

## **Cook County Scavenger Sale Evaluation** **Released March 2021**



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## Cook County Scavenger Sale Evaluation

### Executive Summary

The property tax is the most important source of revenue for local governments, funding essential services like education and public safety. Local governments in Cook County collectively raised more than \$15 billion in property taxes last year alone. While the vast majority of property owners pay their bills in full and on time, every year there are some who fall behind. Those who fail to pay their taxes enter into a complex and opaque process governing tax delinquent property. The last step in the process, reached when other remedies have failed, is the Scavenger Sale. Held every two years, the Scavenger Sale is an institution unique to Cook County. It is an auction at which a property's outstanding tax debt, along with a right to acquire the underlying property itself, is sold to the highest bidder. In 2019, the most recent Scavenger Sale, nearly 30,000 properties—representing more than \$500 million in accumulated tax debt, interest, and fees—were involved in the auction.

This report offers the first independent, comprehensive analysis of the functioning and results of the Scavenger system in Cook County. Our analysis is based on public records obtained from multiple government agencies, representing every property involved in the Scavenger system between 2007 and 2019. We complement the public records analysis with an original survey of local developers, who evaluated a random sample of Scavenger-involved properties. The study's key findings are summarized in this Executive Summary.

**Key Finding #1:** The Scavenger system is not achieving its objective of returning tax delinquent properties to normal market use. In fact, relatively few properties receive bids at the Scavenger auction. In 2019, only 6% of properties were sold to private buyers, while 33% were claimed by the Cook County Land Bank Authority (CCLBA), and 61% received no bid. Prior to the creation of the CCLBA, roughly 94% of properties regularly went without bids in the auction. Moreover, most of the properties that are acquired, by public and private buyers alike, ultimately re-enter the system through various mechanisms, including provisions that allow buyers to forfeit a property or even to return it for a full refund. As a result, the Scavenger system has become a sort of limbo that few properties escape. According to our analysis, only 7% of all properties involved in the Scavenger Sale since 2007 have been successfully “taken to deed” (returned to the private market). Meanwhile, the number of properties in the system continues to accumulate, growing from 4,266 properties in 2007 to 28,466 in 2019.

**Key Finding #2:** Scavenger auctions are dominated by large institutions, with relatively little participation by small buyers. On average, only 130 individual bidders participated in each auction, and most of the successful bids have come from one of two sources. The CCLBA is by far the most active bidder. The CCLBA has used its authority to issue “no-cash bids” to acquire thousands of properties at each auction, at no cost, since it became active in 2015. Among private bidders, large institutional buyers, including several from out of state, account for the vast majority of sales. Eighty percent of private bids were placed by large corporate and institutional entities (defined here as those buying ten or more properties in a single year). It is unclear, based on our review, what interests motivate institutional private investors to participate so heavily and yet forfeit or return such a large portion of the properties to the County. Small-scale buyers, those who buy only 1 or 2 properties, accounted for only 4% of sales to private buyers, on average.

**Key Finding #3:** Properties involved in the Scavenger System are highly geographically concentrated, with most being found in 10 communities scattered throughout Western and Southern Cook County. A single community, Thornton Township, accounted for nearly a quarter of all listings. Scavenger-dense areas are overwhelmingly communities of color, with unemployment and poverty rates often double the countywide average. Developers participating in our survey also noted a perceived lack of public investment, particularly in schools and transit, in many Scavenger-dense neighborhoods.

**Key Finding #4:** Most of the Scavenger properties have little market value according to traditional measures. The majority of properties in the scavenger system are vacant, unimproved lots with no structures, located in areas with a glut of vacant land available. Many of the improved residential and commercial lots in the system are not economically desirable for site-specific or contextual reasons, while many others are ill-suited for independent development entirely due to their size or position. The average property in the Scavenger Sale in 2019 had a market value of \$26,000 according to the Cook County Assessor and a tax debt of nearly \$18,000. Even the Assessor’s modest valuation is likely too high, according to our analyses, given that most of these properties fail to sell to private buyers even when the costs to acquire them are reduced to nearly zero.

**Key Finding #5:** There are, however, some valuable properties contained in the Scavenger System that are going unsold. Developers participating in our survey identified many residential and commercial properties with potential for redevelopment, including some described as viable even without any renovation. Extrapolating from this small random sample of evaluated properties, the survey suggests that 10% to 15% of properties in the Scavenger System may be economically viable. Nevertheless, these properties have gone unsold, perhaps because potential developers are unaware of the Scavenger Sale or deterred from participating due to its barriers to entry. For instance, Scavenger listings are provided in consolidated data sets that may be difficult for non-specialists to navigate. Many buyers hire commercial agents to help them navigate the system and represent them in the Scavenger Sale, services that may be out of reach for small-scale developers. It is also unclear how much capacity private developers may have for increased Scavenger acquisitions, given the glut of low-valued property in many of these same neighborhoods.

## **Conclusion: The Need for a New Approach**

To be clear, nothing in our analysis indicates that the failings of the Scavenger System are due to poor management or administration. To the contrary, the system appears to be functioning as designed. And that is the problem. A market-based auction system reliant on private acquisition and commercial redevelopment is ill-equipped to address such a large number of distressed, tax-delinquent properties. The majority of the properties currently in the system are not desirable enough to sell at auction at any price. As the same properties continue to cycle through the auction again and again, year after year, there is no reason to expect the current system to deliver different results absent a change in the economic fundamentals for the properties and their surrounding communities. And yet, the nearly 30,000 properties in the Scavenger System collectively represent roughly 3,500 acres with the potential to contribute to the welfare of their surrounding neighborhoods. Unlocking that potential will ultimately require a new approach to dealing with distressed properties experiencing severe tax delinquency.

Despite the problems identified here, the Scavenger Sale process has remained largely unchanged since its introduction nearly eight decades ago. As the Scavenger Sale is only one aspect of an extremely large and complex property tax assessment and collection system involving numerous government agencies, reform is not a simple endeavor. Moreover, the property tax system is only one element of housing, land use, and municipal finance policy and practice throughout Cook County. As such, this report does not propose specific reforms but rather seeks to establish a data-driven baseline understanding of the current system, which can support and inform the formulation of much-needed policy reforms.

## Introduction

Throughout the United States, property taxes account for more than one third of all own-source revenue among local governments. In Cook County, Illinois, property taxes provide more than half of all own-source revenue for over 1,400 separate municipal corporations and other taxing authorities throughout the county.<sup>1</sup> For the 2019 tax year alone,<sup>2</sup> this resulted in a combined levy of nearly \$15.6 billion in property taxes across more than 1.8 million properties.<sup>3</sup> Roughly 5% of these properties, though, fall delinquent on their property taxes. Like most jurisdictions, Cook County attempts to recoup this outstanding amount through the sale of tax debts at an annual tax sale.<sup>4</sup> Unlike most other jurisdictions, however, in Cook County this process includes an additional step known as a “Scavenger Sale,” in which extremely delinquent tax debts that are not sold at the annual tax sale are auctioned off through a separate biennial sale.<sup>5</sup>

The Scavenger Sale provides a mechanism for severely tax delinquent debts to be auctioned off to the highest bidder, with the proceeds then returned to the various governments responsible for the underlying taxes. In exchange, the purchaser not only receives a right to collect the outstanding tax debt, but a right to potentially take possession of the underlying property. Roughly 20,000 to 30,000

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<sup>1</sup> “2019 Cook County Tax Rates Released,” Office of the Cook County Clerk, Real Estate and Tax Service Division (June 29, 2020), 18, <https://www.cookcountyclerk.com/sites/default/files/pdfs/2019%20tax%20rate%20report.pdf>. In Illinois, property taxes can be levied not only by City or County governments, but by numerous independent government bodies including water reclamation districts, sanitation districts, school districts, emergency service departments, libraries, park districts, and others. Illinois law defines any government entity which levies a property tax as a “tax district” or “taxing authority” regardless of size or function. While these terms are not entirely interchangeable within Illinois statute, they are used interchangeably for purposes of this report.

<sup>2</sup> Illinois law collectively refers to the full property taxation process from assessment through delinquency as a “tax cycle.” This process does not correlate with a calendar year however, for example the final installment for the 2018 tax levy was not due until mid-2019 (collection of the 2019 levy which was scheduled to occur in 2020 was delayed due to the COVID-19 pandemic and does not conform to the typical tax cycle timeline). This report utilizes both calendar year and tax year where appropriate, and makes this distinction in text, these terms should not be viewed interchangeably.

<sup>3</sup> Beginning with tax year 2019, the total combined levy includes a 3% adjustment, to account for the expected loss to uncollected taxes. See, “Re: Draft Scavenger Sale Study,” *Electronic communication between CMF and Cook County Treasurer*, (November 2020).

<sup>4</sup> The Cook County Tax Sale is an annual property auction in which the previous tax-cycles outstanding taxes are auctioned off to the highest bidder. In exchange, bidders buy the right to collect outstanding debts and interest. Bidders also receive the right to take possession of the underlying property for unpaid debts. This sale is a separate sale conducted prior to the biennial Scavenger Sale. While both sales are interrelated, this study does not endeavor to evaluate the annual Tax Sale and includes discussion of such only to provide to context for our evaluation of the Scavenger Sale.

<sup>5</sup> 35 ILCS 200/ 21-145.

properties are included in this auction, which occurs every two years. Representing roughly one to two percent of all properties county-wide, the Scavenger Sale was never intended to be a substantial tool for recouping outstanding taxes, and in fact has never been a source of significant revenue.<sup>6</sup> Rather, the Scavenger Sale's purpose is to return severely distressed properties to normal market conditions. In practice, though, very few Scavenger-involved properties ever successfully return to the private market. Rather, nearly all of these properties continue to recycle through the Scavenger Sale process for up to twenty years, at which point they are forfeited to the state.

Our review of all Scavenger Sales conducted since 2007 found that only 6% of all Scavenger-involved properties have successfully returned to the private market through the issuance of a tax deed. Instead, we found that more than half of all Scavenger-involved properties receive no bid, while properties which are acquired are usually returned and relisted for sale in subsequent auctions. This is true regardless of property class, value, or whether the property acquired by a private versus public entity. While a minority of Scavenger-involved properties which are acquired are later returned because of an error in the sale, a process known as a Sale-in-Error, the vast majority of properties are returned because the bidder simply allows the underlying tax-certificate to expire without any further action.

Only a small number of individual actors ever participate in the Scavenger Sale, with 360 registered-bidders in the 2019 sale, of which approximately half successfully acquired at least one property. Further, the large plurality of all Scavenger acquisitions are made by larger corporate entities, approximately 17% of acquisitions in 2019, or the Cook County Land Bank Authority (CCLBA) which accounts for 79% of all acquisitions in 2019. This latter group includes properties acquired through No Cash Bid (discussed further below) which allows the CCLBA and other government entities to acquire properties for zero up-front cost.

Scavenger-involved properties vary dramatically, from large industrial lots to properties too small for any independent use. In general, though, Scavenger-involved properties are valued well below market averages: roughly \$26,000 among Scavenger-involved residential properties, based on Assessor estimates. The bulk of these properties are vacant, unimproved lots. However, in-person

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<sup>6</sup> See for example, D. Haider, "Report to the Mayor's Committee for Economic and Cultural Development for the City of Chicago, Summary of Consultant's Report (Fall 1975), (unpublished), *as included in* Lawley at 8.

evaluation of a random sample of Scavenger-involved properties identified a number of properties in fair to good condition and with some market-potential. Assuming this random sample is representative of the whole, there may be as many as 3,000 to 5,000 properties of sufficient condition and value to be sold to private buyers in any given year's auction. It is unclear, however, what capacity the market would actually have to redevelop these properties given the extremely low demand for even non-distressed properties in most Scavenger-dense communities. The present stock of Scavenger-involved properties also includes a large number of properties which appear to be improperly recorded and unsuitable for independent use. These included properties incorrectly recorded with regard to occupancy, communal properties such as condo common areas, and parcels which should properly be joined with adjacent properties such as hedgerows and tree lawns.

The tax debts associated with Scavenger-involved properties also varied substantially, ranging from \$59 to \$1.5 million among 2019 properties. Properties can remain in the Scavenger Sale system for up to twenty years before being forfeited to the state, with each year's outstanding balance rolling over to the next year and collecting interest all the while. As a result, even small initial tax debts can compound significantly. Nevertheless, most debts were modest, only \$9,551 on average, with more than 5,000 properties listed with less than \$1,000 in debt.

Collectively, these results demonstrate that the Scavenger Sale is not achieving its intended function of returning distressed properties to normal market conditions. This does not appear to be the result of any specific failure in the program's administration; indeed, the Scavenger Sale is operating exactly as intended. The Scavenger Sale has produced similar results for decades, largely unaffected by changes in administration or even recent reforms such as the introduction of the CCLBA in 2013. The only significant change that has occurred over time is a pronounced expansion in the number of delinquent properties following the 2008 housing crisis, though even among this expanded population of homes, the relative distribution of these properties has held steady.

Instead, the failure to return significant numbers of properties to normal market condition appears to be driven primarily by regional issues which have driven down demand and produced a glut of low-valued properties throughout Cook County's Western and Southern communities. Scavenger-involved properties are highly concentrated, with nearly all properties located in less than one dozen communities. These communities, in turn, are highly comorbid with a range of other policy concerns

including above-average crime rates, reduced economic and educational opportunity, insufficient transit and healthcare access, and a general decline in public investment.

To reach these conclusions, the Center for Municipal Finance at the University of Chicago Harris School of Public Policy conducted a public records evaluation of all properties involved in the Scavenger Sale between 2007 and 2019. These records were acquired from a number of Cook County government entities including the Cook County Treasurer, the Cook County Assessor, the Cook County Clerk, and the Cook County Land Bank, as well as others (see Appendix for full list of data and sources). Collectively, these records provide a comprehensive economic picture of the more than 50,000 individual properties that have been involved in the Scavenger system during our period of observation. Specifically, these records include measures of the present physical, legal, financial, and tax condition of each property. Related records included in this review also provided data regarding the activity of various participants in the Scavenger Sale process, such as the corporate nature and financial scale of individual bidders.<sup>7</sup>

Our records evaluation was supplemented by in-person evaluation of a small, stratified random sample of properties currently involved in the system. These evaluations, conducted by independent and practicing property developers, not only provided real-world baseline data, but also afforded a more qualitative picture of Scavenger-involved properties which highlighted the diversity of properties involved and the broad range of factors impacting the Scavenger Sale's outcomes.

The following report presents our findings in four stages. Part One provides a brief discussion of the history of the Scavenger Sale system and its function within the broader tax collection and delinquency process. Also included in this background is a comparison of the Scavenger System with systems employed by other jurisdictions to address similar properties. Part Two presents the findings of our public-records evaluation, while Part Three presents the results of our field evaluations. Finally, Part Four extrapolates the findings of our random sample to the full population of Scavenger properties.

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<sup>7</sup> The findings presented here are based on original data provided by the various government offices responsible for their creation. A manual survey of these records revealed a small number of properties in which the actual present condition of the property did not match the condition recorded in official records. Such errors are common among property records maintained in many jurisdictions, as government officials cannot practically record the exact condition of every property in real time and perpetuity, and were not frequent enough to alter the broader findings of this study.



### **A. A note on the scope of this report**

In Cook County, as in most communities, the policies surrounding housing, property taxation, land development, and municipal finance are complex, multifaceted, and the subject of frequent debate. The Scavenger Sale, like any other element of Illinois' broader property tax system, cannot be viewed in isolation, and results from the policies and actions of numerous government agencies. This report is intended only to evaluate the Scavenger System, without direct evaluation of any ancillary public policies, or related tax procedures. This report does not seek to evaluate any of the government entities involved in the Scavenger system, nor make any policy recommendations. Rather, the Center's intent is that this first-of-its-kind baseline evaluation will provide a starting point from which further policy development and reform can proceed. In addition to public record requests, interested parties including the Office of Cook County Treasurer and the Cook County Land Bank were invited to provide their perspective and practical experience with the Scavenger Sale. These groups were also provided an opportunity to provide feedback to the Center's initial findings and their feedback provided invaluable context.

## Part I – Background and Context

While the specific procedures used to address chronically tax-delinquent properties vary from state to state, the majority of states employ either a tax-lien approach or a tax-deed approach. Under a tax-lien system, delinquent taxes are converted into a lien on the underlying property. Private buyers (and other government entities) can then purchase these liens and acquire a right to collect the outstanding tax debt either directly from the property owner or by foreclosing on the property. By foreclosing, a lien holder can force the property to be sold to the highest bidder, collecting the outstanding debt from the proceeds, and returning any excess revenue to the original property owner. In tax-deed jurisdictions, on the other hand, local or county governments sell “certificates of sale” which entitle the certificate holder to either collect the outstanding tax debt or take possession of the property through an expedited deed issuance.

Illinois takes this latter approach, offering certificates and the right to pursue both the debt and a future tax deed, at an annual “tax sale.” However, the Scavenger Sale employed in Cook County represents an additional step not used in any other jurisdiction reviewed by the Center. First introduced as one of a series of “backstops” built into the Revenue Act of 1943, the function of the system was to provide an alternative means for disposing of tax-delinquent properties that remained unsold after the annual tax sale.<sup>8</sup> In the decades since, the Scavenger sale has undergone relatively few reforms. The collective impact of those reforms that have occurred is threefold. First, the overall time frame for disposing of tax delinquent properties has been substantially reduced. For example, the number of years in which a property must be delinquent before qualifying for the Scavenger Sale has gradually been reduced from ten years to three. Second, the available procedures for acquiring possession of underlying properties have been consolidated from numerous alternatives into a single procedure: acquisition through an expedited tax deed. Finally, the minimum statutory bid has been gradually raised from \$0 to \$250.<sup>9</sup>

Today, the Scavenger Sale serves the same function, providing an option of last resort for local governments to return properties to normal market condition. It should be noted that, like most fiscal

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<sup>8</sup> J. Lawley, “Real Property Tax Delinquency and the Rehabilitation of Multi-Family Housing Stock in Chicago Illinois,” *DePaul Law Review* (Fall 1976), 25, 1, 2, at 8, available at <https://core.ac.uk/download/pdf/232968032.pdf>.

<sup>9</sup> *Id.*

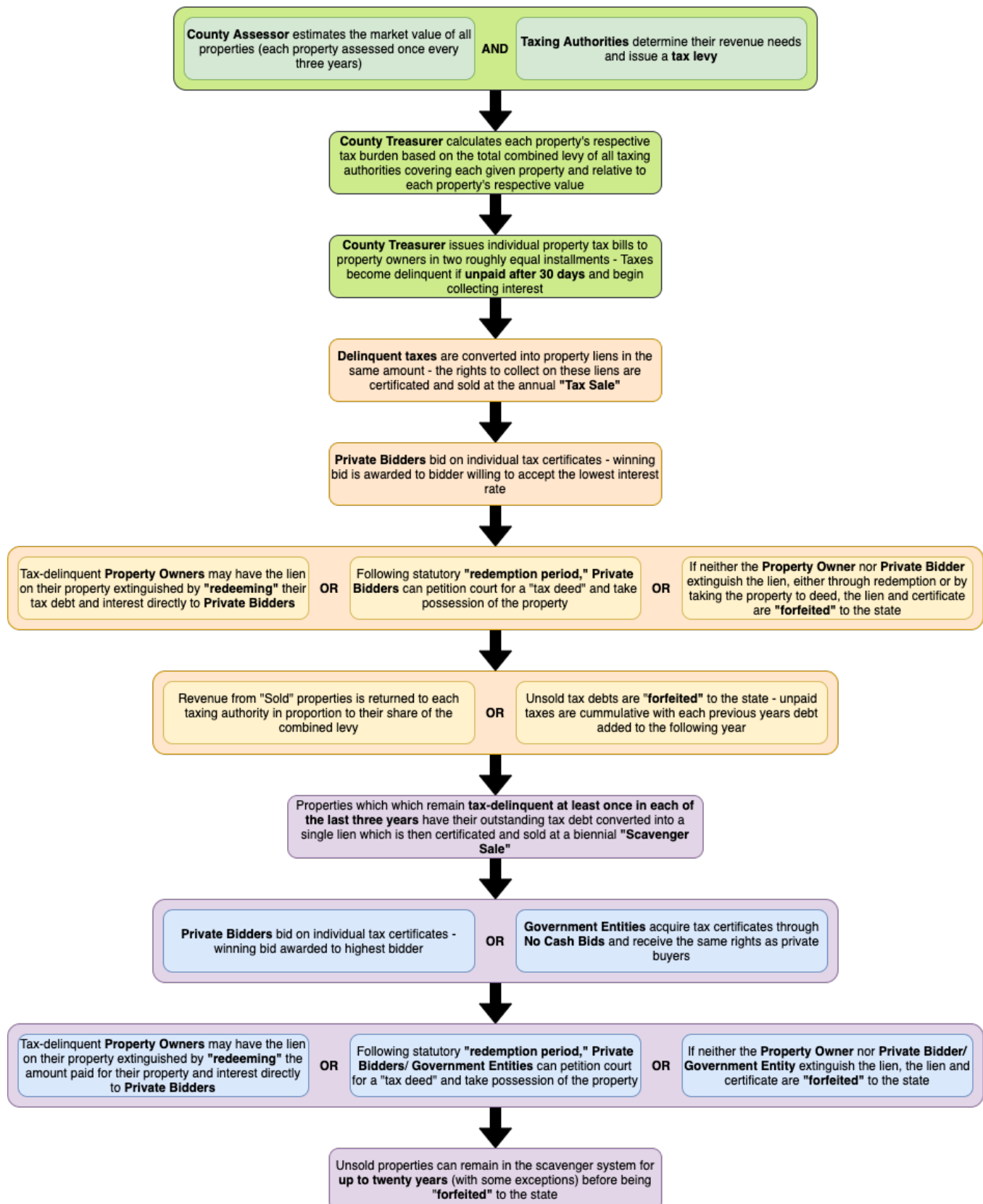
statutes, the laws governing the Scavenger Sale lack any express legislative intent to guide application of the law or provide a benchmark against which the policy's outcomes can be measured. Instead, a series of court cases and legal opinions have defined the program's intended function.

