POVERTY SOLUTIONS
UNIVERSITY OF MICHIGAN

STOPPING THE EVICTION MACHINE IN DETROIT

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RESEARCH BRIEF FOR THE WORKING PAPER **THE EVICTION MACHINE: NEIGHBORHOOD INSTABILITY AND BLIGHT IN DETROIT'S NEIGHBORHOODS** BY JOSHUA AKERS, *UNIVERSITY OF MICHIGAN – DEARBORN,* AND ERIC SEYMOUR, *RUTGERS UNIVERSITY*

EXECUTIVE SUMMARY

From 2005 to 2015, 120,000 residential properties in Detroit—nearly half of all residential properties in the city—experienced mortgage or tax foreclosure. A substantial number of these properties were sold to speculative investors[2] who purchased properties in bulk, either through mortgage or tax foreclosure markets, while tens of thousands of tax foreclosed homes went unsold. This brief summarizes "The Eviction Machine: Neighborhood Instability and Blight in Detroit's Neighborhoods," by Joshua Akers[3] and Eric Seymour,[4] which details the ways in which speculators or bulk buyers have operated in the city of Detroit over the past decade, and how the practices they employ generate housing and neighborhood instability.

Akers and Seymour find that thousands of properties purchased by bulk buyers out of foreclosure markets have been the site of multiple evictions, neglect, additional tax foreclosures, and eventual demolition at public cost. Key findings include:

- 90% of all purchases from the Wayne County tax foreclosure auction have been to investors and bulk buyers since the tax foreclosure auction began in 2002.
- There is a subset of bulk buyers who use eviction as part of their business model, filing hundreds of evictions for the properties they own.
- Since 2014, it has cost an estimated $34 million in public funds to demolish blighted homes purchased by speculators out of the tax foreclosure auction.

This process of foreclosure, speculation, eviction, and eventual demolition exacerbated blight and instability in many of Detroit's neighborhoods. However, it's not inevitable. This brief concludes with a number of interventions that can be taken by the City of Detroit, State of Michigan, Wayne County, and the courts that can limit foreclosures, speculation, and evictions, and improve housing stability and strengthen neighborhoods across Detroit.

BACKGROUND

DETROIT'S FORECLOSURE CRISES

Starting in the mid 2000s, Detroit faced twin foreclosure crises that impacted nearly half of all residential properties in the city. Due to predatory lending and the economic impacts of the recession, thousands of Detroit households fell behind on mortgage payments, leading to widespread mortgage foreclosure. Akers and Seymour find that since 2005, "there were more than 70,000 completed mortgage foreclosures in Detroit, involving nearly 30% of the city's residential properties (Core Logic 2014; Data Driven Detroit 2010)."

