



International
Growth Centre

Cities that Work 

The 'Cities that Work' logo consists of a stylized bar chart with four bars of increasing height from left to right.

Capturing the Value: The Opportunities and Challenges of Land Value Capture Instruments for Cities

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Land value capture is not new...

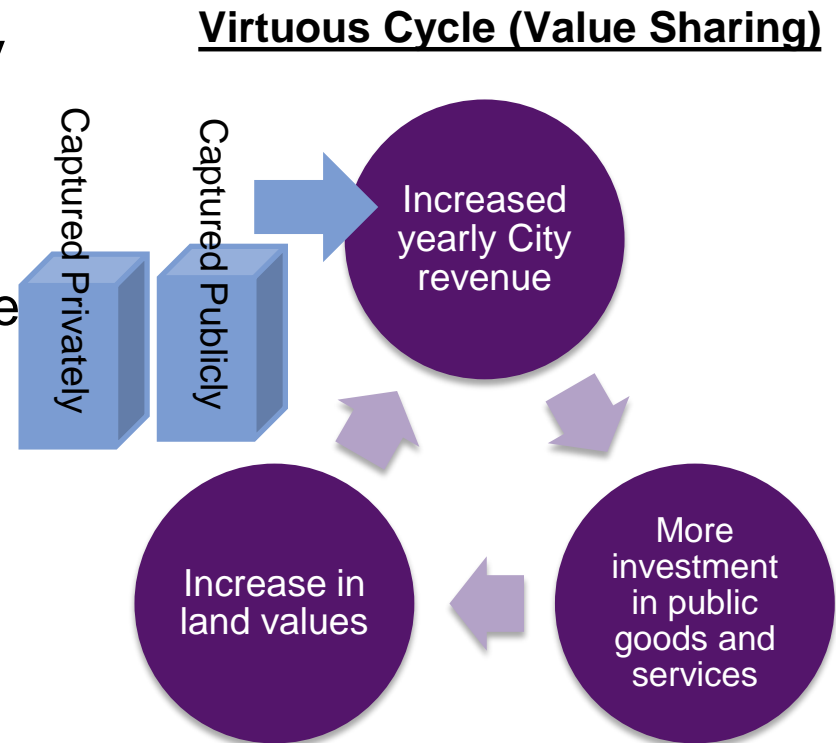


...and is a particularly powerful instrument for a rapidly growing city like Amman...



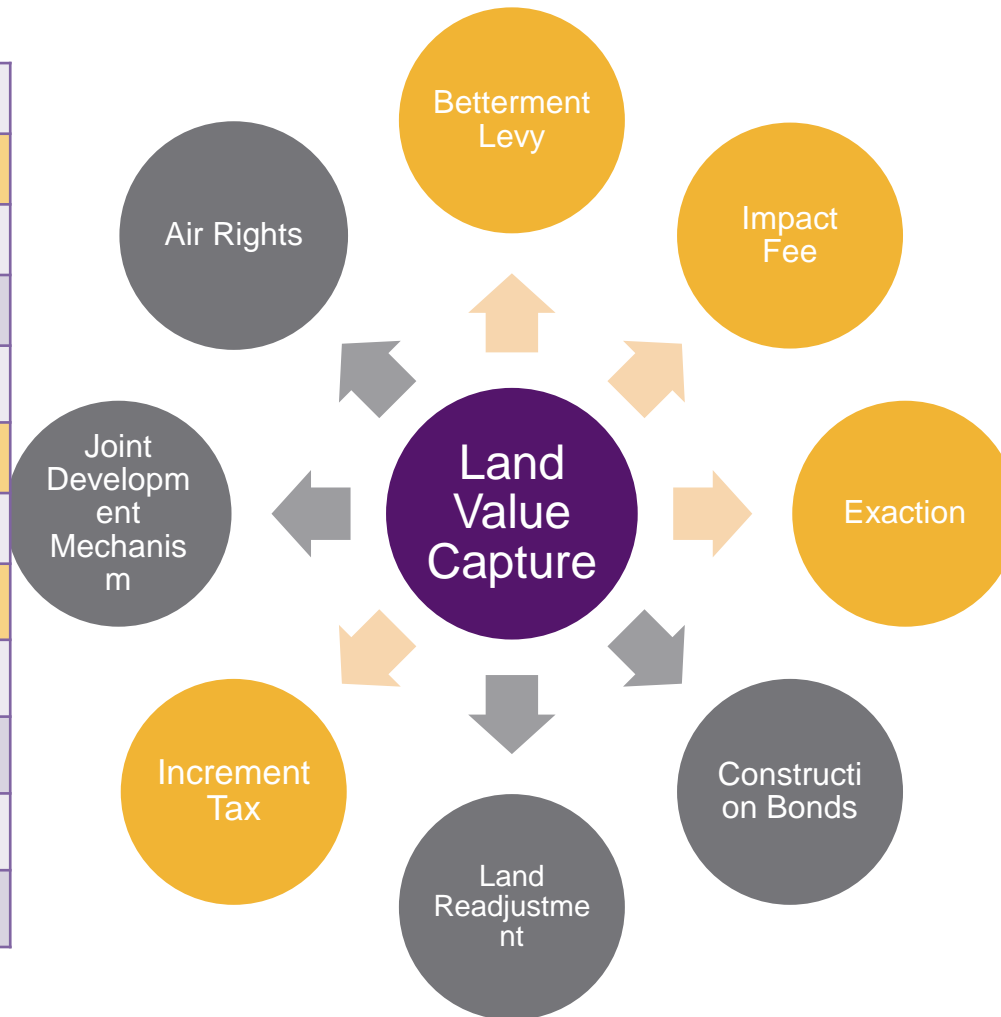
...due to its has unique properties that make it desirable for city financing....

