

# Frequently Asked Questions

## **What is a land bank?**

Land banks are governmental entities or nonprofit corporations that are focused on the conversion of vacant, abandoned, and tax delinquent properties into productive use.

Vacant, abandoned, and tax-delinquent properties are often grouped together as “problem properties” because they destabilize neighborhoods, create fire and safety hazards, drive down property values, and drain local tax dollars. In some sense, these are properties the private market has altogether rejected.

Land banks, in essence, are a direct response to this growing trend of vacancy and abandonment, created to strategically acquire problem properties and convert these liabilities into assets. In short, land banks are intended to acquire title to these problem properties, eliminate the liabilities, and transfer the properties to new, responsible owners in a transparent manner that results in outcomes consistent with community-based plans.

Most land banks have special powers (see below) that enable them to undertake these activities more effectively and efficiently than other public or nonprofit entities. When thoughtfully executed, land banking can resolve some of the toughest barriers to returning land to productive use, helping to unlock the value of problem properties and converting them into assets for community revitalization.

## **How are land banks created?**

Typically, land banks are created as public entities by a local ordinance, pursuant to authority provided in state-enabling legislation. Land banking programs can also be developed within existing entities, such as redevelopment authorities, housing departments, or planning departments.

# How many land banks are operating throughout the country?

Based upon our research, as of 2014, we estimate there are approximately 120 land banks and land banking programs throughout the country. The states of Michigan, Ohio and Georgia currently have the greatest number of active land banks. For a national inventory of land banks and land banking programs.

## How does land banking work?

Land banks are designed to acquire and maintain problem properties and then transfer them back to responsible ownership and productive use in accordance with local land use goals and priorities, creating a more efficient and effective system to eliminate blight.

In order to accomplish these tasks, land banks are granted special powers and legal authority pursuant to state-enabling statutes. Though these statutes differ widely from state to state, the more recent examples of comprehensive land bank legislation generally grant to land banks the following powers:

- Obtain property at low or no cost through the tax foreclosure process
- Hold land tax-free
- Clear title and/or extinguish back taxes
- Lease properties for temporary uses
- Negotiate sales based not only on the highest bid but also on the outcome that most closely aligns with community needs, such as workforce housing, a grocery store, or expanded recreational space

We want to stress that a land bank is not a “silver bullet” for communities struggling with blight. Though land banks are uniquely designed to help reduce problem properties, the policies, priorities, and activities of a land bank must complement other community strategies and activities, such as strategic code enforcement, smart planning and community development, and effective tax collection and enforcement.

## Aren't land banks competing with the private market, with an unfair advantage?

Not so. In fact, a land bank is a direct response to a growing inventory of problem properties that the private market has altogether rejected. Most vacant and abandoned properties have serious legal and financial barriers that detract responsible, private

investors. For instance, many abandoned properties have a clouded title, which introduces a level of uncertainty and liability few responsible investors, if any, are willing to assume. Also, many tax-foreclosed properties have accumulated years of back taxes that far exceed the market value of the property. Similarly, many properties left vacant and abandoned for too many years require an investment in repairs that greatly exceeds what the market could ever return. A land bank, therefore, is designed specifically to address the inventory of problem properties the private market has discarded, and to convert these neighborhood liabilities into assets that advance community-based goals.

## **When does it make sense to use land banking?**

Any community considering the creation of a land bank should assess a number of factors to determine if a land bank is needed or likely to be successful. Some common triggers for creating a land bank include:

- Large inventories of vacant and abandoned property
- Properties with little to no market value
- Properties with delinquent taxes in excess of fair market value
- Properties with title problems
- Inflexible policies that dictate the disposition of public property, denying local governments the chance to be strategic and nimble
- The speculation and uncertainty inherent in the auction sale of tax-foreclosed properties

Some jurisdictions may already have an entity or agency (e.g. a redevelopment authority) that is empowered with tools to effectively take control of large inventories of problem properties and return them to productive use, obviating the need for a land bank. In some cases, however, such entities are focused primarily on development, rather than on blight elimination and stabilization strategies in more distressed neighborhoods. Where this is the case, the community may still want to consider creating a land bank or land banking program.

## **What does a typical land bank program look like?**

While all land banks exist to serve the same primary purpose of acquiring problem properties and returning them to productive use, they are quite diverse in their structure and operations. As of 2014, there are approximately 120 land banks and land banking programs across the country, and they vary greatly in terms of the types of cities, regions,

and economic conditions in which they operate, the size of their inventories, their staff capacity, their legal authorities, and their goals and programs. Despite this diversity, our experience has shown that successful land banks exhibit some similar characteristics:

- **Strategic links to the tax collection and foreclosure process.** Tax delinquency is often the most significant common denominator among vacant and abandoned properties, which explains why nearly all land banks have established strategic links to the tax foreclosure process as a primary source of acquisitions. This is particularly true in communities where (a) a primary cause of vacancy and abandonment is an ineffective tax foreclosure process and (b) where there are statutory powers, intergovernmental agreements or policies in place for a land bank to acquire properties through the tax foreclosure process at little to no cost. Though auctions can generate positive outcomes for marketable properties, the speculative auction rarely if ever leads to positive outcomes for problem properties. Land banks can and should play a key role in acquiring and converting tax-foreclosed properties to productive use.

- **Operations scaled in response to local land use goals.** Successful land banks have established acquisition and disposition strategies that directly support the implementation of local land use goals and meet community needs. Some land banks tackle massive inventories of extremely unsafe and abandoned properties as part of an urgent stabilization and public safety strategy, while others operate selectively with extreme deliberation. Regardless of the scale of operations, land banks should always make decisions based on a strong understanding of community priorities and goals, and guided by neighborhood, local and regional revitalization plans.

