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Foreword

The enclosed report was authored by graduate students from the University of Michigan School of Public Policy. The project was supervised by Interim Dean John R. Chamberlin, Professor Paul Courant and Project Director Marlowe J. Greenberg. A list of the authors follows:

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Executive Summary

This property research study was conducted under a contract with the Neighborhood Partnership Academy on behalf of the following Community-Based Organizations (CDCs): Southwest Detroit Business Association (SDBA), U-SNAP-BAC, Jefferson East Business Association, Island View Development Corporation (IVDC), Fellowship Non-Profit Housing Corporation, East Side Industrial Council, and Morningside. The purpose of this study was to investigate the problem of inactive properties in certain commercial districts in Detroit. To accomplish this objective, we conducted statistical property research on inactive properties, gathered information on current foreclosure and redemption processes and compared these results with the experiences of other cities. This report contains the results of our analysis, and recommendations for how the City and CDCs can initiate cooperative development in the future.

Property-Specific Research

Our property-specific research indicated several patterns. First, the City is allowing a great deal of tax delinquency to occur. Indicators in our data suggest that Detroit is not acting systematically to foreclose on delinquent properties. Length of delinquency on city taxes was generally longer than on county taxes. In addition, properties recovered through foreclosure remain fallow. Combined with already tax-exempt properties, this leaves a large percentage of the studied commercial strips with no tax obligation or incentive to develop.

Analysis of the Foreclosure and Property Acquisition Processes

Analysis of the City and County foreclosure processes revealed the existence of both operational and systemic flaws. Both processes are complicated and are characterized by long redemption periods, reducing incentives for timely tax payment. Specifically, the City and County lack methods of expeditious foreclosure and an overall development plan. There are further barriers to private and community developers' efforts to obtain these properties after foreclosure.

Analysis of Current and Potential Development Strategies

In other cities, CDCs have proven records of success in helping to bring about commercial development in urban areas, especially when coordinated with city development plans. A major problem in Detroit is the absence of a cohesive partnership between the City and CDCs. Cooperation between these entities has been vital to development efforts in other cities. Chicago, San Francisco, New York and Cleveland stand out as examples of cities with strong development plans and government-community partnerships.

Introduction

Even in the midst of increased net commercial investment in the City, Detroit is plagued by the presence of abandoned properties. While Mayor Archer's Administration is succeeding in luring private investment to Detroit, commercial corridors outside of the downtown area remain underdeveloped. Vacant and abandoned buildings crowd these commercial strips. In many cases, the owners of these fallow properties are either delinquent taxpayers or the City itself. In the commercial corridors we examined, CDCs are struggling to develop approaches that will alleviate this economic insolvency.

This study aims to identify barriers both within and outside delinquent property laws and advocate a strategy that allows for the successful, cooperative development of inactive properties in the City of Detroit. To aid in our recommendations, we present property-specific research on a sample of abandoned properties in Detroit, information on the City and County foreclosure processes as well as the experiences of other cities as they relate to this question.

The organization of our report is as follows:

Chapter 1 presents our analysis of selected commercial corridors. Included with our methodology description are statistical profiles of the eight commercial strips examined in our study. These profiles allowed us to assess taxpayer, City and County behavior.

Chapter 2 describes the tax foreclosure and redemption process for both the City of Detroit and Wayne County, as well as a description of the property acquisition process. We address the problems with current policy, and examine alternatives for both CDCs and the City.

Chapter 3 addresses the development of foreclosed properties, and strategies to make them more economically viable. In particular, we discuss how CDCs can play a role in this process, and some lessons learned from the experiences of other cities.

Appendix A provides a short explanation of the calculations used in the data analysis.

Appendix B provides a contact list for conducting property-specific research in Detroit, as well as examples of documents within this process.

Appendix C presents our data summary sheets.

Appendix D includes procedures for obtaining foreclosed properties, and several forms necessary to facilitate it.

Chapter One. Analysis of Selected Commercial Corridors

In order to better understand the current condition of inactive properties in Detroit's commercial corridors, we conducted an analysis of a random sample of properties from each corridor. The findings from this analysis helped us to frame the strategies and recommendations for possible solutions to Detroit's abandoned property problem highlighted in Chapter 3.

Methodology

Defining the Population

The commercial corridors in the study were defined by the Neighborhood Partnership Academy, in conjunction with several Detroit-based CDCs. The designated areas are:

- West Vernor Highway, between Lawndale and Honorah, and Livernois and McKinistry
- Michigan Avenue, between Livernois and Wyoming
- Mack Avenue, between Alter and E. Grand Boulevard
- East Warren, between Alter and E. Outer Drive
- East Jefferson, between Conner and Alter
- Kercheval, between Mt. Elliot and Parker
- Gratiot, between Conner and Harper
- West Jefferson, between West End and Clark

Selecting the Sample

Once we obtained the designated strips, our first task was to assess visually all of the properties in the population. Using 1992 Sanborn maps as guides, we examined each property and documented its condition as active or inactive. This judgement was made based on any evidence visible from outside of the building (e.g. the presence or absence of merchandise and/or belongings visible through windows, the state of repair or disrepair of the building's structure, conversations with neighborhood residents). Each property's address as seen from the street or the Sanborn maps was recorded.

From a randomized list of inactive addresses from each strip, we chose 40 properties as our sample size. These addresses were then matched with their ward and item number, the City's property descriptor, at the City Assessor's Office. At this point, unit of analysis became ward and item number, not address. The Gratiot sample contained considerably fewer inactive properties than the designated sample size of 40. For this strip, we used all available abandoned properties for our sample.

Collecting the Data

After determining our random samples, we researched tax and property records. The zoning, state equalized value (SEV), true cash value (TCV) according to the most recent assessment, and taxpayer information were collected from the City Assessor's Office. Tax payment histories, including delinquent tax status, were obtained from the City and County Treasurer's Offices. A summary sheet of this information for each strip is located in Appendix C.

We used these data to create statistical profiles from each commercial corridor. These profiles include both summaries and comparisons of relevant data. A discussion of these statistical profiles follows.

Limits of Interpretation and Inference

Before discussing the results of our analysis, it is important to stress the limits of this study. Strips themselves were not selected randomly, and each strip is drawn from a separate population. Therefore, it is not our intent that the statistical profiles be used to compare individual commercial strips; there may be substantial differences between the strips (e.g., zoning, average property value, geographic location) that make such comparisons invalid. Furthermore, the reported information is only valid for the segments of each strip mentioned in the previous section. Because we did not sample outside of these designated boundaries, we cannot make claims about the areas of the corridors that lie beyond these limits.

A second limitation is measurement error. Measurement error can include anything from misjudging the active/inactive status of properties to gathering information from government offices that is either inaccurate or out of date. An example of inaccurate data is the true cash value (TCV) obtained at the Assessors Office. Because properties are assessed infrequently and over a broad area, this may not be an accurate measurement of market value. While there may be inaccuracies in these data, they are the best currently available.

Finally, the statistics shared in this section are calculated from different subgroups of the sample depending on the purpose of the statistic. For example, "Percentage of Abandoned Addresses" is calculated from *all the properties* on our designated commercial strips, while "Median Years of Tax Delinquency" is calculated using only the *inactive, tax delinquent* properties in our sample. Appendix A briefly explains the kind of properties used to calculate each statistic and the population to which the statistic can be generalized.

Statistical Profiles

Percentage of Abandoned Properties Per Strip

In each of the corridors, we estimated the percentage of addresses that we judged to be inactive/abandoned. These estimates are based on the addresses viewed from the street and read from the 1992 Sanborn maps. Because we did not gather the ward and item numbers for properties outside of our sample, we used addresses, not ward and item numbers, as the unit of analysis for this statistic. As seen in Table 1.1, each strip has a relatively large number of abandoned addresses, ranging from 21 percent to 65 percent.

Table 1.1. Percentage of Abandoned Addresses

Sample Strip	Percentage of Addresses Considered Abandoned
East Jefferson	55%
East Warren	44%
Gratiot	31%
Kercheval	62%
Mack	65%
Michigan	41%
West Jefferson	60%
West Vernor	21%

Zoning Status on Each Strip

As seen in Table 1.2, with the exception of West Jefferson, every sample consists of property zoned primarily for commercial use. Industrial property is the second most common zoning type. Residential use is a small minority of zoning uses in all of our strips.

Table 1.2. Zoning Status of Each Sample

Sampled Strip	Commercial	Industrial	Residential
West Vernor	100%	0%	0%
Michigan	100%	0%	0%
Mack	98%	0%	2%
East Warren	100%	0%	0%
East Jefferson	100%	0%	0%
Kercheval	80%	10%	10%
Gratiot	80%	13%	7%
West Jefferson	38%	58%	4%

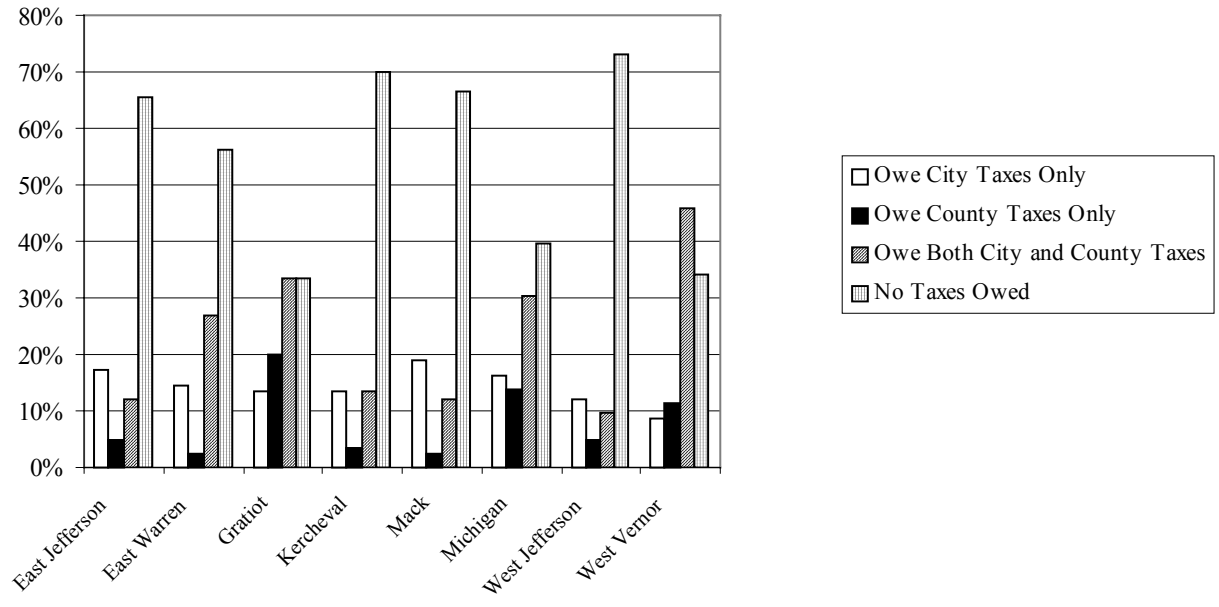
Taxpayer Behavior

Tax Status and Related Information

Tax payment is one indication that a property owner has future plans for the property. Before making determinations about policies aimed at decreasing the frequency of inactive properties, knowing if owners are paying property taxes is essential.

As shown in Figure 1.1, over 50 percent of the sample properties judged to be inactive on five of the eight strips--with the exception of Gratiot, Michigan, and West Vernor--currently have no tax debt either to the City or the County.

