



Department of City Development

City Plan Commission
Neighborhood Improvement
Development Corporation
Redevelopment Authority

Rocky Marcoux
Commissioner

Martha L. Brown
Deputy Commissioner

November 10, 2010

Mayor Tom Barrett
City Hall, Room 200

Members of the Common Council
City Hall, Room 205

Dear Mayor Barrett and Members of the Council:

As you are no doubt aware, the last two years have seen a significant increase in the number of property tax foreclosure judgments in the City of Milwaukee. As a result, the number of properties managed, preserved and demolished by City departments has grown dramatically since 2009. I am writing to update you on actions undertaken by the Department of City Development to handle the expanded scope and scale of its responsibilities with respect to tax-foreclosed properties.

The tax foreclosure process

When a property owner fails to pay property taxes, the Office of the City Treasurer initiates collection proceedings. If collection efforts do not result in payment of delinquent taxes, the City Treasurer eventually refers the property to the City Attorney's office, which files a foreclosure action against the owner. If a foreclosure judgment is entered in Circuit Court, the City takes title to the property. The property owner has one last opportunity to take back the property: a 90-day redemption period. If the taxes aren't paid during that period, the property remains in the City's hands. We call those "*in rem*" properties.

When the City takes title to a taxed-foreclosed house, DCD inspects it, and recommends whether it should be sold to a private party, mothballed for future sale, or demolished. The local alderperson receives a written recommendation for the disposition of each *in rem* property. After aldermanic sign-off, houses recommended for demolition are turned over to the Dept. of Neighborhood Services, which arranges for the demolition work.

DCD manages and markets properties that are to be sold or mothballed. About half of the properties in the inventory have tenants living in them at the time of the foreclosure. We enter into leases with those tenants, and collect rent. Occasionally, tenants will buy the property from the City and continue to live there.

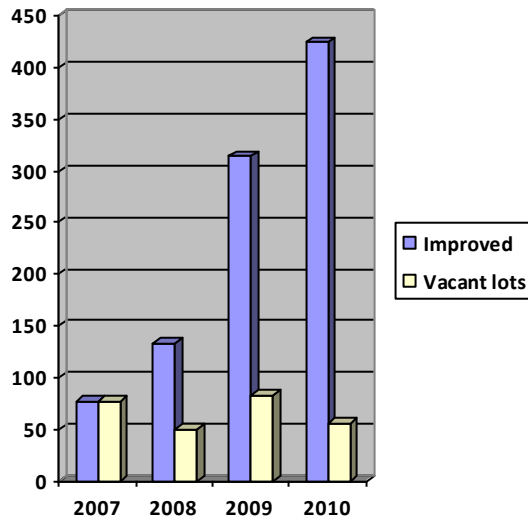
The current situation

In this period of extremely high rates of home mortgage foreclosure, it is no surprise that tax foreclosure also has skyrocketed. While two-thirds of local foreclosures result from failure to make mortgage payments, about one-third of local foreclosures have occurred because property owners have failed to pay their property taxes for several years. The number of houses taken through tax foreclosure this year is more than 500 percent higher than just three years ago.

After a tax-foreclosure judgment, owners have a 90-day period to pay their back taxes and have their properties returned. As the number of tax-foreclosure cases has risen, the proportion of owners who redeem their properties has fallen. One-third of *in rems* were redeemed in 2008 – only 10 percent were redeemed this year.

The graph illustrates the trend of tax foreclosure judgments since 2007. At present, the City has more than 500 residential properties in its inventory. Of this total, 30 properties were acquired prior to 2009.

In rem acquisitions



The growth in the *in rem* inventory comes at a time when the real estate market is seriously depressed. Sales of *in rem* properties have not kept up with the inventory.

There are several factors that account for this. There is a large number of one- and two-family homes available for sale, including about 1500 foreclosed properties owned by lenders. Prices are down across the real estate market, and bank-owned foreclosures are selling for about 50 percent of assessed value.

The wide array of affordable housing on the market provides intense competition for the *in rem* product, which generally compares unfavorably in terms of age and condition to privately-owned properties.

The tight credit crippling the entire housing market also impacts *in rem* properties. Most need significant repairs, yet there are few loan products available to finance both purchase and renovation costs.

These market dynamics mean that the City will likely own the current large inventory of properties for substantially longer periods than in past years. City government will bear increased responsibilities and higher costs as a result.

