

FEDERAL RESERVE BANK OF PHILADELPHIA

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Land Banks as a Redevelopment Tool

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If America's cities and towns are going to compete in the 21st century economy, they must do so by becoming places that attract the younger generation of workers that our economy will soon depend on. A key way to attract younger, creative, and entrepreneurial workers to our cities is to transform abandoned properties into places where these individuals can work and raise their families.

As difficult as this task is, there is a tool many communities across America are using to breathe new life into once financially devastated communities — land bank authorities.

What Is a Land Bank?

Land banks are public or nonprofit entities created by local governments to acquire, manage, maintain, and repurpose vacant and foreclosed buildings and lots. These entities are not financial institutions; they are single-purpose entities charged with finding new and meaningful uses for abandoned properties. The land bank concept replaces the typical method local governments use to enforce tax collection by establishing a process that eliminates all liens and past claims and produces a clear title so that a new owner can purchase the property.

The Hotel Berridge was returned to productive use as a result of development incentives provided by the Genesee County Land Bank Authority in Michigan. The Berridge was a single-room-occupancy hotel converted to mixed-income housing and two commercial units.

Land banks can determine pricing for the properties they sell based on the market and the property's intended use. For example, a "side lot" — the empty lot next to a homeowner — is often sold for a nominal sum, even less than the taxes and fees owed on that parcel. In other cases, a land bank can accept nonmonetary consideration as part of a sale, such as an agreement to improve the property or put the property to a particular use. In other cases, properties can be sold at market value, producing a surplus that offsets the "losses" on other properties conveyed on the terms previously mentioned.



These outdated tax foreclosure systems that the land bank model is intended to replace put a higher premium on the modest collections derived from such transactions, with no consideration for the impact that these types of transactions will have on surrounding properties. That impact is devastating to a neighborhood struggling to hold its own in an already weakened market. The local governments sell interest in properties to investors who view property not as real estate but as an investment on paper that can be either sold to another investor or can simply be written off as a loss. It is rare that such sales lead to reinvestment in those properties. That is, families don't go to tax lien sales to shop for a home, and developers don't go to courthouse auctions to find their next multimillion dollar location.

A land bank is an alternative to the outdated tax foreclosure systems because it gives communities the opportunity to repurpose abandoned properties in a manner consistent with the communities' values and needs. Communities can demolish unsalvageable homes and create open green spaces or community gardens, restore interesting buildings, or simply hold land in careful stewardship until a new purpose can be determined. The land banks treat properties as real estate, not as a disposable commodity that, once used, no longer has a meaningful purpose.

The goal is to provide greater balance between the interest of efficient tax collection and the interests of the neighborhoods where the properties are located. In the long term, a more careful approach to the disposition of tax-foreclosed properties ultimately increases tax collections. Careful reuse of tax-foreclosed properties has a significant impact on surrounding properties and their taxable value. Allowing a vacant property to fall into the hands of speculators ensures that blight will spread unchecked, causing property values to fall as well as entire neighborhoods.

Approximately 75 communities now operate formal land bank programs across the country.¹ Although land banks are most often associated with communities with large-scale blight and abandonment, many communities now see the benefit of implementing land banking as a means of preventing the contagious blight that can sweep across urban neighborhoods. One of the most active land banks in the country is the Genesee County Land Bank Authority (GCLBA) in Flint, MI.

Effect of GCLBA

Based on land banks created earlier in St. Louis, Cleveland, Atlanta, and Louisville,² the GCLBA has become a model of a more aggressive land bank. The GCLBA, like other land banks across the country, was created to replace an antiquated system of tax foreclosure and property disposition. The GCLBA's mission, however, is to go beyond land assembly and title clearance. For example, the land bank has engaged in redevelopment activities, often serving as a partner in redevelopment projects by providing new management or financial capacity for local nonprofit developers. In some cases, the land bank has acted as the developer on a project if it determined that such a development was a potential catalyst to private investment. This has proven to be a successful approach in Flint where land bank development projects have led to more than a dozen redevelopment projects adjacent to or near land bank-initiated development.

