

Making the Case for the Detroit Land Bank Authority

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The Problem:

In 1930, the City of Detroit had a population of 1,568,662 and by 1950 that number had surged to 1,849,568. Today, it is estimated that Detroit's population hovers around 670,000, a catastrophic loss of critical mass that has had consequences in every aspect of city operations. This rapid exodus has been long studied and is the subject of many news reports seeking to explain and document how this once thriving metropolis became the poster child for urban decay. What is less discussed is the impact these simple census numbers have had on the physical landscape, infrastructure, and housing stock within the City limits. Put in simple terms, a city that was built to hold almost two million people now has less than a third of that number. The road network, water and sewer infrastructure, school system, electrical grid, park system, and every other public works component that once had 1.8 million people utilizing and supporting it through tax revenue, now has to be supported through a tax base radically scaled back. The most obvious place to demonstrate the impacts of a shrinking population and tax base is in housing.

As of January of 2018, there were 94,944 properties in public ownership, all of which were at one time single-family homes. Of those, 66% were abandoned prior to 2013. For decades, faced with a shrinking market base leaving them with an inability to sell their homes as they themselves were choosing to leave the city, owners simply walked away from their properties, leaving them to become vacant, abandoned, and eventually reverting to some form of public ownership. After the market crash of 2008, the mortgage crisis and a change in state tax foreclosure laws increased the number of homes coming into city inventory. As demonstrated by this map below, the number of properties is extreme, and is spread out over the entire city with virtually all neighborhoods impacted to some degree.

This agreement between the City and the DLBA provides the framework necessary to move the tens of thousands of abandoned properties back into productive use. All single-family properties previously owned by the City of Detroit were transferred to the DLBA for disposition, and all single-family residential properties that go through tax foreclosure through Wayne County are transferred to the DLBA annually.

In 2013, the last year that the City's Planning and Development Department was responsible for sales of single-family lots and structures, it sold a total of 263 properties. In 2015, its first full year of operations in its new configuration, the DLBA sold 3,400 lots and structures. In 2016 the total number of DLBA sales was 4,346 and in 2017 there were 4,865 sales. While the total annual sales number is but a small percentage of the 94,944 in inventory, the trend is going in the right direction and is expected to increase as the DLBA matures its operations and improves its operations. To date, the DLBA has sold over 13,500 structures and lots, simple numbers that show the model of consolidating public ownership under the authority of the DLBA is working.

The Detroit Land Bank Authority is the largest land-owner in the City of Detroit; holding title to approximately 25% of all land in the City of Detroit and it is the largest Land Bank in the United States with an inventory of approximately 95,000 properties. To put this in context with other Land Bank agencies nationwide and to demonstrate the magnitude of the problem Detroit is facing, the second largest in the country is the Genesee County Land Bank with an inventory of approximately 13,000 properties.

The Process:

The DLBA inventory of 94,944 is comprised of roughly 65% vacant lots (parcels where single-family homes have been already demolished) and 35% structures. Of those structures, many have been vacant and abandoned for decades and need significant amounts of investment to repair, and some are simply uninhabitable and need to be demolished. The DLBA runs a multi-faceted program designed to improve eliminate blight and improve neighborhoods through sales where the market will support investment, targeted demolitions where structures are beyond repair, and maintenance and holding of parcels where there is expected to be limited market interest for the foreseeable future.

The Inventory Department is responsible for triage of all properties, understanding the market conditions of each parcel, and ensuring it gets moved into the appropriate pipeline. To do so, it manages the following programs:

- Pipeline Management – Conducts intake assessment for each property that comes into the DLBA. Currently managing approximately 96,000 properties

- Strategy – Prioritizes property for disposition programs (Auction, Own it Now, Rehabbed & Ready, and Side Lots) and the demolition program based on the location and condition of a property
- Title Management – Manages bulk acquisitions, donation intake, tax, utilities, legal recordings, corrective transfers, title commitments, and lis pendens proceedings
- Client Services – Manages calls from the public related to publicly-owned property and DLBA programs
- Property Management – Emergency maintenance clean ups, trash out for auction open houses, and work with city agencies for ongoing board ups and back yard clean out

The Disposition Department manages several sales platforms, including:

- Auction Sales – Online auctions of three (3) homes daily, auction properties tend to be in stronger markets and go for a competitive price.
- Own It Now Sales – 65% of the homes made available for purchase come from constituent requests, these properties tend to be in weaker markets and need higher levels of renovation
- Side Lot Sales – 8740 side lots have been sold to adjacent homeowners since inception in August 2014.
- Occupied Buy Back – Works with pre-existing occupants of DLBA properties to sell their homes back to them. 359 participants have since closed on their properties.
- Rehabbed and Ready - is a scalable, measurable rehabilitation program that reactivates publicly owned homes, while stabilizing neighborhoods, improving market values and increasing occupancy in the City of Detroit.
- Community Partners/Projects – Facilitate the disposition of property to non-profits and faith-based organizations, as well as to entities supported by the City of Detroit.

The Demolition Department is responsible for managing a federally-funded program to demolish structures that are deemed a blight on the community. The Hardest Hit Fund (HHF) program was established by President Obama in 2010 to assist individual homeowners and governments that were negatively impacted by the economic downturn and housing crisis. \$9.6 billion was allocated to 19 different state agencies to manage blight remediation activities such as targeted demolitions in heavily blighted neighborhoods. The DLBA is the largest such program in the State of Michigan with a federal allocation of \$258,653,459 to spend over the life of the program. Utilizing this HHF funding, to date the DLBA has demolished approximately 9,000 structures and anticipates demolishing another 6,200 prior to the funding sunset at the end of 2020.