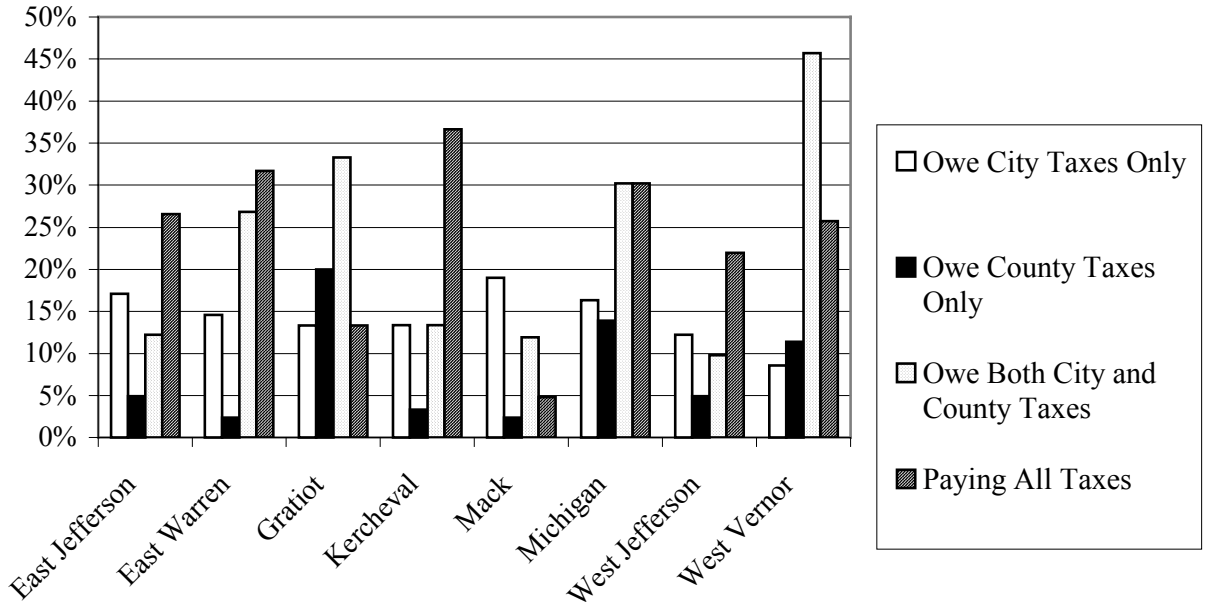
Figure 1.1. Tax Status of All Sample Properties



However, the totals in Figure 1.1 do not tell the full story. Many of the properties which are not tax delinquent actually have no tax obligation. That is, they are owned by a tax-exempt organization (city and county governments are included in this category). On East Jefferson, 39 percent of the properties have no tax obligation. East Warren contains 24 percent of such properties, Gratiot 20 percent, Kercheval 33 percent, Mack 62 percent, Michigan 9 percent, West Jefferson 51 percent, and West Vernor 9 percent. Note that for two strips, Mack and West Jefferson, tax-exempt organizations own the majority of the properties on the strip. On other strips, a large percentage of the sample is owned by tax-exempt organizations.

Figure 1.2 shows the tax status of all properties that have tax obligations. Note that the four columns no longer add up to 100 percent; the difference accounts for the percentage of properties that are not on the tax rolls. It is thus apparent that the majority of non-exempt property owners are not meeting their tax obligations.

Figure 1.2. Tax Status of All Sample Properties (Excluding Those With No Tax Obligation)



Given this information, we examined the behavior of property owners who have outstanding tax obligations. For many of the strips, a property owner who is tax delinquent is most likely to owe both city *and* county taxes. The exceptions to this rule are East Jefferson, Mack, and Michigan (where owing only city taxes was the most common form of delinquency) and Kercheval (where the percentage of properties delinquent to both the City and the County is equal to the percentage delinquent to just the City). However, for the other half of the sampled strips, it appears that a property owner who stops paying taxes is most likely to stop paying all taxes.

Figure 1.2 shows that with the exception of Gratiot and West Vernor, if property owners choose to pay only city *or* county taxes, they are more likely to pay the County. This finding corroborates stories we heard from CDCs and other community members that taxpayers are less fearful that the City, as opposed to the County, will repossess due to tax delinquency. As a result, property owners are more likely to withhold payment of city taxes.

Another potential explanation of this finding is that city taxes are more expensive than county taxes; therefore, property owners may be unable to pay their city taxes but still afford to pay county taxes. This explanation seems implausible, however, if property owners believe that the City is likely to foreclose on delinquent properties. If this were the case, property owners would have little incentive to pay the County; the property would be repossessed by the City regardless of county tax status. Instead, it seems that property owners believe the City to be less likely to foreclose on delinquent properties.

Years of Tax Delinquency

Another characteristic of taxpayer behavior is the length of time that properties remain delinquent. Figure 1.3 shows that tax delinquent properties are more likely to be delinquent to the City for longer periods of time.

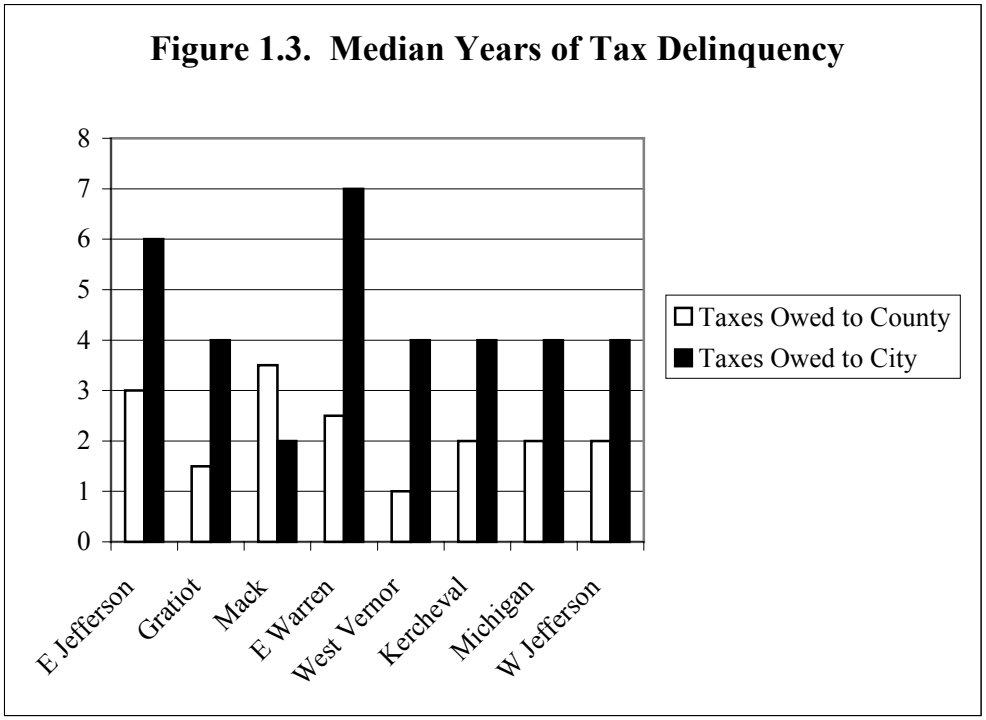
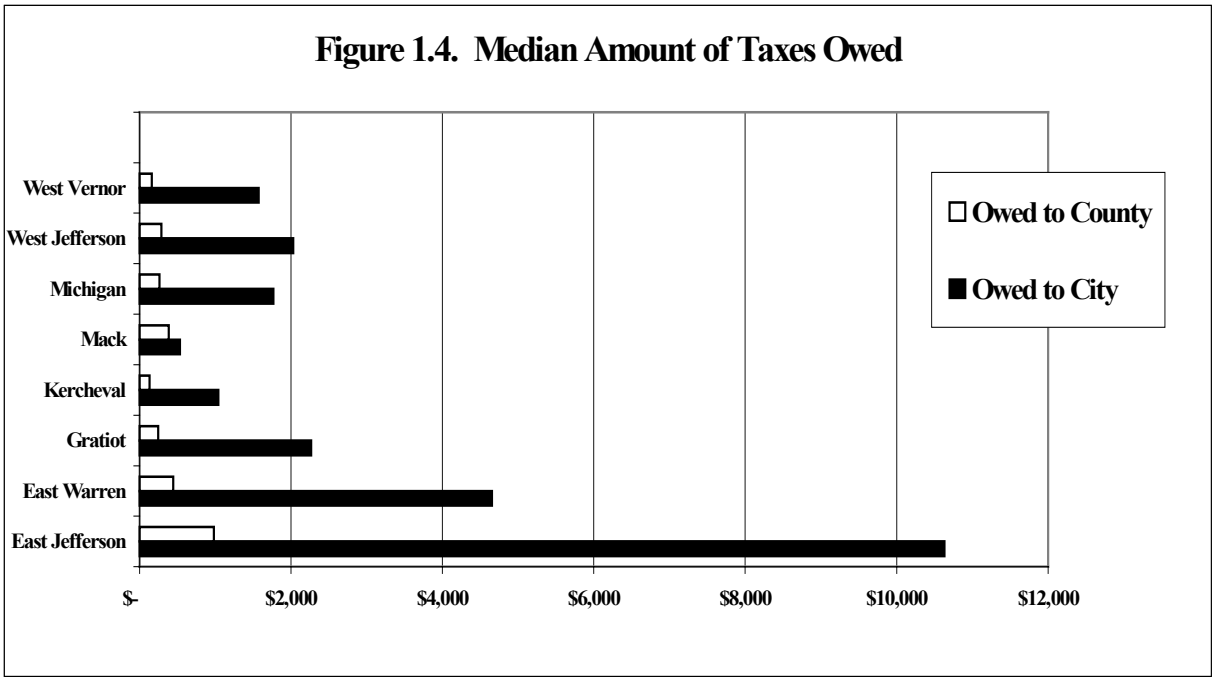


Figure 1.3 illustrates that for virtually every strip (with the exception of Mack), the median length of tax delinquency to the City is three years or greater, the amount of time after which the City could foreclose on the property. Consequently, over half of the inactive, tax delinquent properties in seven of the eight corridors have been delinquent long enough for the City to repossess them.

In contrast, only two of the strips (East Jefferson and Mack) have median lengths of delinquency to the County at or above the legal foreclosure limit of three years. These findings strongly support the theory that property owners are less fearful that the City will foreclose on delinquent property.

Amount of Tax Delinquency
In order to explore further the relationship between City and County delinquency, we also looked at the total amount of taxes owed by negligent taxpayers.



As seen in Figure 1.4, the median amount owed to the City is larger than that owed to the County in every strip, though the differences are minimal in some cases (e.g. Mack). This finding is not surprising given that city taxes are more expensive and properties are, on average, delinquent to the City for longer periods of time.

Property Values
Given these trends in tax delinquency, it is important to consider the relative values of delinquent properties. Figure 1.5 contrasts the true cash value (TCV), our measure of property value, of delinquent properties with that of the total sample for each strip. For each strip, with the exception of Gratiot, delinquent properties are, on average, worth more than the total sample. However, it is once again worth mentioning that these differences are extremely small in some cases (e.g. the median TCV of delinquent properties on East Warren is $21,150, only $2,050 more than the median for the total sample).

A first read of Figure 1.5 seems to support the notion that higher taxes are a reason for delinquency. Properties with higher values incur more taxes; since delinquent properties have higher median values than the rest of the sample, they presumably have a higher tax burden. However, based on the earlier findings regarding taxpayer behavior, even if higher tax burdens contribute to delinquency, property owners are still choosing strategically when and to whom to pay their taxes.