The modern incarnation of the Cook County Scavenger Sale is only one component of a much larger system for assessing property values, calculating the total tax levy, assessing and collecting property taxes, and, where needed, collecting on and disposing of tax-delinquent properties. This process relies on a coordinated effort between local governments, the County Treasurer, County Assessor, and County Clerk to accurately calculate, bill, collect, and record the more than \$15 billion in property taxes that are assessed throughout the county every year. Figure 1 below provides an abridged outline of this process. In this figure, steps shaded in green represent normal, on-time assessment, billing, and collection steps. Steps shaded in yellow represent those related to the annual Tax Sale, while those shaded in purple are related to the biennial Scavenger Sale. According to estimates provided by the Cook County Treasurer, approximately 95% of all property taxes are paid on-time through the standard pre-delinquency process (green), while another approximately 4.5% of properties are redeemed by the property owner through the Tax Sale (yellow). By the time the Cook County Treasurer has completed each year's Tax Sale, approximately 99.5% of all outstanding property taxes has been recovered for that particular tax year. The Scavenger Sale includes only the remaining approximately 0.5% of property taxes left uncollected county-wide.<sup>10</sup>

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<sup>10</sup> See "Re: Draft."

**Figure 1 – Cook County Property Tax Assessment, Collection, and Enforcement Process**



As Figure 1 demonstrates the Scavenger Sale is only one piece of a much larger, integrated system. In short, this process is as follows:

1. This process begins when the approximately 1,400 local taxing authorities throughout the county determine their annual budget and revenue needs. Each authority calculates the total property tax revenue needed and issues a tax “levy” in this amount. Each authority submits a separate levy to the County Treasurer for billing and collection among respective properties; the final annual county-wide tax levy is the combined total of each of these separately calculated amounts.<sup>11</sup>
2. The County Assessor estimates the market value and assessed value of every property in the county. In Cook County, properties are evaluated once every three years depending on their location. Each property’s assessed value is submitted to the County Treasurer, and will be the amount on which each property’s respective property taxes will be calculated.
3. Because taxing districts do not have uniform boundaries, and because most properties lie within more than one overlapping tax district, the County Treasurer calculates an individual property tax amount for each property according to the jurisdictions in which it sits.
4. Tax bills are sent twice annually, each equal to roughly half of a property’s total tax debt. Property owners are responsible for paying these amounts within thirty days. Failure to meet this deadline results in the amount becoming delinquent, at which point it begins collecting interest. Property owners who wish to contest their bill, either because they believe their property was incorrectly valued by the Assessor or incorrectly billed by the Treasurer, are still obliged to pay their taxes under protest.
5. Within thirteen months following the second installment due date, the County Treasurer holds an annual “Tax Sale” during which the total tax debt outstanding for each property is auctioned off as a lien on the property. Private bidders agree to pay the total outstanding tax debt, upfront, in exchange for the right to collect the same amount from the property owner, with interest. At this stage, tax liens are sold to the *lowest* bidder, meaning the bidder who agrees to charge the lowest interest rate.
6. Property owners have a statutory period after this sale to “redeem” their taxes by paying off the full debt including any taxes which have come due after the Tax Sale, plus interest and fees. Failure to redeem this debt entitles the holder of the tax certificate to pursue a tax deed and take possession of the underlying property. In addition to their original bid, tax buyers seeking a tax deed must also pay off any outstanding taxes which may have come due after the tax sale but before the deed has been issued.

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<sup>11</sup> These authorities include both municipal corporations as well as special districts for services such as schools, emergency services, water treatment, and parks. Each authority determines their needed tax levy, generally equal to their expected expenses minus any revenue from other sources such as grants or service fees. In recent years, these figures have also included an approximately 3% adjustment to compensate for uncollected taxes (though this amount is calculated and applied by the Treasurer later on).

7. Properties which fall delinquent on either tax installment in each of the past three years then proceed to a separate “Scavenger Sale,” held biennially and in conjunction with the annual Tax Sale. At this auction, properties are sold to the *highest* bidder; however, properties may be, and typically are, sold for less than the total taxes owed, with a minimum statutory bid of \$250. Importantly, bidders at both the Scavenger Sale and Tax Sale receive the same tax certificates, which entitle the bidder in both cases to collect the full outstanding debt and to take possession of the property through a tax deed.<sup>12</sup> Because outstanding taxes must be sold at the annual tax sale each year, and the full balance paid upfront, properties effectively must fail to sell in at least two previous tax sales in order to be included in the Scavenger sale.
8. Property owners are provided another statutory redemption period, during which the property owner can pay off the outstanding balance and avoid losing their property. Just as in the Tax Sale, if an original property owner wishes to extinguish the lien on their property, they must pay the full outstanding tax debt, plus any taxes which came due after the certificate is sold, plus any interest or fees. Failure to redeem this debt entitles the holder of the tax certificate to pursue a tax deed and take possession of the underlying property. In addition to their original bid, Scavenger buyers seeking a tax deed must also pay off any outstanding taxes which have come due after the tax sale but before the deed has been issued.
9. All outstanding tax debt accumulated prior to the auction is extinguished when any of the following occur:
  - a. The property owner redeems their full outstanding debt.
  - b. The tax buyer successfully acquires a tax deed. Regardless of whether a property is initially acquired by a private buyer or through No Cash Bid, once that property is successfully transferred to a new owner via tax deed, any remaining debt is extinguished.

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<sup>12</sup> The Scavenger Sale and Tax Sale, though operated separately, function the same for practical purposes. Both systems convert tax debts into a lien which is certificated and sold to private buyers. In exchange private buyers in both cases receive the same rights. Both systems also permit a government entity to bid on and acquire tax certificates through a No Cash Bid. There are however four key differences between the two systems. First, the technical procedures, timing, and mechanics for facilitating the Scavenger sale and redemption systems differ between these two systems. Second, the overall value and condition of properties included in the Scavenger sale is generally much lower than among properties which are sold at the tax sale. This is an intended function of the Scavenger system, though, as it specifically serves to address those properties which buyers have already passed on at the tax sale. Third, government entities may only acquire properties at the Tax Sale through No Cash Bid if there is no private bidder; at the Scavenger sale however, governments may submit a No Cash Bid on any property and will only lose that bid if a private bidder is willing to bid more than the total tax debt owed (discussed further below). Finally, and perhaps most importantly, buyers at the Tax Sale must pay the *full* amount of back taxes up front, while buyers at the Scavenger sale need only pay the total amount bid (including fees). As a result, bidders at the Scavenger sale typically acquire certificates, and the right to acquire the underlying properties, for significantly less than the outstanding tax debt.

- c. Properties acquired through No Cash Bid can also be transferred to a new government entity for permanent ownership through the issuance of a tax deed.
10. Prior to any of the above occurring, any interested party can petition the court to have either a tax sale or Scavenger sale declared-in-error after the fact, in which case the sale is voided and the tax buyer is refunded any amounts paid, with interest. Though a sale-in-error can only be declared under a limited number of circumstances, these limits have historically been interpreted liberally by courts.
  11. If a property is not disposed of in any of the above ways, and the redemption period following either a Tax Sale or Scavenger Sale is allowed to expire without action from either the property owner or the tax buyer, the certificate is voided and the lien forfeited to the state. These properties are then relisted for future sale. Importantly, a property's underlying tax debt is only extinguished when the property is successfully taken to deed. If a property is forfeited to the state, the full outstanding tax debt remains.

As mentioned, the forgoing Scavenger sale procedures represent an additional step in the tax delinquency process that is unique not only to Illinois, but specifically Cook County. In contrast, most states have consolidated their procedures for dealing with delinquent properties even further, typically involving only a single tax sale or foreclosure process. A small number of states and municipalities do operate more complex systems, involving additional steps beyond a single tax sale, though again, this review failed to find any such systems which resembled the Scavenger Sale. Figure 2 below provides a comparison of the property tax delinquency process in Cook County, Milwaukee, and New York City. This table shows variations of a common theme, but the distinctions can have significant implications.

**Figure 2 – Tax-Delinquent Property Procedures Across Various Jurisdictions**

<b>Cook County, Illinois</b>	<b>Milwaukee County, Wisconsin<sup>13</sup></b>	<b>New York City, New York<sup>14</sup></b>
<p>Delinquent taxes are certificated and sold to private buyers. After redemption period for owner to save their property, certificate holder can take deed or let property revert to county.</p> <p>Taxes that go unsold are placed in biennial Scavenger Sale where buyers get the same rights. Properties remain in this system in perpetuity for up to 20 yrs before forfeiting to the state.</p>	<p>Delinquent taxes are certificated and certificates issues to the County on behalf of the taxing jurisdiction. After redemption period County can take possession of property. Properties are at recurring auctions and winning bids must satisfy all outstanding debts.</p> <p>Properties with 4+ yrs delinquent taxes are placed in an Extended Listing where they are listed for sale at a fixed price until sold.</p>	<p>Delinquent taxes are certificated and held in a City-managed trust fund. Bonds are issued backed by expected revenue from tax delinquency and interest, allowing home owners to extend their redemption period while maintaining up-front cash flows for the City.</p> <p>Extremely distressed properties are pulled from the tax delinquency system entirely. These properties are packaged and sold in bulk to pre-qualified non-profit buyers, allowing revenue from occupied structures to offset risk of other vacant properties.</p>
<p>County government has exclusive control over tax delinquency process.</p> <p>The Scavenger System is unique to Cook County.</p>	<p>Both county and “populous” city (750,000+ pop.) governments have identical powers regard tax delinquency.</p> <p>Both systems operate separately but in conjunction and coordination.</p>	<p>Each borough represents a separate county. As such, tax delinquency within all five Burroughs is handled by the city.</p> <p>This system is unique to New York City.</p>
<ul style="list-style-type: none"> <li>• 2019 Scavenger listings: ~28,000</li> <li>• 2019 Scavenger sales: ~1,700</li> </ul>	<ul style="list-style-type: none"> <li>• Sales are conducted on rolling basis.</li> <li>• Current listings, County: 12</li> <li>• Listings Last Auction, City: 21</li> <li>• Current extended listings, City: 19</li> <li>• 2020 sales, County: 11</li> <li>• Sales Last Auction, City: 6</li> </ul>	<ul style="list-style-type: none"> <li>• 2020 listings: ~63,000</li> <li>• 2020 sales: ~43,000</li> </ul>

<sup>13</sup> <https://county.milwaukee.gov/EN/Treasurer/Foreclosed-Property-Sales;>  
[https://city.milwaukee.gov/DCD/CityRealEstate/CityHouses.](https://city.milwaukee.gov/DCD/CityRealEstate/CityHouses)

<sup>14</sup> [https://www1.nyc.gov/site/finance/taxes/property-rolling-sales-data.page.](https://www1.nyc.gov/site/finance/taxes/property-rolling-sales-data.page)

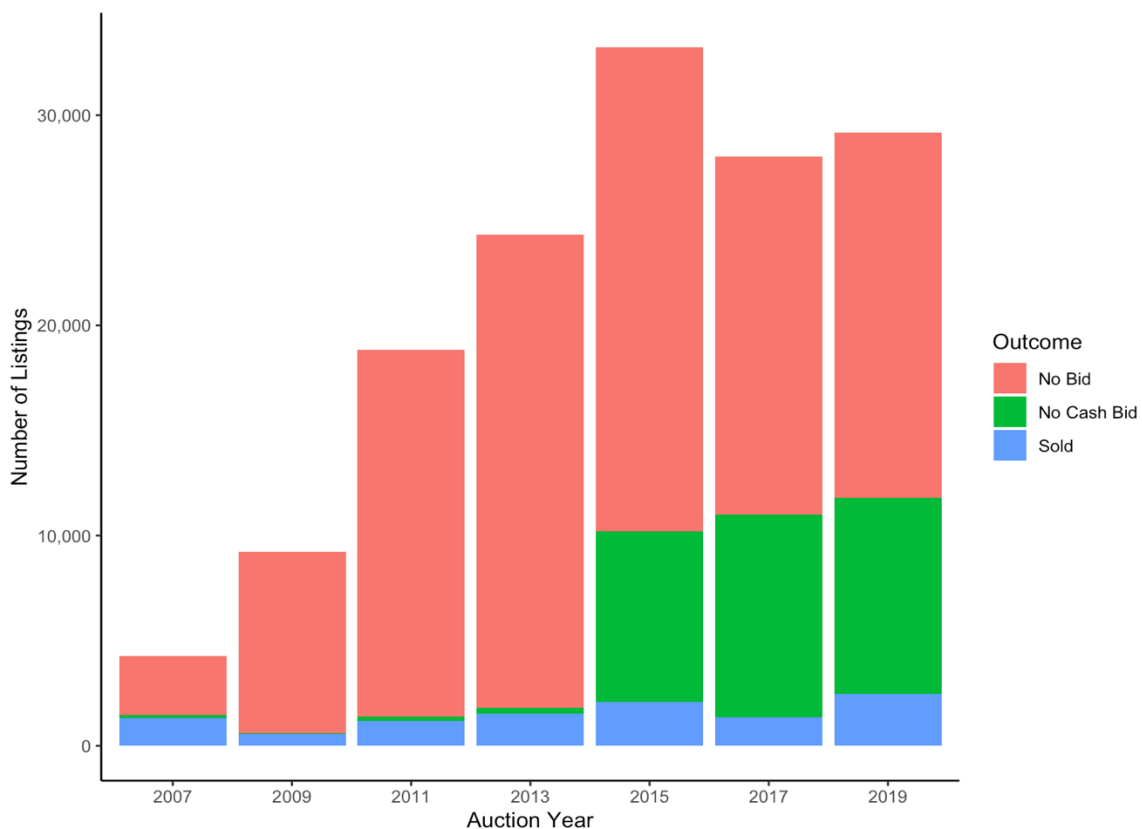


## Part II – Public Records Evaluation and Findings

### A. An Evaluation of the Scavenger Sale

**General Trends** - The Scavenger sale has grown substantially in Cook County following the 2008 recession, reaching a 2015 peak of 33,214 listings before declining and leveling off in the years since at just under 30,000 listings per auction. Figure 3 shows the total number of properties involved in the Scavenger Sale since 2007, and demonstrates the modest and stable number of properties which are sold in any given year (sold properties are shaded blue). Similarly, this graph highlights the much larger share of Scavenger acquisitions made through “No Cash Bids” (shaded green).

**Figure 3 – Total Properties Involved in the Scavenger Sale, by Disposition and Year (2007 – 2019)**



State law requires the County Treasurer to record all Scavenger listings in one of three categories: Sold, No Bid (unsold properties), and No Cash Bid. This latter group, No Cash Bid, represents the bulk of Scavenger sale acquisitions since 2015, and includes any acquisitions made by

county or local government bodies. Illinois law permits any taxing authority to bid on any property at the Scavenger Sale in the same manner as a private bidder, though in practice the CCLBA has been the only public participant.

The key distinction with No Cash Bids is that, as the name implies, they do not require the bidding government entity to pay any upfront cost for their bid. Nevertheless, for the purposes of the auction, No Cash Bids are considered to be placed in the amount of the full outstanding tax debt. This means that a No Cash Bid will, by default, always win, unless a private bidder is willing to “over-bid” and pay more than the total amount of outstanding taxes. With a statutory minimum bid of only \$250, the structure of the No Cash Bid can create a significant gap between the value of an expected maximum bid from private buyers and the minimum bid necessary to overcome a No Cash Bid. For example, the average private bid paid in 2019 (including any necessary interest and fees) was \$5,144.91, but the average outstanding debt among these same properties was \$9,745.13. Unfortunately, public data only records the winning bid for each property, so it was not possible to determine how many properties that are listed as No Cash Bid may have also received any lesser private bids. However, the average bid necessary to defeat a No Cash bid in 2019 was \$10,778, more than double the average price paid by private bidders, while less than half of Sold properties received over-bids, 4,499 properties total.

The act of placing a No Cash Bid by a government entity effectively pauses the tax delinquency: while the property remains subject to its normal property tax burden, the outstanding balance no longer collects interest or fees for the entire period in which the tax certificate in question is held by a government entity. If upon the expiration of the redemption period, a taxing authority chooses to pursue a permanent tax deed, the full outstanding tax deed, including all interest and fees, is permanently extinguished. Again, if the property’s redemption period expires without either the bidding government entity pursuing a tax deed or the original owner redeeming their outstanding taxes, the sale is voided, the tax debt remains, and the property is relisted for sale at the next auction. Each taxing authority has the same power to place No Cash Bids and to eventually pursue a tax deed. In practice though, Cook County, or an instrumentality thereof, almost always act “as trustee” for

individual taxing authorities, acquiring the property at auction and transferring the property to an individual municipality or taxing authority upon issuance of a tax deed.<sup>15</sup>

In 2013 the Cook County Board of Commissioners created the Cook County Land Bank Authority (CCLBA) to act in this role of “trustee,” acquiring properties on behalf of the County. The CCLBA began participating in the Scavenger sale in 2015, accounting for the substantial growth in No Cash Bids in years since, as demonstrated in Figure 3 above. Because public records do not record any unique bidder identifier for No Cash Bid properties, it is not possible to determine what portion of No Cash Bids are placed by the CCLBA from this data alone.<sup>16</sup> As Figure 4 below demonstrates, though, No Cash Bids as a share of all listings grew from just over 1% in 2013 to nearly 25% in 2015; without evidence of any other changes to the Scavenger system during this time, suggesting that nearly all No Cash Bids placed since 2015 have been placed by the CCLBA.

Figure 4 below provides the real and relative portion of each year’s Scavenger listings by their disposition, and again demonstrates the overall growth of the system. As this table shows, with the exception of 2007, the proportion of properties which actually sold was only approximately 4-6% of all properties in any given year. Again, the large spike in “No Cash Bid” totals seen in Figures 3 and 4 demonstrate the impact of the creation of the CCLBA in 2013, and its participation in all subsequent sales. As Figure 4 highlights, while the number of No Cash Bids has grown substantially as a result of CCLBA inclusion, this has not produced any obvious change in the number of privately sold properties. In fact, both the total number of private sales and the relative proportion of private sales among all acquisitions has increased since CCLBA introduction, while the total volume of Scavenger properties has held steady.

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<sup>15</sup> 35 ILCS 200/21-260(g).

<sup>16</sup> As of the writing of this draft, a request has been made to both the CCLBA and the Cook County Treasurer for any records which may answer this question. At this time, the Center is awaiting a response from either party.

