

## **Addressing Abandoned Housing in Blighted Urban Neighborhoods: The Role and Impact of Land Banks**

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### Introduction

Abandoned housing has plagued many American cities in two contexts: shrinking cities which have long been losing population and those cities hit hardest by the continuing mortgage foreclosure crisis which has cost millions of homeowners their homes. Major cities, mostly in the Northeast-Midwest "Rustbelt", have suffered the greatest population losses. Over the six decades beginning in 1950 through 2009, four major cities lost more than half of their population: St. Louis suffered the highest loss: -58.4%, followed by Buffalo (-53.4%), Cleveland (-52.8%), and Detroit (-50.7%)(Beauregard, 2012: 12, Table 1). This trend continued as documented in the 2010 U.S. Census. Cleveland, Ohio, for example, fell from a peak of 914,000 in 1950 to 397,00 in 2010, losing 17% of its population in the decade 2000-2010. Outside of these Rustbelt cities, only post-Katrina New Orleans has suffered such a huge population loss. The causes for the depopulation of these urban centers included suburbanization (with better housing and schools than the central cities), de-industrialization, crime, and racial strife. Causes of the foreclosure crisis have been debated but surely predatory lending, the reckless actions of those promoting subprime mortgages to borrowers unlikely to afford them, and actual fraud all contributed to the devastating results that have hit the neighborhoods of cities like Cleveland and those in many of its older, adjacent suburbs.

### Cleveland

Of the above cities, I will focus on Cleveland. Once the fifth largest U.S. city and an industrial powerhouse, it has been in continuous decline since the 1950s. In the decade 1970-1980 it lost one-quarter of its population. Following race riots in 1966 and 1968 and the Cuyahoga River fire in 1969, this decade included court-ordered busing to desegregate the public schools and the turbulent one-term mayoral administration of Dennis Kucinich, culminating in the city's default and his defeat for re-election. The city's decline and the sprawling metropolitan region surrounding it are documented in the 2006 film *Cleveland: Confronting Decline in an American City* (Lincoln Institute of Land Policy).

To deal with the abandonment which occurred in the 1970s, the city created a state-authorized land bank (Bright, 2000: 144). This land bank received cleared lots from Cuyahoga County after it acquired them due to tax delinquency and after abandoned structures were demolished. The

land bank then attempted to transfer the parcels. Buildable lots were sold for a nominal sum, almost exclusively for housing sponsored by many of Cleveland's community development corporations (CDCs). Unbuildable lots were offered to neighbors who might use them for expansion of their homes, gardens, and parking. This land bank today has about 11,000 empty lots in its inventory.

This inventory reflects the latest wave of abandonment. Beginning in the late 1990s and long before it became a national crisis, the foreclosure crisis hit Cleveland. Without the housing bubble that characterized many other cities, it was predatory lending that caused a rapid and unprecedented rise in foreclosures. Combined with the continuing population loss, this left neighborhoods with CDCs that had long worked to revitalize them with a glut of abandoned, foreclosed housing, much of which was quickly vandalized. With a stagnant housing market and a national recession in the following decade, much of this housing had to be demolished. The city's ability to demolish housing was limited. Over the past few years, with the infusion of federal Neighborhood Stabilization Program (NSP) funding after 2008, the city of Cleveland has been demolishing around 1,000 houses annually. However, with over 60,000 foreclosures since the beginning of the crisis and a 2012 inventory of 16,000 vacant, abandoned housing units and demolitions costing on average about \$7,000, the city alone is unable to cope with the number of condemned housing units. As many studies have shown, these abandoned units depress the value of adjacent homes (e.g., Fitzpatrick and Whitaker, 2011) and pose a danger to residents in many instances. The city also has substantial costs in boarding up abandoned housing and maintaining the properties when owners, including lenders, fail to do so (Community Research Partners, 2008). With both homeowner and bank walkaways, "toxic" titles often make it difficult to determine ownership and locate owners and for the city to recoup these costs through liens on these abandoned properties. The magnitude of these problems is far worse in larger cities like Detroit and Philadelphia.

### Land Banks

Cleveland was not alone in creating a land bank to deal with housing abandonment and tax-delinquent properties. Other first-generation land banks were St. Louis in the early 1970s and later Louisville (1989) and Atlanta (1991). Frank Alexander notes:

"Each of the four major first-generation land banks was successful but only when measured against the very limited range of powers and authority they were given and the very difficult nature of the real property inventory they were confronting". He identified four missing or handicapping core features:

- 1) lack of dedicated or internally generated sources of funding;
- 2) properties tangled in a maze of archaic property tax foreclosure laws;
- 3) a lack of marketable and insurable property titles;
- 4) a lack of intergovernmental collaboration

(Alexander, 2011: 18-20).

In considering the role and impact of land banks in revitalizing urban neighborhoods, the newer generation of land banks must be considered. Alexander identifies a second-generation as the many land banks that have emerged in Michigan and Ohio over the past decade. The Genesee County (Flint), Michigan land bank created in 2002 and the Cuyahoga County (Cleveland) land bank created in 2009 are the two most recognized, with the latter modeled on the former. In both states, reform of the tax foreclosure laws were critical (Alexander, 2011: 20-21). In addition, both have greatly expanded powers compared to their predecessors. Both states now have numerous county land banks.

