

Revitalizing Blighted Communities with Land Banks

by Jessica de Wit

What is a land bank?

A land bank is a public authority created to efficiently hold, manage and develop tax-foreclosed property. (1) Land banks act as a legal and financial mechanism to transform vacant, abandoned and tax-foreclosed property back to productive use. Generally, land banks are funded by local governments' budgets or the management and disposition of tax-foreclosed property. (2) In addition, a land bank is a powerful locational incentive, which encourages redevelopment in older communities that generally have little available land and neighborhoods that have been blighted by an out-migration of residents and businesses. (3) While a land bank provides short-term fiscal benefits, it can also act as a tool for planning long-term community development. Successful land bank programs revitalize blighted neighborhoods and direct reinvestment back into these neighborhoods to support their long-term community vision.

Why have a land bank?

Land is one of the most important factors in local economic development today and must be managed well to improve existing land use practices, enhance livability of communities, and support local community development. (4) In recent surveys, the Brookings Institute found that on average 15% of the land in major American cities is vacant. (5) Vacant and abandoned land does not produce sufficient property tax revenue for cities, which generally is their main revenue source. This lack of funds impedes a city's ability to sustain its operations, programs, and services. In addition, vacant and abandoned land discourages property ownership, depresses property values, attracts crime and creates health hazards.

To understand why it is important to have a land bank, it is necessary to assess the costly impact of vacant and abandoned land in communities. When there are vacant and abandoned properties in communities, neighboring property owners and the municipalities incur significant costs. The U.S. Fire Administration reports that over 12,000 vacant structure fires are reported each year in the U.S., which results in \$73 million in property damage annually. (6) In addition, abandoned properties tend to attract crime. A 1993 study of 59 abandoned properties in Austin, Texas, found that 34 percent were used for illegal activities and of the 41 percent that were unsecured, 83 percent were used for illegal activities. (7) This crime drains police department resources and leaves residents feeling unsafe in their own neighborhoods.

When property owners neglect and abandon their properties, the local municipality must use its own resources to clean and maintain the properties as part of their nuisance abatement responsibilities to protect the public health, safety and welfare of its community. For example, from 1999 to 2004, St. Louis spent \$15.5 million, which equates to nearly \$100 per household, to demolish vacant buildings. (8) Detroit spends roughly \$800,000 per year to clean vacant lots. (9) Abandoned and vacant properties drive down the surrounding property values, which lowers the property taxes that most municipalities rely on as a primary source of revenue.

Property abandonment can destabilize a neighborhood by causing an out-migration of property owners, who are worried about losing value on their properties due to surrounding vacant and abandoned land. A Temple University study suggests that, all things being equal, the presence of an abandoned house on a block reduces the value of all the other property by an average of \$6,720. (10) According to Emory University Professor Frank Alexander's research, "failure of cities to collect even 2 to 4 percent of property taxes because of delinquencies and abandonment translates into \$3 billion to \$6 billion in lost revenues to local governments and school districts annually." (11) While it is difficult to quantify all of the costs associated with vacant and abandoned properties, it is clear that they place a tremendous cost burden on communities.

Land Bank Benefits

While abandoned and vacant properties depress property values, discourage property ownership, and attract criminal activities in the surrounding area, a land bank provides tools to quickly turn these tax-reverted properties back into usable parcels that reinvest in the community's long-term vision for its neighborhoods. Land bank programs act as an economic and community development tool to revitalize blighted neighborhoods and business districts. Land banks can benefit urban schools, improve tax revenues, expand housing opportunities, remove public nuisances, assist in crime prevention and promote economic development. (12)



Source: 2004 Kirwan Institute for Study of Race & Ethnicity, Ohio State University.

By transferring vacant and abandoned properties to responsible land owners through a land bank program, local governments benefit because they avoid the significant cost burden of property maintenance, like mowing and snow removal, as part of their nuisance abatement responsibilities. In addition, local governments benefit from increased revenue because the new property owners pay taxes on the property. Also, the local schools benefit because they receive more funding when there is an increase in property owners in their school districts. Land bank programs can increase the variety of mixed-income housing offered and provide more opportunities for affordable housing. Also, land bank properties, which become owner-occupied, discourage criminal activity thereby benefiting public safety and decreasing the cost burden on the local police and fire departments. Finally, the more residents and businesses that occupy property in a neighborhood, the more services and amenities will be needed, which boosts local economic activity.

Many cities, like Atlanta, GA; St. Louis, MO; Genesee County, MI; and Cleveland, OH; have established land bank programs to redevelop vacant and abandoned land as a productive use for their communities. These communities are using land banks as a tool to reuse their urban land and stimulate economic development and neighborhood revitalization.