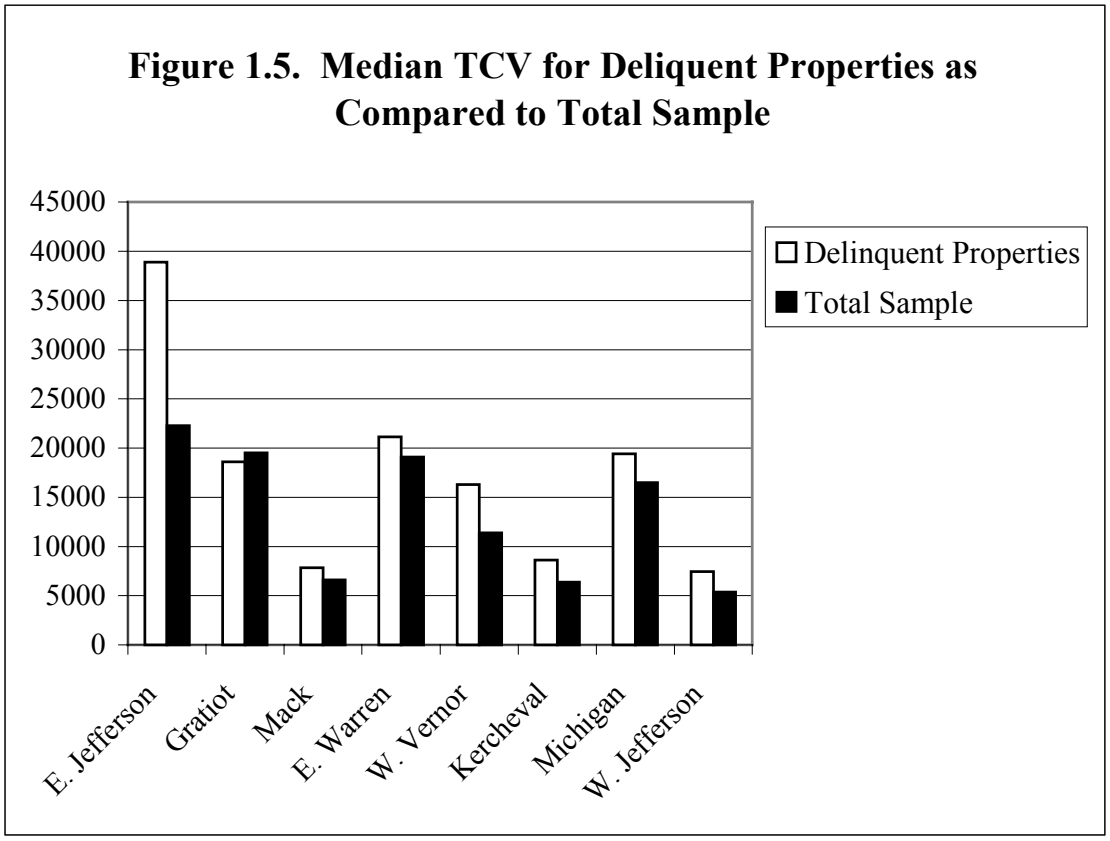


Figure 1.5 also illustrates the tax loss incurred as a result of delinquency. As noted in the previous paragraph, properties that are worth more have higher tax obligations. Since delinquent properties are generally worth more than the rest of the sample, the City and County are losing a larger amount of tax revenue, on average, to delinquency.

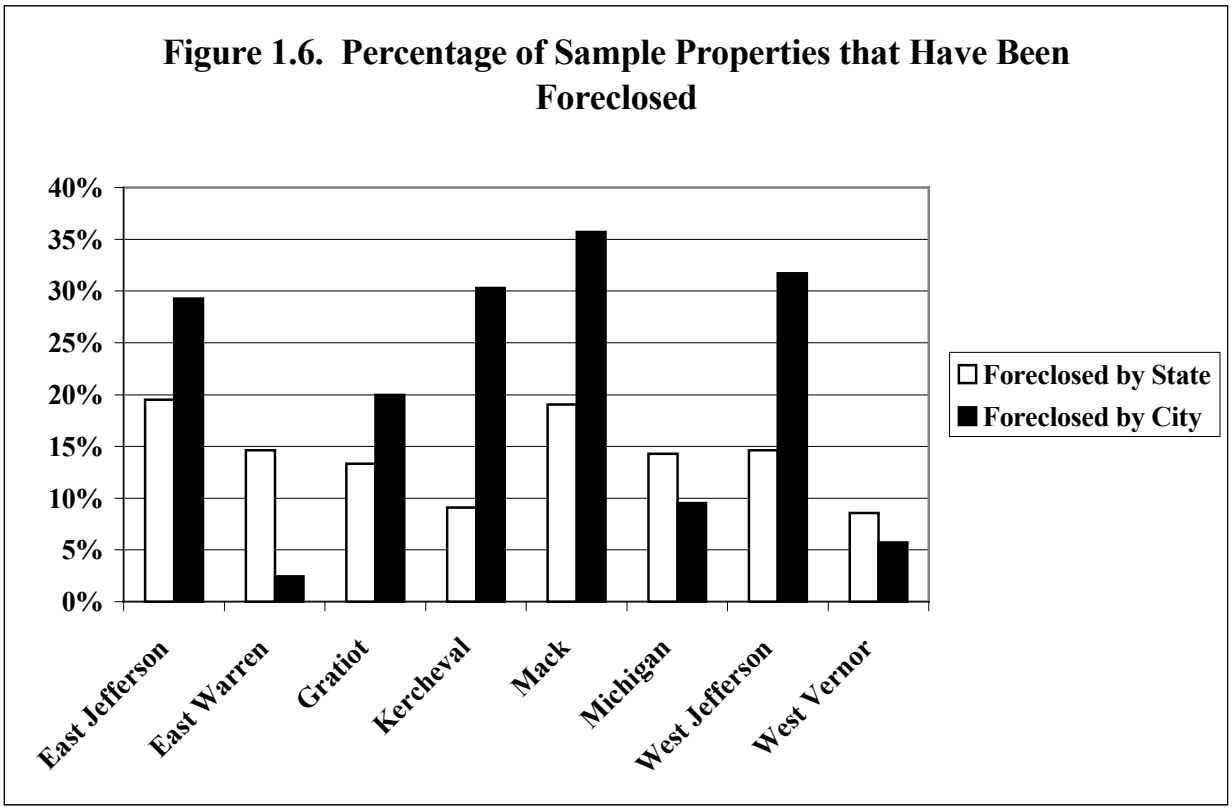
Summary of Taxpayer Behavior

In sum, the majority of abandoned properties in each sample strip are not currently tax delinquent, though many are tax-exempt. Of the properties that are tax delinquent, most are likely to be delinquent on both city and county taxes. Property owners who are delinquent to only one government entity are generally delinquent to the City. In addition, taxpayers are generally delinquent to the City for longer periods of time, and the median amount of taxes owed to the City is greater than to the County. Delinquent properties, on average, have higher TCVs than the rest of the sample. Overall, delinquent taxpayers are more likely to neglect their city tax obligations.

City and County Behavior

Foreclosure Patterns

One mode of government intervention in the abandoned property process is foreclosure. Figure 1.6 gives the percentage of each sample that have been foreclosed upon by either the City or the State. Because the State forecloses on properties for the County, we will be referring to the State as the entity taking action on delinquent taxpayers in this section.

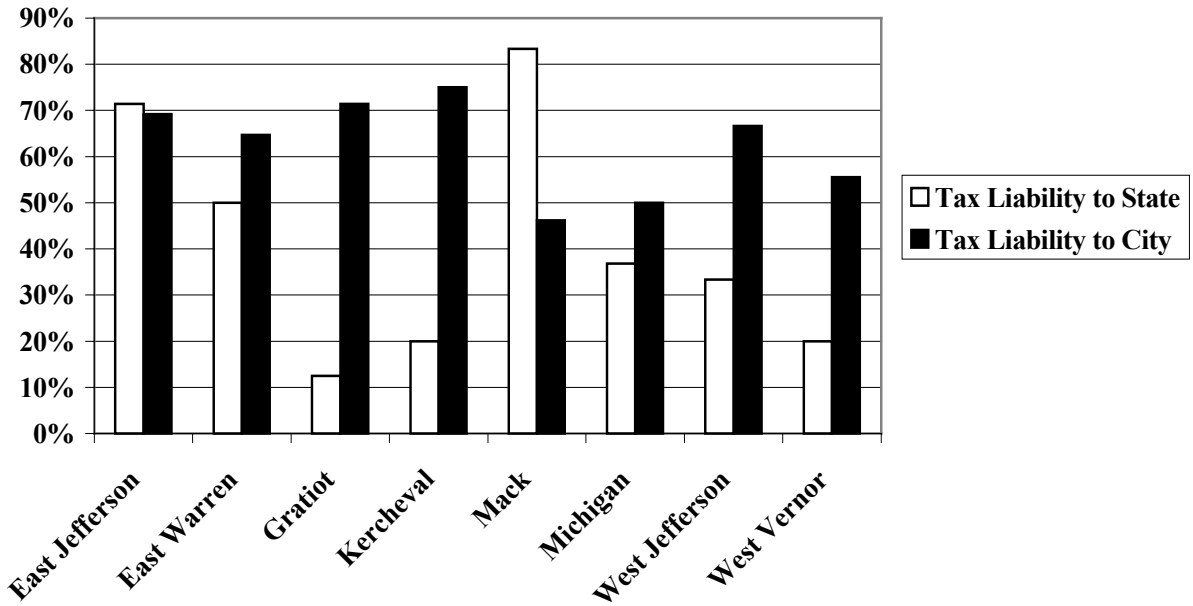


At first glance, Figure 1.6 seems to indicate that the City is foreclosing on more properties than the State. However, Figure 1.6 fails to reveal two important issues with regard to properties that have been foreclosed. The first issue, as suggested in the earlier discussion of Figure 1.3, is that the City has a larger pool of potentially foreclosable properties. The second is the fact that the City holds on to foreclosed properties for a longer period of time than the State. Therefore, at any given moment, it will appear that the City has foreclosed on more properties, partly because they have more properties upon which to foreclose and partly because they keep ownership of foreclosed properties longer than the State.

Figure 1.7 shows another perspective on City and State foreclosures. It illustrates that on every strip, with the exception of East Jefferson and Mack, the City has a higher percentage of foreclosable properties than does the State. This finding gives credence to the taxpayer behavior that we observed earlier (see Figure 1.3); it does appear that the City is less likely to foreclose when property owners neglect to pay their taxes.

