Policy brief
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Considerations for a tax on urban vacant land in Kampala

In brief

- Vacant land constitutes an estimated 8-10% of Kampala's land. However, this does not take into account abandoned or derelict buildings, space used for parking, or large pieces of land attached to small buildings. These are all types of land that have been categorised as vacant in other countries.
- Currently, vacant land is not classified as property under the Ugandan Ratings Act 2005, therefore it is not subject to property tax and is a potential source of lost revenue for Kampala Capital City Authority (KCCA).
- To help the city understand the magnitude of this potential lost revenue, this brief uses newly collected urban cadastre data to provide some initial estimates. Two parishes from the centre of the Kampala were selected as test cases.
- The researchers find that there is an estimated loss of revenue between UGX 245 million ($65,000) and UGX 1.8 billion ($478,000) depending on the model chosen. Therefore, the KCCA may want to consider requesting legislation that allows the taxation of vacant urban land.
- In addition, implementing such a tax requires various legal and policy considerations to be taken into account. The researchers provide six policy and legal considerations for city policymakers to deliberate in regards to any changes to vacant land policy.

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Introduction

Conventional urban economic theory suggests that as you move towards the centre of a city, land values increase due to density and investment. Therefore, in most developed country cities, the central business districts are both the most developed and expensive areas of the city, characterised by numerous high rise buildings. However, in the case of many African cities, including Kampala, these areas are rather characterised by low density and sprawl. Major indications of this include the low floor-area-ratio (FAR) as well as the number of pieces of vacant land that remain in the centre of the city.

There are a number of reasons why land in the city centre may remain vacant. For example, it may be held solely for speculative purposes as its value rises and the city grows. Other factors, such as unclear ownership of land, high interest rates which may make it difficult for developers to access finance to develop it, or the fact that the plots are irregular shapes, may also be reasons for lack of development (see Haas and Kopanyi 2017). Therefore, a tax on vacant land may not necessarily resolve the urban planning challenges associated with vacant land.

Land that remains vacant and untaxed, such is the case in Kampala, constitutes a loss of revenue for the Kampala Capital City Authority (KCCA). For example, vacant land in Kampala is not classified as property under the Ratings Act 2005 and therefore it is not subject to property tax, yet there are a number of plots of vacant land in the city. The Kampala Physical Development Plan in 2012 estimated that the total number of fully undeveloped plots constituted about 8-10% of land in the city. This is likely an underestimation as it does not include sites with abandoned or derelict buildings, space used for parking, or large pieces of land attached to small buildings – these are all types of land that have been categorised as vacant in other countries.

Following a comprehensive assessment of revenue reforms carried out to date, Kopanyi (2015) noted that taxing vacant urban land may have potential for the KCCA as well. This type of tax is actually very common for cities around the world. Vacant land sometimes even commands higher rates to reduce the incentive for speculation. Therefore, if land is being held for this reason, a vacant land tax that induces developments may have additional urban planning benefits. In order to tax vacant land in Kampala, an amendment to the Ratings Act 2005 is required. Given the unpopular nature of most taxes, this brief aims to provide an evidence base for the KCCA to decide whether they would like to pursue this, what options they have in doing so, and other legal as well as policy considerations they need to take into account.

Methodology for modelling

The data used for analysis came from KCCA's recently completed urban cadastre, which was carried out in conjunction with the property revaluation. To date, only the data for the Central Division, one of five divisions in Kampala, have been completed and gazetted. Furthermore, the Central Division is also the area where the loss of revenue from vacant land may be highest as it is the location of the central business district (CBD) and thus houses some of the most expensive properties in Kampala. Within this division, two parishes were selected: Civic Centre parish, which is the centre of the CBD, as well as Kololo 1 parish, which has a number of high-end residential properties. To supplement the data, and because the city currently does not have access to the land cadastre, the KCCA GIS team provided estimates on plot size for each of the properties. The summary of features of properties in these two parishes can be seen in Table 1.