**Figure 4 – Properties Involved in the Scavenger Sale, by Disposition and Year, As a Percentage of the Total**

	2007		2009		2011		2013	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
<b>No Bid</b>	2806	65.78%	8642	93.78%	17457	94.03%	22496	93.82%
<b>No Cash Bid</b>	134	3.14%	33	0.36%	193	1.04%	283	1.18%
<b>Sold</b>	1326	31.08%	540	5.86%	916	4.93%	1198	5.00%
<b>Total</b>	4266		9215		18566		23977	
	2015		2017		2019			
	Number	Percent	Number	Percent	Number	Percent		
<b>No Bid</b>	23003	70.27%	17044	61.35%	17371	61.02%		
<b>No Cash Bid</b>	8130	24.84%	9643	34.71%	9346	32.83%		
<b>Sold</b>	1603	4.90%	1093	3.93%	1749	6.14%		
<b>Total</b>	32736		27780		28466			

Figure 4 again highlights that while the system has expanded to involve many more properties between 2007 and 2019, the disposition of these properties has been comparatively stable. Following a sharp decline in 2009, the total number of sales has remained between approximately 1,000 – 2,000 properties per sale, while the percentage of properties sold to private buyers has been stable at around 4 to 6 percent. This proportion was unaffected by changes to either the total number of listings or the total number of No Cash Bids.

**Fiscal Implications** – While the purpose of the Scavenger Sale is not to generate revenue or recoup unpaid taxes, the sheer scale of Cook County’s housing stock means that the Scavenger system inherently involves a significant amount of property and tax value. Moreover, because of the repetitive and chronic nature of most properties’ involvement in the Scavenger Sale (discussed further below), the implications for these properties are compounded. For example, the properties listed in 2019 alone represent a collective assessed value in excess of \$187.8 million (in Cook County, taxes are assessed on only 10% of market value for residential properties and 25% of market value for commercial properties). And because these properties can, and frequently do, remain tax-delinquent and Scavenger-involved for many years, the accumulated debt of these properties amounts to more than \$503 million (this includes all taxes owed from previous years, interest, and fees, as well as 2019 taxes). Figure 5 below provides both total and average values for all Scavenger-involved properties in 2019.

**Figure 5 – Summary Scavenger Sale Financial Statistics (2019)**

All Properties - 2019				
	Median	Mean	Max	Total
Assessed Value	\$ 714.37	\$ 2,605.62	\$ 5,718,901.00	\$ 187,835,675.00
Total Tax Debt	\$ 6,994.30	\$ 17,677.65	\$ 10,179,695.60	\$ 503,424,203.06
Sold Properties - 2019				
	Median	Mean	Max	Total
Assessed Value	\$ 5,234.00	\$ 7,738.19	\$ 222,156.00	\$ 18,726,414.00
Total Tax Debt	\$ 690.00	\$ 7,247.70	\$ 263,951.70	\$ 12,763,196.44
No Cash Bid Properties - 2019				
	Median	Mean	Max	Total
Assessed Value	\$ 5,507.00	\$ 13,280.49	\$ 5,718,901.00	\$ 123,455,470.00
Total Tax Debt	\$ 11,304.17	\$ 32,466.08	\$ 10,179,695.60	\$ 303,427,984.77
No Bid Properties - 2019				
	Median	Mean	Max	Total
Assessed Value	\$ 1,866.00	\$ 2,650.44	\$ 324,008.00	\$ 45,653,791.00
Total Tax Debt	\$ 5,639.12	\$ 10,778.48	\$ 780,192.30	\$ 187,233,021.85

Figure 5 again demonstrates the exceptionally low value of Scavenger-involved properties using traditional economic measures. Both median and mean assessed values across all properties were less than \$15,000. While the average assessed value within the Sold and No Cash Bid categories are very similar, the average tax burdens are starkly different. Though Scavenger Sale prices are not tied to a property's underlying tax debt, as they are with the Tax Sale, private buyers nevertheless demonstrated an aversion to properties with significant tax debt. Both the mean and median tax debts among Sold properties were less than half of the averages among all properties. In contrast, both mean and median tax debts among No Cash Bid properties were nearly twice the average among all properties. The properties that receive no bids from either government or private bidders represent the lowest-valued properties, with average assessed values below \$3,000.

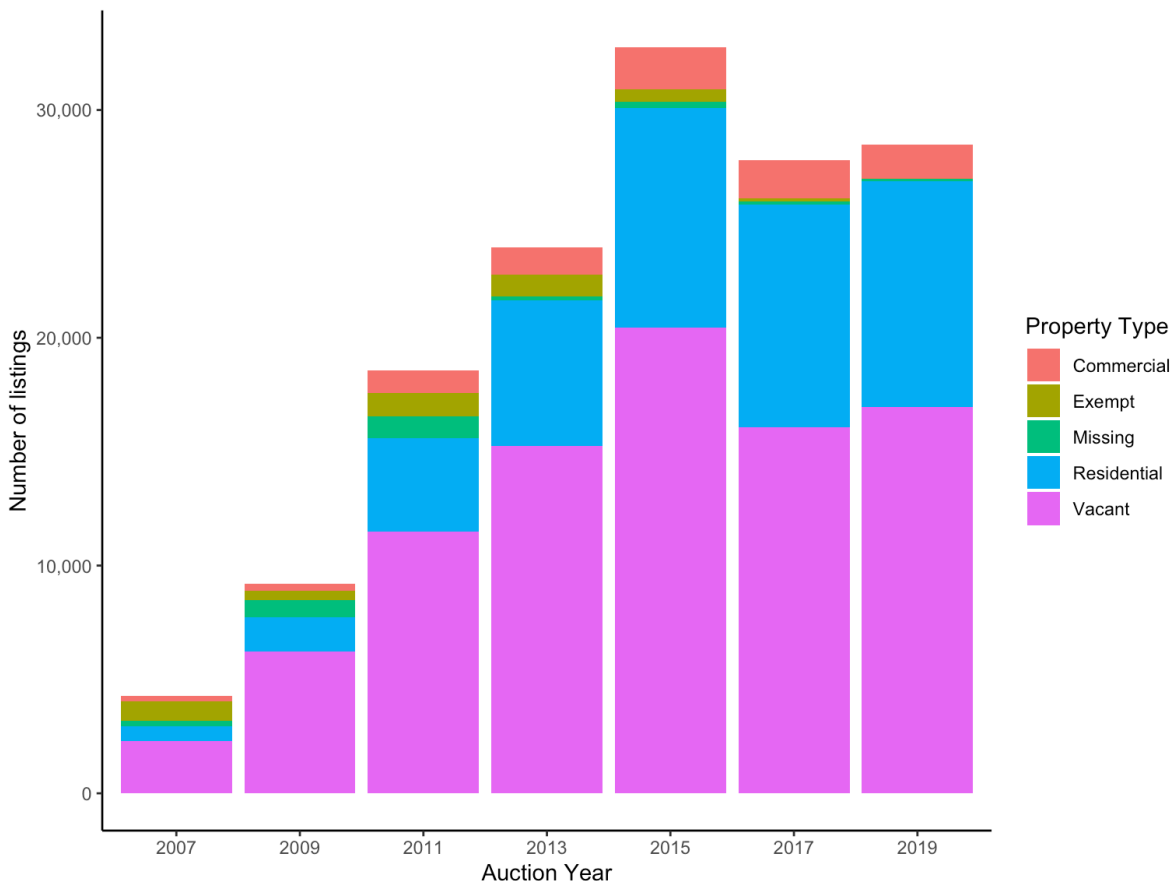
While 90% all properties listed in the 2019 Scavenger sale had assessed values below \$10,000 and total tax debts of less than \$25,000, there were a small number of properties with values well beyond these averages. In 2019, 238 Scavenger listings had assessed values in excess of \$1 million, 36 of these were Sold properties, while 53 of them were No Cash Bids. Similarly, approximately 7.4% of all 2019 properties had total tax debts above \$50,000, of which 732 were Sold while 1,058 were No Cash Bids. While Sold properties accounted for the majority of these extreme values, the number of outlying No Cash Bid properties was much more pronounced. Among Sold properties, the maximum assessed value was just under \$222,000 while among No Cash Bid properties this value was nearly \$5.75 million.

Total tax debts displayed a similar trend, with maximum values for Sold and No Cash Bid properties of approximately \$265,000 versus more than \$10 million, respectively.

## B. An Evaluation of Scavenger-Involved Properties

**Property Type** - Figure 6 below includes all Scavenger-involved properties, regardless of their ultimate disposition, broken down by property class. As this graph shows, 61% of all Scavenger listings, both collectively and within any given year, are vacant, unimproved parcels. Residential properties represent most of the remainder, accounting for 29% of all listings, while commercial properties represent nearly the entire remainder in recent years. Prior to 2017, tax-exempt properties and those with missing classification data constituted a more significant portion, representing a quarter of all 2007 listings compared to less than one half of one percent in 2019.

**Figure 6 – Distribution of All Scavenger-Involved Properties (2007-2019)**



The most notable trend in the composition of the scavenger system over this time period is that residential properties have grown from approximately 16% to approximately 35% of the total.

**Figure 7 – All Properties as a Portion of the Total, by Type and Year (2007-2019)**

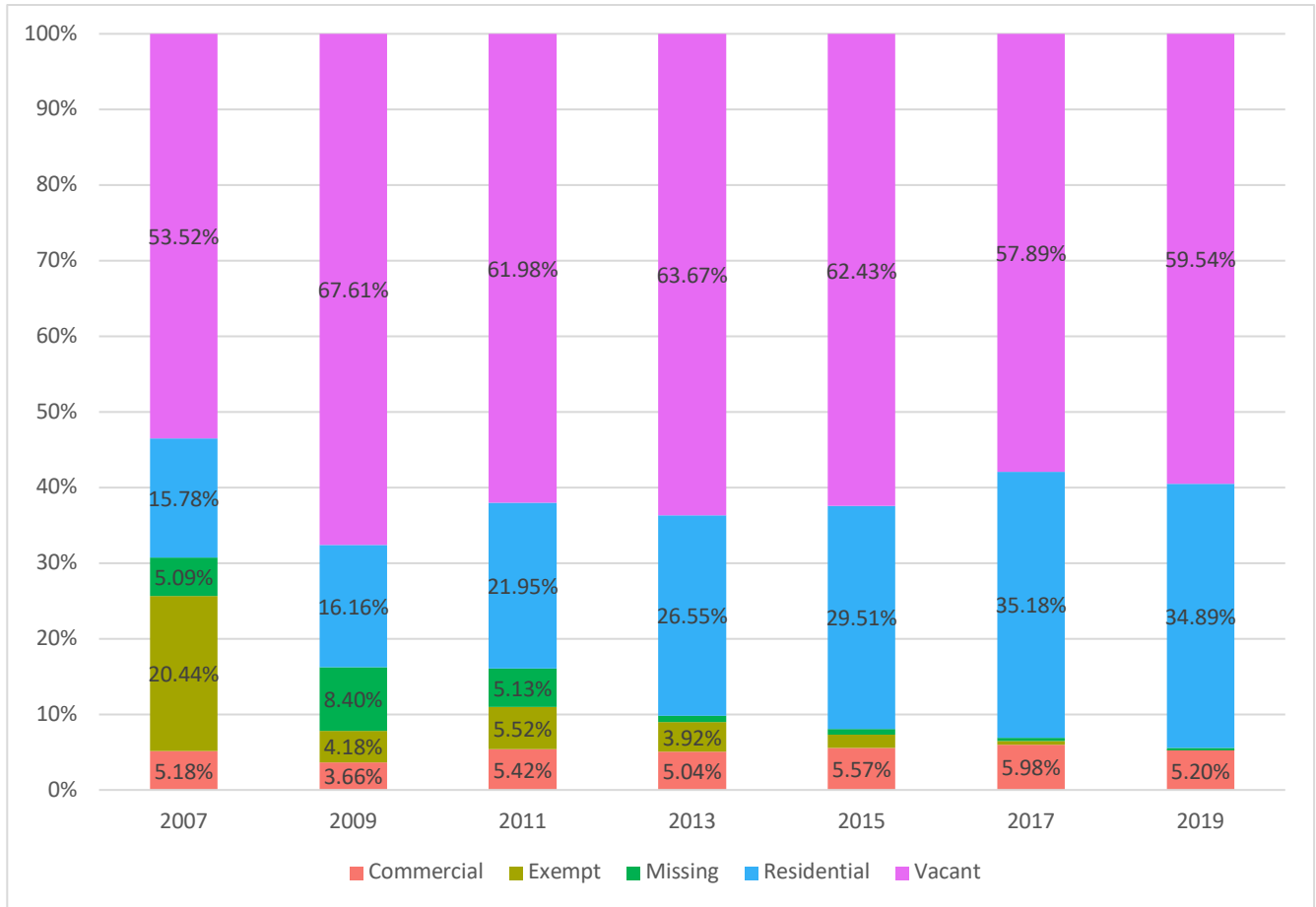


Figure 8 shows the distribution of properties classes among only Sold properties, which, saw much more pronounced change during our observation period. In general, while the number of residential properties has increased since 2009, accounting for more than half of all sales in 2019, the number of commercial properties has fallen substantially. Vacant properties demonstrated a more modest decline, still accounting for more than 22% of sold properties in 2019.

**Figure 8 – Distribution of All Sold Properties by Type and Year (2007 – 2019)**

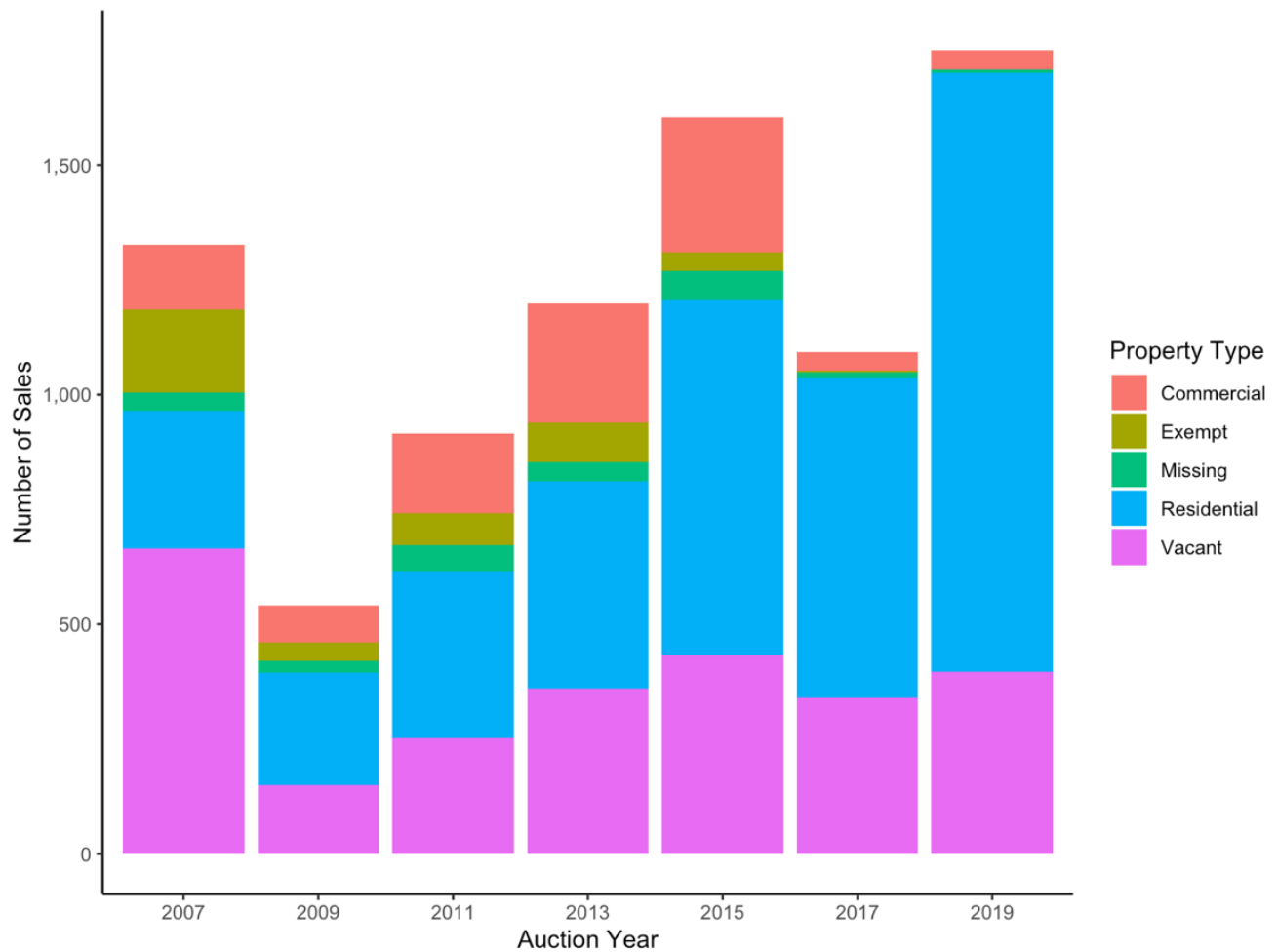
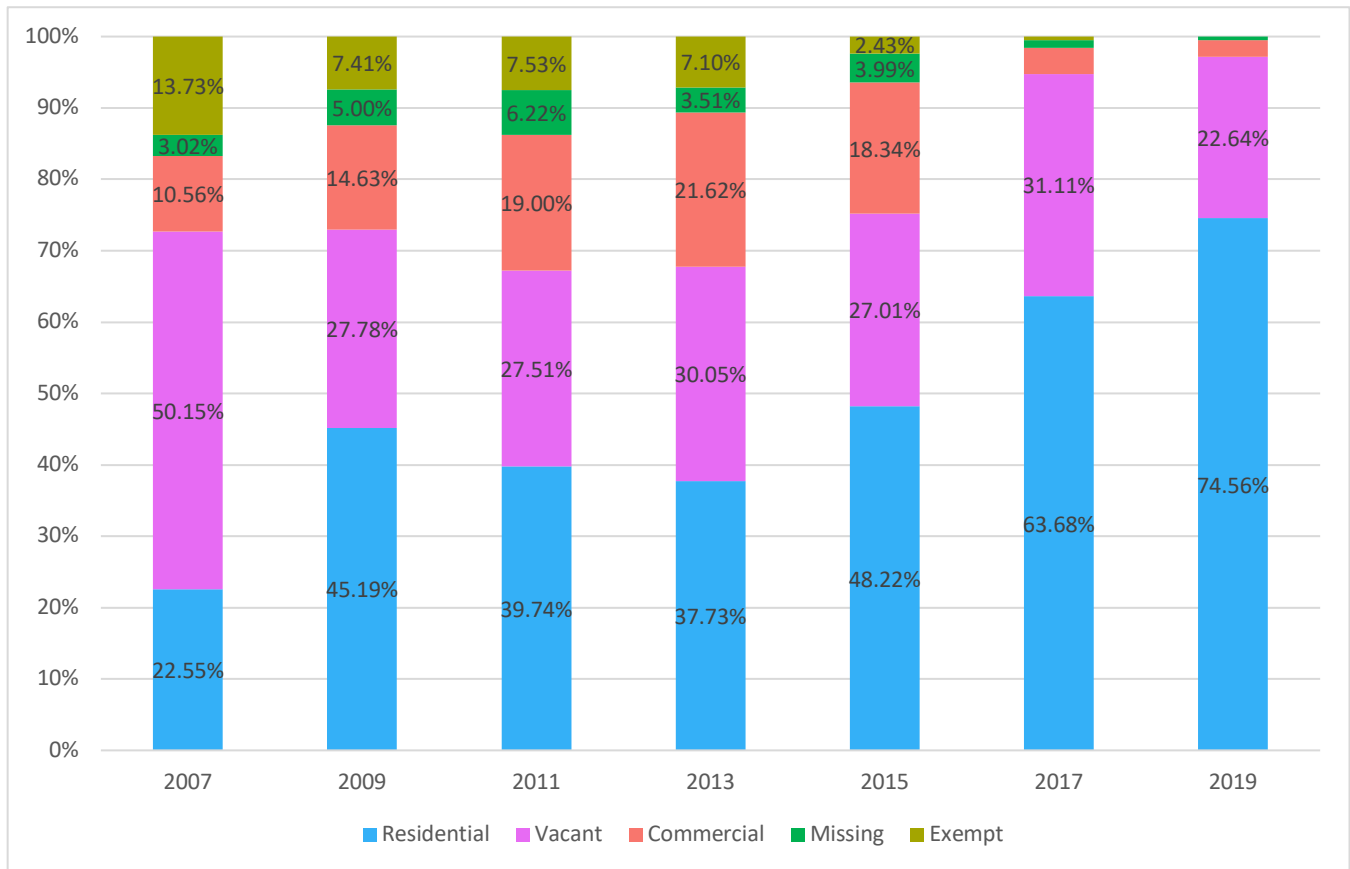


Figure 9 below, which shows these same figures as a percentage of all Sold properties, better demonstrates this shift away from commercial properties and toward residential properties.



