



Land Banking 101: What is a Land Bank?

About this Tool

Description:

This document provides general information on land banking. It provides a detailed definition of a land bank and discusses the four critical elements to successful land banking. Finally, it provides a discussion of types of land bank programs, governance structures, and traditional income sources.

Source of Document:

This document was created by the Center for Community Progress.

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What is a Land Bank?

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So, what is a Land Bank?

Land banks are not financial institutions. They are public or community-owned entities created for a single purpose: to acquire, manage, maintain, and repurpose vacant, abandoned, and foreclosed properties –the worst abandoned houses, forgotten buildings, and empty lots.

There are approximately 75 communities now operating formal land bank programs across the country. And while 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 like a plague, infecting house after house until whole blocks – even neighborhoods - become empty and abandoned shadows of their former selves.

Land banks across the country are often created to replace an antiquated system of tax foreclosure and property disposition. Land banks replace those “liquidation” based systems - generally comprised of the sale of tax liens (the uncollected tax receivables of a given municipality) or public tax auctions are essentially liquidation systems, wherein government trades their interest in tax-delinquent property to speculators, often for pennies on the dollar. Those systems place a higher premium on the modest collections derived from such transactions, with no consideration for the impact such a transaction will have on surrounding properties. That impact, in cities across America, is devastating to a neighborhood struggling to hold its own in an already weakened market. Those local governments sell interest in properties to investors who view property not as real estate, but as an investment on paper to be sold to another investor or simply represent a loss in the larger pool of properties or tax liens they may have acquired. It is rare that such sales lead to reinvestment in those properties. Families don’t shop for the family home at tax lien sales, and developers don’t seek the site for their next multi-million dollar deal at the courthouse auction.

A land bank is the alternative to such systems, as they give communities the opportunity to repurpose abandoned properties in a manner consistent with the communities’ values and needs - demolishing unsalvageable homes and creating open green space or a community garden, restoring interesting buildings, or simply holding land in careful stewardship until a new purpose can be determined.

Land banks treat properties as real estate, not as a disposable commodity that, once used, no longer has a meaningful purpose.

There are four critical elements is successful land bank initiatives:

- 1. Connect the Land Bank to the tax collection and foreclosure system.** Tax collection is the principal interaction with abandoned properties –as owners typically do not pay taxes on abandoned property. The effective use of the governments’ superior tax lien can be the primary mechanism of acquisition of the properties. Further, connecting the economics of tax collection to the management and disposition of properties coming through the process is a critical element. Most tax systems privatize profits through penalties and interest earned by tax lien investors, or from equity derived from more valuable properties that are foreclosed. The land bank model captures that revenue stream and utilizes those financial resources to manage the properties held by the land bank. In both scenarios, the property would be lost to the owner – this ‘improved’ system simply places that process and the earnings derived from the collection 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.
- 2. Scale the land bank at the metropolitan level, or around the most diverse real estate market possible.** 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. While most of the properties titled to land banks would meet that definition, it is the case that a small percentage of tax-foreclosed properties have some market value – occasionally significant value. By scaling the land bank around a diverse market, the possibility is increased that more valuable properties conveyed to private ownership through a land bank 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 can utilize the earnings from land sales to rehabilitate, clean, board, or even bulldoze other properties in worse condition. The Genesee County Land Bank generates between \$500,000 and \$1 million per year in land sales, money which not only recovers the uncollected taxes on those properties, but also funds a robust property maintenance program.
- 3. Ensure a Land Bank is policy driven – and transparent in policies and transactions.** The public –for good reason – is often suspicious of any government role in the real estate market. In the case of these properties, of course, 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 adoption of well considered policies and priorities that govern to whom –and for what purpose – properties are sold or transferred. Terms and pricing policy must be clear and uniform, as well.

4. **Emphasize community engagement and participation.** The land held by Land Banks is typically scattered among neighborhoods throughout the community. So, the Land Bank has neighbors, sometimes thousands of them. The most successful Land Banks engage those neighbors on the policies and practices that determine the outcomes for those neighborhoods. Public acceptance of the hard choices that will inevitably need to be made regarding property held by a Land Bank is much more likely when those neighbors have a voice – a formal voice – in policy and operations. By formalizing that process, through regular neighborhood meetings, and in some cases with the formation of a Community Advisory Council, Land Banks get public input on terms that make that input more meaningful than if that input comes in the form of uninvited anger or frustration with land use decisions.