Table 1: Key property attributes, tax-base and tax levies in main property categories in Civic Centre and Kololo I parishes

Property Type	No.	Average Built Area (m^2)	Average Land Plot Size (m^2)	Average Rateable Value UGX	Max Rateable Value in UGX	Average Property Tax UGX	Average Property Tax in USD
Commercial	350	1,523	3,122	138,000,000	3,310,000,000	8,280,000	2,229
Condominium	163	128	10,197	14,600,000	58,100,000	876,000	236
Institutional	148	1,097	21,061	77,400,000	1,830,000,000	4,644,000	1,250
Residential	250	304	2,677	31,300,000	534,000,000	1,878,000	506
Vacant	25	0	15,157	N/A	N/A	N/A	0
Total	936	846	7,393	76,794,731	N/A	4,607,684	1,240

Source: Authors' calculations based on KCCA urban cadaster data

There are several approaches that can be taken to estimate the potential of revenue from vacant land tax. Therefore, given there is currently no official definition of 'vacant land' as well as a methodology enshrined in policy or law in terms of taxation, three different methods were selected to provide estimates, namely:

- Using aggregate figures to estimate best possible use.
- Estimating best possible use by comparative taxation value evidence.
- Regression modelling based on the relation between land size, taxable values, and local amenities.

Ideally, the value of vacant land should be determined by land sale transaction data of comparative pieces of land. However, as this data is not available, this could not be used. Two other methods that may be considered in future as well, namely a points-based or value zone assessment, were also outlined by Haas and Kopanyi (2018).

It should be noted that all the estimates established are merely ballpark figures based on calculations form the different models. However, they are insufficient for the city to use as the actual basis for the fiscal cadastre or effective tax rates.

Findings and revenue potential estimates

Tax potential estimates based on best possible use from aggregate figures

In the urban cadastre for the two selected parishes, there were 18 pieces of vacant land, i.e. land with no structures at all. These plots constitute an area of about 273,000 m2, which is about 0.44% of land in these parishes. However, the average size of each individual plot is about 15,000m2, which is actually much larger than other plots with developments in these parishes.

Using the FAR calculations, in Table 2, we find that the average unit tax per m2 in the two parishes is UGX10,695/m2. This would generate about UGX 3 billion (USD 795,000) rateable values and generate about, at the current 6% rate, UGX 175 million (USD 46,000) additional property tax.

Table 2: FAR values in civic centre and Kololo I parishes

Property Type	FAR
Commercial	0.49
Condominium	0.01
Institutional	0.05
Residential	0.11
Vacant	0.00
Total	0.12

Source: Authors' calculation based on KCCA urban cadastre data

From the FAR calculations, it is further evident, at about 0.12, the FAR at the centre of the city is very low. This type of FAR represents a city that wants to promote large green residential urban neighbourhoods, or even a mixed rural-urban community. This is not sustainable for the centre of the city, or in terms of the densification needs of Kampala overall.

Therefore, as with other cities, if KCCA decides to levy a tax on vacant urban land, it may decide to do this at a higher rate than average. For example, if it wanted it to be based on the unit tax rate of commercial properties, which have the highest rateable values in these parishes, the revenue from property tax would increase to about UGX 723 million (USD

192,000) at the current 6% rate. This could help the city aim to achieve a bare minimum of 0.5 FAR ratio, which is the current FAR of commercial properties in the CBD.

Tax potential estimates based on best possible use by comparative land-plots and ranking rated properties

In line with international best practice, tax potential of vacant land was also estimated by determining the best possible potential of a comparative plot. Establishing what constitutes a 'comparative plot' can be challenging: it should be a plot with identical or very similar off-site urban infrastructure amenities. Given that the amenities in the selected parishes were relatively similar, the plots were therefore ranked in terms of size and the estimate of revenue from vacant land was determined by the highest value of building on a plot with a similar land size.