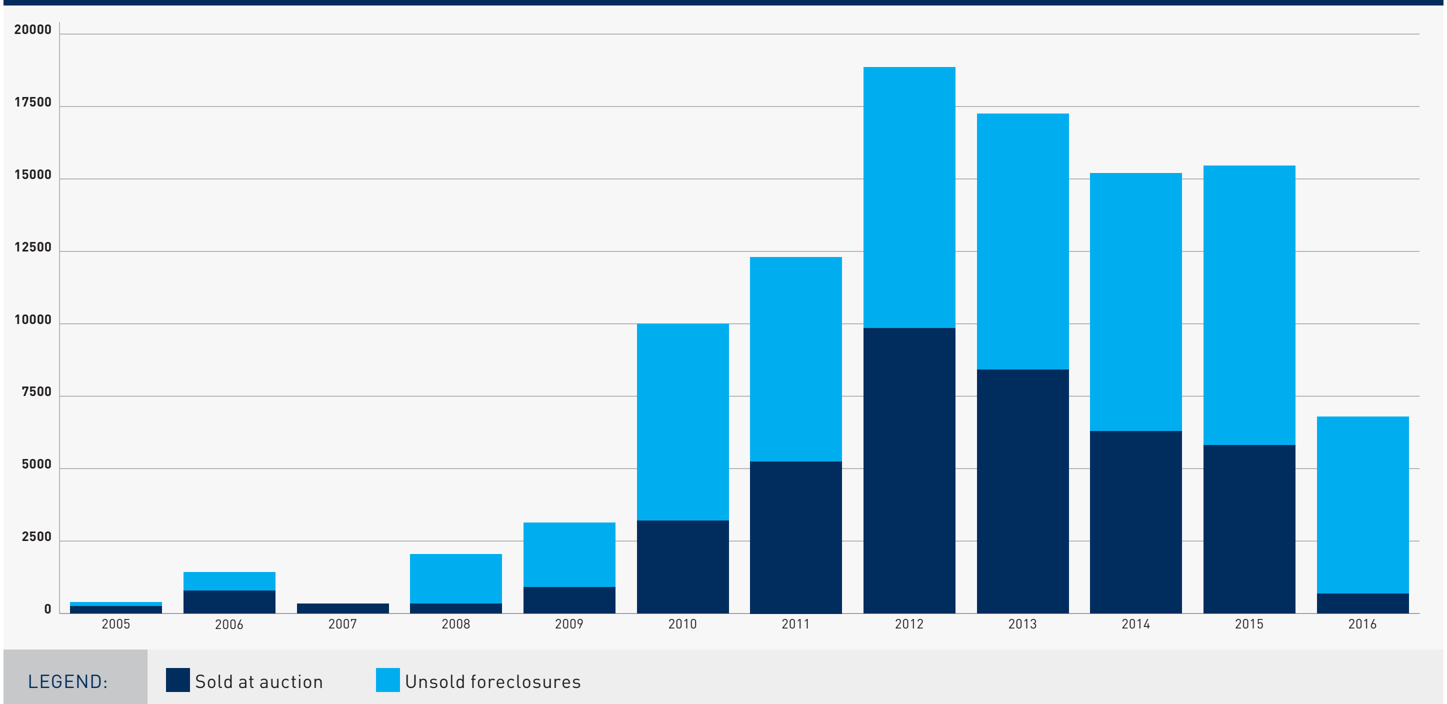
The conditions caused by the recession—job loss, reduced wages, declining home values paired with still high property taxes—sparked a second foreclosure crisis resulting from delinquent property taxes (Atuahene and Hodge 2017; Dewar et al. 2015). A contributing factor to the crisis was that in 1999, the state reduced the number of years a property could be tax delinquent prior to foreclosure from eight years to just three, in an effort to return tax delinquent properties to productive use more quickly (Akers 2013). Since 2002, Wayne County has held an annual tax foreclosure auction sale, putting roughly 110,000 foreclosed Detroit homes up for auction from 2002 to 2016, with the bulk of foreclosures occurring after 2009 (see Figure 1).

These twin crises decimated Detroit's homeownership rate. By 2016, 54% of the city's housing units were renter-occupied, a dramatic shift for a city that was once defined by its high levels of homeownership and as late as 2010 remained a majority homeowner city (2016 ACS 1-year estimates; US Bureau of the Census, 2010).

PROPERTY SPECULATION AND FORECLOSURE MARKETS

Akers and Seymour find that these foreclosed homes have largely been transferred into the hands of investors and bulk buyers. A large number of the roughly 70,000 homes that experienced mortgage foreclosure from 2005 to 2013

FIGURE 1: RESIDENTIAL TAX FORECLOSURES, DETROIT 2005–2016



Notes: Includes only residential properties with structures. Adapted from Seymour and Akers (2019a).
Sources: City of Detroit. Office of the Assessor (2014); Wayne County Treasurer (2016)

were eventually sold in bulk to speculative investors. These investors engaged in speculative practices such as home flipping, deferred maintenance, and property abandonment, which likely exacerbated housing and neighborhood instability. The authors also find that some investors bought in bulk specifically to engage in predatory land contracts in majority-Black neighborhoods in metro-Detroit.

As the number of mortgage foreclosures dried up, speculators found a new pipeline for cheap property in the Wayne County Tax Foreclosure Auction. From 2011 to 2015, over 5,000 properties were sold at the auction every year, reaching a peak of nearly 10,000 properties purchased in 2012.[5] Akers and Seymour find that the vast majority of these properties—roughly 90%—were purchased by investors, and that "over 40% of speculator purchases were bulk buys of 50 or more properties."