All programs run by the DLBA are supported by a robust Legal Department, responsible for managing a process for clearing title of properties heading into

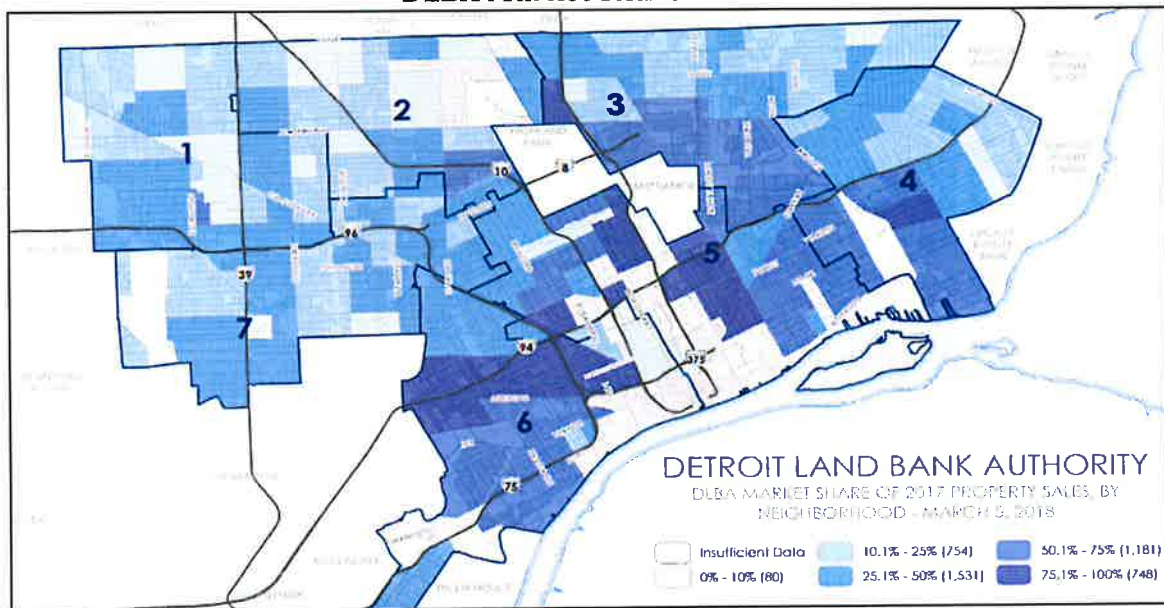
auction. The Legal Department also manages the compliance function ensuring that all parties who have purchased properties from the DLBA are meeting the terms of their agreements, particularly in renovating the homes and bringing them up to code during a specified period of time, a requirement codified in every Purchase Agreement executed between the DLBA and a private buyer.

The Results

When the decision was made to transfer publicly-owned residential properties to the DLBA, there was some discussion within City leadership that a private entity would be better positioned to provide the service. The counter argument was and remains that the real estate market in Detroit is so fractured and housing prices so devalued that the private sector was unlikely to step in to handle the volume of properties left in City ownership. Now, four years after stepping into the role of managing this real estate inventory, there is evidence to show the actual impact the DLBA has positively impacted the market.

As shown in the chart below, in 2017 there were sections of the city for which DLBA sales accounted for 75.1%-100% of all sales recorded. Simply put, neighborhoods where the market is weak and property values are low, the vast majority of sales that took place were sponsored by the DLBA. In stable neighborhoods where property values are higher, the DLBA has a much lower percentage of market share because the real estate market generates sales without public investment.

DLBA Market Share 2017



Further evidence of the net positive impact of the DLBA's sales program is shown through the renovation compliance mandate. Since all purchase agreements for structures require renovation and code compliance as a condition of sale, there is continued impact to the economy beyond the sales price itself. At a conservative assumption of a \$30/SQF rehab cost, the 3,368 structures sold by the DLBA since 2014 have infused an estimated \$136,737,960 into the local economy. Additionally, the DLBA estimates that the 8,740 side lots it has sold has generated an estimated economic impact of \$40,055,420, based on an average increase of \$4,583 in home values of the structure adjacent to the side lot.

Through the closing process the DLBA tracks high-level demographic data on its customer base. This information reveals that at the time of making a land or structure purchase, 65% of purchasers are already Detroit residents, and 35% are living outside of the city limits. Given the low purchase price of much of the inventory, the DLBA sells property to buyers at all levels of the economic strata, as evidenced by the chart below.

DLBA Purchasers by Household Income

Household Income	Households	Percent of Purchasers
\$0 - \$15,000	138	26.95%
\$15,000 - \$25,000	82	16.02%
\$25,000 - \$40,000	66	12.89%
\$40,000 - \$60,000	52	10.16%
more than \$60,000	57	11.13%
No Response	117	22.85%
Grand Total	512	100.00%

The Future

As it continues to grow and refine its processes, the DLBA intends to increase its annual sales numbers with the goal of eventually returning every residential structure it owns, roughly 30% of its total inventory, back into productive use and on the tax rolls. As the market in the city continues to grow and improve, the DLBA will be aggressively pushing those into the sales pipeline. For the approximately 60% of its inventory that is vacant land, the DLBA will serve as a holding agency to manage the land until a market can be identified for its reuse.