The potential for property tax revenue under this methodology was determined to be UGX 245 million (USD 67,000). Compared to the total rateable values in these two parishes UGX 4.3 billion (USD 1.13 million). This would only add about 0.06% to the total tax revenues for these two parishes which is unrealistic. The challenge with these estimates is the fact that the top 4 properties in area size, including the National Theatre and Cultural Centre Buildings, which are classified as commercial properties.

However, relative to the land that these buildings sit on, their built area is very small, the FARs are tiny (0.0014) and thus their rateable value is negligible. Based on this, it is clear that the simple comparable land size is not a good proxy to determine a rateable value for vacant urban land. International experience suggests that plots of land that are larger than 3,000-8,000 m2 could be further subdivided if market forces worked smoothly. Therefore, using this size as a reference, the comparative tax base would be UGX 107,482/m2 and thus the total tax potential from these two parishes would be about UGX 1.8 billion (USD 478,000). Although this would significantly increase revenues and also support the densification of the city, given Kampala's current land market challenges (see Hoza-Ngoga 2018), this is unlikely to be viable in the near future.

Tax potential estimates based on regression analyses

As land sales data was not available, the regression model selected for testing was the unit rateable value (URV) of improved properties against a selection of off-site amenities. The approach of this model is also to establish what a tax on vacant land would be based on what an investor would be able to develop based on the properties in the same value zone. The set of characteristics that the URV was tested against were taken from the urban cadastre and selected in conversation with the Chief Valuer of the KCCA. These include locational characteristics, such as GPS coordinates, site characteristics, such as topography and neighbourhood as well as property amenities, such as internet connectivity and rubbish collection.

As noted, since this analysis is restricted to two zones in the central area of Kampala, many of these off-site amenities are generally available and do not add value to these particular regression models. Therefore, we ended up with a model with two independent variables, namely FAR and neighbourhood. However, if the analysis is extended further in the city, it is likely that there will be greater variation and therefore these variables may be re-included.

This model estimates indicate much smaller taxable volume of the 18 pieces of vacant land (UGX 900 million or $237,000) as compared to the best-use comparison (UGX 1.8 billion or $478,000). The reason behind this is that the regression analysis derives coefficients from the entire group of 284 commercial properties, while the best use comparison selected comparable size of properties and from them a moderately high value property for reference value. However, if one were to implement a 1.0 FAR, then this would increase the estimated tax potential to about UGX 1.2 billion (USD 452,000), similar to the best-use case.

Policy and legal considerations

- As these are only two parishes out of 74 in Kampala, the estimates from each of the models suggest that there is significant enough revenue potential from the taxation of urban vacant land for the KCCA to consider pursuing it. This will require an amendment to the Ratings Act 2005 to include vacant land within the definition of property.
- There is precedence with the KCCA's jurisdiction to tax properties based on evidence of market rates from other properties. However, the potential from such a tax can only be accurately determined once a number of other decisions have been made, including the definition of vacant land as well as the rate set for taxing it. This has to be done by the Chief Valuer and their team.
- As property valuation in Uganda is based on rental value, this limits the possibilities of taxing vacant land as this land is not usually leased out for rent. Therefore, as done with the models in this paper, reference values will need to be obtained or other options will need to be considered in order to overcome this challenge.
- Any reform in the taxation of vacant land needs to be done in close conjunction with the reforms of physical planning that are currently taking place. This is because zoning regulations (aside from the fact that they will be beneficial for the special development of Kampala) are also a major pre-condition for this type of tax to be effective. Without zoning regulation, owners of vacant land might only build a small shop on 0.02% of the land plot, or register a business as in-city private parking, and with that they can pay a symbolic amount of property tax and declare the land non-vacant.
- If the city wants to understand what urban planning implications such a vacant land tax may have, further research is needed to understand both what type of land remains vacant and why.
- An extremely important task for the city in looking at vacant land tax is

to either collect or work with other ministries, in particular the Ministry for Lands, Housing and Urban Development, to get data on land sales transactions. This would be extremely useful for the city in many cases, beyond property taxation;

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