In more recent developments, Kansas City (with 12,000 vacant homes in 2011) created a land bank on August 28, 2012. Pennsylvania enacted authorization of local land banks on October 26, 2012. There are now proposals to create land banks in the state's two largest cities - Philadelphia and Pittsburgh. Last month, Cook County, Illinois (with 200,000 vacant housing units and 85,000 pending foreclosure cases), created a land bank

#### The Role of Land Banks

The first generation of land banks were largely holding operations for cities experiencing decline, i.e., receiving vacant abandoned tax delinquent properties and holding this land for future use. Alexander notes:

"Over the past 40 years, the nature and function of land banks have developed far more in response to the contagion of abandonment than as a proactive reserve of land for future use".

(Alexander, 2011: 18)

Alexander then notes the expanded powers and roles of second generation land banks (also applicable to the emerging contemporary third generation):

"The 2004 Michigan legislation [by far the most ambitious land bank authority statute in the entire country] ushered in the second generation of land banks. Land banks that are created under the model possess a dramatically different range of powers and possibilities than are found in the first generation of land banks, expressly addressing each of the four system limitations found in the first generation of land banks".

(Alexander, 2011: 21).

For the structure, financing and practices of land banks, see Alexander (2011: Part II, Chapters 6-10 - "Creating and Operating a Land Bank"); Mallach (2012: Chapter 11 - "Designing and Establishing Land Bank Entities"); and Samsa (2008).

These more recently-created land banks have been responding to the alarming number of abandoned properties resulting from the mortgage foreclosure crisis. In regions like Northeast Ohio and similar Rustbelt

areas, this phenomenon has increasingly resulted from the economic problems that emerged beginning around 2006-2007 with homeowners who lost their jobs also losing their homes. Now, an estimated one-quarter of U.S. homeowners are "under water", i.e., the mortgage debt exceeds the depressed market value of their homes. The various programs of the Bush and Obama administrations have failed to provide relief to a majority of those homeowners who have lost their homes to foreclosure and also failed to effectively prevent enough looming foreclosures (Zandi, Chen, deRitis, and Wachter, 2012). The federal Neighborhood Stabilization Program (NSP) created in 2008 with three rounds of funding has provided support to localities experiencing abandonment, including those with land banks, for the demolition of blighted abandoned properties. However, this funding has fallen far short of the need to fund demolitions in cities like Cleveland.

In addition to the longstanding role of land banks in receiving vacant properties and holding them until they can be transferred to buyers, an additional possibility is for land banks to assemble vacant land for future redevelopment. While vacant properties are typically scattered, on occasion there may be the possibility of concentrating the assembly of vacant parcels. Under these circumstances, the land bank in a catalytic role may be able to then collaborate with local redevelopment authorities and developers, both for-profit and non-profit, in providing the land for redevelopment projects (Alexander, 2011: 38-39). Alexander also points to the possibility of land banks collaborating with Community Land Trusts (CLTs) to ensure that vacant properties be developed for affordable housing (Alexander, 2011: 39-40).

### The Impact of Land Banks

The Genesee County land bank has been widely praised for its impact in the city of Flint, Michigan and surrounding suburbs, hit hard by the loss of manufacturing jobs (Dewar, Kelly and Morrison, 2013: 292-295; Harris, 2012 ). The city of Detroit's land bank with over a hundred thousand vacant parcels and blighted, abandoned homes in the city, has not enjoyed similar success. Michigan has most local land banks of any state.

The Cuyahoga County Land Reutilization Corporation(CCLRC), more generally known as the Cuyahoga County land bank, was modeled on the Genesee County land bank. Authorized by the state of Ohio in 2009 as a singular experiment, it has since served as a model for the creation of county land banks elsewhere in Ohio affecting its major urban centers (e.g., Hamilton [Cincinnati], Franklin [Columbus], Lucas [Toledo], Mahoning [Youngstown], Montgomery [Dayton], and Summit [Akron])(Thriving Cities Institute, 2012).

The Cuyahoga County land bank (CCLB) has gained considerable attention since its authorization by the state of Ohio. Elected officials in greater Cleveland persuaded the state legislature and governor to approve

a countywide land bank with greatly expanded powers (Fitzpatrick, 2009). Rather than being part of the county government, it is a non-profit community improvement corporation. Its governing board consists of nine members representing the county, cities (including Cleveland), and civic figures. Following the creation of a new form of county government in 2010, the board membership (increased from seven) was reshuffled.

The CCLB's stated mission is:

"Strategically acquire properties, return them to productive use, reduce blight, increase property values, support community goals, and improve the quality of life for county residents".