THE PRACTICES OF BULK BUYERS LEAD TO EVICTION, BLIGHT, AND DEMOLITION

Bulk buyers in Detroit engage in a number of practices that further destabilize households and neighborhoods. These investors purchase many more properties than they possibly can flip, sell on contract, or rent, and therefore abandon some portion of their holdings, neglect to pay taxes on those properties, and let them fall back into tax foreclosure. Research from Akers and others has found that some speculators will then purchase the same properties back from auction for an amount below what was owed in property taxes, effectively "tax-washing" the property (Akers 2017, MacDonald 2011, 2012, 2017).

Qualitative research in housing markets similar to Detroit finds that bulk owners often engage in exploitative practices as landlords. Despite deteriorating housing conditions, rents are typically high, often for the explicit purpose of putting tenants in arrears and weakening their ability to demand repairs (Desmond 2016). If tenants do withhold rent, they are immediately vulnerable to eviction. From the landlord's perspective, the cost of evicting tenants is less than bringing their properties up to code. This practice of collecting rent while failing to make repairs or pay taxes, is known as "milking" the property, and Akers and Seymour note that the practice is "likely a significant driver of evictions over the past decade."

Beyond predatory rental arrangements, high-volume owners increasingly use land installment contracts. The use of land contracts in Detroit has grown as mortgage lending in the city dried up after the recession, and Akers and Seymour find that an outsized portion of foreclosed properties in majority-Black neighborhoods in the tri-county area were targeted by investors known to engage in exploitative land contracts. These contracts, in which the buyer makes payments to the seller until the property is purchased in full, often require high down payments, carry high interest rates, and have little protection for the buyer in the case of a missed payment.[6] Akers and Seymour note that when these agreements fail, which they often do, they're generally adjudicated in the 36th District Court and treated as a landlord-tenant dispute rather than as a contract case in Circuit Court, stripping buyers of rights they should be afforded under their contract and increasing the likelihood of eviction. Land contracts also are not required to be filed with the county Register of Deeds or any state agency, making it difficult to understand the scale of the problem.

FINDINGS

Akers and Seymour demonstrate the impact speculators and bulk buyers have had on housing and neighborhood stability in Detroit over the past decade by tracking the paths of the properties they purchase out of foreclosure markets, most notably the Wayne County Tax Foreclosure Auction. To do this, they leverage a number of public data sets dealing with property ownership, including property tax records, landlord-tenant records from the 36th District Court, subsequent tax auction sales, and demolition records. The authors find that thousands of properties purchased by bulk buyers out of foreclosure markets over the past nearly 15 years have been the site of multiple evictions, neglect, additional tax foreclosures, and eventual demolition at public cost.

> AKERS AND SEYMOUR FOUND A SUBSET OF AUCTION BUYERS USE EVICTION AS PART OF THEIR BUSINESS MODEL. SEE THE TOP 20 BUYERS IN THEIR WORKING PAPER.

THE RELATIONSHIP BETWEEN BULK BUYING AND EVICTIONS

First, Akers and Seymour find that a large number of properties purchased out of the tax foreclosure auction were later the site of an eviction. Roughly one-third of all residential sales purchased out of the auction are linked to at least one subsequent eviction, while 12% of all tax sales—more than 5,200 properties—were the site of two or more subsequent evictions between 2009 and 2015.

The frequency of evictions increases dramatically when they restrict their analysis to the properties purchased by a subset of large auction buyers with at least one eviction linked to their properties. Akers and Seymour find that one investor has filed for more than 1,700 evictions since 2009; another bulk buyer has filed for eviction more than 800 times. Looking at the top 20 auction buyers with addresses linked to subsequent eviction filings, Akers and Seymour find that 60% of that group experienced two or more subsequent eviction filings, and nearly 25% of the 7,700 homes they purchased through auction experienced two or more eviction filings. Based on this evidence, Akers and Seymour assert that "eviction is a part of the business model for many bulk owners operating in low-income housing markets."