**Figure 9 – Properties Sold as a Portion of the Total, by Type and Year (2007-2019)**

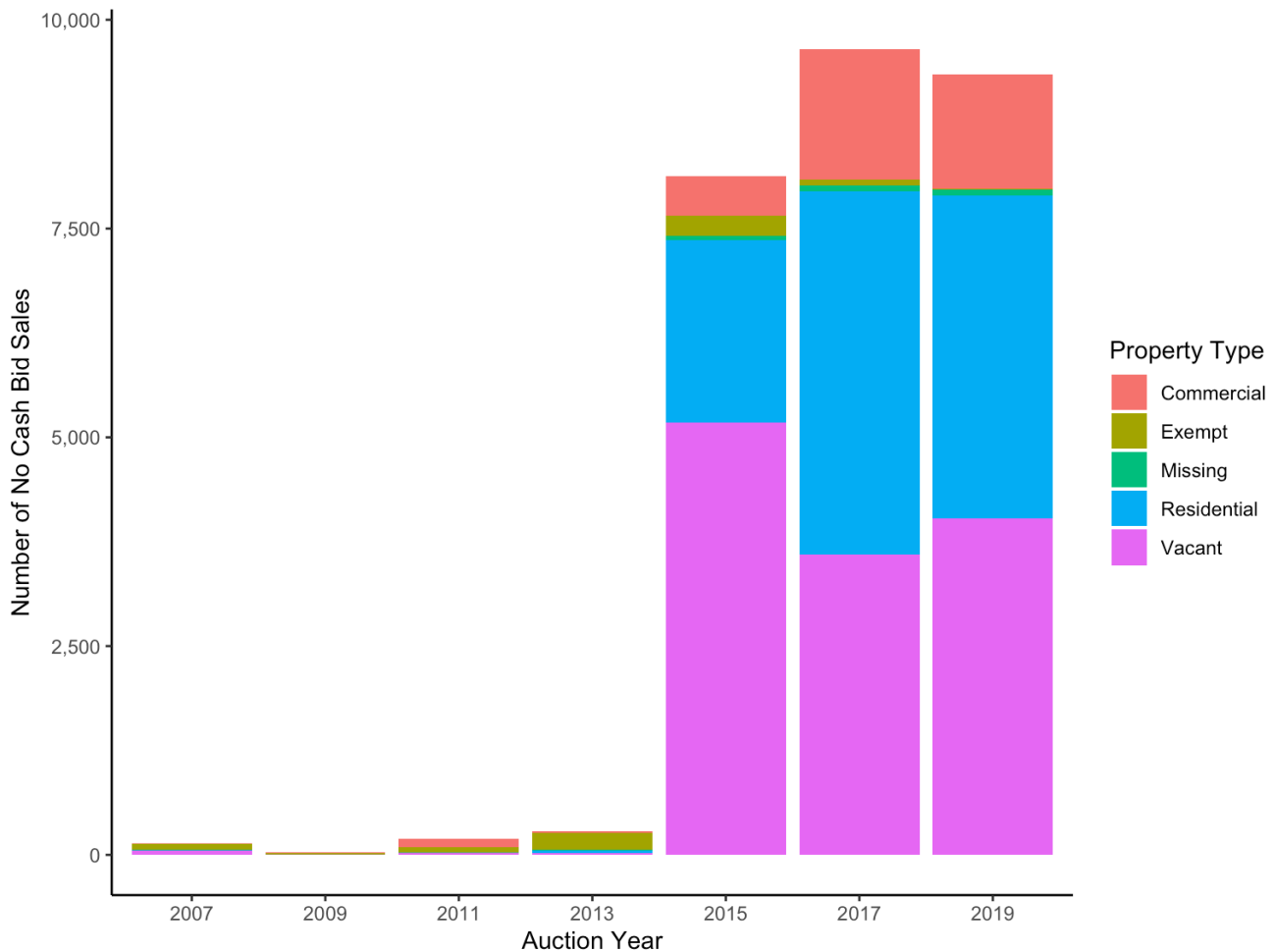


Figures 10 and 11 below show distribution of No Cash Bid properties by property type. As noted earlier, this category includes, almost exclusively, properties acquired by the CCLBA, and as such, this category included an average of only approximately 160 properties per auction prior to 2015. These properties generally displayed similar trends, with the number of residential properties increasing in both real terms and as a share of all properties, as the number and share of vacant properties in this category declined. The notable difference between these properties and those properties which were sold to private bidders is among commercial properties, which saw a substantial increase only among this latter No Cash Bid category.

It should be noted that the CCLBA, as a public entity, has an express purpose to pursue specific policy objectives beyond market demand. For example, government bodies frequently acquire properties based on location in order to spur development where market demand might not already

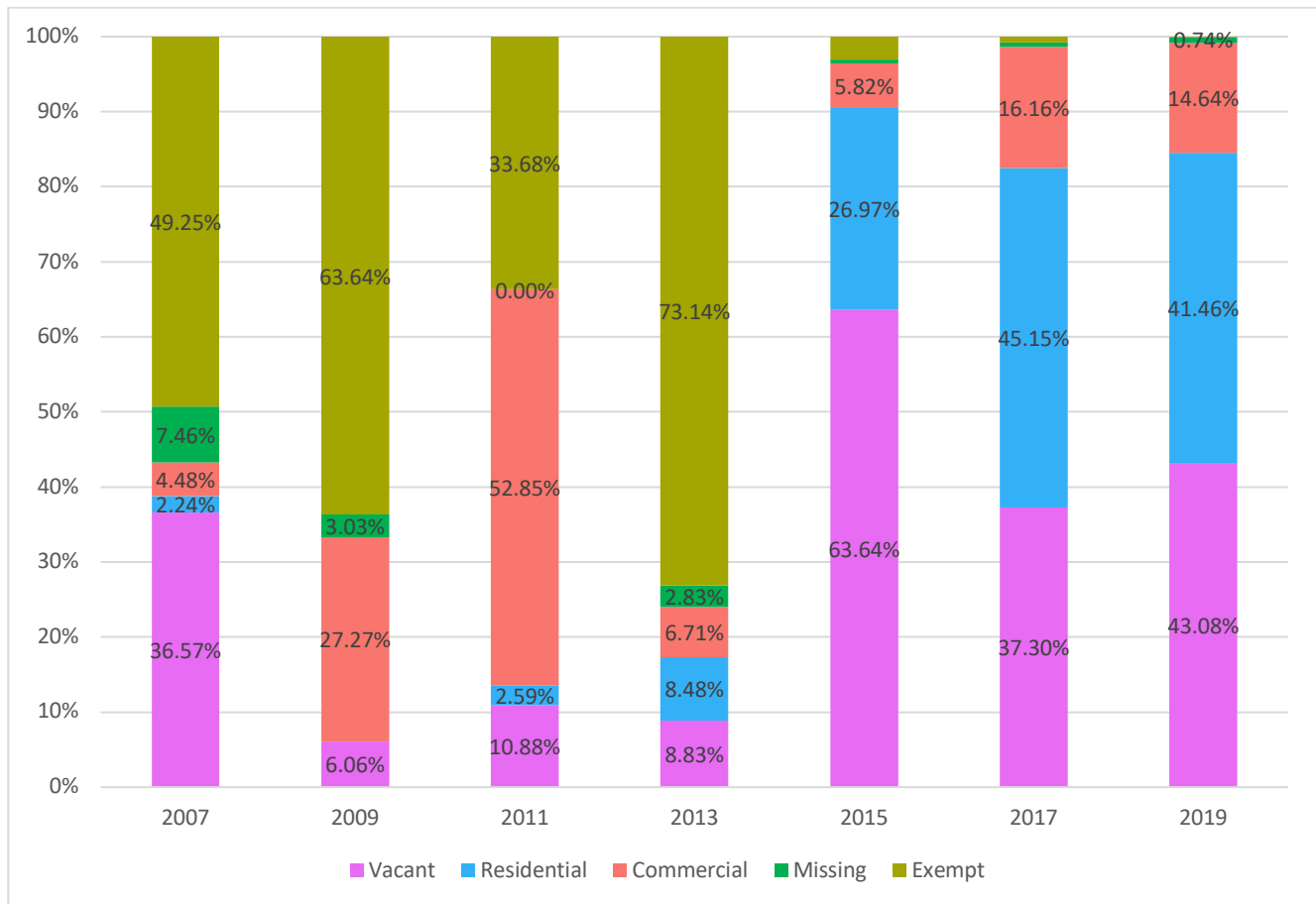
exist. As such, it is to be expected that properties acquired through No Cash Bids may not follow the same trends as properties sold to private buyers.

**Figure 10 – Distribution of All “No Cash Bid” Properties by Type and Year (2007 – 2019)**



As Figure 11 below shows, prior to 2015, No Cash Bids were primarily employed as a means of transferring tax-exempt properties among government entities. Between 2007 and 2013, exempt properties accounted for 55.83% of all No Cash Bid transfers, and 4.97% of all Sold properties (see Figures 6 and 7 above). It should be noted that the express function of the Scavenger sale system is to address *tax-delinquent* properties, making the inclusion of *any* tax-exempt properties noteworthy.

**Figure 11 – Properties as a Portion of All “No Cash Bid,” by Type and Year (2007-2019)**

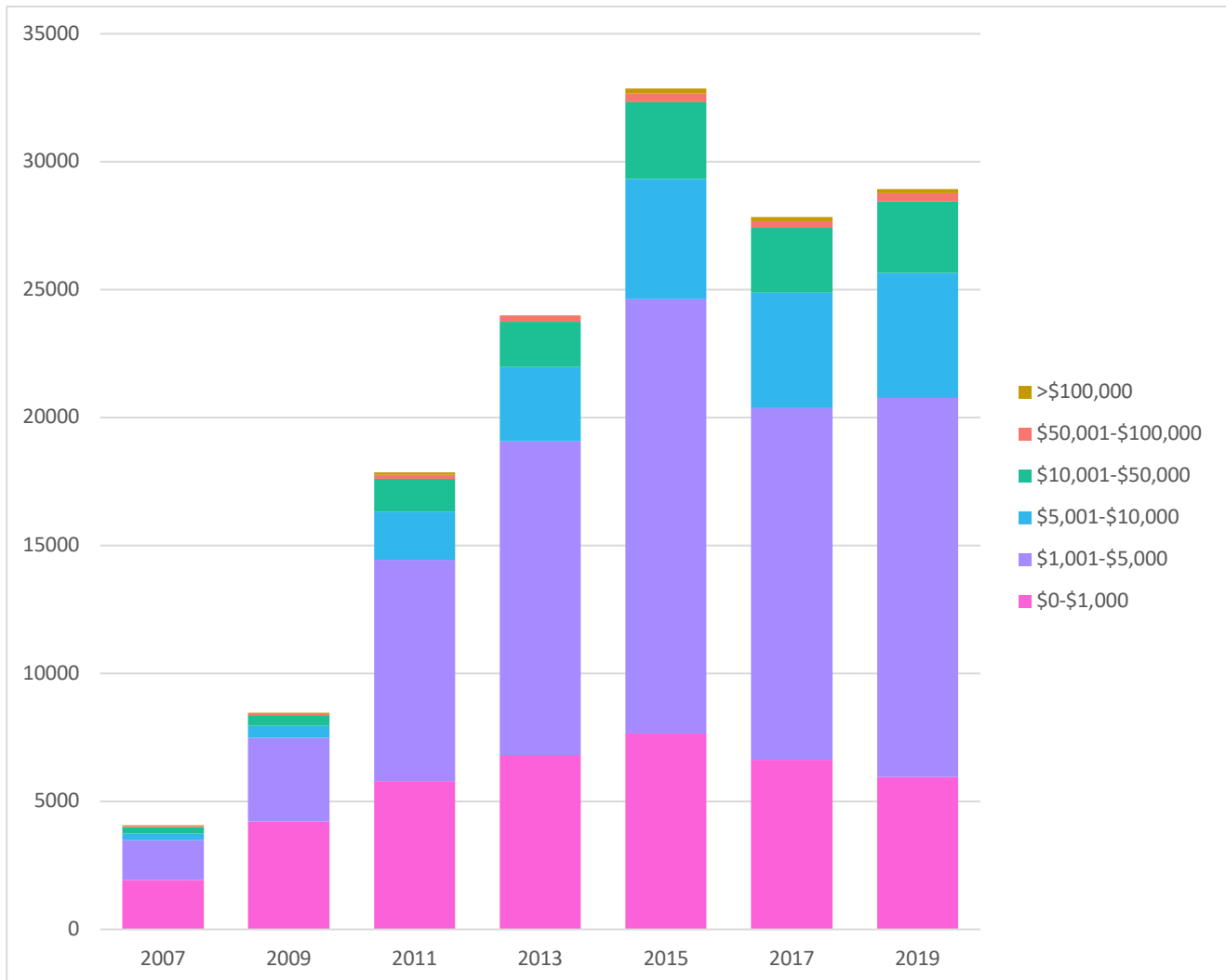


**Property Values** – Measuring the “market” value, or estimated sale price, of Scavenger-involved properties by traditional economic measures is difficult. Typically, a property’s value is measured by looking the sale price of recently sold “comparable” properties. Alternatively, the Cook County Assessor calculates an “assessed” value for every property in the county. The specific formula for a property’s assessed value varies depending on the type of property, but is generally intended to reflect the value of the property if sold between private buyers, at arm’s length and on the open market. With so little demand for the type of properties included in the Scavenger sale, there are too few private sales to establish “comparable” prices for many of these properties. Similarly, the fact that so few Scavenger properties are sold even at the minimum bid of \$250 suggests that even the assessed value on many of these properties, typically less than \$10,000, may be too high.

Figure 12 shows the distribution of assessed values among Scavenger-involved properties since 2007. These values, estimated by the Cook County Assessor, are meant to represent a fraction of a

property's market value (10% for residential properties and 25% for commercial). As this graph shows, more than 75% of Scavenger properties in every auction have assessed values below \$10,000.

**Figure 12 – Distribution of All Properties by Assessed Value (\$) and Year (2007 – 2019)**



These extremely low estimated market values largely reflect the overwhelming prevalence of vacant properties. Figure 13 compares average assessed values and the respective estimated sale prices they reflect among various property classes. As this table shows, commercial and residential properties were significantly higher valued than vacant parcels, though still well below median home values county-wide.

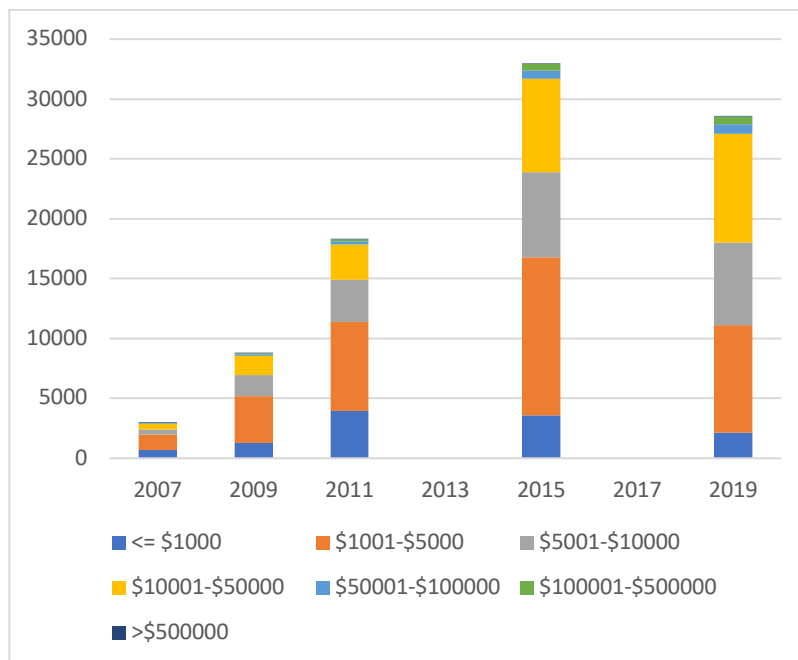
**Figure 13 – Assessed Value and Estimated Sale Price by Property Class (2019)**

Property Class	Avg. AV	Assessment Level	Implied Sale Price
Vacant	\$2,031	10%	\$20,310
Residential	\$5,522	10%	\$55,220
Commercial	\$27,962	25%	\$111,848

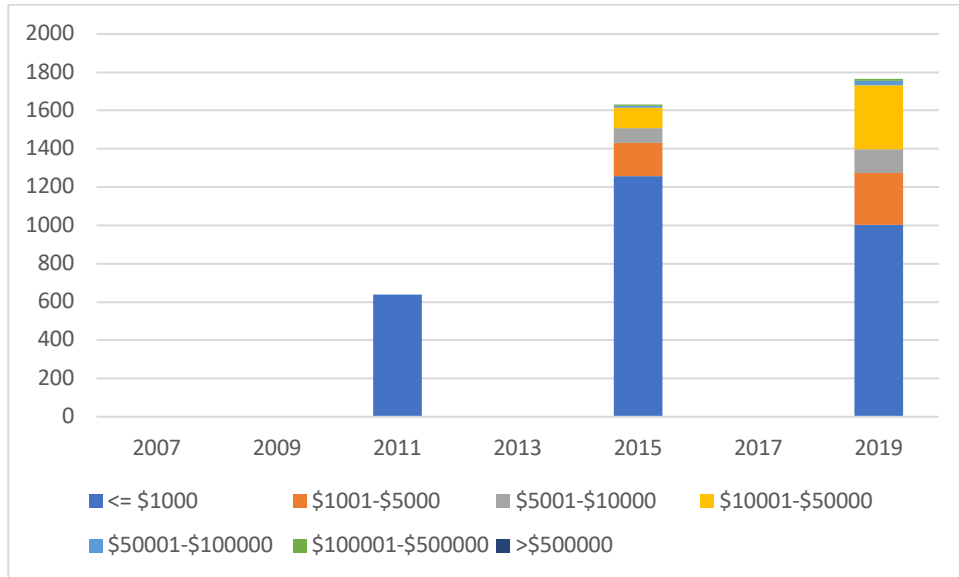
Figure 14 describes the outstanding tax debts of Scavenger-involved properties for each year. Overall, the majority of all properties in any given year have total tax debts of \$10,000 or less. As already mentioned though, private buyers strongly favored properties with less than \$1,000 in tax debt, as shown in Figure 15. In contrast, Figure 16 shows that among No Cash Bid properties, the trend was the inverse, with almost no properties demonstrating debts below \$1,000.

For Figures 14 through 16, the 2013 and 2017 Scavenger Sales have been excluded because the tax debts for these years was only present for a small number of properties in the data provided to the Center.