Meeting the challenge

DCD has been responsible for managing and marketing the City's *in rem* properties for many years. But the scope and scale of these responsibilities have risen dramatically since mid-2009. We will take a number of steps in light of this challenge.

I have created an *in rem* property team, whose sole responsibility is to handle the large *in rem* inventory. I have appointed Clifton Crump to lead this effort. He is assisted by several members of the real estate staff who have been involved in property management and marketing for many years. Clifton also will draw on the expertise of DCD housing rehabilitation and marketing staff members.

I have charged the team to meet three key goals:

- Maintain the highest standards of property management, preservation and maintenance.
- Reduce the *in rem* inventory, through vigorous and creative efforts to market property, and through demolition of property that is not feasible for re-sale.
- Collaborate with the Neighborhood Stabilization Program, to ensure that NSP foreclosure mitigation resources are applied to *in rem* properties.

Property management, preservation and maintenance

About half the City-owned houses are vacant at the time tax-foreclosure occurs, and the other half are occupied. Our goal for unoccupied properties that have market potential is to preserve them so they are good candidates for sale to private buyers. Our goal for all unoccupied properties is to ensure they do not negatively impact their neighborhoods; in some cases, this will require demolition.

We immediately secure vacant properties through boarding, and we also are responsible for cutting grass and snow removal at these properties. (The Forestry division of the Department of Public Works handles maintenance of City-owned vacant lots.)

While we are committed to promptly responding to neighbor complaints about boarded properties, I have directed our *in rem* team to devise more pro-active strategies for monitoring vacant properties. We work with the Department of Neighborhood Services on this.

Occupied properties present special challenges. For occupied homes whose condition makes them a good candidate for sale, our goal is to serve as a responsible landlord while preserving the properties for re-sale and return to the tax rolls. We have leases with the tenants in these properties, and collect rent from them. We use City funds to make repairs required to protect the health and safety of tenants.

On occasion, we find people living in a home where conditions threaten the safety of the occupants. In such cases, the tenants must leave, and the property is recommended for demolition.

The *in rem* team will make several changes to ensure we meet our property preservation and management goals.

- We are increasing administrative support for our property manager.
- We will seek a third-party vendor to respond to after-hours calls from tenants and neighbors.
- We will enlist the help of neighborhood organizations to assist in monitoring the condition of vacant *in rem* properties in their areas.
- We expect to purchase property management software, which will be particularly valuable for the management of occupied units.

Reducing the *in rem* inventory

Inventory reduction is a central goal of our efforts. I have directed our team to invigorate marketing efforts, to get more homes out of our inventory and back onto the tax rolls. We expect to use three tactics to sell more properties:

- Enlarging the sales force for City-owned properties.
- Making the product more competitive.
- Broadening the pool of buyers who can purchase *in rem* properties.

For some years, a single real estate staff member has been able to sell our *in rem* residential properties. DCD operates a robust web site that lists properties for sale, provides cost estimates for needed repairs, and shares information about housing grant and loan programs, including NSP. However, in the face of expanding inventory, we must expand the sales force beyond the walls of DCD.

I have charged our *in rem* team to devise strategies to involve neighbors, real estate brokers, home buyer counseling agencies, and others to help us market *in rem* properties. The team has already suggested some exciting ideas, like finder's fees, a broker and counselor education program, and "Walk to Worship," which would target marketing efforts to churches near *in rem* properties.

We also can take some measures to make our product more competitive. Our Neighborhood Stabilization Program staff is identifying *in rem* properties that can be sold as a package that includes rehabilitation grants and bank financing. The Homeownership Consortium is sponsoring a large home ownership fair in early December, and it's our goal to highlight these "packaged" properties at the fair, along with other City *in rem*s.

I've also asked the *in rem* team to look at pricing practices, to determine whether changes are warranted. In general, prices are set to cover the costs of maintenance, staff time and out-of-pocket sales expenses. Any net proceeds are returned to the Tax Deficit Fund. The average sale price for *in rem* properties sold in 2010 is under \$20,000, which equals, on average, 22 percent of the assessed value of the properties. Though prices are very modest, we need to determine if further price reductions would increase sales.