In the paper, Akers and Seymour provide a brief review of the literature detailing the potentially devastating impact of eviction on individuals and families. These include:

- **JOB LOSS.** A study by Matthew Desmond and Carl Gershenson found that working renters were more likely to lose their jobs following a forced move than observationally identical workers who did not experience a forced move, due to the time and transition costs of the eviction process (Desmond and Gershenson 2016).
- **UNAFFORDABLE COSTS.** Eviction causes families to incur additional costs, most notably the cost of obtaining new housing, potentially causing families to forego other necessities.
- **MATERIAL HARDSHIP AND DEPRESSION.** A study by Matthew Desmond and Rachel Tolbert Kimbro found that low-income mothers who were evicted were more likely to suffer from material hardship and depression than observationally identical mothers who were not evicted, and these effects lasted well after the initial eviction (Desmond and Kimbro 2015).
- **DIFFICULTY FINDING QUALITY HOUSING.** Because an eviction follows an individual on their credit report and rental history, the authors note that a history of evictions can make it all the more difficult for families to find quality housing in safe neighborhoods.

In sum, Akers and Seymour write that "eviction can be seen to generate multiple, cascading hardships for evicted individuals."

THE RELATIONSHIP BETWEEN BULK BUYING AND DEMOLITION

In addition to their findings on the relationship between bulk ownership and evictions, Akers and Seymour also find a strong relationship between the number of properties an investor owns and the likelihood of those properties eventually being demolished at public expense. As noted above, investors will intentionally purchase more properties than they can flip, rent, or sell on contract, and they will abandon some selection of their holdings and let them fall back into tax foreclosure. Once sufficiently degraded after years of abandonment, these properties will fail to sell at auction, be absorbed by the Detroit Land Bank, and many will be demolished at the public's expense.

Akers and Seymour find that in total, the City of Detroit had to spend an estimated $34 million demolishing 2,241 homes purchased by speculators out of the Wayne County Tax Foreclosure Auction between 2005 and 2015,[7] amounting to roughly 13% of all non-commercial demolitions since the demolition program began in 2014.

However, Akers and Seymour find that a relatively small number of investors are tied to a large share of those demolitions. Properties purchased by the top 20 tax auction buyers with subsequent demolitions make up 40% of those 2,241 tax auction properties that were eventually demolished. And as outlined in Table 1, Akers and Seymour find that roughly 9% of properties purchased by large investors, defined as purchasing 51 properties or more between 2005 and 2015, were eventually demolished at public expense, 2.4 times the rate for small investors.

TABLE 1: RELATIONSHIP BETWEEN TAX AUCTION INVESTOR SIZE AND DEMOLITION

DEMOLITION	INVESTOR SIZE			
	1-10 HOMES	11-50 HOMES	51+ HOMES	ALL
No	5,058	6,456	11,128	22,642
Percent of total	96.1	94.1	90.6	92.8
Yes	204	406	1,158	1,768
Percent of total	3.9	5.9	9.4	7.2
All	5,262	6,862	12,286	24,410

Pearson $x^2 = 193.8$; $p = 0.000$.
Notes: Auction purchases constrained to 2009–2014; publicly funded demolitions recorded between Jan 1, 2014 and April 11, 2019. Investor size based on total number of acquisitions by bidder name 2005–2015. Sources: Detroit Land Bank Authority, 2019; Wayne County Treasurer, 2016.

In sum, Akers and Seymour find a clear relationship between the volume of property ownership, point of purchase (foreclosure auctions), likelihood of tenant evictions, and finally property disposal through subsequent tax foreclosure and demolition. This transfer of properties over the past nearly two decades from individual owners to bulk buyers through twin foreclosure crises has likely contributed to housing and neighborhood instability for Detroit residents.

INTERVENTION OPTIONS

As Akers and Seymour detail in their work, for nearly a decade the primary pipeline for cheap property in Detroit has been the Wayne County Tax Foreclosure Auction. Because this supply line is so intertwined with widespread tax foreclosure in the city, Akers and Seymour preface their interventions with two contextual notes about tax foreclosure in Detroit that should inform our potential interventions for limiting the pernicious effects of property speculation in the city.

The first is that for more than a decade, thousands of Detroit residents were over-assessed on their property taxes, due to the city's inability to reassess properties following the post-recession decline in property values. A 2017 study by Atuahene and Hodge found that the inflated assessments were far above the state mandate that properties be assessed at a value no more than 50% of the true cash value of the property. Therefore, many people lost their homes to tax foreclosure, or are currently delinquent on their property taxes, for taxes they should never have owed.