Since its inception in 2002, the GCLBA has demolished over 1,300 properties; removed thousands of tons of debris from empty lots; and redeveloped or repurposed over 2,500 properties, which under the former system would have simply been sold at an auction to the highest bidder — typically for a fraction

of the land's value. The land bank has used its land assembly and financing tools to attract over \$60 million in new investment on previously forgotten land. The land bank is currently a partner with a private developer in the \$30 million redevelopment of the former Durant Hotel. The Durant, which sat empty for 37 years until the land bank acquired it in 2005, is being renovated into 93 apartments and commercial space on the lower floors.

Other development projects include a partnership with a local nonprofit that resulted in the conversion of the Hotel Berridge, a former 99-room single-room-occupancy "flophouse," into 21 residential units, including 11 affordable units, and two commercial units. The land bank itself redeveloped an abandoned clothing store as a mixed-use development. The land bank has also conveyed dozens of commercial properties that now offer small entrepreneurs a chance to open a business.

Since it was formed, the GCLBA has acquired nearly 10,000 empty houses, vacant buildings, and abandoned scattered lots and has begun transforming the city of Flint, which serves as an important case study in explaining the need for the land bank approach. In 1908, General Motors was founded in Flint. The city grew as the automobile industry and GM grew, and by 1960 the city had expanded from a small town to a city with a population of 200,000. As the auto industry began to struggle and cities began to sprawl, Flint faced a decline in both population and jobs. Today, the number of workers at GM has fallen sharply, to less than 10,000. The population, which had peaked at 200,000 in 1960, was less than 110,000 in 2009 — a 45 percent loss in just a few decades. When people left Flint to find jobs elsewhere, they obviously had to leave their houses behind. And thus, contagious blight took hold. It became clear that simply selling those distressed properties again and again was a foolish strategy with dire consequences for neighborhoods.

The land bank has reduced the oversupply of housing in Flint's weak market and improved the quality and type of housing by restoring historic buildings and rehabilitating homes in areas where the market will support redevelopment. This effort, which relies on funding once diverted into the hands of tax sale speculators, has affected the trajectory of the neighborhoods in Flint.³ Neighborhoods that were considered threatened have been stabilized by converting the source of contagious blight into assets, such as community gardens or expanded yards for neighbors. The goal has been to target intervention, such as demolition, rehabilitation, or greening, in neighborhoods that are at the "tipping point" — not the most distressed areas, but those with a chance to be salvaged with immediate intervention.

Critical Elements for a Successful Land Bank

The Center for Community Progress (CCP) and its predecessors — the National Vacant Properties Campaign and the Genesee Institute — have assisted dozens of communities in creating land banks. Based on experience derived from helping communities across the country form land banks, the team at the Center for Community Progress⁴ has concluded that the following four elements are critical to successful land bank initiatives:

1. **Integrate the land bank management and disposition process as an element of the tax collection and foreclosure system.** The tax collection process is often the most effective means of addressing abandoned properties because owners typically do not pay taxes on these properties. Therefore, effective use of the local governments' superior tax lien can be the

primary mechanism of acquisition of the properties. Furthermore, using the fees associated with delinquent tax collection with the management and disposition of properties is a critical element. Many tax collection systems privatize profits by selling tax receivables (tax liens), which then earn penalties and interest so the investor gets a hefty return on the investment. In some cases, tax deeds are simply sold at auction; this results in equity derived from more valuable properties enriching the smart or lucky purchasers at the auction. The most effective land bank model captures those fees or the value that would otherwise enrich an “investor” and uses those financial resources to manage the properties held by the land bank. In either scenario — the sale of liens or the auctioning of a tax deed — the property would likely be lost by the owner. This improved system simply places the tax collection and foreclosure process, as well as the earnings derived from such a process, under the control of the community, not out-of-state speculators. It is imperative that any such public system include a strong foreclosure prevention effort. Any community that chooses to be aggressive in taking the title to abandoned properties is obligated to work equally hard to identify and assist those homeowners facing foreclosure due to financial hardship.