I would caution, however, that financial realities make the sale of many of *in rem* properties challenging, even when prices are at rock-bottom. DCD contracts with private home inspectors to identify health and safety issues that must be addressed when property is sold to a new owner. The inspector's report is vetted by the Dept. of Neighborhood Services, and then provided to prospective buyers. Nearly every *in rem* property requires some level of renovation, and it is not uncommon for the cost of required repairs to equal 50 percent or more of the assessed value of the property. Such situations make it difficult for buyers to obtain mortgage financing.

At present, we sell only to home owner-occupants, or to non-profit organizations that will renovate properties and sell them for home ownership. This policy is part of the department's strategy to encourage the growth of home owner-occupancy. However, it clearly limits the buyer pool for *in rem* properties.

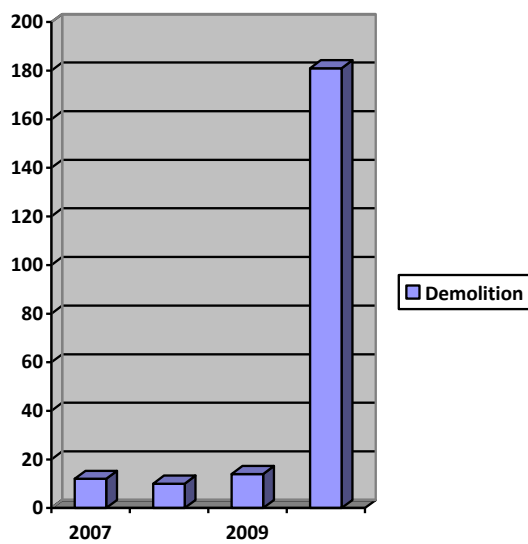
In the coming months, we would like to work with the Common Council to determine if it's appropriate to broaden the buyer pool for city properties. We have talked with several developers about the possibility of buying groups of *in rem* properties and nearby vacant lots for larger-scale redevelopment. We think there is potential to encourage investor-owners to purchase properties in the neighborhoods in which they already live. We also believe we must evaluate the costs and

benefits of selling *in rem*s to responsible landlords. We anticipate returning to the Council with a recommendation on these items by the end of the year.

Stepped up demolition activity also will be necessary. Funds for this work are currently available from several sources, including the federal Neighborhood Stabilization Program, Community Development Block Grant, and the City budget.

When the local alderperson signs off on a recommendation that an *in rem* property should be demolished, the Department of Neighborhood Services handles the contracting and oversight of demolition work. Right now, our staff has recommended demolition of 180 *in rem* properties. As the graph illustrates, this represents a very substantial increase over demolition activity in the past several years.

***In rem* demolitions**



Demolition creates vacant lots. Traditional re-use strategies include selling the property for in-fill residential construction, holding the property for a larger future development, selling the lot to adjacent owners for green space, and using the property for community gardens. We have begun to explore some alternative uses for vacant property, such as pop-up art exhibits, neighborhood exercise stations, and batting cages. As long as vacant lots remain in city ownership, they are maintained by the Forestry division of the Department of Public Works.

Leveraging NSP resources

The final element of our strategy to reduce the *in rem* inventory is to leverage the significant resources made available by the federal Neighborhood Stabilization Program. NSP has brought two types of resources: money, and outreach activities. I have directed the *in rem* team to leverage NSP capacity in both areas.

We plan to package NSP grant funds with *in rem* properties, so buyers have some of the cash they need to make needed repairs and renovations. The Department of Neighborhood Services also will rely heavily on NSP funds to demolish those properties in very poor condition.

NSP also has developed impressive capacity for community outreach and home ownership promotion, and I have charged the *in rem* team to take advantage of that capacity. We will enlist the NSP outreach staff to help promote purchase of *in rem* properties, and make sure City properties are well represented at home ownership fairs and home buyer workshops. We also will use Take Root Milwaukee, the promotional arm of the Milwaukee Homeownership Consortium, to spread the word about *in rem* purchase opportunities.

The City's *in rem* inventory includes a wide range of properties, occupied and vacant, marketable and blighting. The inventory is scattered across Milwaukee in a broad collection of neighborhoods. While the rapid growth of City-owned property presents enormous challenges for DCD and other City departments, we are confident that our *in rem* team is positioned to meet these challenges.

Sincerely,

A handwritten signature in blue ink that reads "Rocky Marcoux". The signature is written in a cursive, flowing style.

Rocky Marcoux
Commissioner

C: Commissioner Art Dahlberg, DNS
Commissioner Jeff Mantes, DPW