

Fundamentals of Tax Foreclosures and Land Banking

Community Land Reform Initiatives

July 2009

What is the problem?

Chronic Abandonment

- Antiquated systems
- Weak economic conditions
- History of population loss
- Obsolete housing stock
- Disconnected systems
- Contagious blight

Mortgage /Housing Crisis

- Predatory products
- Greed
- Market destabilization
- External effects of sales
- Few bankable purchasers
- Deteriorization of property

Similarities and differences of the chronic and acute crises

Tax Lien Sales and Tax Auctions

- What is their purpose?
- What is the result?
- When was this all started?
- Why do the buyers buy?
- Under what authority do they act?

Competing interests: efficient tax collection and effective land re-use

Former Foreclosure Law

- 4-7 year process
- No clear title
- Hundreds of owners
- Low-end speculation
- Indiscriminate foreclosure
 - homeowners at risk
- Contagious blight

PA 123 of 1999

- 1-2 year process
- Clear title judgment
- Property titled to county
- Tax liens eliminated
- Hardship postponements
- Intervention

Liquidation vs. Investment. A lesson for lenders?

Flint's Story...

- Birthplace of GM and the UAW
- 1970 population: 193,000
- GM employment peaked at 79,000 in the late 70's
- 2000 population: under 120,000. Today 112,800
- 12% of housing stock abandoned – *“Roger and Me”*
- City government incapacitated – receivership 2002-2004



Michigan's Land Bank Law

- Created Michigan Land Bank Fast Track Authority
- Allows counties that foreclose to create land banks through intergovernmental agreement with State Authority
- Allows the City of Detroit to create a land bank
- Defines all land bank properties as “Brownfields”
- Land bank properties are tax-exempt
- Provides 90-day expedited quiet title action
- Can sell at less than fair market value
- Can lease, sell, demolish, maintain, rehab, improve
- 5yr/50% tax capture

The Genesee County Land Bank

- Michigan's first land bank
- Created in 2002, modified in Dec. 2004
- 7 member Board of Directors
- 12 staff, including sales, property management, etc
- Planning and development team
- Funding: tax foreclosure fees: \$9.9 million / 7 years
- Land sales revenue, tax capture (*Brownfield & 5yr/50%*)

A New Pathway for Property

- Foreclosure Prevention
- Side Lot Transfer
- Property Maintenance
- Planning
- Rental Management
- Clean & Green / Urban Gardens
- Demolition
- Development

The Genesee County Land Bank Authority

Progress since 2003...

- 9,000 foreclosures (14% of Flint)
- 2,950 foreclosure prevention cases
- Over 1000 demolitions
- 2,300 sites maintained
- Over 900 properties in “Clean and Green” program
- 68 urban gardens
- 318 new units of housing
- 536,000 commercial square feet
- \$56 million of redevelopment (recent/underway)
- Over 3000 tons of debris removed since summer 2004



Barbara Drive
Flint

**Tax foreclosed
in 2003**

**Acquired for
\$3,100**

**Rehabilitation
cost: \$42,000**

**Sold in 2005
to first-time
Homeowner**

**What is the effect
on neighbors?**

**What is the effect
on surrounding
values?
for \$55,000**



1000 demolitions since 2004



Follow the money...

Delinquent tax system can be a source of revenue and control of land

Fees from Tax Delinquency and Equity in real estate can be a source of revenue.

In Flint, Michigan

- \$9.9 million over seven years in fees
- Nearly \$4 million in sale revenue
- Improved surrounding Land Values

Michigan State University Study

MSU Land Policy Institute

- 400 Genesee County Land Bank properties
- 2-year study of the impact of intervention on surrounding property values
- 26,000 properties affected
- \$3.5 million invested (demolition, cleanup)
- \$112 million in increased private value

<http://www.geneseeinstitute.org/reports/index.html>

Land Bank Development Tools

- Clear Title
- Low Acquisition Costs
- Brownfield Eligible / Cross Collateral TIF
- Land Assembly Vehicle
- Equity Partnerships
- Neighborhood Stabilization Program

