Detroit Finance Department 2005; Wayne County Register of Deeds 2002-2007; City of Detroit Planning and Development Department 2005.

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