- **Policy-driven, transparent, and publicly accountable transactions.** The acquisition and disposition of properties – especially those that have long been harmful eyesores – is an important and sensitive endeavor. Successful land banks have gone to great lengths to build and maintain trust with the public through complete transparency in the establishment of priorities, policies, and procedures that govern all actions. Land banks should make sure these ground rules and policies are established prior to any transactions, and annually revisited with public input to maintain a high standard of transparency and accountability. Moreover, land banks should strive to create websites that offer members of the public full access to accurate, up-to-date information pertaining to all land bank operations, programs, policies, and activities, including sales listings and past transactions.

- **Engagement with residents and other community stakeholders.** There is no substitute for engaged community stakeholders who understand a community's history and goals – and whose lives are most directly impacted by a land bank's work. Successful land banks have found creative and consistent ways to inform, engage, and empower these active residents to help prioritize land bank interventions and develop long-term

solutions. Whether establishing a community advisory board or regularly hosting neighborhood meetings, land banks should explore and implement practices that affirm a strong commitment to inclusiveness, engagement, and empowerment.

• **Alignment with other local or regional tools and community**

**programs.** Because a land bank is a tool to support locally developed land use goals, and not a goal in and of itself, it is important to coordinate with other blight prevention tools and programs. Successful land banks have helped facilitate and work within diverse collaborations across the public, private, and nonprofit sectors that share similar economic and community development goals. We can't stress enough that, in order to truly be effective, land bank activities must complement existing blight prevention efforts, including effective tax enforcement, strategic code enforcement, neighborhood investments, and community-based planning.

A land bank is not a panacea for all problems associated with blight, or even a necessary entity in many cities, but in the right environment and with the right legal structure, a land bank can be a key tool for returning vacant and problem property to productive use.

## **What are some of the core powers of a land bank?**

Depending on state and local law, land banks often have unique legal powers to support their activities and facilitate the return of problem properties to productive use. Though these statutes differ widely from state to state, they generally grant the following powers:

- Obtain property at low or no cost through the tax foreclosure process
- Hold land tax-free
- Clear title and/or extinguish back taxes
- Lease properties for temporary uses
- Negotiate sales based not only on the highest bid but also on the outcome that most closely aligns with community needs, such as workforce housing, a grocery store, or green space

Using these special powers, land banks can streamline blight removal and create a nimble, accountable, and community-driven approach to returning problem properties to productive use.

## **How is a land bank different from a redevelopment authority?**

In a few states, legislation has been passed that grants redevelopment authorities many of the same powers as land banks. In Louisiana, for example, some redevelopment authorities can also function as land banks. However, in most states, redevelopment authorities and land banks differ both in terms of their legal powers and their mission. Land banks typically implement disposition policies that allow greater flexibility than a redevelopment authority in terms of transferees and consideration. However, unlike many redevelopment authorities, land banks do not have the power of eminent domain, nor do land banks have the power to tax. As for mission, many land banks are focused on acquiring, stabilizing and returning to productive use those properties that are considered to have the most blighting influence in a community. These are properties that may not have an immediate redevelopment opportunity, but are destabilizing neighborhoods and undermining quality of life. In comparison, a redevelopment authority is typically focused on properties with near-term redevelopment potential and on large scale development projects that align with highly visible and long-term economic development goals.

## **How is a land bank funded?**

Land banks are generally funded through a variety of sources, which may include revenue from the sale of properties, foundation grants, general fund appropriations from local and county governments, and federal and state grants. Land banks in certain states have received significant funding from the federal Hardest Hit Funds (for example, Michigan and Ohio) and the National Mortgage Settlement Funds (for example, New York and Illinois).

A couple of financing mechanisms unique to land banks have been included in state-enabling legislation. For instance, in Michigan and New York, land banks are able to recapture 50% of the taxes on properties returned to the tax rolls for five years. In Ohio, special fees imposed on delinquent taxpayers provide a dedicated source of funding for land bank operations. Finding consistent and preferably dedicated funding sources is critical to the success of land banks, as they incur significant costs converting unsafe liabilities the private market has rejected into assets that improve neighborhood vitality. Several of the more successful land banks from around the country are also capitalized by their local units of government either through yearly budget allocations or in-kind assistance such as shared staffing.

## **How many properties do land banks generally have in their inventory at any given time?**

Land bank inventories vary greatly from jurisdiction to jurisdiction. Inventory sizes range anywhere from a few properties to thousands of properties (in spring of 2014, the Genesee County Land Bank had an inventory of approximately 11,000 properties). Reasons for this variation include the size of the community in which the land bank is located, the level of distress and disinvestment in each community, the land bank's property acquisition process, strategy, and authorities (including whether state law grants the land bank the authority to pick and choose which properties to acquire out of tax foreclosure), and the mission and goals of the land bank.

## What kinds of properties do land banks acquire?

Most land bank acquisitions are vacant, residential, tax-delinquent properties. In addition to tax foreclosed parcels, land banks can acquire Real Estate Owned (REO) properties and receive private donations and public land transfers. Although most properties are typically vacant residential single-family homes or vacant lots, land banks also acquire multifamily dwellings, commercial and industrial properties, and in rare cases, occupied rental properties. In fact, some land banks even have well-developed brownfields programs through which they acquire large scale, formerly industrial properties.

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