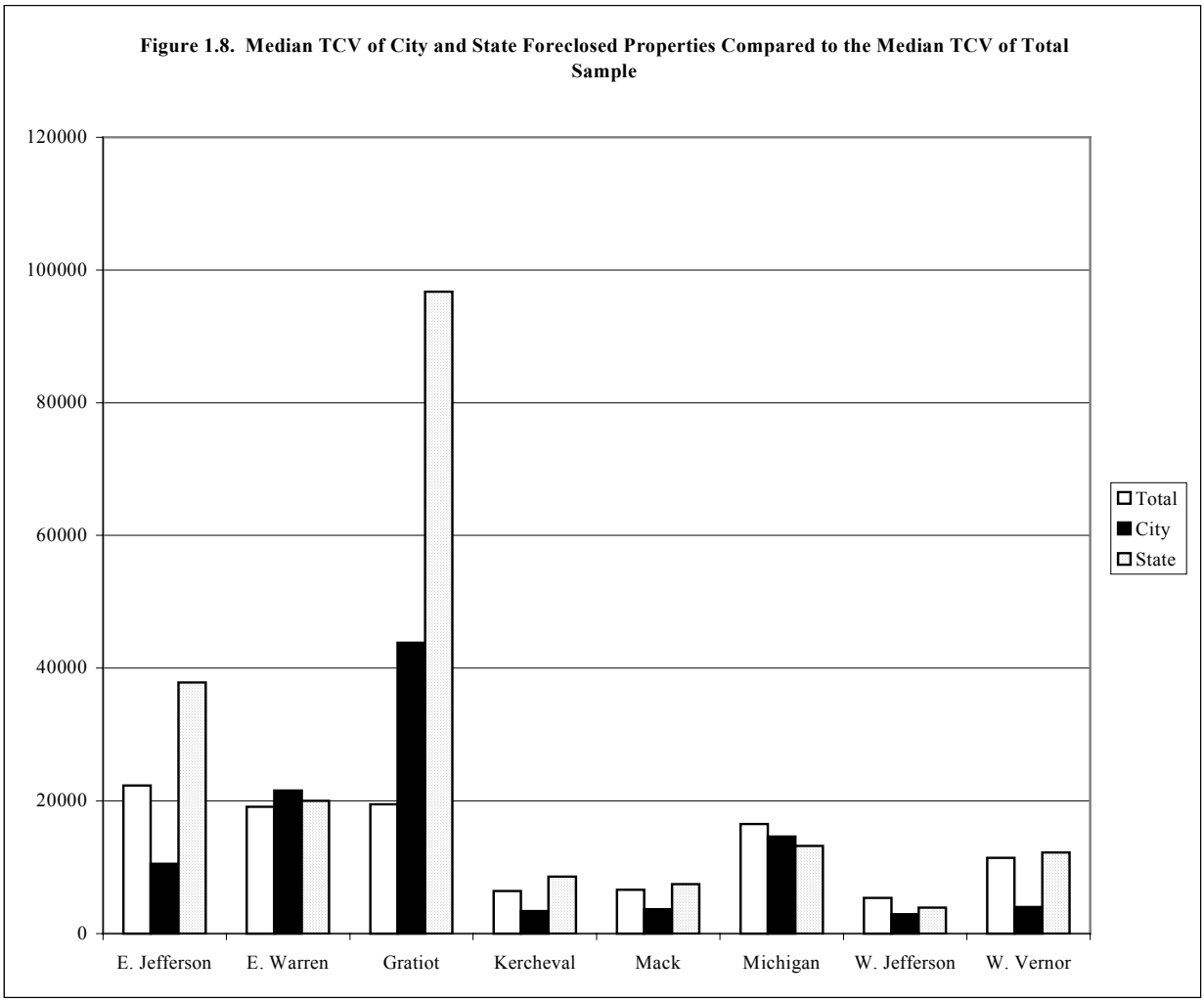
This trend is even more pronounced when one examines the differences between the percentage of potentially foreclosable properties upon which the City and State are not acting. For all but one of the strips, 50 percent or more of the properties delinquent in city taxes could be foreclosed upon, but are not. Alternatively, only three of the eight strips contain 50 percent or more foreclosable properties on which the State has failed to act. Again, we see that the State is much more likely to foreclose upon properties that have been delinquent longer than three years. Given our earlier findings on taxpayer behavior, property owners seem to be aware of this fact, and are using it to their advantage when deciding if and when to pay their property taxes.

Figure 1.7. Percentage of Tax Delinquent Properties with a Liability of Three Years or Greater



Upon determining the likelihood of the City and State foreclosing upon delinquent properties, we examined the possibility that they each foreclose on properties based specifically on value. We compared the TCVs for properties foreclosed upon by the City and by the State to the TCV of the total sample.

As Figure 1.8 demonstrates, property values vary across the three categories, depending on the strip. For most of the strips, the differences in median TCV of city-foreclosed, state-foreclosed, and total sample abandoned properties are minimal. Only East Jefferson and Gratiot are exceptions to this rule. In these strips, state-foreclosed property is by far the most valuable. Given the general lack of differentiation between the values of the different categories, neither the City nor the State has an apparent strategy for repossession based on TCV.



City Ownership of Abandoned Properties

Despite the fact that the City is slow to foreclose on tax-delinquent property, it owns a large percentage of the abandoned properties in most of our samples. By holding on to abandoned properties with no clear redevelopment strategy, the city not only loses tax revenue, it is precludes positive economic development.

Table 1.3. Percentage of City-Owned Properties

Sample Strip	Percentage of City-Owned Properties
East Jefferson	34%
East Warren	15%
Gratiot	20%
Kercheval	30%
Mack	45%
Michigan	7%
West Jefferson	46%
West Vernor	9%

Summary of City and County Behavior

In summary, our findings on city and state foreclosure processes corroborate the story that the City is less likely than the State to foreclose on delinquent property. This holds, despite the fact that at the present time the City currently has more foreclosed property than does the State. In addition, based on observations of the property values of foreclosed property, it does not appear that the City or State has a particular strategy for foreclosure based on property value.

Property owners are much more likely to neglect their City taxes than their County taxes when choosing between the two. The result is a large number of privately-owned, abandoned buildings that, in theory, could be repossessed by the City. In addition, the City itself owns a large percentage of abandoned properties on these strips. These properties represent a substantial loss of revenue to the City, and inhibit economic development.

Though the State appears to do a better job of foreclosing on delinquent properties, they still miss anywhere from 12 percent (Gratiot) to 83 percent (Mack) of properties that have three years or more of tax delinquency. Consequently, though property owners are more likely to take their County taxes seriously, the County/State response to delinquent properties could improve.

Finally, regardless of tax status and ownership, the fact remains that substantial portions of the properties in each strip are inactive. Clearly, these properties do not contribute to the health of the community. This lack of activity points to the need for a concerted effort by the City, County, and CDCs to tackle this problem of abandoned properties.

Chapter Two. The City and County Foreclosure and Property Acquisition Processes

Because tax delinquency is common in our samples, it is important to understand the City and County foreclosure processes and ways of obtaining foreclosed property. This chapter outlines these processes. The last section of this chapter analyzes problems in the foreclosure process and provides recommendations for improvement.

The City of Detroit's Tax Foreclosure and Redemption Process

City property taxes are assessed on January 1, and are due by December 31 of the first year. On March 1 of the second year, taxes officially become a debt to the property owner and tax rolls are sent to the City Treasurer for collection. On July 1 of the first year, a tax lien is attached to all properties with outstanding taxes. The taxes are officially delinquent on September 1 of the first year. If there is no resolution by City Council to publicly auction the lien, it is sold to the City on June 30 of the third year. The minimum private bid for the lien is the amount of back taxes. When the lien is sold, a two-year redemption period begins in which the original owner may redeem the property by paying the amount of the initial bid, plus 50 percent.[1]

If the owner has not redeemed the property in the two-year period, civil action may be initiated by the lien holder—in almost all cases the City—to gain title to the property. When the City is the lien-holder, the criteria vary for determining which properties are foreclosed. The three main criteria include magnitude of delinquent taxes, length of time of delinquency and special request from other City departments or agencies. For example, the City Law Department may choose to foreclose on properties that have delinquent taxes in excess of $50,000. Other times, it may foreclose on properties whose taxes have been delinquent for a very long time (i.e., over ten years), regardless of the amount owed. The City Law Department also forecloses on specific properties based on requests of the City Council, Planning and Development, or other city departments. While, CDCs cannot request foreclosures, they can route requests through city departments acting as sponsors. In some cases, the City Law Department acts to facilitate this process by matching interested CDCs with sponsoring departments.[2]

Assuming successful civil action, the original property owner has an additional 120 days to redeem the property. If the owner does not redeem the property in this period, a decree is entered and the lien holder obtains title to the property. The original owner may still redeem the property up to 60 days after the decree is entered. If the owner has not redeemed the property in this final redemption period, the lien holder obtains absolute title to the property.[3]
In almost all cases the lien holder is the City. Once the City obtains absolute title to the property, the property may be used for municipal purposes or may be leased, sold, conveyed, transferred or disposed of by the City Council or by any procedure authorized by the Council.[4]

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[1] Memorandum from Josh Zinner and Debbie Chang, "City Foreclosure Procedures on Tax Delinquent Properties," 13 January 1994, Program in Legal Assistance for Urban Communities, University of Michigan; City of Detroit Charter, Article 6, Chapter 4.
[2] Conversation with the City Law Department, 13 April 1998.
[3] Memorandum from Josh Zinner and Debbie Chang; City of Detroit Charter, Article 6, Chapter 4.
[4] City of Detroit Charter, Article 6, Chapter 4.

Tax Foreclosure and Redemption Process for City of Detroit

Tax Assessed:	1ST YEAR	Jan. 1.	ASSESSMENT DAY, City assessor places an assessment on individual properties for current year
		Dec.1	TAX LIEN DAY, City tax due and payable to City treasurer
Tax Due:	2ND YEAR	Mar. 1	TAX SETTLEMENT DAY, taxes hereafter are legally considered a debt of the property owner. Tax rolls sent to City treasurer for collection of all unpaid taxes.
		May/June	Treasurer notifies persons whose taxes are delinquent and payable thirty days before tax lien attaches.
		July 1	Tax lien is attached.
		Sept. 1	Taxes are officially delinquent.
	3rd YEAR	June 30	If there is no resolution by City Council to publicly auction the lien, the lien is automatically sold to the City. The minimum private bid for the lien is the amount of the back taxes. Two year redemption period begins at this point. The owner may redeem the property by paying the amount of the original bid plus 50% of the amount.
Tax Delinquent:	4TH YEAR	July 1	If owner has not redeemed the property, civil action may be initiated by the lien holder, in almost all cases the City, to gain title to the property. Proper notice must be given to all parties to the civil action.
		Nov. 1	If the City, or other lien holder if any, has obtained a judicial decree in its favor and the property owner has not redeemed the property in 120 days from the issuance of the decree, the decree is entered and the lien holder obtains title to the property.
	5TH YEAR	Jan. 1	If the owner has not redeemed the property within 60 days of the filing of the decree in favor of the lien holder, the lien holder obtains absolute title to the property.
Title forfeited:	5TH YEAR		In almost all cases the lien holder is the City. Once the City obtains absolute title to the property, the property may be used for municipal purposes or may be leased, sold, conveyed, transferred or disposed of by the City council or by any procedure authorized by the council.

Tax Foreclosure and Redemption Process for City of Detroit

(insert city flow chart)

Wayne County's Foreclosure and Redemption Process

County property taxes are assessed on January 1 and are due by December 1 of the first year (see table ____). If taxes are not paid by December 1, a lien is issued for the amount of the delinquent taxes. Taxpayers have until March 1 of the second year to resolve the matter by paying the taxes and fees. Taxes not paid by this date are officially deemed delinquent. Then, the tax rolls are sent to the County Treasurer who notifies the taxpayers of delinquent taxes and attempts collection. From March until May of the third year, interest and fees accrue on the delinquent taxes.

In contrast to the City, the County has a more consistent record of foreclosing on properties when taxes become three-years delinquent. On the first Tuesday in May in the third year of delinquency, the County offers for sale a lien on the delinquent property taxes. The price of the lien is the amount of delinquent taxes and all accumulated fees and interest. The purchaser of the lien obtains rights to the property, unless the original owner redeems the property within the two-year grace period. During these two years, the original owner may reclaim full rights to the property by paying back taxes, interest, fees, and penalties. If the original owner does not redeem the property by November of the fifth year, the lien holder receives absolute title to the property. After this point, the original owner has no claim to the property and the new owner is free to develop, sell, or otherwise transfer the property.

Properties for which there are no bidders at the County lien sale are automatically sold to the State. As with liens sold to private parties, the delinquent taxpayer may redeem the property through the first Tuesday in May of the year following the sale. If redemption is not made, the State takes full ownership of the property, with the Department of Natural Resources (DNR) acting as its agent.

Tax Foreclosure and Redemption Process for Wayne County

(insert county table)

Tax Foreclosure and Redemption Process for Wayne County

from Bogdan, p. 6

(insert county flow chart)

After Foreclosure: Obtaining Property from the City and County

An important linkage between the foreclosure process and redevelopment is the redistribution of these foreclosed properties. City and County processes for redistributing these properties impact the ability of developers and CDCs to obtain them. This section describes methods of obtaining property from the City and County and briefly assess each method's pros and cons.

The City Process

There are three mechanisms for obtaining property upon which the City has foreclosed:

1. Bid Sale
2. Development Agreement
3. Purchasing adjacent abandoned property

Bid Sale

Once a month, the Planning and Development Department of the City of Detroit offers a bid sale on residential, commercial, historical and multi-family City-owned properties. The City lists these properties, along with cut-off dates for the bids, in the *Michigan Chronicle*, the *Detroit Legal News* and the Office of Planning and Development. The cut-off date for bids and size of the list varies every month, but the office estimates that over half of the properties are successfully purchased. Properties are placed on the list after citizens express an interest in them to the Planning and Development Department.[5]

A minimum price is listed with each property. This minimum price is based on an appraisal of the property conducted by the Real Estate Division of Planning and Development. Successful bidders must bid at least the minimum price.[6] Successful bidders are required to rehabilitate the structure (in accordance with City of Detroit Building Code) within 180 days from receipt of the Quit Claim Deed.