In addition, the state attempts to reduce the burden of property taxes on low-income households by requiring municipalities to make available a full or partial property tax exemption for households below the poverty threshold. However, in Detroit, tens of thousands of eligible households fail to apply every year for the city's exemption program, the Homeowners Property Tax Assistance Program (HPTAP). A 2018 research report[8] for Poverty Solutions found that just 12% of an estimated 35,000 eligible households applied in 2016 (Eisenberg, et al.). The report found that the underutilization was driven by a lack of program awareness and a burdensome application process.

In 2018, resulting from the settlement of a lawsuit brought by the ACLU of Michigan and the NAACP Legal Defense fund, the City of Detroit agreed to help fund a program that helps low-income homeowners facing foreclosure remain in their homes and made reforms to the HPTAP application process (MacDonald and Terry, 2018). Though these measures are helpful, they still fall far short of a system-wide effort to more fully address property speculation, and the deleterious practices employed by speculators that lead to widespread eviction and blight. However, there are multiple points of intervention where we can collectively act to stop the eviction machine, by reducing the number of properties entering tax foreclosure, reforming the auction itself, and mitigating the harmful impacts of speculative practices.

A MORATORIUM ON THE WAYNE COUNTY TAX FORECLOSURE AUCTION

A central issue that Akers and Seymour highlight in their work is how the tax foreclosure auction serves to facilitate harmful property speculation in Detroit on a large scale.

Because the auction continues to serve as the primary source of cheap property for speculators, Akers and Seymour call for a moratorium on the auction to allow for a comprehensive reassessment of policies and the creation of a "more systematic approach to property redemption and tax repayment." One could argue that the authors' conclusions call instead for simply banning certain actors from participating in the auction. This is indeed a necessary reform, but as Akers and Seymour document in the paper, past enforcement efforts have failed due to investors' ability to hide their identities through various LLCs. By highlighting how individual actors have abused the system, Akers and Seymour present a case for reforming the entire system to prevent abuse by any individual actor going forward.

While a moratorium may require legislative action, the Wayne County Treasurer has consistently exercised discretion in determining which properties and how many properties are offered at auction. In addition, the treasurer previously suggested that state law posed a barrier to a moratorium, but new State Attorney General Dana Nessel has suggested she would be willing to work with the Wayne County Treasurer to help Detroiters stay in their homes (Kaffer 2019).

MAKE THE POVERTY TAX EXEMPTION (HPTAP) RETROACTIVE FOR MULTIPLE YEARS

Because many Detroit households at risk of foreclosure have delinquent taxes going back several years—and because many have delinquent taxes for years they would have qualified for the HPTAP—another potential intervention is to make the HPTAP retroactive. As Akers and Seymour note, such an action would "compensate in-part for the barriers low-income homeowners faced in accessing the exemption in prior years" and would "dramatically reduce the number of owner-occupied homes entering foreclosure in Detroit."

While stopping short of a retroactive PTE, the new Pay as You Stay program, backed by Detroit Mayor Mike Duggan and Wayne County Treasurer Eric Sabree, is an effort to help reduce the burden of back property taxes for low-income Detroiters. For low-income homeowners who qualify for HPTAP, the Pay as You Stay program would eliminate interest and fees associated with delinquent property taxes and cap the total delinquent bill to 10% of the property's taxable value. The administration estimates the median monthly bill on back property taxes would fall from $110 to $20 for program participants (Kaffer 2019b). The program will require approval by the Michigan Legislature, but if approved, this will make efforts to get low-income homeowners approved for HPTAP that much more important, as the HPTAP will serve as the mechanism to not only relieve the burden of current year taxes but also dramatically reduce the delinquent burden and hopefully prevent future foreclosure.