Land Bank Development Projects

- Catalyst
- Affordable Housing
- Land Conservation
- Clearing Title
- Environmental Clean-up
- Neighborhood Redevelopment
- Blight Elimination
- Economic Development
- Historic Preservation
- Recreation

Blight Elimination - Palm Bay

- Used Code Enforcement
- Demolition
- Neighborhood Involvement

Result: blighted property turned into a neighborhood playground



Affordable Housing and Economic Development – The Whiting

- Underutilized building
- Nonprofit / for-profit / land bank partnership
- Brownfield TIF / land bank bonding

Result: Thirty-six units of affordable housing in a high cost downtown area / expanded commercial space

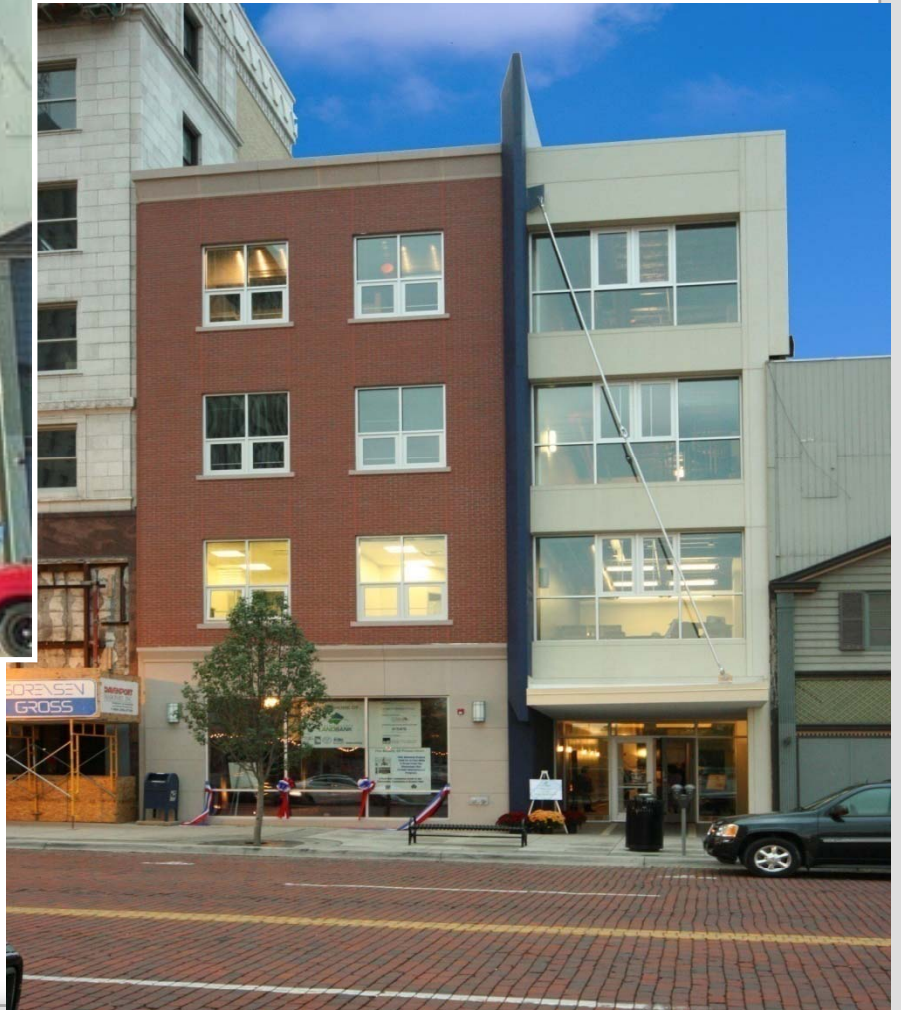
The Whiting



Catalyst / Title Clearance- Land Bank Center

- Department store vacant for 23 years
- Downtown with an over 50% vacancy rate
- Title with 22 recorded interests

Result: Redevelopment of 15,000 sq. ft. commercial space, 7 residential housing units, 7 new additional buildings were redeveloped



