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HOT TOPIC ALERT

Prepared for NAR by Legal Research Center, Inc.

What is a Land Bank?

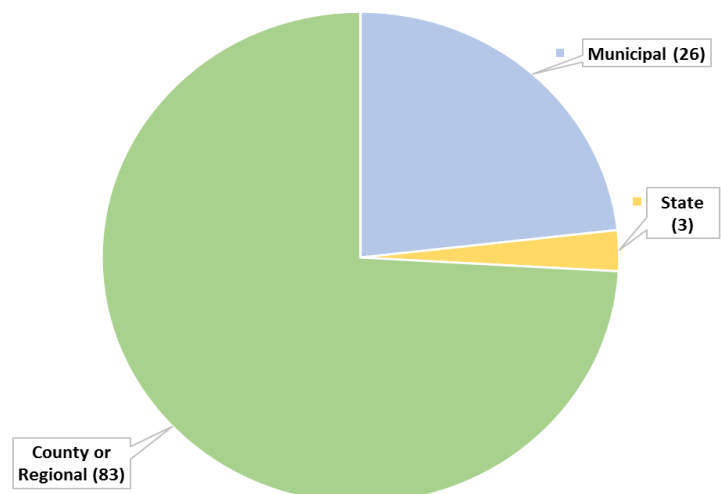
Land banks have become a popular urban redevelopment tool. The [idea behind them](#) is a simple one: a government agency or nonprofit entity is given the authority to acquire, manage, and dispose of surplus properties. The “surplus” may include abandoned, foreclosed, and tax-forfeited properties.

Land for a land bank may be acquired in a number of ways. Some land banks manage [tax-foreclosed properties](#). The St. Louis Land Reutilization Authority, the first land bank, is [authorized to acquire property](#) through donations, tax forfeiture, eminent domain, or negotiated sale. The recently-authorized Philadelphia Land Bank will acquire by deed vacant surplus property owned by the City of Philadelphia Redevelopment Authority and the Department of Public Property. Land banks may finance the resale and rehabilitation of a property for residential purposes, remove buildings to redevelop a property, or raze buildings to provide open space for the community.

Land banks date back to 1971 with the establishment of the [St. Louis Land Bank](#). Early land banks focused on tax-forfeited property, seeking ways to convert that property back to a productive use. Land banks gained popularity in the early years of the 21st century, and continue to draw attention. In 2008, the federal government gave its support to land banks when Congress passed the [Housing and Economic Recovery Act of 2008](#) (HERA). That law appropriated \$4 billion to redevelop abandoned and foreclosed properties. The appropriation came to be known as the [Neighborhood Stabilization Program \(NSP\)](#). NSP funds, which must be used to help targeted to low- and moderate-income persons, may be used to establish land banking programs.

Land banks are launched by governments at the state, regional, and municipal levels. Typically [state enabling legislation](#) authorizes the creation of the land banks, and grant them the authority to accomplish specific policy goals. The [Michigan land bank law](#), which is becoming a model for other states, provides that land banks may recapture half of the property tax revenue from property sold to a private party for five years after the sale. The Michigan law also allows land banks to borrow money and issue tax-exempt bonds.

Land Bank Organizing Jurisdictions



Data source: Community Progress

The funding for land banks comes from different sources. Older land banks, such as the ones in [Atlanta](#) and [Louisville](#), were funded by general revenues from the participating local governments. State laws often give land banks the authority to borrow money or issue tax free bonds. Land banks in [Michigan](#) acquire tax-foreclosed property without charge from local governments, and then rely on tax increment financing laws to recapture property taxes from the property once it is sold and redeveloped. The [Cuyahoga County, Ohio, Land Bank](#) uses a “delinquent tax revolving fund” program. That program has the land Bank borrowing enough money to pay all of the delinquent property taxes on property in the county. The Cuyahoga Bank then receives the delinquent tax liens, which gives it the right to enforce the liens, and to collect the penalties and interest that go with those liens. Most delinquent property taxes are paid off prior to foreclosure, but the land bank still receives the penalties and interest.

Land banks thrive mostly in the [eastern half of the country](#), although there are two land banks in Kansas and one each in Texas and Oregon. [Philadelphia](#) recently became the largest city in the U.S. to establish a land bank, but smaller communities can also benefit: in 2010, a land bank was established in [Lyons, Kansas](#) (population 3,739).

LAND BANKS AND THE PRIVATE REAL ESTATE MARKET

Some in the real estate industry express concern that land banks [will crowd buyers out](#) of the real estate market. Land banks, it is said, could “[cherry pick](#)” the most desirable foreclosed properties, stepping in ahead of private buyers who are also interested in the property. Other opponents of land banks claim that they distort the market by [purchasing property for a minimal price](#) before private buyers have a chance to make a bid.