The best land banks do not work alone, but rather develop strategic partnerships with non-profits, community organizations, lenders, and local governments – all in an effort to leverage the resources available to deal with the most distressed land in the community.

Land banks across the country land banks vary significantly in staff size, inventory, budgets and programs. The Genesee County Land Bank Authority (GCLBA) is currently the largest of all operating land banks. It has acquired over 10,000 structures and properties since its inception, most of which are scattered throughout the county (with highest concentrations in the City of Flint) and exist in a neglected, vacant and abandoned condition. The GCLBA has developed extensive programming that consists of sales, development, property management (rental program), land-use planning, side lot, ‘adopt-a-lot,’ urban gardening and demolition. However, many land banks across the state operate with a much less intensive inventory management strategy, only using the land bank tools on a few properties per year.

Quick Guide to Land Banks

What Can A Land Bank Do?

Sell or convey property through locally developed policies that reflect the community's priorities

- Sell through negotiated sales
- Convey property for other than monetary consideration
- Sell, lease, manage property with terms deemed to be in the interest of the Land Bank
- Utilize land bank financing tools for tax foreclosed and other targeted properties
- Support local planning decisions by adhering to local priorities as to use and transferee of land bank owned properties

Sample Land Bank Programs

- Demolition
- Property maintenance
- Rental management
- Land Use Planning
- Sales
- Real Estate Development and Rehabilitation
- Land assembly for development

Sample Governance Structure

- Legal authority determined by statute or intergovernmental agreement
- If a formed as an independent or quasi-independent public entity, the Board of Directors appointed according to local ordinance, intergovernmental agreement, or state authorizing statute

- Policies and procedures determined by Board, implemented by staff according to adopted policies - delegation of authority determined by Board policy
- Land banks may create local agreements with county, cities, townships, and villages as to the use and transferee of properties within their specific municipalities
- Public participation may include Advisory Council of citizens and interested parties

Potential Sources of Income

Land bank authorities typically have access to a variety of sources of income to fund land bank programs, including: foundation grants, government contracts, land sale revenues, specific tax collection, developer fees, and rental income. Below is a description of these income sources:

- 1) Land banks are typically eligible for foundation grants due to its corporate structure or governmental status. When a land bank is in its formative stages and initially developing its capacity to operate, it may need to rely heavily upon foundation grants to covers operating costs. Such grant funding allows a land bank to build its capacity to operating programs that will potentially generate resources to operate the programs of the land bank.
- 2) Federal grants funded through HUD's Neighborhood Stabilization Program (NSP) may provide acquisition, maintenance and operating funds for land banks for a maximum period of ten years. Specific guidance for NSP can be found at the NSP Resource Exchange, www.hud.gov/nspta. In addition, land banks can be used in conjunction with the HOME and CDBG programs with certain specific limitations. Be sure to check with local program managers regarding the availability of HOME and CDBG funding and the potential connections for land banks within each program.
- 3) Land sales revenue is generated when the land bank authority is able to sell properties for more than the land cost the land bank. Land banks are able to acquire property at below market value in a variety of ways. First, land banks are able to accept donated land. Property owners may want to donate their land for the tax benefits or even to relieve themselves of the maintenance obligations for the property. It is advisable that the land bank conduct proper due diligence prior to accepting donated property. It is appropriate for a land bank to provide a letter of acceptance for donated properties, but not to designate a donative value to the donor - rather it should advise donors to consult their tax professional for assistance in determining the tax implications for the donor. Secondly, the land bank may purchase low value properties at the auctions though it will be bidding against other buyers.

- 4) Some land bank can receive a portion of the tax revenue for land bank properties that are transferred to new owners. Under Michigan law land banks receive 50% of the specific tax generated on all properties that are sold by the land bank for five (5) years succeed the transfer of the property.
- 5) If the land bank participates as a developer or co-developer in real estate development projects in targets redevelopment areas. As a result of these development projects, the land bank may generate a developer's fee ranging from 7% to 20% of project costs.
- 6) Many land banks have the authority to keep properties in their inventory and rent them to both commercial and residential tenants. A rental program is often necessary in the current economy due to the difficulty in securing financing for real estate. Further, the provision of stable and quality rental properties to the market is an important aspect of any stable real estate market, and this program may be within the overall mission of the land bank.