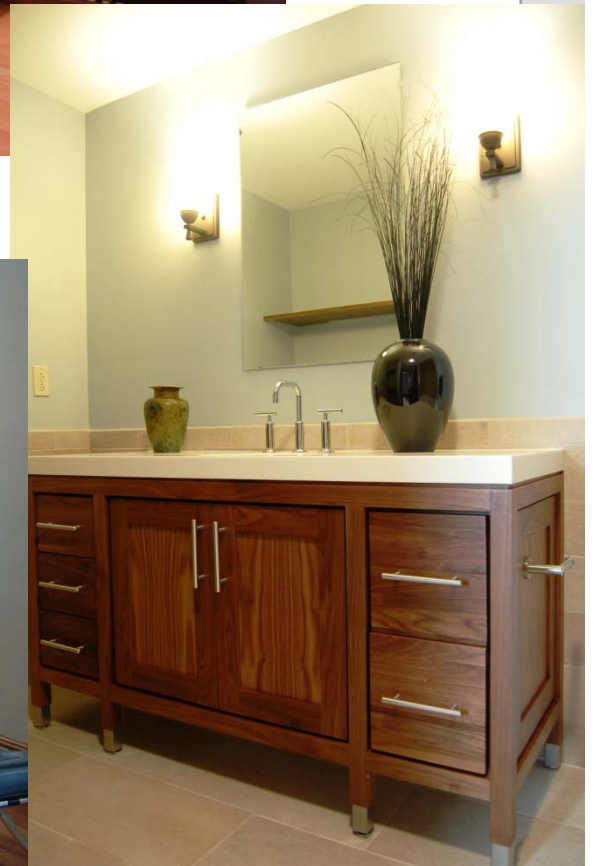
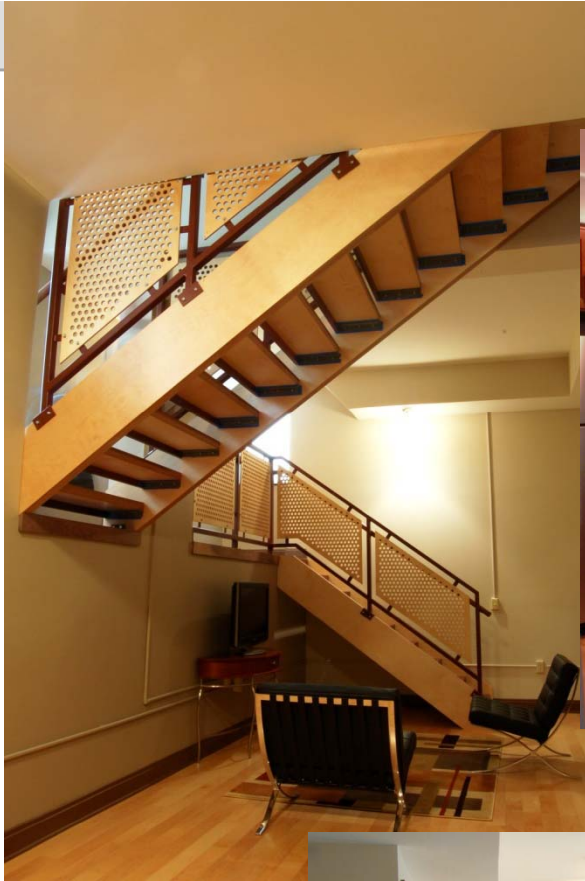
Crime Reduction / Blight Elimination / Catalyst - Berridge

- Occupied “flop house” with 99 rooms; very blighted interior
- Magnet for crime
- Historic neighborhood targeted for redevelopment
- Prevented redevelopment of the area
- 18 sources of funding
- Land Bank lead developer

Results: Historic rehabilitation resulting in 21 residential and 2 commercial units

Berridge Hotel





Land Conservation – Waterfront Park

- Vacant property in private ownership
- Land Bank funds / conservation grant

Result: Preserve the view of the Indian River Lagoon. Creation of a community amenity.