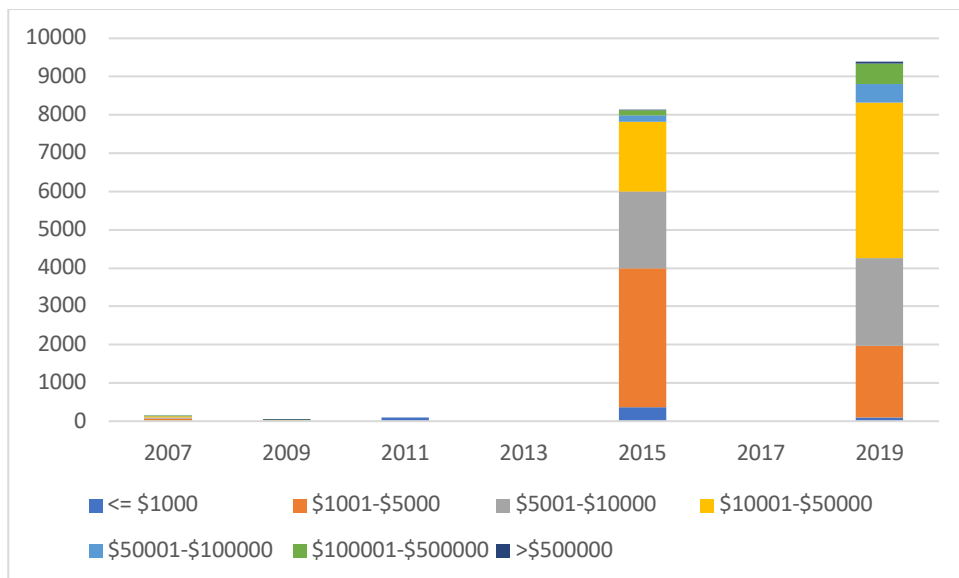
**Figure 14 – Distribution of All Properties by Total Tax Debt (\$)**



**Figure 15 – Distribution of Sold Properties by Total Tax Debt (\$)**

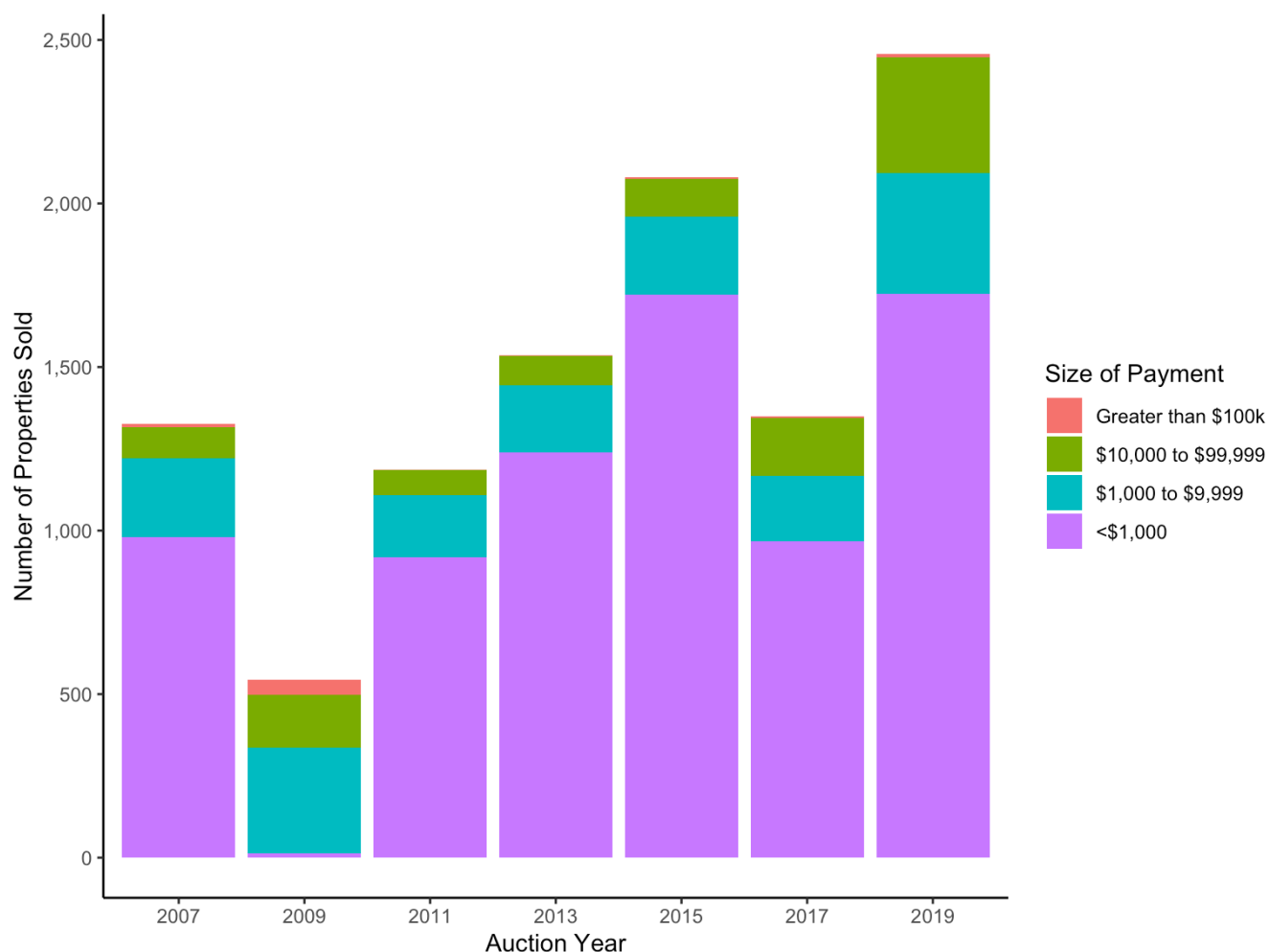


**Figure 16 – Distribution of No Cash Bid Properties by Total Tax Debt (\$)**



**Prices Paid** – Bids in the Scavenger Sale start at \$250 regardless of a property's value or respective tax debt. Figure 17 below displays the total number of properties sold each year, broken down by the price paid per property. As Figure 17 shows, with the exception of 2009, more than 75% of listings sold in any given year were sold for less than \$1,000; and nearly all sales were for less than \$100,000. Once again, this distribution has remained steady year over year, with little change outside of 2009.

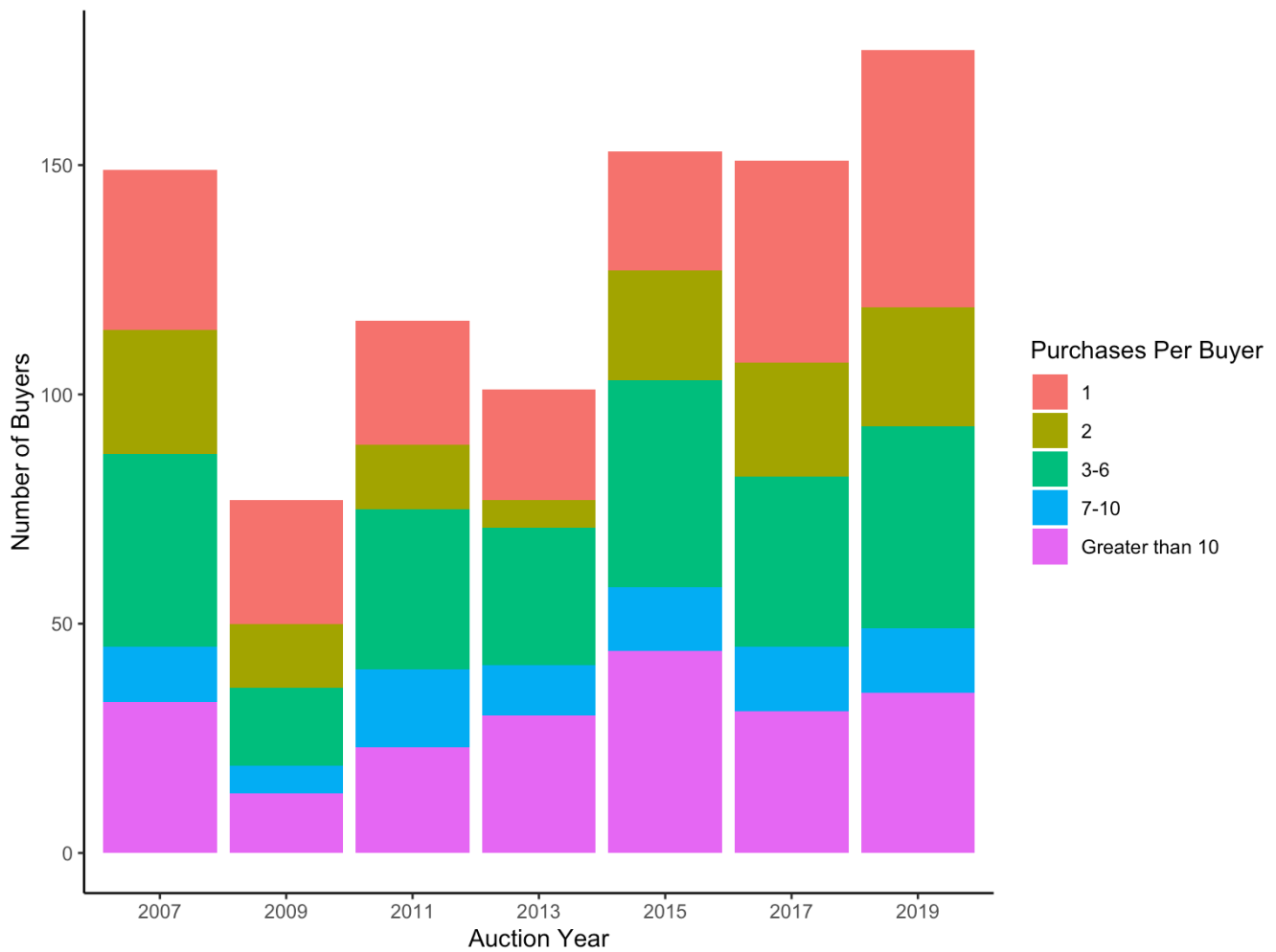
**Figure 17 – Distribution of Prices Paid by Year (2007 – 2019)**



### C. An evaluation of Scavenger-involved bidders

For the purposes of this section, the term “Bidder” refers to the person or entity listed by the County Treasurer as having purchased a specific property during at least one Scavenger sale between 2007 and 2019. The following analysis is limited to winning bidders, and we thus use the term *buyer* and *bidder* interchangeably. Bidders include individuals as well as corporations and non-profit organizations. During this period of observation, only a small number of bidders participated in the Scavenger sale process, ranging from 77 buyers in 2009 to 175 buyers in 2019. Figure 18 displays the total number of unique buyers in each sale, broken down by the number of properties purchased per buyer.

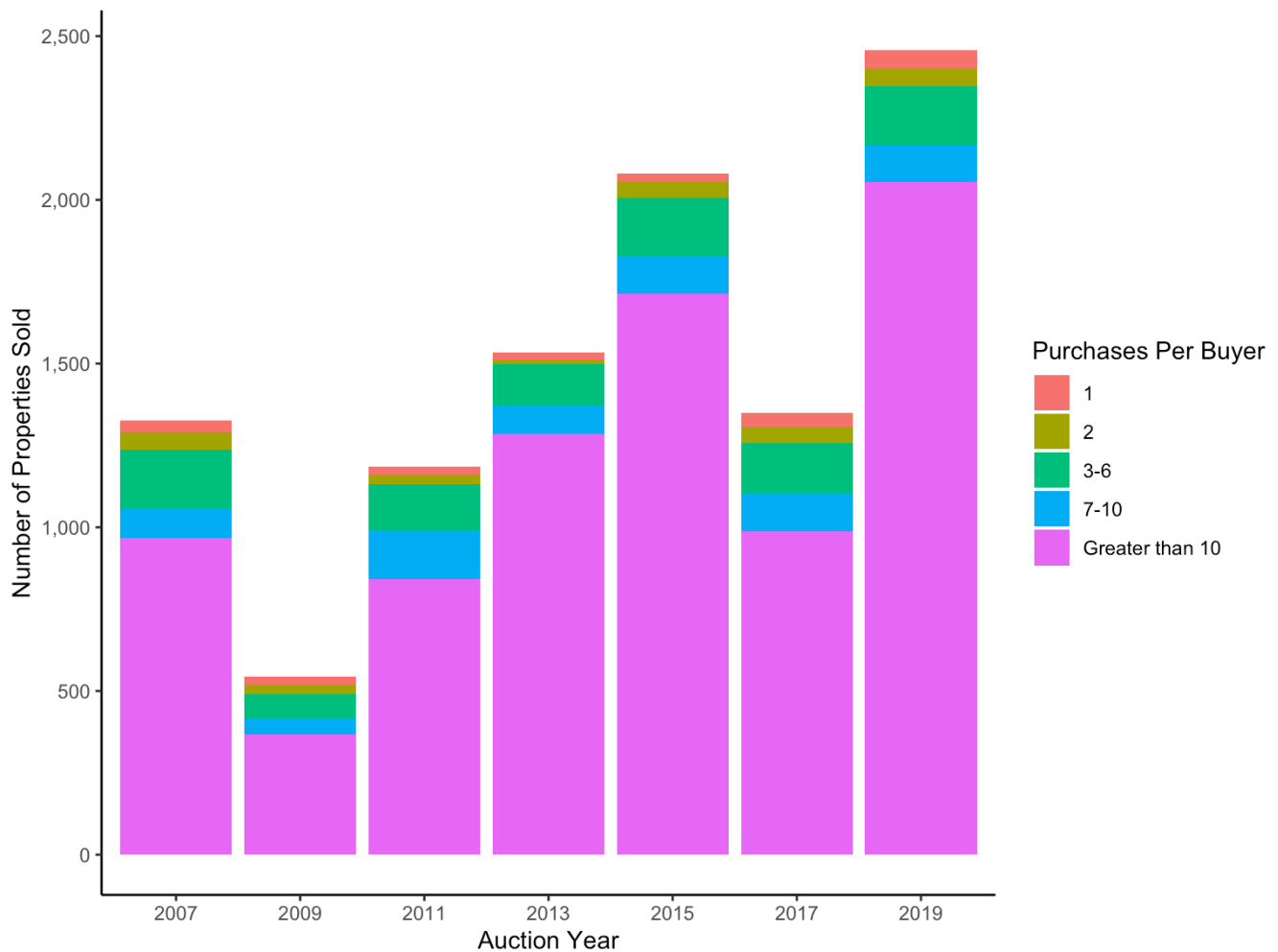
**Figure 18 – Total Number of Unique Buyers by Year and Total Purchases per Bidder (2007 – 2019)**



As Figure 19 shows, the vast majority of buyers in any given year's sale purchasing multiple properties. The number of single-property buyers has, however, been increasing in recent years, commensurate with a decline in the number of buyers purchasing ten or more properties. As Figure 19 below shows, however, this latter group accounted for the large majority of all properties sold in any given year. Figure 19 shows the total number of properties sold to each class of buyer. As this graph demonstrates, less than a third of all purchases in any given year are made by parties purchasing fewer than ten properties.

**Figure 18 – Total Number of Properties Purchased by Year and Buyer Class (2007 – 2019)**



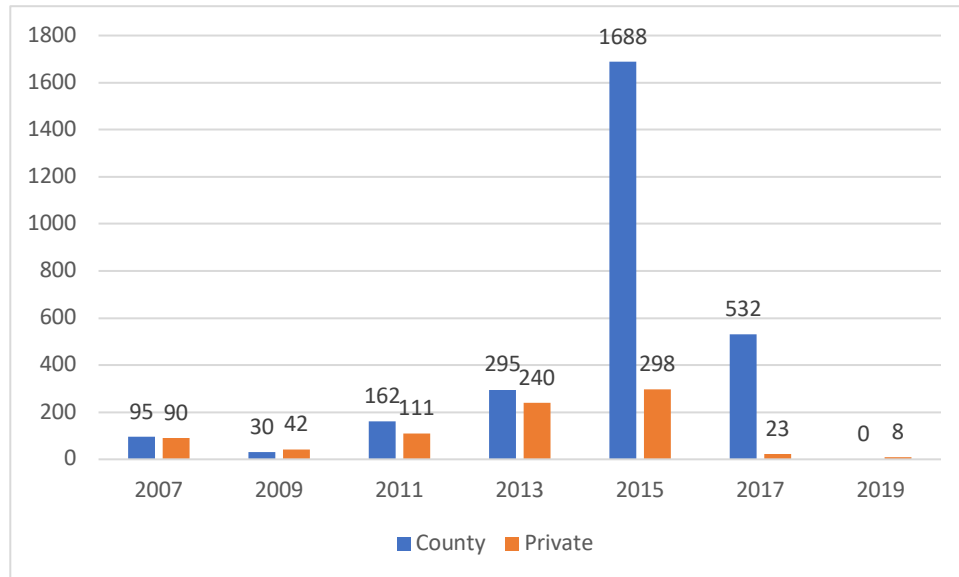


#### D. An Evaluation of Long-Term Scavenger Outcomes

As noted, the intended function of the Scavenger Sale is to return delinquent property to normal market conditions. One indicator of success in this regard is the issuance of new tax deeds. Since 2007, only 3,614 Scavenger-involved properties were taken to deed, approximately 7% of all Scavenger-involved properties during this period. Figure 19 below shows all new Scavenger-related tax deeds according to the *year of their Scavenger auction*. In most cases, a Scavenger-buyer cannot pursue a tax deed until at least two years after they bid on the property, reflected in the relatively few deeds stemming from the 2017 and 2019 sales in Figure 19. The 2015 Scavenger Sale, however, was the most successful year in terms of successfully deeding properties and the first year of CCLBA participation. Moreover, the redemption period for these properties is now closed, giving a definitive baseline for this sale cycle. Among 2015 Scavenger listings, approximately 6% were successfully taken

to deed, or 20% of all acquisitions by either No Cash Bid or private buyer. No Cash Bid properties from 2015 were modestly more successful than private buyers in this regard, with 20.8% of No Cash Bid and 18.6% of Sold properties successfully being taken to deed.

**Figure 19 – Total Scavenger-Related Deed Issuances by Year of Original Sale (2007-2019; 2017-2019 Ongoing)**



This leaves the remaining 93-94% of Scavenger properties to recycle through the Scavenger system through a number of mechanisms. Unsold properties are relisted in future years. In addition, properties that leave the system through a sale or No Cash Bid in one year can also reappear in the system in future years for one of three other reasons:

- Listings which are acquired are returned at a later date via Sale-in-Error (SEI).
- Listings which are acquired are allowed to expire without redemption or pursuit of a tax deed, and thus are forfeited to the county and relisted for sale.
- Properties which are acquired are relisted for sale because of a new tax debt arising after the initial sale.

This process of recycling through the system can continue for up to twenty years before a property is forfeited the state. Figure 20 includes the total number of properties included in each sale

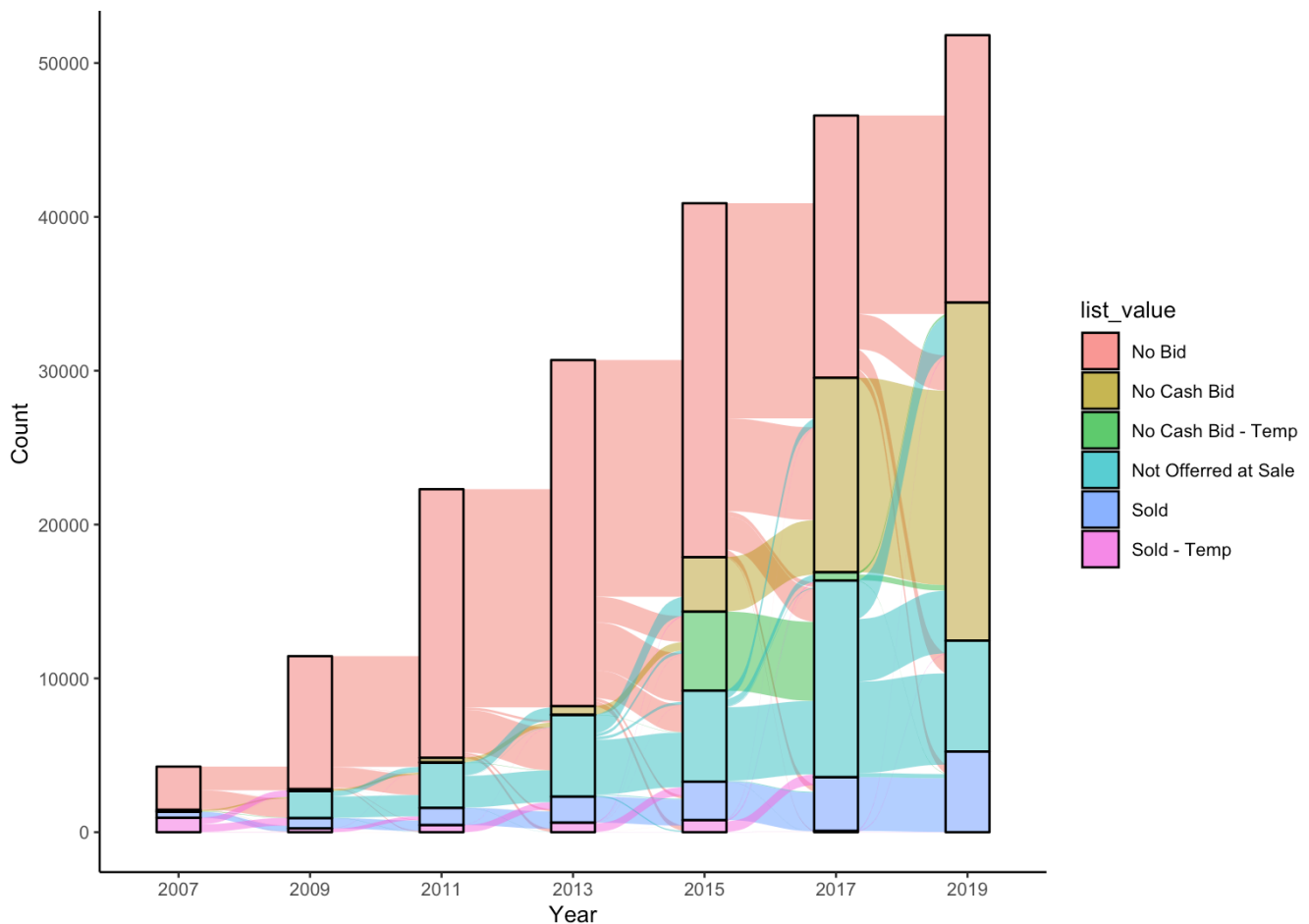
as the result of twenty-year delinquent taxes. While these represent a relatively small proportion of the nearly 30,000 listings included in recent years' sales, it is worth noting that, prior to the 2008 recession, when all of these twenty-year delinquent properties were first listed, the Scavenger Sale included only a few thousand properties in each sale.