Its powers include the acquisition of property (including vacant, underutilized, and forfeited lands), code enforcement and nuisance abatement (including demolition), purchase of property tax lien certificates, contracting with governments and other entities, and the incurring of debt, issuance of bonds, and other financial transaction. (Keating, 2011)

With the huge number of blighted abandoned properties in the county, especially in the city of Cleveland and some of the inner suburbs, the priority of the CCLB has been demolitions. The CCLB has signed agreements with numerous cities (among the 59) in Cuyahoga County to carry out demolitions and transfer property (e.g., vacant lots) to them by mutual agreement. The CCLB has become a critical agency in responding to the foreclosure crisis in Cleveland and Cuyahoga County (Lind and Keating, 2012). Of the approximately 1,700 properties that the CCLB has acquired, the majority have either been demolished or are slated for demolition. However, the CCLB has attempted to promote rehabilitation of housing where possible, has facilitated several hundred housing renovations, and has an owner occupant program designed to allow persons to buy and renovate vacant homes that need only moderate repairs. A major source of housing that needs demolition has come through CCLB agreements with FNMA and HUD. A ground breaking agreement with FNMA in 2010 gave the CCLB "first look" at its low-value foreclosed properties. When CCLB agreed to purchase them at small cost (e.g., \$1,000) to prevent their being sold to speculators and "flippers", FNMA agreed to contribute \$3,500 for their demolition (about half the average cost). Later that year, the CCLB concluded a similar agreement with HUD for the nominal sum of \$100 per house but without any contribution for demolition. Unfortunately, in November, 2012, HUD rescinded that agreement and resumed its practice of auctioning these properties due to FHA's financial problems. Another source of foreclosed houses has been the Bank of America.

The CCLB's primary source of funding has been through the arbitrage of interest and penalties on unpaid or delinquent real property and assessments from Cuyahoga County by agreement with it and the local

governments in the county. This is capped at \$7 million annually. In December, 2010, the CCLB successfully placed a \$9 million, 7-year bond issue. The CCLB has also availed itself of federal NSP funding in partnership with the county, the city of Cleveland and other cities, and the public housing authority. In Summer, 2012, Ohio Attorney General Mike DeWine announced that he was launching a matching grant program (named "Moving Ohio Forward") to remove blighted and abandoned structures statewide by devoting \$75 million of the \$330 million the state is receiving as part of the settlement between the state attorneys general and the nation's five largest mortgage servicers over foreclosure abuses and fraud. In the case of Cuyahoga County, it is receiving \$12 million, with the matching funds coming from the city of Cleveland, the county prosecutor, and the CCLB (\$5 million). The CCLB is administering this demolition fund. However, the funding needs for current and future demolitions in Cuyahoga County of blighted, abandoned properties far exceeds these available funds. Currently, there are an estimated 26,000 vacant residential properties in the county and even though the rate and number of foreclosures have lessened the past couple of years, there are likely to be many more thousands of foreclosures coming in the near future. Arguably, by the demolition of blighted structures, neighborhoods are more stable and the value of neighboring properties is improved. A Cleveland Federal Reserve Bank study reinforced this point in comparing the economic after-effects of demolitions by the CCLB. It concluded that blighted structures reduced the sales price of neighboring houses by about 5-7 percent but after their acquisition and demolition by the CCLB, sales prices increased by approximately 4-9 percent (Whitaker and Fitzpatrick, 2012).

The CCLB has initiated several innovative programs. Examples include the following:

- an homesteading program for immigrants in partnership with the International Services Center;
- a Purple Heart program to provide renovated homes to wounded Iraq war veterans;
- a workforce re-entry training program for formerly incarcerated fathers in partnership with the Career Development and Placement Strategies program;
- use of those sentenced to community service to maintain abandoned properties owned by the CCLB.

The CCLB has also provided land for use for urban agriculture and community gardens, a popular re-use of vacant parcels (Keating, 2010). There is common agreement that in its initial years the CCLB has made important contributions in response to the foreclosure and abandonment crisis that engulfed so many neighborhoods in the cities of Cuyahoga County (Keating, 2011).

Conclusion

Rustbelt cities like Cleveland that have experienced massive abandonment of foreclosed, tax delinquent properties cannot hope to revitalize those neighborhoods without receiving help where these properties have all too often quickly deteriorated for lack of legitimate buyers in depressed housing markets. Once blighted, their negative impact is felt by adjoining residents and eventually entire neighborhoods. Modern land banks like the CCLB have proven to play a critical role in either removing this blight through demolitions or, where possible, making the renovation and re-occupation of foreclosed properties a realistic possibility. While having a positive impact, demolitions alone will not save these damaged neighborhoods. Re-use of the resultant vacant lots is needed (Keating, 2010). Again, land banks like the CCLB can assist in this process through the transfer of vacant lots to local governments, neighbors, non-profit organizations, and hopefully, responsible developers. This might even include land assembly for redevelopment projects. Obviously, land banks, like the cities and counties for which they operate, are limited in their impact by the extent of their resources and their ability to navigate through the laws and regulations that govern their activities. They must also be able to work in partnership with key collaborators. Given the magnitude of abandonment in cities like Cleveland and counties like Cuyahoga, they must take a long-term approach to addressing this issue.

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