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Instrumental exploitation: Predatory property relations at city's end

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ABSTRACT

In the years since the financial crisis, low-income housing markets are increasingly dominated by speculative bulk ownership and eviction. These intertwined trends reflect both economic transitions in these markets and the racial-spatial reordering of US cities. In this paper we draw on the case of Detroit to tie bulk foreclosure sales to the rising rates of eviction and patterns of dispossession in the decade that followed. These markets are now dominated by speculative bulk buyers, exploitative contract selling, and eviction. We situate this transition within strategies of accumulation by dispossession and the economic logics of expulsion. We utilize multiple property data sets, court records, participant observation, and interviews to demonstrate the link between foreclosure markets, speculative purchasing, contract sales, and subsequent evictions. We situate these finding within the longer history of racial housing exploitation in US cities and argue the outcomes of displacement and dispossession in the complex chains of relations between finance, speculation, and the state do not land in an arbitrary manner, but are tethered to the past and present racial-spatial ordering of US cities.

1. Introduction

In the summer of 2016, Jennette Shannon was forcibly evicted from her home in Detroit. It was the culmination of a multi-year court battle in which Shannon alleged Thor Real Estate, a California-based contract seller and property speculator, failed to pay back taxes and committed mortgage fraud. Thor argued Shannon was two days late on a contract payment and could be evicted. The court ruled in Thor's favor. Shannon did not go quietly. She organized her neighbors, she sought out assistance with Detroit Eviction Defense and fought for her home until the police forced their way through human barricades and stood guard as hired workers broke down Shannon's front door and emptied her possessions into a dumpster.

The struggle over the home at 17127 Stansbury in Northwest Detroit is representative not only of the mass displacement that continues in the city of Detroit, but also the increasingly perilous conditions faced by those living on the margins or at "city's end," spaces in which urban futures, often without development, are being negotiated through dispossession (Akers, 2017a; Desmond, 2016; Roy, 2017; Sassen, 2014).[1] Post-crisis housing markets are marked by increasingly tenuous claims on property that are bound by the real and present threat of state-enforced eviction, displacement, relocation and the shuffling of ownership through global channels of finance and local channels of exploitation and expulsion.[2] The precarious circumstances of housing for low-income and minority communities in the US are a persistent feature of real property managed through markets. These result from a set of practices, actors and relations refined and repurposed in the booms and busts of land markets and resulting in displacement and dispossession; these include predatory landlords, lax inspections, owner-friendly courts, and the full force of the state in evictions. The remaking and reconfiguration of property markets in the aftermath of the financial crisis brought forward old practices of expropriation and exploitation in new forms, a rise in direct property speculation using global pools of capital, the expansion of property portfolios of unscrupulous local landlords, the use of instruments such as land contracts in low-income housing markets, and a reliance on state disinterest in contract negotiation and its willingness to enforce these same contracts to generate accumulation within a cycle of dispossession and displacement (Purser, 2016). In the case of Shannon, she was three years into a five-year contract. She was two days late on a payment. She lost the house, the payments she had made toward it, and, in the end, the contents inside.

Over the past decade new pipelines for predatory and speculative activity in housing markets emerged from the broader financial crisis,

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[1] Roy (2017) conceptualizes "city's end" as an analytic to engage the ontologies and geographies of dispossession. She offers two registers: first, a focus on the making and unmaking of place through "mundane and individualized" practices of property; second, an engagement with multiple forms of struggle against eviction and foreclosure and individuals' pursuit of resolution that range from repurchase to refusal to leave (Roy, 2017, p. A3).

[2] Crisis is a matter of scale, position and time. It is ongoing or imminent for those living through poverty in US cities, it is chronic for cities in decline such as Detroit, and there is the relatively temporary crisis of the financial crash for surviving financial firms. There is a latency and materiality to economic crisis experienced with varied tempos in different registers.

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the state response to serious financial disruption, and the ongoing financialization of real estate. This paper examines the evolution of these pipelines, mortgage and tax foreclosure markets, and speculator and investor practices in the City of Detroit.[3] We then focus on one aspect of housing markets following the crisis, the increasing use of land contracts and the relationship between the identified pipelines and increasing numbers of evictions. Our findings indicate a bifurcated system of predatory speculation between local and global capital. There is a significant expansion of activity by long-time local actors on the fringes of the housing market, particularly those with portfolios of slum rentals and houses for cash sales. In addition, there is an influx of global capital buying in volume and operating either as a wholesaler to smaller speculators or contracting with local companies for land contract sales and the management of property.