Development Agreement

Another method for obtaining City-owned property is submission of a development proposal to the City's Planning and Development Department. The resulting development agreement stipulates the exact terms and time frame of the development proposal. CDCs considering this option should be aware that this is one of the more time-consuming processes for obtaining tax-reverted property. Please see Appendix D for more details on this process.

Developers whose development proposals pass the preliminary review process will receive a holding letter from the City guaranteeing that the City will not sell your land to another party. Sometimes, the City issues a holding letter laying out certain contingencies that must be completed before control of the property is received. After receiving a holding letter, potential developers must then submit a formal purchase offer for approval by the City. Upon City Council approval, the development agreement—a legally binding document—is executed, and title is transferred to the developer.

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[5] Conversation with the Real Estate Division of the Planning and Development Department, City of Detroit, 20 April 1998.
[6] Ibid.

It is important to note that the City charges "fair market value" and all back taxes for foreclosed properties. This may make some properties prohibitively expensive, and may account for the fact that few City-owned properties move into private hands.[7]

Purchasing Adjacent Vacant Land
Although less common, in some instances the City will offer vacant lots for sale to adjacent owners. In this case, the interested owner must contact the Planning and Development within ten days after the date the notice of offer is received. Prices for these lots are set by the Real Estate Division. This is a less frequent method of buying City-owned land. This strategy can is dependent upon the City's willingness to sell surplus vacant lots.

Please see Appendix C for details on each process. It is important to note that every property sale of city-owned land must be approved by City Council.

The County Process
There are at least four avenues for obtaining property which has gone or is going through the County foreclosure process.

1. Buying redemption rights
2. County Treasurer's tax lien sale
3. DNR property transfer
4. DNR tax-reverted property auction

Buying redemption rights
If CDCs are able to identify and locate owners of tax delinquent properties, they may be able to buy the properties at a low cost. A property owner facing foreclosure may be a motivated seller. This approach involves tracking down and negotiating with delinquent taxpayers. The advantage of this approach is that it allows CDCs to preempt speculators working the tax lien and DNR markets.[8]

County Treasurer's Tax Lien Sale
Buying liens at the County Treasurer's sale can not only help CDCs obtain land for development purposes, but it can also serve as a source of revenue. There is a good reason why speculators are present in the tax lien market, namely because there is money to be made. One advantage of buying tax liens is that the purchase price is quite low: typically the price of the delinquent taxes and fines. If the TCV fairly represents or understates the property's true worth, then that price will typically be discounted by 70 to 95 percent. In the case in which the owner redeems the property in the first year, the lien buyer still makes a 15 percent return based on the interest charges paid by the delinquent taxpayer. If the taxpayer redeems in the second year, fees and interest yield the lien buyer a return in excess of 50 percent. [9] The literature we reviewed did not give much attention to lien-buying as a strategy for CDCs. While there may be reasons for this, such as CDC's lack of capital, the possible returns suggest that this strategy deserves

[7] Hartsuff
[8] Bogdan, p8
[9] Bogdan, p5

consideration. If start-up capital could be raised through grants or donations, participation in this market could become a self-supporting activity. Foundation support may be a possible avenue to this end.

DNR Property Transfer
DNR may transfer property titles to federal, state, or municipal government agencies when properties are included in designated development areas. These government agencies can form partnerships with CDCs in which CDCs take ownership from the sponsoring agency.[10] While DNR infrequently deeds foreclosed property to any municipality, it has an explicit policy of not deeding properties to the City of Detroit. According to DNR officials, this policy is based on a perception that Detroit has not been effective at distributing its own tax-reverted properties. DNR, however, will make an exception to this rule when properties are within Detroit's Renaissance or Empowerment Zones. Therefore, Detroit CDCs seeking properties outside these zones must partner with a state or federal agency in order to obtain a title transfer.[11] Benefits of this approach are the low capital costs to CDCs.

DNR Tax-Reverted Property Auction
DNR's most common method of distributing tax-reverted properties is public auction. Each year, DNR holds one tax reverted property sale for properties outside of Detroit and three such sales for properties in Detroit. Annually, DNR sells 6,000 to 7,000 properties outside of Detroit and an equivalent number in Detroit. This option, while requiring a capital outlay, may be an effective strategy for CDCs to obtain properties they cannot acquire through a DNR transfer.

Please see Appendix D for details on each process.

The Tax Foreclosure Process: Problems and Recommendations for Improvement

In analyzing the City and County tax foreclosure processes, it is important to keep in mind the local economic and social factors. For instance, a policy of giving property owners multiple protections against government land seizure protects landowners' due process rights. However, in an economically depressed area, these protections also allow landowners to leave properties fallow for extended periods of time. In more economically vital areas, more valuable property uses tend to prevent this from happening. Similarly, a revenue-maximizing model of distributing tax-reverted properties is a rational approach in an economically vital community. However, in an economically distressed area, such a model may lead to a fragmented and ineffective development strategy. The relatively low economic returns from properties in these Detroit neighborhoods make it feasible for individuals to buy properties and wait for improvements in the local economy. This type of speculation undermines a comprehensive redevelopment strategy.

Our analysis of these systems identified problems which can be categorized as operational breakdowns or systemic flaws. Operational breakdowns are malfunctions in the system that cause program implementation to deviate from program policy. For example, while City policy

[10] Bogdan, p7
[11] Gary Hartsuff, DNR, phone call, 4/13/98

states that all properties two years delinquent will be foreclosed upon, this does not in fact happen. Systemic flaws, on the other hand, are problems inherent in the design of the system. That is, these problems would exist even if the system worked perfectly. The State policy of auctioning properties to the highest bidder, resulting in a fragmented and uncoordinated development model is one such example.

Operational Breakdowns

We learned from discussions with city officials and through our data analysis that the City does not systematically foreclose on all tax delinquent properties, due to lack of resources and clear criteria. This fact has several implications for taxpayer behavior, property upkeep and development. By not paying City property taxes, the property owner effectively takes a loan from the City. Because the City is not likely to foreclose, such "loans" can last for over ten years. Under the current foreclosure system, noncommittal property owners are able to hold onto properties for very long periods of time. These property owners are unlikely to make the investment to keep these properties in good condition. The tax delinquent property then lies fallow which increases neighborhood blight. Finally, properties that are not foreclosed upon remain out the reach of developers, CDCs, and others who might promote economic growth.

Our sample of abandon properties included many examples of sporadic and unsystematic City foreclosure. For example, 15300 East Warren has been tax delinquent for the past seven years with a tax bill of $25,840. Another property, 15010-16 East Warren, owes $15,156 in back taxes dating back to 1983. One of the longest periods of tax delinquency in our sample was found for 8030 Kercheval, owing $12,428, dating back to 1975.

Systemic Flaws

Both the City and the County put the potential revenue generated from foreclosed properties ahead of development concerns. The County is interested in maximizing revenue from lien sales, while the City is interested in maintaining control of the properties so that it can later attempt to sell them for fair market value and back taxes.[12] Thus, the County process encourages tax-lien speculation through these public sales. Redevelopment costs are increased when developers have to purchase these liens from speculators in order to obtain control of a property. The City process, which tends to stay away from public sales of tax liens, also increases redevelopment costs by asking for an unrealistic price for City-owned foreclosed properties. The City process makes it very difficult for private developers and CDCs to obtain City-foreclosed land.

Our data support the notion that the City is less efficient than the County at redistributing tax reverted properties. For example, in our Mack Avenue sample, the City owns 45 percent of abandoned properties. In the West Jefferson sample, the comparable statistic is 46 percent. By comparison, there are no County or State-owned properties in any of the samples. Table 1.3 shows the percent of City-owned abandoned properties in our sample for each strip.

[12] Hartsuff

Other Models

Other communities have faced these same problems. Studying their experiences and strategies may be useful for the City of Detroit. Below are some examples of foreclosure models in other cities.

Cleveland: Government Action on Urban Land
Cleveland imposes no property taxes; only Cuyahoga County does. The City and County have formed an intergovernmental cooperative program known as the Government Action on Urban Land (GAUL). The Cuyahoga Prosecutor's office works with City officials to quickly seize and foreclose upon tax delinquent properties so that the City can land-bank them.

The GAUL foreclosure process has three strategies:

1. The County does a search for the delinquent property owners, so as to protect itself from due process suits later.
2. The County has reduced the redemption period for reclamation of property from five years to two weeks.
3. Properties are no longer auctioned off; the City will only sell them for the amount owed in taxes.

Chicago: Commercial and Industrial Tax Reactivation Program
Chicago's Department of Planning and Development (DPD) operates a Commercial and Industrial Tax Reactivation Program to acquire tax delinquent property for for-profit and not-for-profit developers. DPD processes developer applications for acquisition of properties identified by the Cook County Treasurer's Office as being at least two years tax delinquent. The tax sale process takes at least 18 months from point of application, due to State statute and Circuit Court regulations. The applicant pays legal fees of $2,500-3000 for each acquired property. In order to help ensure that acquired properties are developed, applicants are required to make $1,000 performance deposit upon closing which is refunded upon City issuance of a Certificate of Completion.

Pittsburgh: Using Foreclosure as Part of Its Redevelopment Plan
After a development plan has been created for a target area, the City pursues abandoned and tax delinquent properties within that zone. Delinquent taxpayers are contacted and invited to proceed with development, or else to sell to the City. While the State is entitled to foreclose on properties in the City of Pittsburgh, it rarely does. The City actively redevelops declining areas by using its powers of foreclosure.

Recommendations for Improvement

If our goal is to reduce the number of tax delinquent properties, there are two strategies we suggest. The first is finding ways to motivate taxpayers to pay their taxes on time. The second is streamlining the actual foreclosure process in order to deal more effectively and efficiently with delinquent taxpayers who refuse to pay their taxes.

1. Creating Incentives for Timely Tax Payment

- Offer incentives to taxpayers to pay their taxes before the last possible option.[13] One such incentive that has worked in other cities has been publication of delinquent taxpayers' names in the local newspaper.
- Shorten the redemption period for tax delinquent commercial property.[14] This reduces the incentive to postpone paying taxes after the foreclosure process has begun, because the window of opportunity to reclaim property is smaller.
- Shorten the period for which county taxes may go unpaid by one year.[15] Reducing the time period for City tax collection would have the same incentive effects, namely shortening the period of time in which taxpayers can postpone payment without repercussion.
- Conduct pre-sale title searches and pass the cost onto the delinquent taxpayer. These additional costs may provide an incentive for timely tax payment to those taxpayers who are aware of their tax liability but choose to delay payment.[16] In addition, notifying the public about the results of the title searches may create greater demand for these properties and promote their development.

2. Collecting Taxes

- Create payment schedules for delinquent taxpayers in order to help them repay all back taxes within a year. This payment plan should also require the delinquent taxpayer to escrow their monthly payments with the County or City Treasurer for the following year's tax payments to ensure that the taxpayer is back on payment schedule by the end of the second year.[17]
- If a payment schedule is not created, the County or City should use all conventional bill collection methods after ninety days of delinquency, such as appropriate action to attach wages, checking accounts, bank accounts and personal property for resale.[18]
- Use Public Act 202 of 1988 to obtain payment of property taxes. The Act permits communities to attach a taxpayer's personal property to collect delinquent property taxes through the tax lien and foreclosure process, shortening the period of time for the City to obtain payment.[19] To date, few communities have exercised this power; therefore, it is unclear how effective it is.

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[13] Smith, 956.
[14] Bogdan, 9.
[15] Smith, 956.
[16] Smith, 956.
[17] Bogdan, 9.
[18] Bogdan, 9.
[19] Bogdan, 9.