CONTINUE AND EXPAND TARGETED ENFORCEMENT OF BULK OWNERS AND CONTRACT SELLERS

While the Detroit Land Bank uses the city's nuisance abatement program to repossess vacant homes owned by absentee landlords, Akers and Seymour recommend a more targeted approach focused on those owners the data shows are tied to an outsized number of evictions and demolitions. "More strategic and concerted approaches that account for the role of particular actors and the impact of their activities on residents and neighborhoods could reduce the number of evictions while preventing bulk owners from passing the cost of eviction on to the public," Akers and Seymour write.

ENFORCEMENT AND ADJUDICATION OF THE CITY OF DETROIT RENTAL ORDINANCE

Akers and Seymour note that while the City of Detroit has increased efforts to enforce the city's rental ordinance, the vast majority of landlords have failed to register their properties or pass inspection (MacDonald, 2019). Concurrently, the 36th District Court does not always recognize tenants' rights under the ordinance to withhold rent if properties are in disrepair. The authors note that if the court required compliance with the ordinance in order for landlords to bring landlord-tenant disputes before the court, it could help to both push landlords to become compliant and reduce evictions.

ADJUDICATE LAND INSTALLMENT CONTRACTS AS FORFEITURE RATHER THAN LANDLORD-TENANT CASES

As noted above, land contracts are often structured so that they revert to rental agreements after a single missed payment, leading to eviction. Akers and Seymour note that under a land contract, the buyer is generally granted more rights, such as a longer "redemption window" in which to make payments. The authors write that if the 36th District Court refused to recognize these contracts as landlord-tenant disputes and forced the seller to pursue the case as a contract forfeiture, it would both reduce evictions and make predatory land contracts less desirable to sellers.

PROVIDE COUNSEL TO LOW-INCOME TENANTS FACING EVICTION

Fewer than 5% of tenants facing eviction in Detroit have legal representation, compared to 83% of landlords. More than half of tenants in eviction cases do not show up for court. When tenants had legal representation, two-thirds of these cases were resolved with an agreement between the landlord and tenant. When tenants do not have legal representation, three-quarters of cases are likely to end in "disruptive displacement" from the home (MacDonald, 2019; Steinkamp, 2019).

The right to counsel has been implemented in New York City, San Francisco, and Newark, with programs in Cleveland, Washington, D.C., Seattle, and Philadelphia in development. In New York, where the city's Office of Civil Justice coordinates the program, 84% of households represented by an attorney in an eviction case were able to remain in their home. Legal services in New York are funded through a mix of public and private dollars, though in order to fund their universal access to counsel program, the city nearly doubled its funding of legal services from 2016 to 2018 (NYC Office of Civil Justice 2017).

The estimated cost of the program in Detroit is between $3.5 million and $4 million annually, including both legal representation and support services (MacDonald, 2019). However, one study conducted in advance of the enactment of New York City's right to counsel program found it would ultimately result in cost-savings, through reduced spending on emergency housing and public assistance (MacDonald 2019, Steinkamp, 2019).

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ENDNOTES

1 This brief is compiled by Poverty Solutions staff to provide a summary of the research findings and highlight potential policy interventions recommended by the authors. We encourage all readers to read the authors' working paper [https://poverty.umich.edu/files/2019/08/Akers-et-al-Eviction-Machine-Revised-August-12.pdf] on the Poverty Solutions website.

2 Throughout this brief, we'll use speculator, investor, and bulk buyer interchangeably. Property Praxis, a research collective focused on speculation in the city of Detroit, defines speculation as: Ownership of five or more parcels in an area in which the owner does not have a taxable address; ownership of a large number of parcels in varying conditions and disuse; ownership of a single vacant or abandoned property by someone with an out-of-state or international address; multiple owners with three or more holdings using a single residential property as a taxable address.

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5 Each year several thousand properties went unpurchased and were absorbed by the Detroit Land Bank Authority.

6 Akers and Seymour note that "Land contracts are a malleable instrument and may be structured to provide mutually beneficial terms for buyers and sellers including low down payments and manageable interest rates. Housing advocacy organizations, non-profits, and individual home sales have utilized contracts as a pathway to ownership for low- and moderate-income buyers when traditional mortgage financing is unavailable."

7 Funds for the demolition program largely came from the Federal Hardest Hit Fund program.

8 https://poverty.umich.edu/files/2018/12/PovertySolutions-PoveryTaxExemption-PolicyReport-r2.pdf