2. **Organize the land bank at the metropolitan level or around the most diverse real estate market possible.** The best way to ensure that a land bank is sustainable is to ensure that the land bank can operate in a diverse real estate market. Land banks are most effective when they are not relegated to ownership of only the worst of the foreclosed or abandoned properties. A common fallacy of tax foreclosure — or property abandonment — is that it is all “junk” property. Although most of the properties in which the titles are transferred to land banks would meet that definition, a small percentage of tax-foreclosed properties have some market value. Creating a land bank that can acquire, develop, and sell distressed properties in more functional market areas increases the possibility that when more valuable properties are conveyed to private ownership through a land bank, they will generate revenues to be used in managing and improving the most difficult properties. This source of internal subsidy is founded on the notion that a land bank is better positioned than a public auction to convert valuable properties to productive use and that they can use the earnings from land sales to rehabilitate, clean, board up, or even bulldoze other properties in worse condition. The GCLBA generates between \$500,000 and \$1 million per year in land sales; this money not only recovers the uncollected taxes on those properties but also funds a robust property maintenance program.
3. **Make sure that the land bank is policy driven and that policies and transactions are transparent.** For good reason, the public is often suspicious of any government role in the real estate market. In the case of these properties, the government already owns the property as a result of tax foreclosure. Still, it is critical that the operation of a land bank be fair and predictable. To build public confidence in a land bank, the land bank must adopt well-defined policies and priorities that govern to whom the property can be sold or transferred and for what purpose. Terms and pricing policies must also be clear and uniform.
4. **Emphasize community engagement and participation.** The land held by land banks is typically scattered among neighborhoods throughout the community. Therefore, the land bank has neighbors, sometimes thousands of them, and those neighbors have a right to have their

opinions considered when the land bank determines new uses for a property. The most successful land banks engage those neighbors on the policies and practices that determine the outcomes for those neighborhoods. The public is more likely to accept the hard choices that will inevitably need to be made regarding property held by a land bank when those neighbors have a formal voice in policy and operations. By formalizing that process through regular neighborhood meetings and perhaps with the formation of a community advisory council, land banks can get public input on terms that make that input more meaningful.

The best land banks develop strategic partnerships with nonprofits, community organizations, lenders, and local governments. This is all in an effort to leverage the resources available to deal with the most distressed land in the community.

Since this is a relatively new field, there is much more to learn about effective land banking strategies as more communities and states develop and use these tools. Michigan and most recently Ohio have adopted laws that allow land banks to clear the title on a property in an expedited manner, finance improvements and demolition, and convey property on flexible terms deemed to be in the interests of the community. These actions are often impossible if the property is held by the local government. In some states, the idea is just beginning to take form. In Pennsylvania, land bank legislation is currently being considered. In the summer of 2010, the CCP began discussions with advocates and policymakers in New Jersey and Delaware, along with a dozen other states throughout the country.

Although reengineering tax collection, foreclosure, and property disposition systems is challenging and complicated, the greatest challenge lies in developing the will to change and adapt to new ways of thinking about vacant property and in seeing land as an asset that can be converted to productive use again, not as a disposable commodity. That is the real challenge, and that realization is the change most needed and most difficult to achieve.

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1 There are 75 land banks in operation.

2 The earliest major land bank program, the St. Louis Land Reutilization Authority, was created in 1971. Ohio followed suit by adopting state-enabling legislation in 1976 that permitted the creation of the Cleveland Land Bank. Just over a decade later, both Louisville (1989) and Atlanta (1991) created parallel land bank authorities with the approval of intergovernmental agreements. After 15 years of economic decline triggered by industrial closings, the city of Flint and Genesee County created the GCLBA in 2002.

3 A study that discusses property value increases as a result of the GCLBA can be found at http://www.aec.msu.edu/theses/fulltext/griswold_ms.pdf.

4 The team includes Professor Frank Alexander and Amy Hovey.