Clean Up - Fenton & Hill

- Foreclosed gas station (contaminated)
- EPA Assessment grant
- MDEQ (grant / loan) to clean-up

Result: Clean lot
available to
McDonalds which
allows them
to upgrade restaurant



Historic Preservation - Durant Hotel Project

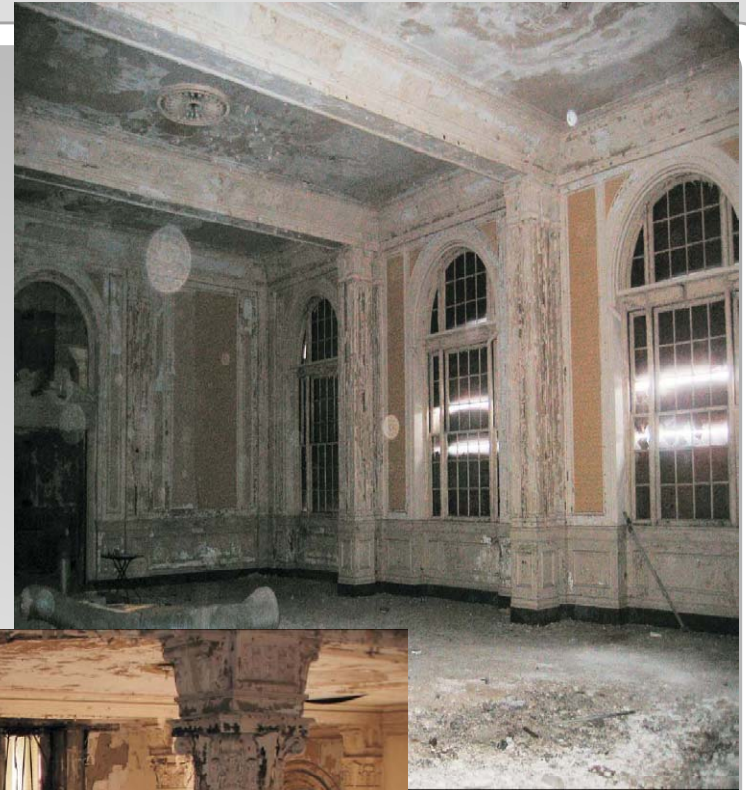
- Vacant historic hotel
- Unable to be redeveloped due to high development costs
- Anchors downtown
- Land Bank is the co-developer / limited partner
- Land Bank brought \$8 million in financing to the project

Results: Historic rehabilitation resulting in 100 residential and 7 commercial units

Durant Hotel Project



Durant Hotel



Durant Hotel Project



Title Clearance / Affordable Housing - Metawaneenee Development

- LIHTC scatter-site project
- Titles were dirty due to previous foreclosure system
- Demolition was required
- Land banking agreement was used

Results: 24 new construction residential housing units, single-family and duplex units

Metawaneenee Development



Land Banks and Brownfield - Case Study

The property is automatically Brownfield eligible. This allows the project to take advantage of the Brownfield redevelopment tools including Tax Increment Financing and Michigan Business Tax Credit.

Funds available from Brownfield Tools

	Without Land Bank	With Land Bank
TIF	\$0	\$5,020,000
MBT Credit	\$0	\$483,675
Total	\$0	\$5,503,675

Land Banks and Brownfield - Case Study

Tax Increment Financing (TIF) abilities are much greater with the use of the Land Bank than any other private developer because:

- Property value starts at zero
- Cross-collateralized TIF
- TIF eligible activities are estimated to be about \$5,125,000

TIF Values

Without Land Bank (Property valued at \$250,000)	With Land Bank (property value starting at zero)	Cross-Collateralized
\$3,923,243	\$4,359,159	\$5,125,000

Land Banks and Brownfield - Case Study

If the property is owned by a Land Bank it can be held tax-exempt during predevelopment and development stages.

Annual Property Tax Liability

Without Land Bank	With Land Bank
\$15,000	\$0

Land Banks and Brownfield - Case Study

Local Municipality and the County Land Bank can have control over the development of the site.

Contact Information

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