**Figure 20 – Total Number of 20-Year Delinquent Scavenger Properties (2007 – 2019)**

<b>Year</b>	<b>Number of Properties</b>
<b>2007</b>	1,030
<b>2009</b>	4,860
<b>2011</b>	5,457
<b>2013</b>	5,895
<b>2015</b>	7,004
<b>2017</b>	5,938
<b>2019</b>	5,341

Figure 21 below describes the path of outcomes for properties from their first inclusion in the Scavenger sale. This graph includes all properties included in the Scavenger sale since 2007, but each property enters the graph only from the date of first inclusion in the auction. Each colored section represents all of the properties listed in that category for that particular year's auction. The flows between columns show the transition of each property from year to year. These flows represent individual properties over time and include properties which change category from one year to the next as well as those that remain in the same category. This graph is also cumulative, meaning once a property is listed for the first time it remains on the graph for the entire observation period. As a result, each year's first-time listings are added to the previous years', producing the steady accrual of properties represented in the graph.

**Figure 21 - Long-Term Disposition of Properties Over Time**



**Fig 21 – Interpretation**

Figure 19 represents all properties included in the Scavenger sale during our observation period, listing each property as an individual line. Each property is displayed in the diagram above beginning from their first listing and each year thereafter. Each property is listed only once per year, and is displayed as flowing from one year to the next. Each property has been grouped into one of the following categories, based on its status in that year's sale. Properties of the same type are clustered together and displayed as a solid flow from one year to the next. Properties are categorized as follows:

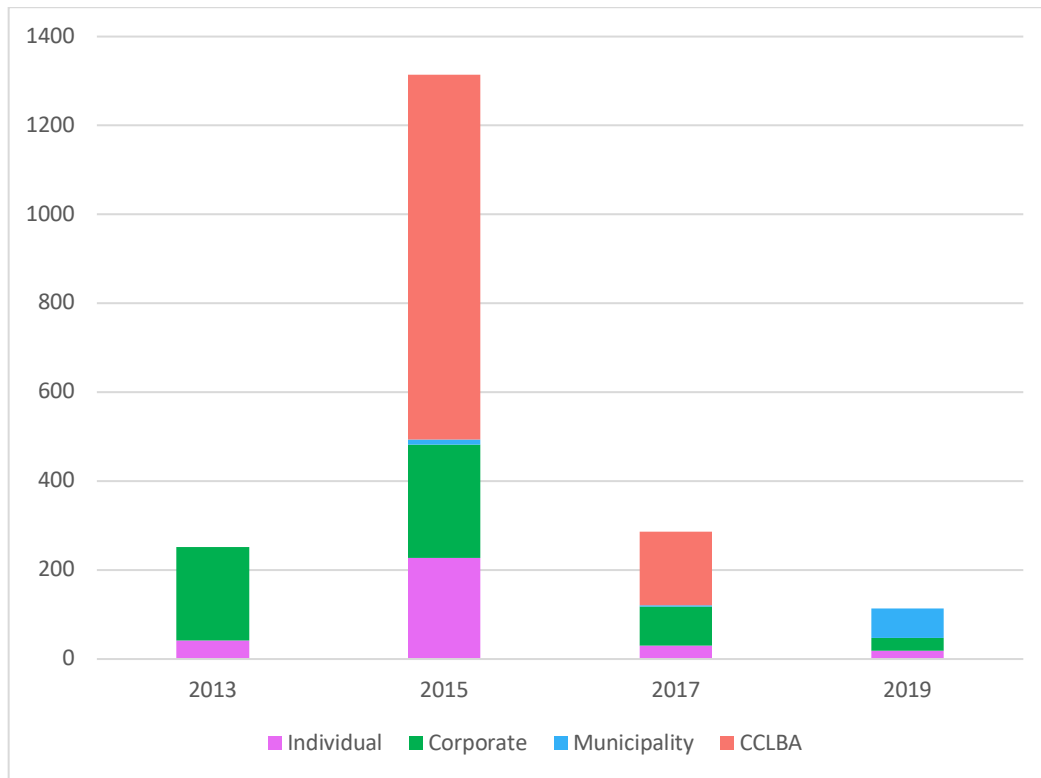
- **No Bid** – These are properties which were listed for sale in a given year's Scavenger sale but which received no bids from either a private buyer or government entity.
- **No Cash Bid** – Properties which were acquired by a government entity
- **No Cash Bid – Temp** – Properties which are acquired by a government entity but classified differently in subsequent years.
- **Sold** – These are properties which are Sold to private buyers.
- **Sold – Temp** - These are properties recorded as sold to private buyers but classified differently in subsequent years.
- **Not Offered for Sale** – These include properties which are listed in any category in their first year, but not listed in any category in the present year, and include almost exclusively, properties which are acquired and retained by the original bidder.

Figure 21 displays a number of important trends. First, this graph again highlights the large and stable portion of Scavenger-involved properties which go without any bid in any given year (shaded red in Figure 21). Second, the green No Cash Bid – Temp category shows the substantial number of properties acquired by the CCLBA in 2015 which were subsequently held by the CCLBA for the subsequent Scavenger cycle, before being returned. The majority of these properties were then reacquired by the CCLBA a second time. Similarly, the large yellow flow representing No Cash Bids is noteworthy in that it primarily flows into the same category year after year, reflecting the CCLBA's frequent practice of acquiring and returning the same property through separate No Cash Bids in each sale.

While the large majority of Scavenger-involved properties typically go unbid or are allowed to expire without further action, a small but significant group of properties fell outside of this trend in one of two ways: Sale-in-Error (SEI) returns, or successfully deeded properties. The former of these two includes all properties for which a related party successfully sought a court order to declare the original sale invalid because of an error. These errors are limited by statute and generally include sales where a property was inaccurately recorded, or a property owner was inaccurately penalized for taxes which they should never have been assessed. Importantly, SEI returns entitle the original bidder to a full refund of any bid amount, interest, fees, and subsequent taxes paid.

In Figure 22, which shows all SEI returns since 2013 (insufficient data was provided for earlier years), it can be seen that the distribution of such returns largely follows the distribution of acquisitions. That is to say, because the CCLBA is responsible for the vast bulk of acquisitions, they are responsible for the bulk of Sale-in-Error returns as well, accounting for 62% of SIE returns stemming from properties sold at the 2015 Scavenger Sale. Corporate buyers represent the second largest source of SEI returns, 19%; here such buyers were identified based on an LLC, Inc., or Corp. designation in their name. Individuals were roughly on par with corporate buyers, accounting for 17%, while other municipal governments accounted for less than 1% of all 2015 SEI returns. The year 2015 is important because Scavenger properties are subject to a two to three-year redemption period during which time an SEI action can be brought, meaning properties sold at the two most recent auctions have not yet gone through their full cycle and could still be returned via SEI. As such, 2015 provides the only full cycle baseline for SEI returns.

**Figure 22 – All SEI Returns, To-Date, by Buyer Type and Year (2011 – 2019)**



In real terms, Figure 22 would suggest that the CCLBA is acquiring, and subsequently returning, properties due to error at a far greater rate than private buyers. Looking at SEI returns as a share of all acquisitions though demonstrates that in fact the opposite is true. Figure 23 includes the total number of SEI returns, as well as the SEI return rate based on the total number of properties acquired within each acquisition type. As this table demonstrates, properties acquired by No Cash Bid are returned via SEI less than half as often as properties sold to private bidders.

**Figure 23 – SEI Returns by Type, Relative to All Acquisitions (2015)**

Buyer Type	Total Properties Acquired	Total SEI Returns	SEI Return Rate
No Cash Bid (CCLBA & Other Munis.)	8,130	892	11.0%
Private Buyer (Corp. & Indiv.)	2,081	482	23.2%

## **E. Geographic clustering of Scavenger-involved properties**

Involvement in the Scavenger sale system is highly concentrated geographically, with the majority of properties located in a small number of communities in the Western and Southern regions of Cook County. Between 2007 and 2019, there were approximately 145,000 listings in the Scavenger auction,<sup>17</sup> spread across Cook County's 107 "community areas."<sup>18</sup> Nearly 70% of these listings, however, were located in just 10 community areas, with a single community area, Thornton, Illinois, accounting for just under a quarter of all listings. Properties acquired by government entities through No Cash Bid transfers were similarly concentrated, with the ten most frequent community areas accounting for 66.4% of all listings in this category. However, Sold listings were modestly more dispersed, with the ten most frequent community areas accounting for 44.9% of all sold listings during this period of time.

The maps included in Figure 24 show the geographic distribution of Scavenger-involved properties since 2007, matched to census tracts. In Cook County, most census tracts contain several thousand households, with most containing no more than twenty Scavenger-related properties since 2007, if any at all. As can be seen in Figures 24 through 26, though, the density is much higher among a small number of Cook County's Southern and Western Communities. These maps also demonstrate geographic distribution of the No Cash Bid and Sold properties. While Sold properties are more broadly dispersed, No Cash Bid properties display much more targeted selection. While the CCLBA has acquired substantially more properties than private buyers, these properties are more tightly confined to a smaller number of neighborhoods.

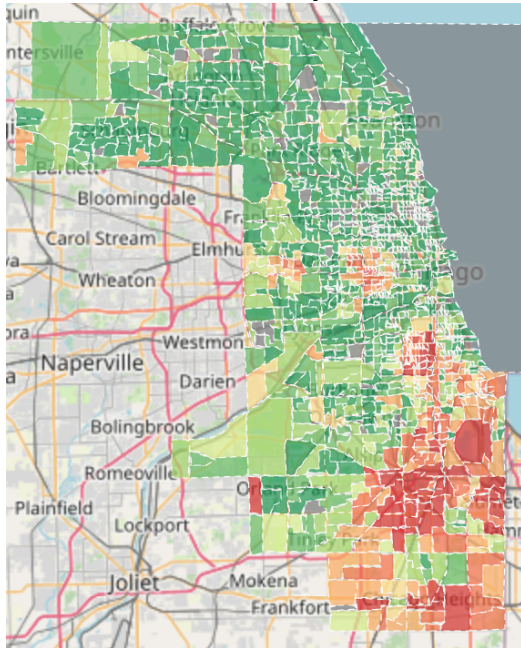
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<sup>17</sup> This number includes all individual listings, and may include the multiple listings for the same address in different years.

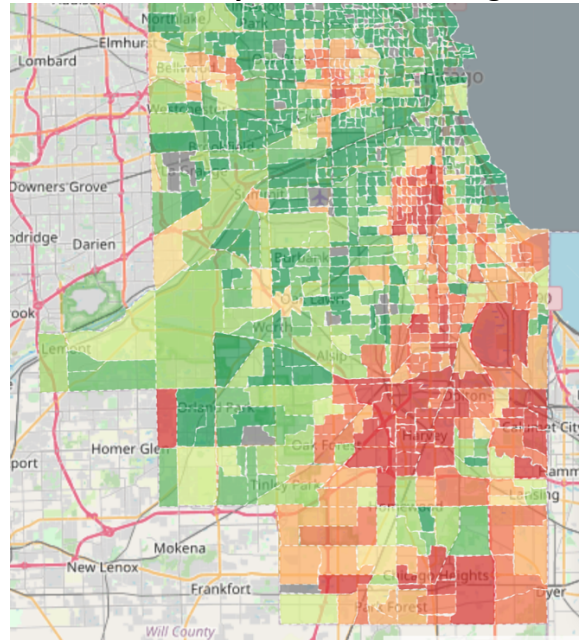
<sup>18</sup> "Community area" is a legal term which describes individual taxing districts. In suburban Cook County, community areas are equivalent to a local township, often including multiple cities or villages; while within the city of Chicago, community areas are neighborhood-level divisions.

**Figure 24 – Distribution of All Scavenger Listings (2007-2019)**

**A. Cook County, All**

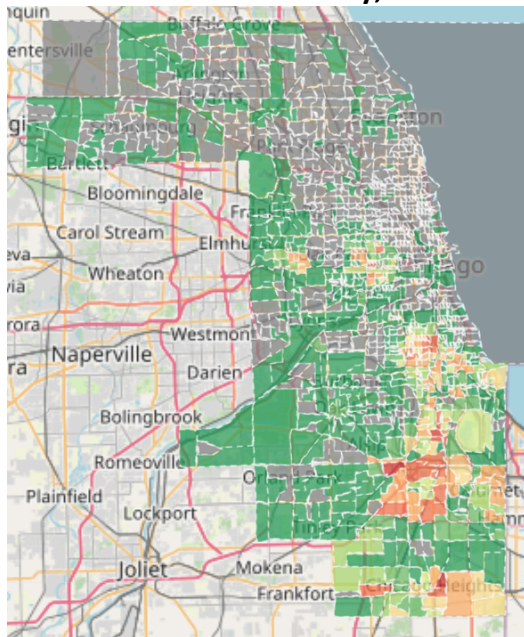


**B. Cook County, South & West Regions**

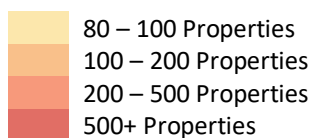
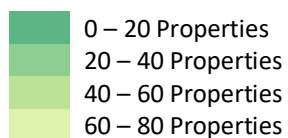
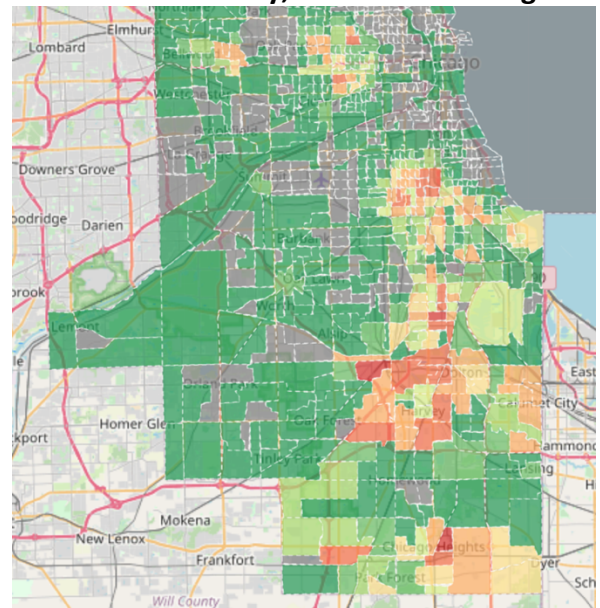


**Figure 25 – Distribution of No Cash Bid Listings (2007-2019)**

**A. Cook County, All**



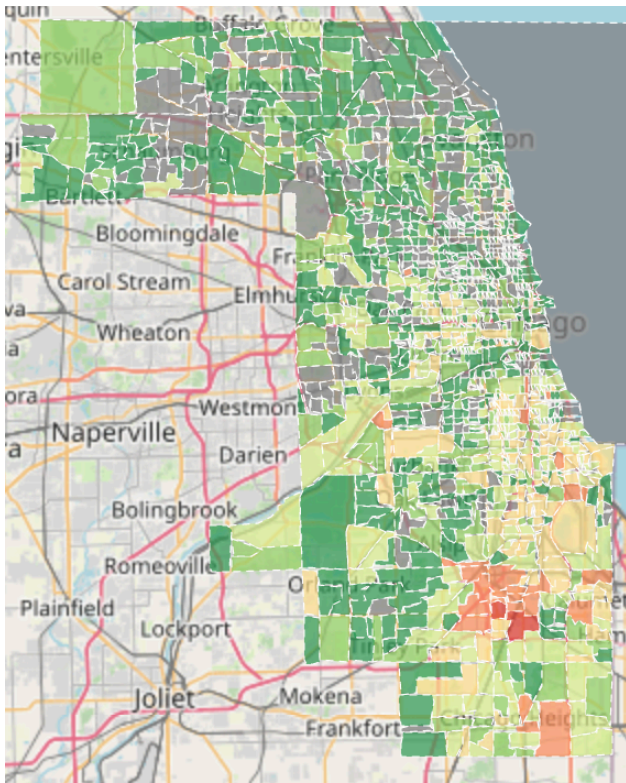
**B. Cook County, South & West Regions**



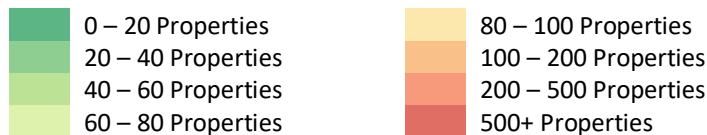
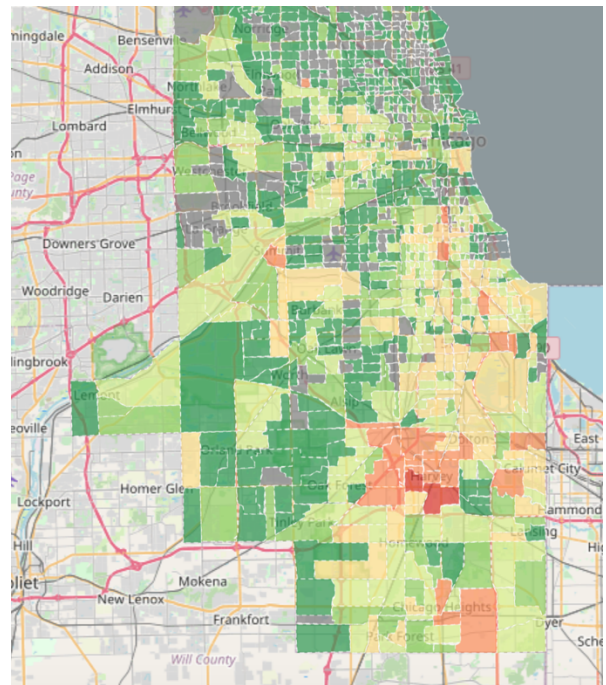


**Figure 26 – Distribution of Sold Listings (2007-2019)**

**A. Cook County, All**



**B. Cook County, South & West Region**



Not only are Scavenger-involved properties highly concentrated in a small number of communities, these communities are also highly atypical with regard to a range of demographic, quality of life, and economic factors when compared with the rest of Cook County. Figure 27 compares the occurrence rates for a range of factors across the ten most Scavenger-property dense census tracts, which collectively represent nearly a quarter of all of Scavenger listings since 2007. Most strikingly, Scavenger-dense communities are overwhelmingly communities of color, with Black, Latinx, and other communities of color accounting for more than 90% of the population in these tracts, compared to a county-wide average of approximately 43%.