Although these are legitimate worries, they are not likely to happen in most communities. Many of the [best-run land banks](#) work closely with the private sector and welcome participation by real estate professionals. In addition, many land banks are set up to acquire [property that would otherwise not be sold in the private market](#).

LAND BANKS AND REOS

While land banks are usually established to deal with vacant tax-foreclosed or tax-forfeited property, there has been some interest in using the [banks to acquire and resell property](#) owned by a lender after foreclosure. [Authorizing land banks to purchase REOs](#) for redevelopment can help stabilize neighborhoods that are still feeling the lingering effects of the foreclosure epidemic. Land banks, unlike private investors, will focus on the property best-suited to the purpose of redevelopment, and can therefore target their purchases. With an estimated [430,000 foreclosed properties](#) owned by banks, there is no shortage of inventory to consider.

Land banks can provide a benefit to the market. Vacant real estate, especially real estate that has been vacant for some period of time, depresses real estate values in a neighborhood. One [study](#) concludes that the value of property is lowered by up to 2.7% for each vacant property within 500 feet. Turning vacant buildings into occupied properties helps everyone.

(LAND) BANKING ON DATA

Land banks are valuable tools in helping communities deal with empty buildings and lots. Setting up and funding a land bank can be the first step in the revitalization of a community burdened with too many vacant properties.

Once a land bank is ready to run, the focus turns to properties for acquisition and post-acquisition strategies. A land bank has only a limited amount of money, and those funds probably cannot take care of all of the vacant or problem properties in the community. Using the available resources wisely means picking the most promising and useful properties. But it is not enough just to acquire property—something has to be done with it in order to make it productive. Resolving these two issues can be a hit-or-miss process.

Fortunately, data scientists have developed new tools to give some precision to the process of answering these questions. The state of the neighborhood in which a property is located can tell much about the potential market for the property. The new tools take this information and analyze it in a systematic way. The analysis of the data will help a land bank develop effective ways of accomplishing its redevelopment goals.

Data science is a combination of computer science with the traditional discipline of statistics. According to the *Journal of Data Science*, the term means “almost everything that has something to do with data . . . yet the most important part is its applications—all sorts of applications.” Data science should not be confused with “big data,” which is the collection and analysis of massive amounts of information. While data science helps develop the tools used to analyze big data, it is used with any size dataset.

The land bank recently established in the Chicago area gives an interesting example of how data science can be used by land banks. Cook County, Illinois, used its Home Rule powers to adopt an [ordinance](#) establishing the Cook County Land Bank Authority in January, 2013. That summer, the [Eric and Wendy Schmidt Data Science for the Public Good](#) fellowship at the University of Chicago worked with the [Cook County Land Bank](#) and the [Institute for Housing Studies at De Paul University](#) to develop analytical tools to decide which properties to pursue.

Land banks tend to adopt [one of two strategies](#): “fight the blight,” or the “midwife” role. A [“fight the blight” strategy](#) targets specific blighted properties for rehabilitation and reuse. The “midwife” role has the land bank proactively targeting properties with a potential for neighborhood-stabilizing redevelopment. The Cook County Bank decided that its [role would be as a midwife](#), concentrating its efforts in distressed areas where the market is said to have [failed](#). The goal is to find the properties that have redevelopment potential, but to avoid using the land bank’s resources on those properties that are likely to be sold soon, or that are unsellable. To achieve that goal, the data analytics developed by the Data Science for the Public Good fellows would be used to focus efforts in the most effective manner.

The principle behind the Chicago project is that every property that changes hands, or that sits unsold “tells . . . something about the state of the neighborhood.” The challenge is how to turn that information into a plan of action. The plan might look different in different neighborhoods, to take into account the different situations of each area. Factors that are considered include:

- Neighborhood characteristics, such as building types, population trends, and density.
- Economic characteristics, such as income, property investment, and access to jobs.
- Real estate market trends in the neighborhood.
- Policy variables, such as zoning, community plans, and transportation infrastructure.
- Possible red flags such as EPA-designated brownfields.
- Factors specific to individual properties, such as vacancy complaints, crimes, and recent sales and foreclosures.

The data and models would be used to ask more questions about the property, such as whether the property would sell on its own (meaning there would be no need for the land bank to buy in that case), and how redevelopment of the property might affect its neighbors. The land bank can then decide if the property can be put back to work.

Land banks are a tool that state and local governments have used to manage vacant or abandoned properties. The increased use of land banks are most likely a result from the economic instability in the United States over the past six years. Many local governments are leading the way in successfully using land banks. Over the next few years, land banks may continue to prove a valuable tool for revitalization efforts.

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