3. Streamlining the Foreclosure Processes

- Shorten redemption periods for both the City and County processes. This would include several pieces:
    - eliminating all or a portion of the one year redemption period between the tax sale and the deeding of the property to the tax lien purchaser or the State;
    - eliminating the six month post-deeding redemption period for parcels bid to the State, since this additional redemption period overlaps with other redemption periods;
    - revising the City charter to accelerate the foreclosure process on abandoned property to reflect similar changes in redemption periods.
- Require private purchasers and the State to give notice to all interest holders of their final right of redemption, which is then followed by a six month redemption period. The State should also give notice by publication to those interest holders who do not receive actual notice of their final redemption rights. This will clear up any lingering questions regarding due process for those interest holders usually not identified until post-sale title searches.[20]
- Use outside resources. This can mean employing outside attorneys to speed up the process or bringing community-based organizations into the process. The most useful strategy for both parties is to create mutually beneficial relationships between CDCs and the City Law Department by sharing resources. City Law can use CBO volunteers to assist with title searches, and in return CDCs can receive access to title information and become more involved in the Department's foreclosure strategies.[21]

[20] Smith, 957.
[21] Zinner and Chang, 7-11.

Chapter Three. Development Strategies

The foreclosure process is only one component of the abandoned property problem. Equally problematic is the slow rate of development of tax-reverted properties. We observed that few city-owned tax-reverted properties redevelop to economically viable status. Therefore, even if the city foreclosure process is streamlined, without a good development strategy properties will continue to lay fallow. In light of this problem, this chapter discusses possible improvements for the redevelopment process.

We provide an overview and analysis of current development activities in Detroit. We then address the potential for CDCs in the development process. Using examples of CDC and city alliances in other cities, we will recommend ways in which the City of Detroit can collaborate with CDCs in order to further current development efforts.

Current Redevelopment Efforts in Detroit

In recent years, opportunities for commercial development in Detroit have been increasing. Mayor Archer's Administration has taken numerous steps to encourage private investment. Notable projects include:

- Chrysler's investment of $2.1 billion, including $900 million for an engine plant;
- General Motors' $72 million purchase of the Renaissance Center and $250 million for plant improvements;
- A total of $505 million in private and public funds committed for downtown pro football and baseball stadiums and;
- $1 billion in loan commitments for businesses in Detroit's federal empowerment zone.[22]

Several economic variables indicate that conditions in the city are improving; though some of these merely reflect a regional and national improving economy. Statistics indicate that unemployment fell from 16 percent in 1993 to 9 percent in 1997, and real estate values increased 10 percent in some neighborhoods.[23]

While development has been increasing in Detroit, generally projects are not dispersed to the numerous areas in need of development. Rather, the projects tend to be large and concentrated in or near the downtown area

A priority of Mayor Archer's agenda for the City of Detroit is to lure business developers by reducing regulatory red tape and selling large tracts of city-owned real estate and foreclosed properties at attractive prices.[24] A stronger alliance between the city and the private sector has developed, confirmed by growth in collaborative investments. However, as the City's resources are being devoted to courting private investment, funding for nonprofit development has not kept pace with private investment.

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[22] Bill Vlasic, "Motion in Motion," Business Week, 21 April 1998, 136.
[23] Ibid.
[24] Ron Stodghill II, "Can Dennis Archer Drive Detroit out of a Ditch?" Business Week, 25 April 1994, 104.

How CDCs can Further Redevelopment in Detroit

The fact that the majority of development is undertaken by the private sector warrants concern. The private and nonprofit sectors approach development in different ways. In many cases, the private sector is driven largely by profit while CDCs are more concerned with community revitalization. CDCs play a unique role in development by working in economically weak areas that are considered high risk by private developers. This is especially relevant for Detroit as it consists of many poverty-stricken neighborhoods commonly ignored by private developers.

As stated in the 1992 Hearing to Review Community Development Corporations, CDCs address many problems of low-income areas by creating jobs, low-cost housing, and providing community services.[25] This ability to empower low-income communities is starkly contrasted with for-profit development. In most cases, private businesses will only invest in low-income neighborhoods if they are offered generous tax breaks by the government. However, "those companies will have no stake in the community, and the people in the community will have no stake in the company other than to be beholden to them for jobs—in many cases minimum wage jobs."[26]

CDC activities can also spur private development. A 1997 study commissioned by the Pew Charitable Trusts entitled *Urban Vacant Land*, credits CDCs with many innovative approaches to vacant land use created over the last decade. CDCs have been able to take comprehensive approaches to community rebuilding, including the incorporation of open spaces. Community garden programs such as Philadelphia Green and Isles, Inc. of Trenton, NJ, have "achieved considerable sophistication in planning, development, and integration of open spaces into the neighborhood fabric…Several have become catalysts for broader neighborhood planning and revitalization."[27]

The eight commercial strips in our sample indicate that local commercial corridors are in dire need of development. However, many of the projects supported by the city government and private corporations fail to reach these small communities. It is our belief that although the City of Detroit is effectively encouraging certain types of investment, its strategy for overall development can be improved by utilizing the resources of CDCs. CDCs represent the interests and needs of the low-income sections of Detroit; any comprehensive development effort must effectively address the problems of these areas as well. This idea is supported by the Southeast Michigan Council of Governments' first general principle for development of an urban strategy:

> *Build new advocacy coalitions*. New coalitions are needed in order to develop and implement a comprehensive strategy, which involves establishment of partnerships open and inclusive of all interests: government, business, labor, neighborhoods, citizens, and other groups in both suburban and urban areas. Fragmented decision making will not suffice in dealing with the problems of

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[25] Washington. Subcommittee on Education and Labor. "Hearing to Review Community Development Corporations." 102nd Cong., 2nd sess. 16 September 1992.
[26] Ibid.
[27] "Urban Vacant Land: Issues and Recommendations, Executive Summary." The Pennsylvania Horticultural Society. Philadelphia, PA, 1995.

> urban centers. Among this coalition of parties, an agreed vision of the future and a commitment to collaborate in the design and implementation of a strategy is required.[28]

Currently, city and private development collaboratives are increasing. A strong alliance between CDCs, the City, and the private sector would contribute to the growing momentum in Detroit. Since CDCs represent the interests of low-income communities, their participation would help achieve revitalization in all areas of Detroit.

Linking Private, Public, and Nonprofit Development

Currently, Detroit does not have a formal structure in which the City's development plans incorporate the efforts of CDCs. Consequently, CDCs and the City lack a long-term focus and an effective working relationship. The success of CDCs is largely dependent upon the financial and technical assistance they receive from the public and private sectors. Often, funds invested on CDCs have high returns.

Government grants to CDCs have a multiplier effect; for every dollar invested by the Federal Government, there is a $4 return.[29] "The money invested in CDCs' revolving loan and grant funds would only grow and would be put back into the communities from where it came. The proceeds earned through investments in community entrepreneurial projects would be repeatedly reinvested in local revolving funds. In effect, the success of CDC-supported enterprises would lay the foundation for more enterprises."[30] On the other hand, government revenues lost from tax incentives, administrative and technical support granted to private developers often transfer to private profit.

Both city governments and private corporations throughout the nation have recognized the importance of CDCs in development. Successful partnerships between the public, private, and nonprofit sectors can be found throughout the nation. Below, we present examples of successful partnerships in order to illustrate how alliances between CDCs and the City of Detroit can be strengthened.

Examples of Effective Alliances

Chicago

Chicago's Cityspace Program was jointly developed by the City, the City Park District, and the Cook County Forest Preserve. Cityspace operates a nonprofit corporation that supports community-managed open spaces by acquiring and insuring vacant land. It works with CDCs to help them acquire tax-delinquent and city-owned land for development as green space and recreational facilities. The program also facilitates development by providing easy access to the City's computerized property database. This database includes information on tax status, land

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[28] Urban Enhancement Task Force of the Community and Economic Development Advisory Council, Revitalizing Urban Communities: An Action Strategy, Southeast Michigan Council of Governments, 28 January 1994, 5.
[29] Washington. Subcommittee on Education and Labor. "Hearing to Review Community Development Corporations." 102nd Cong., 2nd sess. 16 September 1992.
[30] Ibid.

use, land area, occupancy status for every parcel in the City, and a cross-index of adjacent vacant parcels.[31]

Chicago's Redevelopment Area Designation Program designates blighted areas according to city, state and federal statutory criteria. In addition to enabling the city to exercise power of eminent domain for land acquisition and building demolition, designation allows these areas, many located within the boundaries of CDCs, the benefit of various government investment programs. The program also includes relocation of individuals and businesses displaced by acquisition.

San Francisco

The City-CDC partnership in San Francisco is one of the oldest in the nation. Community Development Block Grant funds (CDBG) are dispersed through the Mayor's Office of Housing to support the ongoing operating expenses of CDCs. Over half of CDCs' operating expenses are covered by these CDBG funds. The city also funds the operating expenses of two private corporations to provide free architectural, engineering, design, and construction expertise to CDCs. In addition, each year, the city sets aside $2 to 4 million in project capital pools exclusively for nonprofit developers. With the City's support, CDCs have played a major role in housing rehabilitation and new construction.[32]

New York

CDCs in New York City have been able to gain widespread support from the state and local government, and the private sector. A survey of CDCs estimated that 76 percent receive state funding, 67 percent receive city funding, and 17 percent receive federal funding.[33] Recognizing the important role of CDCs, even private corporations are taking action. Leading corporations, banks, and foundations recently launched the Neighborhood 2000 fund that will provide financial support for 50 CDCs in their efforts to develop low-and-moderate income neighborhoods throughout New York City. The fund, totaling $15 million, will be dispersed over four years and is estimated to help CDCs build 15,000 new homes. Representing a major contributor, Frank Newman, Chairman of the Board and CEO of Bankers Trust Company stated, "Community Development Corporations play an important role in revitalizing neighborhoods and need support of the private sector. The creation of the Neighborhood 2000 Fund recognizes the need for additional capital to grow the promise of these organizations and to insure their endurance."[34]

Cleveland

Under Cleveland and Cuyahoga County's Government Action on Urban Land (GAUL) program, the City banks property once the foreclosure process is completed. In addition to targeting properties for foreclosure that have large tax delinquencies or which has been designated for redevelopment, the County targets parcels that have been requested for rehabilitation by CDCs or by adjacent property owners. Cleveland's Community Development department offers modest

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[31] Popper, Frank J., Greenberg, Michael R., Knack, Ruth. Planning. Vol. 60; No.4; Pg 24.

[32] Edward G. Goetz, "Local Government Support for Nonprofit Housing: A Survey of U.S. Cities," Urban Affairs Quarterly, March 1992, 420.

[33] Ibid.

[34] "New York's Troubled Neighborhoods Get Private Sector Boost"

land acquisition costs, low cost financing and neighborhood tax abatement, in a "one-stop-shop" format.[35]

The City actively seeks subsidies for its urban redevelopment program. It receives some funding through CDBGs, but the majority comes from private lenders. It has had to strong-arm local banks into complying with the federal Community Reinvestment Act which mandates provision of reduced interest loans for development in low-income communities. Cleveland can make property available (once it is banked) for anything from full-scale residential and commercial development projects to yard expansions.[36]

Recommendations

The previous examples demonstrate that a positive relationship with CDCs can only work for the benefit of the City. Through these examples, we developed the following recommendations that we believe would be particularly useful for Detroit to adopt.

1. **Provide financial and technical assistance**.
   In order to support development, CDCs need administrative support, predevelopment capital, project capital, and technical assistance.[37] Access to these resources will increase the capacity of CDCs and allow them to engage in increased development activities. San Francisco's example provides a good illustration of how the City can provide these forms of assistance.

2. **Refocus planning and development staff**.
   The unique perspectives and skills of CDC staff complement those available from the public and private sector. At the same time, CDCs need different types of relationships with the government in order to accomplish their goals. In order to facilitate this process, the Planning and Development Department should have different staff designated for relations with nonprofit and private development agencies. This staff differentiation would allow CDCs to develop ongoing working relationships with the Planning Department that would ease some of the current government-CDC working difficulties.