Economic conditions in these communities were well below county-wide averages, with unemployment and poverty rates frequently more than twice the county-wide average, and median

incomes of less than half. These ten tracts also reflect the significance of land-use and neighborhood characteristics in Scavenger-density. For example, all ten tracts register above average automobile commuter rates, a common proxy for transit-access; below-average higher educational attainment, a proxy for education access, and vacancy rates frequently more than twice the county-wide average.

**Figure 27 – Various Economic, Quality of Life and Demographic Data within Ten Most Scavenger-Dense Census Tracts (All Listings 2007 – 2019)**

Tract (Rank)	County	8297 (1)	8243 (2)	8275 (3)	8388 (4)	8274 (5)	8269.01 (6)	8272 (7)	8268 (8)	8291 (9)	8270 (10)
Total Listings		4,771	4,609	4,187	3,606	3,584	3,212	2,686	2,668	2,666	2,379
Listings/ Sale		682	658	598	515	512	459	384	381	381	340
Population	~5.2 million	4,247	4,778	5,160	3,300	4,074	1,822	4,169	5,175	3,528	3,995
Household Units	~2 million	1,523	1,520	1,616	1,128	1,480	642	1,376	1,664	1,196	1,384
Med Inc	\$ 64,660	\$ 40,432	\$ 31,480	\$ 39,179	\$ 27,160	\$ 22,561	\$ 30,292	\$ 44,068	\$ 47,602	\$ 30,862	\$ 28,763
Med Prop Val.	\$ 246,600	\$ 114,500	\$ 8,070	\$ 72,800	\$ 137,500	\$ 77,300	\$ 69,500	\$ 77,700	\$ 63,500	\$ 81,400	\$ 78,800
Immigrant	21.1	5.9	2.4	15.1	16.1	6	9.1	18	14.8	20.5	4.5
Advance Degree	45.4	21.7	15.9	11.6	20.8	8.5	8.9	20.1	17.9	12	21
Not In Laborforce	33.9	36.3	58.8	40.5	46.3	52.1	43.3	31.7	38.6	40.7	46
Drive to Work	61.1	72.4	73.2	74.9	68.8	80.6	81.4	72.1	75.4	80.2	69.6
Inc Bel 10k	7.3	9.2	19.2	12.9	21.4	26.8	17	7	13.3	24.7	16.8
Inc Abv 100k	33.2	19	12.4	12.9	10.6	1.6	7.2	16.1	6.8	12.3	6.2
Pov Rate	14.4	29.7	40.5	25.4	42	38	36.9	19.6	24.4	24	38.1
POC	43.3	78.2	89.4	62	57.9	87.8	82.7	71.7	62.6	84.7	97.3
Sing Fam House	45.5	87.4	75.5	86.9	54.7	71.6	78.6	84.3	42.8	54.7	79
Apartment	53.7	10.8	22.6	13.1	44.2	28.4	21.5	14.9	19	45.3	21
Vacant Rate	11.1	20.6	22.4	31	15.2	37.8	45.6	14.8	26.6	29.6	19.3
Own Occ	56.9	59.1	56.7	56.7	37.5	49.3	58.1	66.5	47.2	39.9	56.4
Blt Pre War	29.1	7.2	7.9	13.4	48.7	3.2	13	24.1	10.5	45.6	10.9
Blt Since 2010	2	0	0.5	0	0	0	0	0	0	2.6	0

While the majority of Scavenger-involved properties clustered in this small number of communities, there was also a small number of communities that reported little to no involvement with the Scavenger system whatever. Figure 28 below describes these properties across all eight of the above measures, and includes all community areas which accounted for less than 0.01% of all properties within each measure. Cook County encompasses 107 community areas in total.

**Figure 28 – Total Number of Community Areas Accounting for Less than 0.01% of Properties within Each Property Type or Category**

<b>Property Category</b>	<b>Total Number of Properties within Category</b>	<b>Total Number of Community Areas with &lt; 0.01% of Category</b>
All Scavenger-Involved Properties	144,982	45
All Scavenger Properties Sold	10,260	12
All Scavenger Properties Transferred through No Cash Bid	27,752	63, including 26 with zero properties listed
All Residential Properties	43,229	32
All Commercial & Industrial Properties	7,977	40, including 15 with zero properties no listed
All Vacant (Unimproved) Properties	89,162	50, including 1 with zero properties listed
All Exempt Properties	3,984	49, including 26 with zero properties listed

## Part II – Field Evaluations

The preceding analyses presented statistics from public records related to the Scavenger system. To complement this data-driven analysis, we recruited local developers to visit and evaluate a random sample of Scavenger properties. While the developer surveys confirmed that scavenger properties are generally lower-valued and present a number of challenges to traditional private redevelopment, these in-person evaluations also revealed more diversity in age, condition, and value than was apparent in our public record review. Collectively, these findings suggest a single policy solution is unlikely to address all Scavenger-involved properties. However, our review does suggest that these properties can be grouped into a small number of categories which may allow for more targeted solutions.

The use of private developers, both individuals and firms, who are already working in many of the communities in question, also provided a great deal of anecdotal insights into the Scavenger system. While this anecdotal evidence was more qualitative in nature, it suggests that traditional market-based approaches are unlikely to fully or accurately measure, capture, or maximize the value of these properties. For example, smaller developers with an express “community redevelopment” purpose, and particularly those who already live in or near the communities most frequently involved in the Scavenger sale, generally saw substantially more value in many properties than did larger, corporate developers. Similarly, many of these smaller developers expressly noted that, in spite of their more holistic approach to valuing these properties, actually redeveloping them would still not generate sufficient revenue to make redevelopment profitable.

To conduct our in-person review, the Center engaged the participation of private developers from throughout Cook County, who were asked to evaluate a random sample of Scavenger properties using their normal methods. Solicited through local trade groups, developers were selected based on experience and represented firms and individuals in roughly equal number. These developers were asked to conduct the same property research, evaluation and estimation that they would ordinarily employ if they were pursuing a property for their own business. Participants were provided with a list of properties and a standard evaluation form for each property, focused on the property’s present and future use, and value (see Appendix for complete forms). We also asked developers to evaluate any

unique factors beyond each property's condition which may impact value, such as traffic volume, nearby schools or parks, or improper zoning.

Properties were selected to accurately reflect the full population of all Scavenger-involved properties while maximizing limited capacity. Sample properties were drawn from the full set of those left unsold after the 2019 Scavenger Sale. Our stratified random sample included 100 properties, 65 residential properties and 35 commercial properties, representing a significant oversampling of commercial properties which represented only 5% of all Scavenger listings. Additionally, properties recorded as vacant without any improvements were presumed to have a more uniform value based purely on lot square footage, and were thus excluded from our sample entirely. In all other regards, all properties were chosen at random.

Initially, properties were to be evaluated by two developers each to allow comparison. However, data collection was an unexpected issue during this phase of our study, likely due to the ongoing COVID-19 pandemic. As a result, only 78 properties were successfully completed, with the majority receiving an evaluation from a single developer.

## **A. Results**

Our review found a range of property types and conditions, more broadly dispersed than the public records evaluation had suggested. These properties could generally be divided into one of several categories. The largest of these groups were properties located in areas with insufficient demand to make redevelopment profitable even with acquisition costs as low as \$250. Importantly, while the majority of these properties were in poor physical condition, developers generally cited broader neighborhood factors as the primary factor driving down demand. The remaining properties fell into five substantially smaller categories: 1) properties suitable for redevelopment; 2) properties too small for productive use; 3) properties which are inaccurately recorded with regard to occupancy or use; 4) industrial properties requiring substantial mitigation; and 5) properties which have extremely little tax debt, often less than \$1,000, yet have remained involved in the Scavenger system for years.

Within each of these categories, properties varied substantially with regard to use, size, and condition, ranging from vacant lots as small as 75 feet to large industrial properties in excess of 10,000 square feet. Among these were single- and multi-family homes, storefronts, garages, parking lots,

rental properties, tree-lawns, sub-development common areas, and a number of other unique property uses. Figure 29 below provides general statistics for all properties included in this evaluation.

**Figure 29 – In-Person Survey General Characteristics (2019 Properties)**

		Min	Median	Max
<b>Number of Prop Evaluations</b>	<b>Residential</b>	55 Properties, 61 Evaluations (Including 6 properties evaluated twice)		
	<b>Commercial</b>	24 Properties, 24 Evaluations		
<b>Age (Residential Only)</b>	<b>Residential</b>	13 years	83.3 years	140 years
	<b>Commercial</b>	-	-	-
<b>Lot Size (Residential Only)</b>	<b>Residential</b>	1,041 sq. ft.	4,439.55 sq. ft.	29,795 sq. ft.
	<b>Commercial</b>	-	-	-
<b>Building Sq. Ft.</b>	<b>Residential</b>	592 sq. ft.	1,073 sq. ft.	4,628 sq. ft.
	<b>Commercial</b>	68 sq. ft.	4,593.5 sq. ft.	164,743 sq. ft.
<b>Total Tax Debt</b>	<b>Residential</b>	\$2,123.02	\$10,360.19	\$139,054.09
	<b>Commercial</b>	\$354	\$105,244.63	\$780,152.33

The potential value of Scavenger-involved properties is similarly diverse, with developers seeing almost no market value in many properties, while estimating other properties' potential resale values as high as \$675,000. Nevertheless, the majority of these properties appeared to be of significantly below-average value, across nearly any measure. Moreover, each of the six measures of market-value used for this phase produced substantially different results, further highlighting the particular challenges associated with valuing Scavenger-involved properties. As a baseline, median values across all properties in Cook County range from \$72,250 in Chicago's Englewood to more than \$1 million in the Chicago's Lincoln Park.<sup>19</sup>

For this phase, the Center evaluated several different estimates of market value for each property. First, as with all properties, the Cook County Assessor provides "assessed value" equal to 10% of resale value for residential properties, and 25% of resale value for commercial properties. The assessor estimates included below have been adjusted to reflect full-value estimates. Second, the Center developed its own comparable sales approach in which estimated resale values reflect the average value among similarly situated, but recently sold, properties. Most Scavenger-involved

<sup>19</sup> Cook County Housing Price Index: Jan 2000 – Jun 2020, Institute for Housing Studies at DePaul University (retrieved March 2020), <https://price-index.housingstudies.org/>.

properties are located in neighborhoods with so few arms-length sales (fair market value sales between unrelated parties) as to limit the availability of comparable properties. Both developer feedback and testimony provided by multiple government groups involved in the Scavenger sale confirmed this particular challenge as well. Finally, developers were asked to individually estimate the present market value and expected resale value after redevelopment for each property. These estimates were based on each developer's own methods and expertise.

As expected, median values across all six measures were far lower among these properties than among non-Scavenger involved properties. Similarly, it would appear that the already below-average assessor estimated value of these properties is likely much higher than the private market would actually pay. As Figure 30 below shows, based on either developers' in-person estimates or comparable sales, the median value of these properties is approximately \$35,000 - \$40,000, while the median assessor estimate was nearly twice this amount, approximately \$66,000. Of note though, the median bid among similar Scavenger properties was only \$527. This would suggest that the present Scavenger system is failing to generate sufficient demand for these properties to capture their full value or that the Scavenger-involved properties are worth dramatically less than comparable non-Scavenger properties.

**Figure 30 – In-Person Survey Property Values (2019 Properties)**

		Min	Median	Max
<b>Assessor Est. Present Value</b>	<b>Residential</b>	\$10,700	\$65,670.50	\$212,480
	<b>Commercial</b>	\$740	\$152,816	\$764,484
<b>Comp. Sales Assessor Est. Present Value</b>	<b>Residential</b>	\$28,818.89	\$57,020	\$154,330
	<b>Commercial</b>	Insufficient Comparables		
<b>Comp. Sales Sale Price</b>	<b>Residential</b>	\$4,254.67	\$36,486.78	\$136,733.33
	<b>Commercial</b>	Insufficient Comparables		
<b>Comp. Scavenger Sale Price</b>	<b>Residential</b>	\$226	\$527	\$16,727.99
	<b>Commercial</b>	\$264	\$5,183.87	\$43,880
<b>Developer Est. Present Value</b>	<b>Residential</b>	\$0	\$40,000	\$215,000
	<b>Commercial</b>	\$740	\$73,000	\$926,500

In spite of the generally low estimated values of these properties in their present condition, developers identified a number of properties which were well-suited for redevelopment. Overwhelmingly, developers said that the majority of properties would require some level of renovation or redevelopment, though approximately 19% of residential properties, and 26% of commercial properties, were identified as needing little to no renovation. At the other end of the spectrum, approximately 15% of residential properties, and 43% of commercial properties needed substantial renovation or demolition and new construction. Regardless of renovation needs, nearly all of the properties evaluated in-person were identified as being well-suited to their current use, with only seven properties identified as not well-suited.

Figure 31 below includes estimated redevelopment costs and expected revenues for the surveyed properties. As this table highlights, while developers did identify potential value in these properties, significant redevelopment costs and limited potential revenue leave little room for adjustment. Anecdotally, developers repeatedly highlighted these tight financial constraints as a major inhibiting factor to redevelopment of these properties. Developers felt that while these properties may have value, the expected return on investment was simply too low to make the property a wise business decision. This reality is likely exacerbated by the existing glut of properties in these communities, and within the Scavenger system. Even among properties that sell for as low as the \$250 minimum bid, properties which require substantial investment, or for which there was minimal expected revenue, simply were not a priority among private developers. There were some exceptions, as the table below demonstrates; a small number of properties demonstrated significant potential. Many developers noted that they “could not understand” why these properties remained unsold, identifying them as “in great condition” and “ideal” for redevelopment. These exceptional properties were primarily residential, well-suited for commercial management as rental properties.



**Figure 31 – Redevelopment Costs and Revenue (2019 Properties)**

		Min	Median	Max
<b>Dev. Est. Redev. Cost</b>	<b>Residential</b>	\$15,000	\$46,000	\$675,000
	<b>Commercial</b>	\$740	\$73,000	\$926,500
<b>Dev. Est. Market Value After Redev.</b>	<b>Residential</b>	\$0	\$130,000	\$675,000
	<b>Commercial</b>	\$3,350	\$309,500	\$525,000
<b>Expected ROI</b>	<b>Residential</b>	\$0	\$29,000	\$66,000
	<b>Commercial</b>	\$0	\$77,500	\$223,000

Finally, developers provided a number of qualitative comments regarding the Scavenger properties that they evaluated. Specifically, developers were asked to note the present condition of these properties and any nearby features of the property or surrounding community which may be impacting property values. Figure 32 below presents a summary of these comments, grouped by similar answers. For example, comments that a property was “in poor condition,” “severely damaged,” or “in need of significant repair” have been grouped together. Developers could, and typically did, provide more than one piece of qualitative feedback; as such, most properties are represented in multiple categories in the table below. In general, this qualitative feedback presented a much more nuanced and at times optimistic picture than the public-records evaluation discussed in Part 1. Whereas public records suggest that the overwhelming majority of Scavenger-involved properties are of little to no market value, in-person evaluation of Scavenger properties produced roughly equal levels of positive and negative feedback (129 comments and 131 comments, respectively). Importantly, this phase of our evaluation focused solely on the minority of unsold properties which were *not* vacant. Among this minority of all properties, though, this qualitative feedback would suggest there remains a not insignificant amount of uncaptured value.

**Figure 32 – In-Person Survey Qualitative Feedback (2019 Properties)**

<b>“Positive” Comments</b>		<b>“Negative” Comments</b>	
<b>Comment</b>	<b>Num.</b>	<b>Comment</b>	<b>Num.</b>
Total	129	Total	131
Fair to great condition	42	Poor condition, major renovation	33
Good transit access/ parking	16	Boarded up/ vacancy concerns	25
Commercial access/ high traffic area	15	Exterior issues (roof, siding, etc.)	15
Nice neighborhood, “quiet” residential	13	Neighborhood investment/ surrounding conditions	15
Nearby schools/ parks	11	Lot or structure is too small	12
Brick/ bungalow construction	8	Structural issues	9
Large lot/ ideal location	8	No value/ insufficient ROI	8
In use by adjacent owner	7	Industrial/ Environmental concerns	4
New development	6	Poor street condition	3
Property already being redeveloped	3	Zoning concerns	3
		Poor transit access	2
		Tax concerns	2

The qualitative responses included in Figure 32 above also highlight a number of trends. First, the majority of properties were reported to be in fair to good condition, and well suited for redevelopment. While developers provided slightly more negative comments than positive, the majority of these were duplicative comments related to properties in poor condition. As a result, the majority of properties were deemed to be in fair to great condition, 42 properties compared to 33 properties in poor condition. Developers noted these properties as generally needing some level of rehab but nothing extensive, for example many needed new siding, or general modernization. In contrast, among those properties which developers felt were in poor condition, the renovation needs appear extensive and included a number of properties which were structurally unsafe or had clear fire and water damage.

Second, these responses suggest that the low value and lack of demand for Scavenger-involved properties is as much the result of broader neighborhood factors as issues related to individual properties. For example, 112 of the comments provided focused on neighborhood issues, compared to 148 comments focused on the specific property in question. On the one hand, this concern for locational factors was very general, providing comments such as “dilapidated community,” “many vacant buildings,” “up and coming community,” and “under-developed area,” among others. On the

other hand, though, developers also cited specific community factors, particularly focusing on the availability and access to schools, parks, parking, transit, and commercial corridors.

Finally, these responses may challenge some preconceived notions about the likely factors underlying the low demand in these neighborhoods. In particular, much attention has focused on above average rates of criminal activity and property taxation in many Scavenger-heavy neighborhoods. While the neighborhoods most frequently included in the Scavenger system do have higher than average rates of crime and above-average property tax levels, none of the developers who participated in our study gave great weight to these considerations. Rather, only two comments were made noting what developers described as “excessive” tax rates relative to local property values, while no developers commented on concerns related to crime.

## **B. Recording Issues**

An ancillary challenge noted by many developers in reviewing these properties was a significant number of recording errors among various government entities. These primarily included errors related to occupancy and active use. In total, developers identified approximately 32% of residential properties, and 17% of commercial properties which were incorrectly recorded with regard to occupancy, present use, or property class. These properties included roughly equal number of properties which were listed as occupied but which were in fact unoccupied, and vice versa. Developers also noted a small number of properties with inaccurate photos or descriptive information recorded with either the Treasurer, Assessor or Clerk. Figure 33 below presents the approximate distribution of recording errors.

**Figure 33 – Approximate Recording Errors (2019 Properties)**

	<b>Residential</b>	<b>Commercial</b>
<b>Recorded Occupied, Actually Unoccupied</b>	9	5
<b>Recorded Unoccupied, Actually Occupied</b>	8	6
<b>Inaccurate Property Classification</b>	0	3

### **C. Interpretation**

The results of developer surveys study suggest two central findings: first, they confirm that the majority of Scavenger-involved properties are of below-average value, including many properties with little to no traditional market value; second, however, there remains a small but significant number of properties which likely do have market potential. In total, developers indicated that if access and capacity were no issue, they would purchase 36 out of 66 properties or recommend their purchase to customers (no answer was provided for this question regarding 12 properties). When asked why these developers would not purchase the remaining 30 properties, developers cited insufficient ROI or excessive cost, neighborhood factors, and other site-specific factors in roughly equal proportion.

Importantly, the developer survey did not include vacant properties (meaning properties with no recorded improvements), which represent roughly 61% of all Scavenger-involved properties. As a result, the findings discussed above apply only to the remaining 39% of Scavenger properties. Given the scale of the Scavenger system, though, these number would still suggest that as many as 5,000 – 6,000 properties that went unsold in the most recent Scavenger sale may have redevelopment potential. It is unclear whether this uncaptured value is the result of obstacles to accessing the Scavenger system, a glut of properties beyond the capacity of existing developers, or a lack of capital to pursue all viable properties. Numerous developers, though, made a point of noting many of these properties would be well-suited for owner-occupants, if not for commercial developers.