The prominence of local actors in these markets challenges totalizing narratives of financialization. In the US context, it demonstrates the ability of local actors, the tenement landlord of earlier decades, to adapt and expand despite the increasing liquidity of real property. It also reveals global real estate investment firms' dependence on this knowledge and the spatial fixity of local management companies (Gotham, 2009; Beswick et al., 2016). These local actors provide a historical through-line in understanding predatory speculative activity, the general targets of these activities, and the urban decline that follows. The twinned crises beginning in 2006 generated a volume of property beyond the capacity of local capital to absorb. Many local investment firms increased holdings by seeking new ways to offload costs onto tenants. Some local firms adapted to the changing market by following the lead of global investors. They expanded property management services while attempting to build rental and contract portfolios to sell to investors while maintaining a management role for a monthly fee. The case of global financial investment offers a diverse set of actors often preying on one another, rather than on residents in the city.[4] These liquidity-centered speculative investments have ancillary costs as houses sit vacant and deteriorate in neighborhoods. But when these owners' attention turns toward city residents, the instruments of choice are often the same as local speculators, the land contract, a local management company to collect payments, the bailiff to serve eviction papers, and clean out crews to empty the evictees' possessions into a dumpster. The presence of global capital is not new in Detroit and other cities in chronic decline. What we observe in the years following the financial crisis is a shift in the way that capital is invested in these places. It moves from standard financial channels deploying instruments such as subprime loans to limited liability companies buying and selling properties in bulk and utilizing land contracts. The crisis not only transformed urban landscapes, it also remade parts of the financial industry. Firms that formed to make bulk buys in foreclosure markets were often run by former investment bankers whose employer collapsed or was absorbed by another bank during the financial crisis. These firms often drew on the same investors and capital pools they had developed relationships with prior to the crisis. The impacts of these reformations in global capital at the local level are of volume and scale. National investment firms buying bulk foreclosures and selling on land contract are an evolution of the predatory practices existing in many of these neighborhoods before the crisis, not a new arrival of global capital.

There are three primary conditions that make this cycle of accumulation by repossession possible following the foreclosure crisis: The confluence of limited consumer credit, the damaged credit of individuals caught in the foreclosure crisis, and the sheer volume of undervalued houses on foreclosure markets. This third factor fed pipelines of speculative investment housing for bulk buyers with access to capital. The predatory and speculative approaches that emerged led to a volatile and exploitative market on the ground particularly in places like Baltimore (Purser, 2016; Rolnik, 2013), Cleveland (Rosenman and Walker, 2016), Detroit (Akers, 2013; Hackworth, 2016; Peck and Whiteside, 2016; Safransky, 2016), New Orleans (Lichtenstein and Weber, 2014), and St. Louis (Tighe and Ganning, 2015). These are majority-black cities with high poverty rates where black middle-class residents and retirees were targeted for subprime loans resulting in waves of foreclosures. This destabilized many established neighborhoods pulling residents into a cycle of displacement and dispossession through foreclosure and then eviction (Darden and Wyly, 2010; Immergluck, 2011b, 2009; Lapavitsas, 2013; Peck, 2012; Seymour, 2016; Wyly et al., 2010; Wyly and Brydolf-Horwitz, 2017). In these cities, the constriction of credit and increase in predatory activity in the housing market coupled with federally funded, state-enabled, and city-directed mass demolition programs have produced a neighborhood level patchwork of displacement without gentrification.

The complexity of these relationships requires multiple and diverse methods to follow the various channels through which property moves and is experienced. Our qualitative approach combines participant observation, archival work, the review of court records, and semi-structured interviews. For the past year, we worked with Detroit Eviction Defense, attending meetings, actions, and court proceedings while utilizing information on transitions in the housing market to work with individuals facing eviction. The quantitative work draws on a diversity of data sources to understand the ways in which property markets have transitioned in the past decade. These include real estate transaction records obtained from commercial and public sources, mortgage lending data reported under the Home Mortgage Disclosure Act (HMDA), mortgage foreclosures and land contract filings from the Wayne County Register of Deeds, tax foreclosure and auction sales data from the Wayne County Treasurer, and property speculator data from the research collective Property Praxis whose work utilizes City of Detroit Assessor data. The Property Praxis data was developed through the review of over 100,000 pages of public filings by limited liability companies to identify ownership and the network of companies controlled by bulk property owners. This analysis gives definition to spaces between the diffuse realm of financial exchange and its material impacts on people's everyday lives and the urban neighborhoods in which they live. We do this by tracking the volume of sales and purchasers in foreclosure markets since 2005 and by examining real estate market transactions in the same period. We then situate the current deployment of land contracts within a longer history of housing exploitation that targeted predominantly black inner cities in the US. We conclude with a consideration of how these practices and the complex chains they require are situated within a global economy of expulsion, the acts of accumulation by dispossession and repossession, and the outcomes of urban restructuring in the absence of development.

2. The margins of financialization: urban transition and race

The terrain of financialization, specifically its operation in US housing markets, remains fixed to the racial-spatial ordering of US cities. Though the financialization of housing produced liquidity out of spatial fixity, it is dependent on the state's expansion of markets or acquiescence in the exploitation of existing markets. It is the state's production and maintenance of racial inequality that carves this terrain. In urban areas and low-income communities, particularly those of color, the mortgage crisis and financial crisis laid waste to stable neighborhoods through dispossession and displacement. In the years following the financial crisis, these same areas remain the target of exploitation and eviction as speculative buyers in foreclosure markets revive malleable financial instruments such as the land contract to extract profits.

[3] The term speculator and investor are not interchangeable in this context. A speculator is defined as an owner of three or more properties in varying condition without a taxable address in close proximity. An investor is a multiple property owner in which their property is in some form of productive use or in the process of renovation.

[4] This speculative category runs the gamut from vacant and abandoned properties to fill REITS, international investment scams in UK and Europe, and pyramid type buyers clubs in Southeast Asia.