Land Bank Challenges

While there are many benefits to establishing land banks in communities, there are also many challenges in operating and maintaining them. Several U.S. municipalities have had challenges with running their land banks. Atlanta's land bank has a lack of sufficient acquisition funds for both Community Development Corporations (CDC) and the land bank authority (LBA).⁽¹³⁾ In addition, they have a need for ongoing improvement coordination among community development departments of local governments, the LBA and the Tax Commissioner.⁽¹⁴⁾

Cleveland's land bank challenges are the capitalization of projects, the CDC's limited capacity to take and rehab land acquired from the land bank and the time consuming administrative procedures, including the legislative process and aldermanic approvals.⁽¹⁵⁾ CDCs want the City to go beyond supporting primarily tax-

delinquent vacant properties and take the lead on tax-delinquent properties that have existing structures and the possibility of environmental contamination.(16)

Genesee County's land bank challenges are whether urban tax-reverted properties have enough value to be purchased, even with the latest Land Bank Fast Track legislation.(17) In addition, there are concerns whether there will be enough revenue generated by the sale of these properties to pay the costs associated with administering a Redevelopment Fast Track Authority.(18)

Case Study: Michigan's Land Banking Enabling Legislation

To better understand how land bank programs work, it is helpful to review a case study. Following is a case study of Michigan's Land Bank Enabling Legislation and Michigan's Genesee County land bank program. It is important to first review a State's particular Land Bank Enabling Legislation because these laws provide land bank programs with the legal and financial tools needed to operate and maintain a land bank.

Prior to January 2004, Michigan's tax foreclosure laws on abandoned properties were ineffective because local governments did not have the authority to effectively manage tax-reverted land and prevent blight. Now, Michigan has one of the most progressive land banking laws in the nation.(19)

In January 2004, Governor Granholm signed into law the Land Bank Fast Track Legislation, Public Act (PA) 258, to provide communities with better legal and financial tools to put vacant and abandoned properties back into productive use.(20) This law establishes a state land bank authority while also enabling the establishment of city and county land bank authorities.(21) In addition, the law permits these authorities to expedite quiet title on properties, which it possesses, and make them available at nominal prices for productive reuse in the community.(22) The quiet title process is a legal action that eliminates all liens and past claims on a property and clears the title so a new owner may purchase the property without worrying about any unresolved claims.

In conjunction with PA 258, the Governor also signed into law four other related Public Acts:

PA 259 amends the Michigan Brownfield Redevelopment Act to allow any land bank authority owned property to be defined as "blighted property", which enables a tax increment financing board to provide assistance to a land bank authority with clearing or quieting a title, and disposing of property owned or held by a land bank authority.(23)

PA 261 creates the Property Tax Exemption Act, which exempts property, with titles held by land bank authority, from taxes and exempts property sold by a land bank authority from general property taxes for five years.(24)

PA 260 creates the Tax Reverted Clean Title Act to impose a specific tax, which would have the same rate of general property taxes for five years, on property sold by a land bank fast track authority. While one half of the revenue from this specific tax funds an authority's title clearance and land disposition costs, the remaining half is earmarked for local and state collecting units on a pro-rata basis.(25)

PA 263 amends the General Property Tax Act to permit a foreclosing governmental unit to request a title product other than an unreliable title search to identify the owners of tax delinquent properties at the time of foreclosure and describe a reasonable process for identifying these owners and providing public notice to them.(26)

Michigan's Genesee County Land Bank

In Michigan, Genesee County has been a leader in creating a successful land banking program. Under the Genesee County Land Bank Authority, tax foreclosed properties are held for a period of time before being returned to the market. This allows for the grouping of parcels together to provide a more attractive resale opportunity and the assessment of potential property owners to ensure that they will contribute to the long-term vision of the community.

The Genesee County Land Bank Authority has acquired title to more than 3400 land parcels, including nearly 6% in the City of Flint in the first three years of the program.(27) They have successfully transferred 130 foreclosed tenant occupied properties to non-profit housing agencies, whose goal is to stabilize neighborhoods and encourage home ownership.(28) In addition, the LBA has redeveloped a 30,000 sq. ft. mixed use building in downtown Flint, which has been empty since 1980, and they have assembled hundreds of empty lots for city development projects and local non-profit and community organization projects.(29)

Land Banks as a Smart Growth Planning Tool

While other cities' land bank programs, like St. Louis, have been used primarily as a fiscal tool to stimulate growth in their communities, Genesee County's land bank program has been used as a planning tool to align with their communities' long-term redevelopment plans that provide the greatest benefit. When Michigan's Governor Granholm signed the latest land bank legislation in 2004, she said, "Together these new laws will

help local planning officials to look at an entire area or region when developing land use plans."⁽³⁰⁾ In addition, the Governor said, "To make headway against urban sprawl, we must think regionally and use new tools."⁽³¹⁾ Land bank programs are one of these smart growth tools that counter sprawl and revitalize the inner core of Michigan's cities. Based on Governor Granholm's state-wide smart growth goals, it is imperative that Michigan communities focus on city and region-wide planning instead of just fiscal objectives when implementing land bank programs.

References and related links

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