   This staff differentiation, however, should not restrict CDCs and private developers from working together. Private/public partnerships, as mentioned earlier, have great potential for revitalizing urban areas. Consequently, the Planning Department should create avenues (e.g., through meetings, workshops, and department newsletters) for staff working with private developers to interact with staff working with CDCs. In this way, CDCs will benefit from individualized relationships with City staff while simultaneously being able to explore partnerships with private development entities.

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[35] City of Cleveland, Cuyahoga County, OH, "Government Action on Urban Land Program," 1993.
[36] Walters, Jonathan, "Recapturing Urban Land," Governing, November 1993, 48.
[37] Edward G. Goetz, "Local Government Support for Nonprofit Housing: A Survey of U.S. Cities," Urban Affairs Quarterly, March 1992, 420.

3. **Provide assistance for property acquisition.**
   The current process of acquiring tax-reverted properties is expensive and time consuming, and presents major barriers to development. If CDCs can present sound plans for development, the city should provide assistance to expedite acquisition. In addition to technical assistance, properties should also be granted to CDCs at little or no cost. The properties that are successfully redeveloped will begin to pay taxes and thus compensate the City for program costs.

4. **Expedite the disbursement of funds.**
   Currently, funding to support CDC projects are held in accounts by the City. When CDCs commission private contractors to do work, they must request payment through the City. Only after the city approves the expense and issues payment can the CDC pass the payment to contractors. This is an extremely time consuming process that often takes as long as several months to one year. This discourages private contractors from working for CDCs. Expediting the process to disburse funds will alleviate some of the financial stresses CDCs face as a result.[38]

[38] Phone interview with Ron Steward by Kaity Liang, 14 April 1998.

Appendix A. Statistical Interpretation for Tables/Charts in Chapter One

Table 1.1 Percentage of Abandoned Addresses
To calculate this statistic, we used addresses for all of the properties on each of the strips. Some properties have more than one address, and in every case, we were not able to determine the exact boundaries for each property. The following table gives the number of addresses per strip.

Sample Strip	Number of Addresses
East Jefferson	277
East Warren	191
Gratiot	113
Kercheval	100
Mack	823
Michigan	322
West Jefferson	190
West Vernor	452

Table 1.2 Zoning Status of Each Sample
To calculate this statistic, we used all of the properties (defined by ward and item number) in each of our samples. All of the properties in our samples were determined to be inactive. From these numbers, we can infer the zoning status of all the abandoned properties on our designated strips within the stated boundaries.

Sample Strip	Number of Inactive (All) Properties in each Sample
East Jefferson	41
East Warren	41
Gratiot	15
Kercheval	35
Mack	42
Michigan	43
West Jefferson	41
West Vernor	35

Figure 1.1., Figure 1.2. Tax Status of Abandon Properties.
These two charts divide our properties into four different categories: those owing only city taxes, those owing only county taxes, those owing both, and those owing none. The first chart (Figure 1.1) includes all of the properties in our strip, while the second chart (Figure 1.2) excludes tax exempt properties from the "no taxes owed" category. From these numbers, we can infer the percentage of taxpayers who are paying city and county taxes for the abandoned properties on each strip within the designated boundaries. The following chart gives the number of tax-exempt properties in each sample:

Sample Strip	Number of Tax-Exempt Properties in each Sample
East Jefferson	15
East Warren	10
Gratiot	4
Kercheval	12
Mack	26
Michigan	4
West Jefferson	22
West Vernor	3

Figure 1.3., Figure 1.4. Median Years of Tax Delinquency and Amount Owed
The amount and duration of tax delinquency illustrated in these two tables are calculated from only those inactive properties in each sample that are *tax delinquent*. This statistic can be used to infer the duration and amount of tax delinquency of inactive properties for either the City or the County on the designated commercial strips. The following chart gives the number of inactive properties in our sample that are tax delinquent:

Sample Strip	Number of Properties Delinquent to the City	Number of Properties Delinquent to the County
East Jefferson	12	7
East Warren	17	12
Gratiot	7	8
Kercheval	8	5
Mack	13	6
Michigan	20	19
West Jefferson	9	6
West Vernor	18	20

Figure 1.5. Median TCV for Delinquent Properties as Compared to Total Sample
The numbers in this chart were calculated by finding the median TCV for all properties in each sample as well as median TCV for only delinquent properties. This comparison can be generalized to all of the properties on each of the strips within the designated boundaries. The following chart contains the number of delinquent properties per strip:

Sample Strip	Number of Delinquent Properties in each Sample
East Jefferson	14
East Warren	18
Gratiot	10
Kercheval	9
Mack	14
Michigan	25
West Jefferson	11
West Vernor	23

Figure 1.6. Percentage of Sample Properties that Have Been Foreclosed
To calculate this statistic, we used all of the properties in each sample and found the percentage that have been foreclosed. The total number of properties per strip appear in the second chart of this appendix. These numbers estimate the percentage of inactive properties on the designated strips that have been foreclosed.

Figure 1.7. Percentage of Tax Delinquent Properties with a Liability of Three Years or Greater
To calculate this statistic, we used only those properties in our sample that were tax delinquent, and calculated the percentage whose tax liability is three years of greater. The total number of tax delinquent properties in each sample appear in the above table. Figure 1.7 gives an estimate of the percentage of all inactive properties that are foreclosable within the boundaries of each strip.

Figure 1.8. Median TCV of City and State Foreclosed Properties Compared to the Median TCV of the Total Sample
To calculate this statistic, we used the median TCV for only those properties foreclosed upon by the city, those by the state, and, finally, all of the properties in each sample. These numbers can be used to compare the TCVs of all state-foreclosed and city-foreclosed inactive properties within the bound of our commercial strips. However, because some of these sample sizes are small (e.g. East Warren has only one city-foreclosed property) these inferences should be made with caution. The number of properties in each sample appears in the second table of this appendix. The following chart indicates the number of state-foreclosed and city-foreclosed properties on each strip.

Sample Strip	Number of City-Foreclosed Properties	Number of State-Foreclosed Properties
East Jefferson	12	8
East Warren	1	6
Gratiot	3	8
Kercheval	8	3
Mack	15	8
Michigan	4	6
West Jefferson	9	5
West Vernor	2	3

Table 1.3. Percentage of City-Owned Properties

The numbers in Table1.3 were calculated from the entire sample of inactive properties on each strip, and can be used to infer the percentage of inactive properties on each designated strip that are city-owned. The following table gives the number of city-owned abandoned properties in each strip.

Sample Strip	Number of City-Owned Properties in each Sample
East Jefferson	14
East Warren	6
Gratiot	3
Kercheval	12
Mack	19
Michigan	3
West Jefferson	22
West Vernor	3

Appendix B. Property-Specific Research

Through the course of our project, we contacted various City and County offices to conduct property-specific research. This Appendix documents the steps we took in obtaining the data presented in this report.

Assessor's Office

Mr. Pat Ryder
City Assessor's Office
824 City County Building
Detroit, MI 48226
(313)224-3035
(313)224-4270 Fax

Must have street address. Address will give you access to the State Equalized Value at last assessment, the ward and item number (which can be used throughout the remainder of your research), the liber, page and lot number (legal description) and the name and address of taxpayer. The City Assessor's office requires a written request for fee waiver, and the tax ID number for the organization requesting the waiver. Such a waiver would only be appropriate if written documentation is necessary, since fees are only assessed for printed information.

City Treasurer's Office

Mr. Shafter Terry, III
City Treasurer's Office
2 Woodward Avenue, Room 1010
Detroit, 48226
(313)224-3540 Phone
(313)224-3541 Fax

Must have ward and item number. This description will give the you the State Equalized Value at last assessment, the liber, page and lot number, the name and address of taxpayer, zoning information, and a history of any delinquent taxes to the City. Every property will have a tax bill. City tax bills are coded if foreclosure proceedings have been initiated by either Detroit or the State of Michigan, and will also indicate exemption status when applicable. The City Treasurer's Office will also consider fee waivers ($2.00/tax bill) via written request from the organization.

Marshall Wingel, 313-224-9179, a twenty-plus year veteran of the City Treasurer's Office, can answer any questions about foreclosure codes and access specific tax bills if you have questions.

County Treasurer's Office

Mr. Larry Wyka
County Treasurer's Office
400 Monroe
5th Floor, International Marketplace
(313)224-5971 Phone
(313)224-2921 Fax

Must have ward and item number. This description will give you the liber, page and lot number, the name and address of taxpayer and a history of delinquent tax payments. County tax bills are not cumulatively listed. In other words, there will be a separate tax bill for every delinquent year. If a property is current, there will be no tax bill. Fee waivers can be obtained by written request.

Wayne County Register of Deeds

Ms. Patricia Irving Cwiek
Deputy Register of Deeds, Wayne County
400 Monroe
6th Floor, International Marketplace
Detroit, MI 48226
(313)224-5854 Phone
(313)224-5884 Fax

Must have liber, page and lot number. The Register of Deeds has a very specific process for accessing chain of title information. An organization can secure a contract with the office, and pay an initial fee of $500. They will be assigned a user ID and password so that computer time and printing can be monitored. There is a flat charge of $7.50/15 minute intervals and $.50/sheet. You must have a user ID and password to access the system. Without a contract, you can make a daily agreement that will assign you a temporary ID and password. Since many of the abandoned properties in your corridors are older buildings, searching by legal description could be a time consuming and frustrating process. If you are certain of the address, taxpayer, or the type of deed you're searching for, entering this information together with the legal description will help narrow your search. A familiarity with types of deeds will be helpful to your search. Since the Register of Deeds has records of every transaction for that property or taxpayer, you will want to disregard many records.

If you have questions about the contract, or how to access the office, contact Christine Gamber, Department Executive I, Wayne County Register of Deeds, 313-224-8240.

Appendix C. Data Summary Sheets

Legend

Column Headings

SEV	State Equalized Value
TCV	Total Cash Value
Amount City Del	Amount Delinquent on City Taxes
City Yr Del	Years of City Delinquency
City Fore Code	City Foreclosure Code
Amount Co Del	Amount Delinquent on County Taxes
Co Yr Del	Years of County Delinquency
Co Fore Code	County Foreclosure Code

Zoning

COM	Commercial
VCOM	Vacant Commercial
MAJ	Major Industrial
VMAJ	Vacant Major Industrial
RES	Residential
VRES	Vacant Residential

City Foreclosure Codes
48, 52, LAW-REFER, PAYMENT PLAN

State Foreclosure Codes
Any code beginning with ST or SC. Number indicates year foreclosure proceedings were initiated. Example: ST4, State foreclosed in 1994.

Appendix D. Obtaining City and State Owned Property; Forms Used in Acquisition of City Property

Obtaining Property from the City

The description of the bid sale process was developed from the City of Detroit rules regarding the sales.

The descriptions for the development agreement process, obtaining a letter of contingency, and purchasing adjacent abandoned property are from Vartivarian's *Site Selection and Pre-Development Manual*, pg 45-48.

Bid Sale
From bid sale rules printed by the Real Estate Division and Planning and Development Department, the City shall reserve the right to reject any bid of any offeror who has defaulted on prior installment agreement with the City, or who may be delinquent in real or personal property taxes, or who may be delinquent in an existing Land Contract (installment) agreement with the City of Detroit, or who has not shown substantial progress in rehabilitating previously acquired properties from the City.

If, during the City's review process, the City determines that a minor modification to the bid proposal would better meet the City's objectives, the City may require that such a modification be made.

The Real Estate Division's rules also state that the proposal must be received at the Real Estate Division prior to or on the date and time specified on the face of the announcement. Late proposals will not be accepted. Responsibility for submitting proposals to the Real Estate Division rests entirely with the persons submitting the proposal. Proposals received after the closing time will be returned unopened and will receive no consideration.