As noted throughout this study, there is great variety among the more than 25,000 properties included in each year's Scavenger sale. This heterogeneity could complicate any potential efforts to reform to the present system, as it is unlikely that any one policy solution would impact all Scavenger-involved properties uniformly. However, the findings of this in-person review, as well as additional random spot-checks conducted thereafter (see Part 3 below), demonstrate that Scavenger-properties can be categorized into a small number of buckets, allowing for a triage approach to any potential reform. In particular, this review identified the following five subgroups into which nearly all Scavenger-involved properties would appear to fit:

- 1) **Isolated, vacant parcels** – The majority of Scavenger properties are isolated parcels containing no physical improvement. Moreover, most of these parcels are concentrated in a small number of South and West Side neighborhoods where values are significantly depressed even for properties in the best of conditions. For the reasons discussed below, these properties are unlikely to be developed through traditional private market mechanisms, even when their acquisition cost is reduced to almost nothing.
- 2) **Undersized parcels and lots which could otherwise be merged with adjacent properties** – A large number of properties were less than 1,000 square feet, making them too small for any development. Additionally, this group included a number of “communal” properties such as tree lawns, hedgerows, apartment building common areas, and sub-development landscaping; as well as a number of full-sized properties which appear to already be in active use by neighboring properties.
- 3) **Properties well-suited for redevelopment** – A minority of Scavenger-involved properties remain unsold, in spite of apparent market-value sufficient to interest private developers.
- 4) **Properties with exceptionally little or exceptionally old debt** – Many Scavenger-involved properties owe less than \$1,000 in back taxes, while many of these debts are from more than five years ago, including many that would appear to pre-date the current occupant of the property in question. For example, a number of properties which are recorded by the Treasurer as being up-to-date on all taxes, are still included in the Scavenger sale as the result of tax debts extending up to twenty years into the past.
- 5) **Properties which are improperly recorded** – Many of the properties evaluated by our developers appear to be recorded incorrectly. In particular, the majority of these errors relate to occupancy and use. In Cook County, properties are taxed differently depending on whether the property in question is occupied or not. Yet nearly one third of properties evaluated in-person actual and recorded occupancy do not appear to match, meaning that these properties are being either under- or over-taxed, respectively.

Different policy responses may be required for each category of properties.

## **Part IV – Qualitative Analysis and Discussion**

This comprehensive analysis of the Scavenger system—both in the aggregate, as with our records analysis, as well as with respect to individual properties, as with our in-person evaluations—suggests three high-level challenges.

First and foremost, the Scavenger system was never intended nor designed to address the larger challenges of housing and community development with which the system is currently being tasked by default. Our evaluation shows that the Scavenger system has become something of a purgatory for low-value and extremely distressed properties where, in most cases, these properties remain in perpetuity. The repeated failure of these properties to return to normal market conditions is, generally, not the result of any factors unique to the Scavenger system, but rather, a reflection of the broader regional disinvestment and population trends driving down demand for homes throughout Cook County’s Southern and Western communities.

Second, the vast majority of Scavenger properties can be clustered into a small number of categories which cannot all be addressed through a common solution. Reform efforts must be tailored to address specific categories and their divergent needs. For example, policy solutions to address the bucket of properties too small for redevelopment will not adequately address the challenges facing already developed and marketable properties.

Third, while our analysis demonstrates relatively little market value for most individual Scavenger properties, the nearly 30,000 Scavenger-involved properties collectively represent approximately 3,500 acres spread throughout Cook County, a substantial quantity which could be leveraged for a range of policy objectives.

## **A. Breaking Down the Scavenger System**

Our results suggest that there is no single method for accurately evaluating the present condition and value of every property currently in the system. However, the properties can be divided roughly into a more manageable number of subgroups which do display relatively strong uniformity. This “trriage” approach not only allows for a more accurate understanding the system but could also provide a model for evaluating and understanding potential policy reforms moving forward.

While the properties within the Scavenger system are diverse, the sale itself has been remarkable stable year over year. As such, the results provided in Parts II and III provide a baseline profile of Scavenger-involved properties in any given year which can help predict the outcomes from the system in the years to come.

Assuming our random sampling of Scavenger properties was reflective of the whole, as many as one-in-five unsold Scavenger-involved properties may have some market potential. This should be considered an approximation, for two reasons. First, due to the small sample size of our developer survey the confidence interval around the estimates may be large. Second, the survey cast “market potential” as a binary option. Developers were asked a yes or no question: would you purchase this property in its given condition? Property development, in reality, is a much more complicated process. Though a developer may see potential in a property, there may still be numerous reasons why that same property may remain unsold. For example, the developer may not have sufficient capital to afford an up-front investment, a developer may already have as many properties as they can manage, or a developer may simply be unaware that the particular property is for sale. These possibilities are discussed further below.

A key implication is that there is *some* market potential for many of the properties. This suggests that there is some value, however modest it may be, which for various possible reasons, the present Scavenger system is not capturing. As discussed above, developers indicated that the market value of these properties would be more than the \$250 minimum Scavenger bid. However, the properties went unsold, meaning either that the developers are overly optimistic or that there is some barrier that prevents the properties from selling in the auction.

At the other end of the spectrum, we estimate that there are more than 3,000 properties that are too small to be of any marketable use. Specifically, this category includes any lots with a total area

of less than 1,000 square feet or less than 10 feet long on any side. A hand-review of such properties revealed the majority of these properties to be various common-areas or other ancillary properties such as tree-laws, hedge-rows, apartment complex lobbies, and sub-development landscaping. Traditionally, such properties would be listed in conjunction with a larger property. For example, tree-laws and hedge-rows which run along the edge of a property are typically included as part of the adjacent property. Similarly, areas such as apartment building lobbies, or sub-development landscaping are traditionally held either by a landlord or jointly by all tenants, in any event, the cost associated with the property are split among various related owners or tenants. In the cases identified here, however, these properties are listed in the Scavenger-system as single, isolated lots. Moreover, the majority of these properties are not adjacent to any other delinquent property. A hand review of these properties was unable to find any “traditional” commercial or residential lots which would be large enough for any productive use.

Even these optimistic estimates, however, imply that most Scavenger-involved properties would go unsold each year. That said, a review of these properties revealed further opportunities for reform and use. Nearly all 15,000 properties are adjacent to at least one other tax-delinquent property. Many of these properties share a common owner as well. Consolidation could help with the disposal of such properties, as it would also allow for multi-lot development. As discussed below, the high number of vacancies among Scavenger-involved properties, coupled with small isolated locations, increases the risk for private buyers; in other jurisdictions, however, governments have been able to offset some of this risk by clustering such properties into less risky groups.

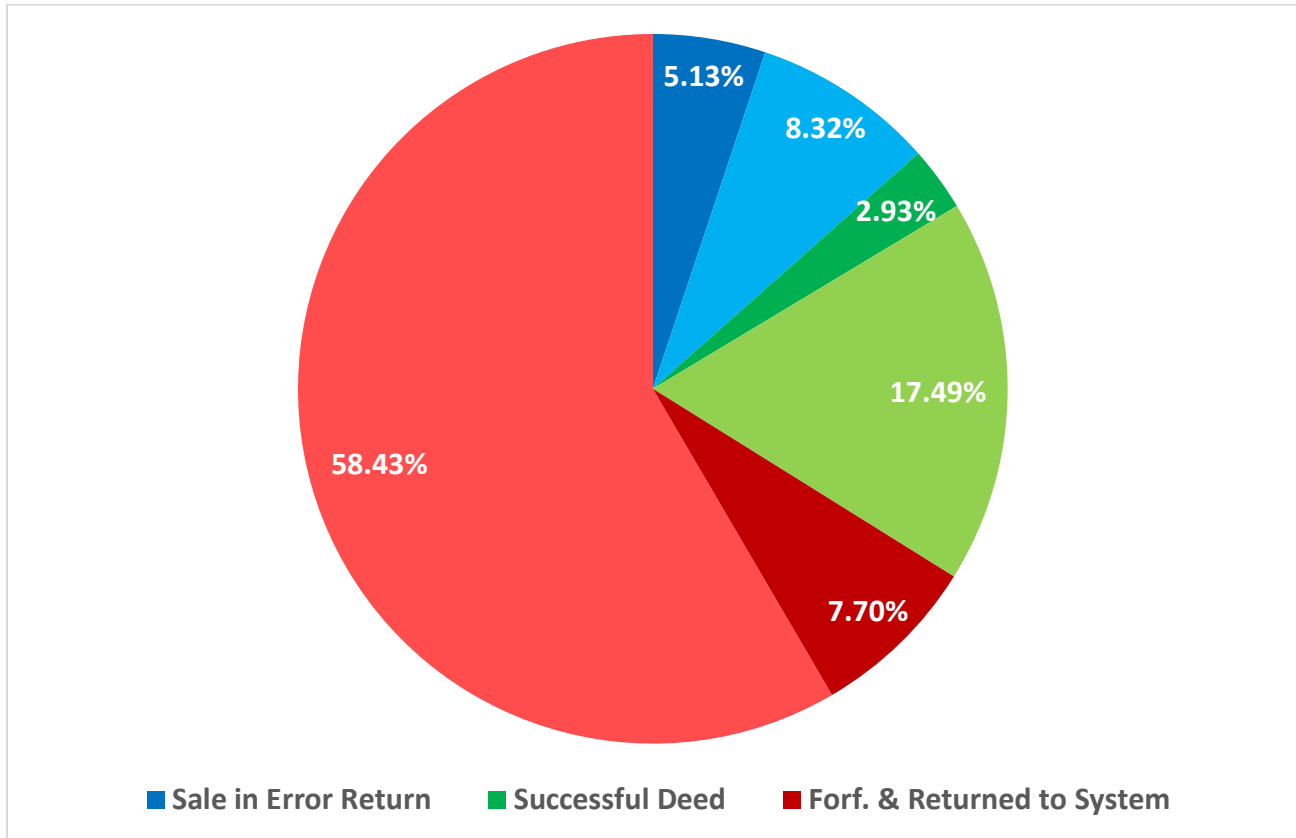
The financial condition of many of these properties may also pose an additional opportunity. More than 1,000 of these properties have total tax debts of less than \$1,000; and more than 1,500 properties have tax debt that is more than three years old. This is important for two reasons: first it calls into question whether tax delinquency and potentially foreclosure is the most efficient means of addressing these properties. Second, this presents a potential practical concern for homeowners. Many of the properties listed as having tax debts more than three years old are listed as “up to date” on taxes according to the records and web listings of the Cook County Treasurer. This creates a scenario in which a property owner may believe they are fully paid up on their outstanding tax bill, only to find that an unpaid debt from years past could result in the loss of their home anyway. In theory,



any outstanding tax debts are rolled over into the next year's bill. Similarly, any debt or lien attached to the property would remain even after a sale to a new owner (typically, resolving these liens would be a condition precedent to any private arm's length sale). It is unclear, then, why these properties remain listed in the Scavenger system in spite of their presently paid-up status. It should be noted that these last three groups, undevelopable properties, adjacent properties, and properties with minimal or questionable debts, are extremely comorbid, with almost all properties qualifying for more than one category.

We can also use past years' experience to project the likely outcome of the small number of Scavenger properties which did sell to private buyers. Figure 34 provides a distribution of likely outcomes for all 2019 sold properties, assuming they follow the same trajectory as sold properties from prior years. This graph includes properties both sold to private buyers (shaded dark), as well as those taken by government entities through no cash bid (lighter shade). As this graph shows, the vast majority of sold properties should be expected to be either returned, or forfeited back to the county at the end of their redemption period. Approximately 20% of properties disposed of in 2019 either through sale or no cash bid should be expected to be successfully taken to deed. Because government entities, specifically the Cook County Land Bank Authority, acquired more than five times as many properties as private buyers in 2019, they should be expected to represent the majority of both sale-in-error returns and successfully deeded properties. In total, based on past experience, approximately 2,000 of properties disposed on in 2019 should be expected to successfully return to normal market condition as intended.

**Figure 34 – Projected Ultimate Disposition of 2019-Sold Properties**



## B. Measuring Value

Finally, we used our in-person survey and record evaluation estimates to produce a rough estimate for the total property value currently in the Scavenger system. As mentioned, developers saw potential in a wide range of properties, including not only residential and commercial lots, but to a smaller number of vacant lots as well. Among these properties, the investment needed to return the property to market condition ranged from needing no additional improvement, to needing all new construction. Developers looked to a wide range of factors beyond a property's present condition to determine value, looking as well to nearby parks, transit, schools, taxes, crime, commercial centers, work opportunities, community connections and more. These properties are spread across more than a dozen different cities, townships, and neighborhoods. In sum, it is not possible to determine a uniform value across all Scavenger properties. Finally, while property-values tend to be fairly uniform in higher-income neighborhoods where property characteristics are much more similar, properties in Scavenger-property dense neighborhoods display far less uniform property conditions and, thus, less

uniform property values as well. Nevertheless, our evaluation does allow for a general range to be estimated.

Because the function of the Scavenger Sale is to return distressed property to normal condition through the use of traditional private redevelopment, our evaluation has focused on these properties' value as measured individually. As noted, however, the Scavenger Sale involves more than 25,000 properties, representing hundreds of acres of property throughout one of the most heavily developed regions in America, and the *collective* value of these properties may exceed the individual value of the constituent properties. For example, in New York City, the risk to buyers of undeveloped vacant lots is partially offset by bundling such properties with occupied properties and selling the parcels in bulk.

Second, because the Scavenger system relies on private sales and traditional redevelopment, measures of value have been limited to financial conditions and success measured in terms of private resale. Again, however, a system this large could afford a much wider range of land-use and redevelopment options. Existing programs both throughout Cook County and nation-wide have seen success through alternative re-use programs that repurpose vacant lots for neighborhood uses such as community gardens, parks, or community centers. While these approaches typically do not net the same financial return for the property in question, they do frequently impact the value of surrounding properties by introducing a valuable new public amenity. Similarly, many developers consulted for this survey expressed as much concern for the proximity of public assets such as schools, parks, and transit, as they did for the condition of the properties they were evaluating. This would suggest that while alternative reuse of Scavenger properties may not result in the same revenues, it may be an effective means of addressing the broader issues depressing the value of Scavenger properties and the communities in which they are concentrated.

### **C. The Scavenger Sale in Context**

This evaluation identified at least three important contexts in which the Scavenger Study must be understood: within the larger Cook County property taxation system; within the broader population decline and economic distress in many Scavenger-dense communities; and as an issue common to countless other large metro areas facing similar property and housing challenges. Cook County collects and distributes more than \$15 billion in property taxes from roughly 2 million properties, every year.

The County and its residents rely on dozens of integrated public programs to properly identify, record, assess, bill, and collect taxes, as well as process thousands of appeals, and delinquencies. Reform to any one of these systems may heavily impact the rest of the system, and evaluation of the Scavenger Sale must be viewed as only one piece in this larger system.

The failure of the Scavenger Sale to return significant numbers of properties to normal condition is a symptom not only of the system's particular design, but of the broader regional challenges facing communities throughout Cook County's southern and western regions. The issues suppressing demand and property values in Scavenger-dense communities are multifaceted and the Scavenger Sale has effectively become a catch basin for many properties impacted by these issues. Any action taken on the Scavenger Sale, including maintaining the status quo, without addressing these broader regional issues is unlikely to substantially alter the outcome of the Scavenger Sale.

Finally, it should be noted that many jurisdictions throughout the country face similar challenges regarding vacancy, abandonment, and tax delinquency. Many jurisdictions also face comorbid challenges with community development, neighborhood investment, and quality of life, such as those present in Scavenger-dense communities. However, no two jurisdictions appear to take identical approaches to addressing delinquent and distressed properties and the Scavenger Sale remains a substantial outlier.

#### **D. Existing Feedback and Suggestions**

The Scavenger Sale's relatively low profile has resulted in few significant reforms since its creation, and this paper does not endeavor to evaluate the potential of any specific policy proposal. Nevertheless, many of our findings do speak to a few generalized areas of concern. To begin, the Center was only able to identify two comprehensive studies of the Scavenger Sale since its creation in the 1930s. As a result, numerous stakeholders expressed concern that they did not fully understand the Scavenger system, or the nature of the properties contained within it.

Given the variety of properties involved in the system, reforms to the Scavenger Sale itself are unlikely to uniformly impact the properties involved. As such, further evaluation should be conducted to determine the present state of the Scavenger properties. Such an in-depth evaluation, though labor intensive, would allow for an accurate triage of present Scavenger-involved properties. Understanding

exactly what condition each property is in currently would allow for Cook County to address any properties included in error or which would be better served through other existing government programs.

As substantial as an in-depth evaluation of all Scavenger properties would be, it should be noted that the Scavenger Sale is one of dozens of programs which exist throughout various municipal governments in Cook County and contain similar stockpiles of property. For example, the City of Chicago separately owns thousands of vacant or otherwise distressed, as do many other municipalities throughout the region. It is likely that the properties contained in these other local stockpiles also face similar challenges.

In addition to improving knowledge of Scavenger properties themselves, access to the Scavenger system could also be an area for improvement. Participating in the Scavenger Sale requires participants be familiar with PIN property identification systems, and property taxation procedures more broadly. In addition, data related to Scavenger-involved properties is contained and published in consolidated datasets containing thousands of data points. This data does not contain any images and minimal descriptive information. Identification and evaluation of specific properties either requires substantial labor to manually investigate specific properties or the use of more technical data analytics such as those utilized for this study. This is in contrast to many other property records in Cook County, which are more easily searchable on the websites of various county agencies. Many programs in other jurisdictions also offer more accessible data, providing websites structured more similar to commercial real-estate listings. Altogether, the complexities of the Scavenger system may be a barrier for many small-scale developers. Perhaps because the Scavenger Sale involves such complicated processes, less than a dozen commercial actors appeared listed as Agents on behalf of buyers, contracted to navigate the Scavenger Sale process on their behalf.

The findings reported here suggest that even if accessibility issues could be reduced to a hypothetical zero, the Scavenger System would still fail to return the majority of properties to normal condition. The regions where Scavenger properties are typically located already face a glut of extremely low-valued properties available for private sale. Similarly, the 25,000+ properties included in any year's sale likely outstrips the capacity of commercial developers, particularly smaller "mom and pop" operations which typically expressed greater interest in these properties than larger developers.

Regardless of access, Scavenger-buyers still face up to two or three years of a delay before they can take possession of their properties, as well as frequent occupancy issues, as evidenced by the large number of returns from any given year's sales. Such obstacles substantially increase the risk of developing these properties, a risk that is again likely to disproportionately affect the smaller developers otherwise most interested in these properties.

## **E. Conclusion**

The Scavenger Sale has existed as a one-of-a-kind approach to tackling a common challenge within municipal finance for nearly eighty years. It has undergone very little change during that time and has apparently produced similar results for decades. A review of the system conducted by Donald Haider in 1975 found that between 1967 and 1973, the Scavenger sale sold approximately 1,000 properties per year for an average bid of only \$143.<sup>20</sup> Yet this sale, which encompasses hundreds of millions of dollars in back taxes and thousands of acres of land, continues to receive little attention and achieves its intended function only 6% of the time.

The Scavenger Sale is not achieving its intended function, not because it is broken, but because it is functioning exactly as designed. The system relies on demand from private buyers in order for a property to ever escape the cycle, but since the 2008 recession, the Scavenger Sale has become swamped with a glut of vacant, or otherwise extremely low-valued properties for which there is insufficient demand. More importantly, this issue of demand is not unique to the Scavenger Sale, but rather reflects a range of broader regional challenges that have suppressed home values throughout Southern and Western Cook County. Even full-market-value transactions in these communities are still less than half the county-wide average, so it is to be expected that severely tax-delinquent properties would be even more difficult to sell.

The larger obstacle, though, is that the Scavenger Sale is being tasked with a role for which it was neither intended nor designed: community redevelopment. The communities in which Scavenger properties are most concentrated overwhelmingly experience above-average tax rates, poverty, criminal activity, unemployment, foreclosure, and housing cost burdens; as well as below-average

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<sup>20</sup> D. Haider, "Report to the Mayor's Committee for Economic and Cultural Development for the City of Chicago, Summary of Consultant's Report (Fall 1975), (unpublished), *as included in* Lawley at 8.

income, economic and educational opportunity, and access to public amenities such as transit, parks, and schools. As a result of such broader issues, these neighborhoods have experienced a steady decline in population for years. Until these broader issues are improved, the Scavenger system should be expected to produce the same modest results. Moreover, it remains to be seen what impact COVID and the related economic challenges may have on Cook County's population, economy and housing supply.

Seen from a different perspective, however, the Scavenger Sale presents a large opportunity. Twenty-five thousand properties collectively are a substantial asset beyond their individual values. Creative reforms that move beyond a market-based approach may generate new opportunities for these properties to contribute to their surrounding neighborhoods.

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