The Real Estate Division may use the open board sale procedure if no acceptable proposals are received for a property. This means that the property is listed as being available on a "First Come, First Serve" basis provided the prospective purchaser agrees to meet at least the minimum conditions used in bid process.

Below are the procedures, terms and conditions for purchasing a commercial property through the bid sale. The procedure for residential, historical and multi-family dwellings varies only slightly and can be obtained from the Planning and Development Department.

Procedures for Bid Submissions for Commercial Properties
To be considered, a proposal must include the following:
1. The proposal must be submitted by the prospective purchaser (in person) or accompanied with an original notarized power of attorney. Proposals will not be accepted by mail.

2. Complete the "Real Estate Proposal Submittal" form. (Forms are available at the property location and upon request from the real Estate office. Forms should be obtained in sufficient time to be adequately completed.)

3. Submit a ten percent (10%) deposit in the form of a cashiers or certified check which is payable to "Treasurer, City of Detroit." All deposits will be held until Planning and Development makes a determination as to the acceptance and rejection of all proposals. Upon selection of a successful proposal, the deposit will not be returned in the event the prospective purchaser fails to proceed with the purchase.

4. Complete a certified copy of the "Offeror's Statement of Qualifications." (Forms are available upon request and it is the prospective purchaser's responsibility to complete the forms prior to submittals.

5. Proposals must be submitted in a sealed envelope, plainly marked "proposal for (bidder to indicate address of property proposal submitted for"). Only one proposal per envelope.

Please note that all proposals must be submitted in a sealed envelope prior to coming to the Real Estate Division of Planning and Development. No proposals should be filled out in the waiting area. The Real Estate Division will not provide pen/pencil(s) or envelopes.

Terms of Sale

1. Full payment must be made upon closing.

2. The purchaser may obtain Title Insurance, if so desired. The City of Detroit makes no warranty or representation as to the marketability of the title on any property.

3. Any Quit Claim Deed issued as a result of this offering will include a reversionary clause, revesting title without any reimbursement from the City of Detroit in the event of a default.

4. The purchaser is required to close on the successfully bid property by June 15, 1998. If the closing does not take place by the deadline, the sale of the property will be canceled and all monies forfeited.

5. The purchaser is required to register the property with the Building and Safety Engineering Department as a rental property if the intended use if for resale or rent.

6. The City of Detroit does not warrant that the rehabilitation of the property is economically feasible. The purchaser must satisfy himself/herself to the feasibility of rehabilitation of the property.

7. The City of Detroit reserves the right to remove an advertised property from a scheduled list without prior notification.

8. The City of Detroit reserves the right to give preference to owner occupied purchases.

9. The successful bidder will be required to sign an affidavit of occupancy or non-occupancy form until a certificate of Approval is obtained. (This form States that the purchaser agrees to apply and pay for a "4-1Special Inspection" from Department of Building and Safety Engineering.)

10. The successful bidder would be required to rehabilitate the structure currently existing on the property being conveyed, within 180 days from receipt of the Quit Claim Deed; in order to conform to the City of Detroit Building Code to obtain Certificate of Approval.

11. If the purchaser fails to complete the rehabilitation of the structure within 180 days, the City of Detroit shall have the power to terminate the sale herein conveyed and have the right to re-enter and repossess the conveyed property.

Purchase of Property by Investor

1. Investors will be limited to a total of five(5) pending properties concurrently.

2. A Copy of a valid Certificate of Approval is required within six (6) months from the receipt of the Quit Claim Deed.

General Conditions

The proposals received on properties are considered only as Offers to Deal and are subject to administrative and legal review by the City. The Planning and Development Department reserves the right to reject any or all bids and to waive any formality or irregularity in any proposal. All offers are subject to approval by the Detroit City Council. Failure to remit required deposits shall result in cancellation of the sale.

The prospective purchasers are hereby notified that the Planning and Development Department has not investigated the environmental condition of any properties included in the advertised list. Various federal, State, or other City agencies may have information regarding the environmental condition of one or more properties on this list. The prospective purchaser is encouraged to conduct his or her own investigation regarding the environmental condition of the property which the prospective purchaser proposes to acquire and is notified that the property may be subject to environmental contamination. The City of Detroit absolutely makes no warranty or representation regarding the environmental condition of any property offered for sale.

Development Agreement

When purchasing land through a development agreement, the City will require that certain guidelines and a time frame are met as specified in the agreement.

Process

1. Send a detailed letter to the Real Estate Division of the Planning and Development Department indicating your interest in purchasing property from the City. The letter should identify the property and include your interest and proposed use of the site.

The letter should be addressed to: Mr. O'Neal Edwards
Real Estate Division
Planning and Development Department
Cadillac Tower
Detroit MI 48226

2. The City will acknowledge receipt of your letter within thirty days. Their letter will include the City's formal asking price for the land and the formal Offer to Purchase documents that you must complete and send back to the City.

It is important to note that the City charges "fair market value" and all back taxes for foreclosed properties. This may make some of properties prohibitively expensive, and may account for the fact that few City owned properties move into private hands.[39]

3. If your proposed development passes the preliminary review process, you will receive a holding letter from the City. According to conversations with the Real Estate Division of Planning and Development, the criteria for passing the preliminary review vary for each development agreement. Planning and Development may be less likely to scrutinize development proposals for properties for which no other parties have shown interest.

A holding letter guarantees that the City will not sell your land to another party and provides a time frame for you to put together a more detailed site plan and method of financing. The holding letter can also serve as proof of ownership to lenders. This is dependent on the lender; some lenders require more stringent proof of ownership, such as title or deed to the property.

If the City is reluctant to give you a holding letter on a property, you can negotiate to receive a contingent holding letter. A contingent holding letter lays out certain contingencies you must complete before receiving control of the property. For one community based organization that used this process, the process took over a year.

4. The next level of ownership is right of entry, which provides you the power to enter the site and any buildings on the site. The City will request that you provide a reason for entering the site at this point, such as conducting environmental testing as part of your due diligence. Because of risk factors, the City will require you to provide proof of insurance before entering the site.

5. Prepare the formal purchase offer. The City will send you an "offer to purchase" packet. Please see sample forms in Appendix C. You will need to submit the following documents: a narrative Statement describing the character and size of the proposed development, a 10% deposit of the purchase price, preliminary site plans including elevations and other architectural drawings, two completed copies of the Offeror's Statement of Qualifications and two completed copies of the Offer to Purchase.

6. The Planning and Development Department reviews the preliminary site plans and Real Estate Division reviews the Offeror's Statement of Qualifications.

[39] Conversation with Hartsuff

7. The City Law Department prepares the preliminary Development Agreement, including an Exhibit B, which is the narrative description of the proposed development.

8. City Council approval must be obtained for the sale of surplus land. Council's approval constitutes the City's formal commitment of the land to a developer and authorizes the execution of the Development Agreement. Depending on the location of the land, the proposal may also need to be presented to the Housing Commission, the Historic District Commission and/or local Citizen's District Council.

9. Execute Development Agreement upon City Council approval.

10. Execute Quit Claim deed, which confers ownership of the lot to the applicant provided that the lot was in fact owned by the City. Since ownership of lots is often in doubt, you must obtain title insurance when purchasing City-owned land.

11. Close sale and transfer title. At this time, you must pay full purchase price plus pro-rate payment in lieu of property taxes. The "Good Faith Deposit" is held until the development is satisfactorily complete.

Time Frame
Assuming that the City does indeed possess the land you want to purchase, it is estimated that the process will take from six to twelve months before a deed is issued.

Cost
There is no filing fee to request the purchase of City-owned commercial land. The Planning and Development Department sets price on a case by case basis for commercial and industrial property. According to the Real Estate Division, this price depends on the size of the property and the fair market value for other properties in the area.

Purchasing Adjacent Vacant Land
The interested owner must contact the City within ten days after the date the notice of offer is received. Interested owners may also make requests for vacant adjacent lots in the Surplus Sales Division, on the eleventh Floor of the Cadillac Tower. Sale is contingent upon acceptance of the City's price.[40]

Obtaining Control of State-Owned Land

Annual County Sale of Property Tax Liens
Unpaid tax liens are offered at the annual county tax sale held by the Wayne County Treasurer the third year following the tax year. For example, the unpaid taxes of 1993 were offered for sale at the May 1996 tax sale. The annual tax sale provides a "window of opportunity" for a private owner to obtain title to the property before it reverts to State ownership. *The tax sale is not an outright sale of the property; it is a sale of the lien for the unpaid taxes and charges.* Any

[40] Conversation with Real Estate Division, 23 April 1998.

tax liens not sold at the County Treasurer's sale are turned over to the State may be purchased at the Michigan Department of Treasury, Local Property Services Division, (517)373-3231. The following outlines the process by which you can obtain title to a property through the purchase of tax liens.

Process

1. Each year on the first Tuesday in May the Wayne County Treasurer's Office holds its annual tax sale where you can purchase tax liens of delinquent properties. After purchasing the tax lien, you will be issued a certificate entitling you to a deed after the one year redemption period has expired. If the owner pays the tax lien during this one year redemption period, you will receive a refund of the purchase price of the tax lien.

2. Before you can acquire title to the property, the County Sheriff serves notice on all owners of interest and any occupants of the property. The owner of the property has a six month redemption period after service of notice to redeem the property. If the owner does not make a payment within this six month period, you as the tax deed holder have absolute title to the property as provided by law.

3. As the purchaser, you must make purchase at the subsequent tax sales until you have completed title in order to protect your original purchase. After acquiring title to the property, you should immediately pay all delinquent taxes to date.

Time Frame

From the time the tax lien is purchased to the time you have title to the property will take at least one and a half years (although probably longer) because of the statutory redemption period.

Cost

Cost will vary depending on the delinquent taxes charged to the property.

DNR Public Auction

Approximately once a year the State holds a public auction of land which were foreclosed for nonpayment of property taxes in the Detroit area. However, purchasing land at public auction can require a substantial amount of up front cash, something most community organizations do not have. Sale booklets are available 30 days prior to sale; you can automatically receive this booklet by being placed on the mailing list. Contact the Real Estate Division of the Michigan DNR at the following address for further information:

Real Estate Division
Michigan Department of Natural Resources
Stevens T. Mason Building
PO Box 30338
Lansing, MI 48909-7948
Phone: (517)373-1250

Process

1. Attend auction and bid on the property you are interested in purchasing. All properties have a minimum bid price, and no sales can be made for less than this minimum bid price. Each sale will be made to the highest bidder. The full purchase price must be paid the day of the sale.

2. If you are the successful bidder, you will be issued a purchase certificate which entitles you to the deed of that property.

3. Quit-claim deeds will be issued conveying only such title as received by the State through tax foreclosure. Title insurance companies may or may not issue title insurance on the property. The State will not process deeds until 90 days after the sale. The State does not guarantee the environmental condition of the property sold at auction; it is your responsibility to investigate past uses of the site.

4. If the property is occupied, you should secure insurance; if it is unoccupied, you should secure against entry. You cannot take physical possession of the property until you have received your deed.

5. Properties not sold at auction are available for purchase the first Monday following the auction by contacting the Real Estate Division of the DNR.

DNR Transfer Through City or Other Government Agency

If you are interested in purchasing State-owned land, yet want to purchase the land before an auction, you can attempt to purchase the land through the City or other government agency, such as MSHDA (which only deals with residential properties). There is currently no formal process to transfer title from the State to a community organization via third party; however, efforts are currently underway to formalize this process. According to representatives from both MSHDA and the Department of Commerce, your first point of contact should be the City. The City must endorse your ability to take control of the land by sending a letter to the state about your financial ability and capability to carry out the proposed development project. The City also wants the ability to intervene because in some cases land will be slated by the City for development or another purpose. Also, land is sometimes funneled from the DNR through another agency such as the Department of Commerce to the non-profit because the City must transfer land for fair market values whereas the Department of Commerce can transfer the land for as little as a dollar if it wants.