- **Efficiency:** Land is in fixed supply and therefore does not disincentivise investment
- **Identification:** People move, capital moves, land does not move
- **Valuation:** Many characteristics for valuation are observable
- **Fair:** Land values increase as a result of public investments and population growth should not accrue to private investors



...with key decisions that need to be made on when and how to implement it and to whom to charge it...

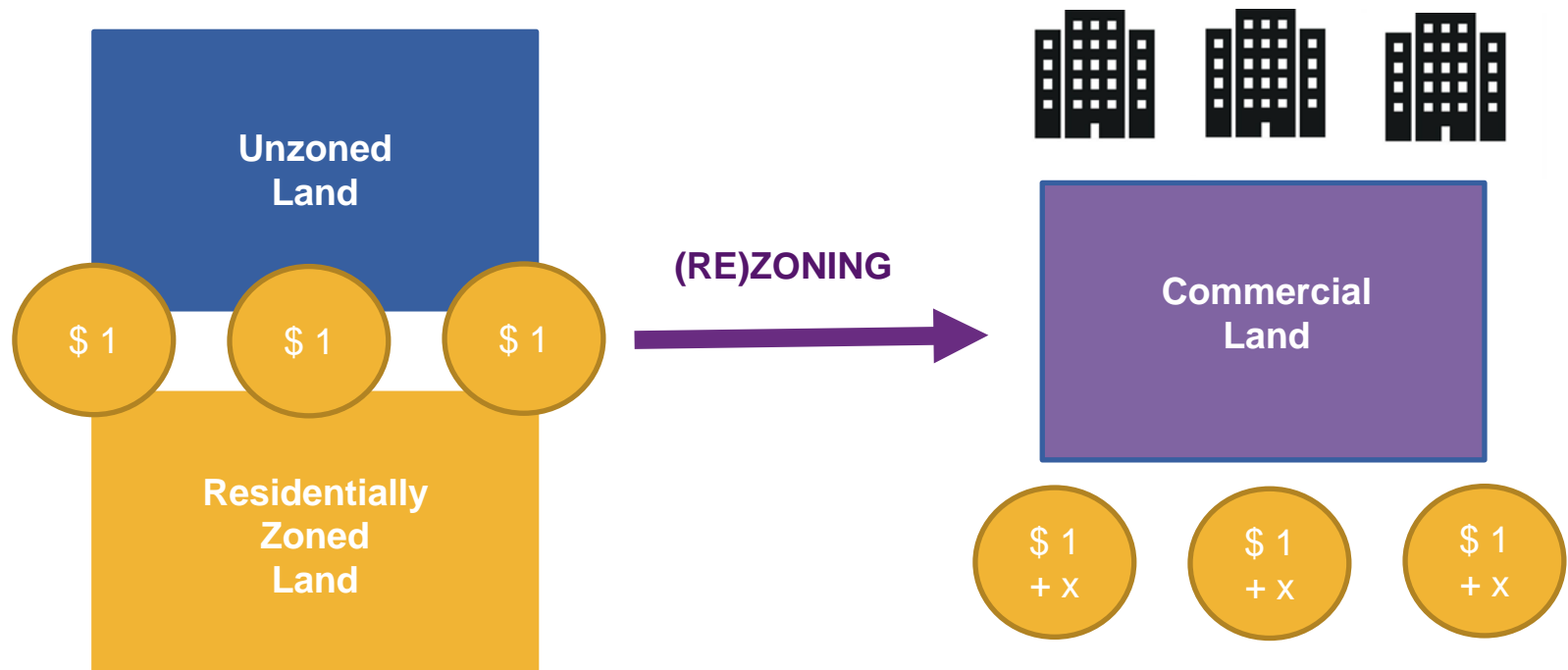
<u>Direct</u>
Betterment levy
Land readjustment
Land Leading (public)
Land Value Tax – incl progressive
Land Value Increment Tax
Participation in Plusvalías
Impact Fees
Charges to Building rights, OODC – PLD
Urban Operations, ZACs etc
Certification of Additional Potential
Construction Bonds (CEPACs)



<u>Indirect</u>
Property tax
Special districts – BIDs
Expropriations
Exactions
Tax Increment Financing – TIF
Linkage Operations
Transfer of development Rights (TDR)
Land Banks – Territorial Reserves
Declaration of Priority Development
Pre-emption Rights
Negotiations for Special License

...such as how to capture unearned wealth capitalised in land values from (re)zoning...

Land Value Increment Tax: **Tax on land owners** to capture the increased value as a result of public (rather than private) action.



...which requires transparent calculation of land values before and after the change...

Case Study: Taiwan

$$\text{LVICT} = \text{Tax rate} \times (((\text{Current Value of Land} - \text{Original Value of Land}) \times (\text{Current Consumer Price Index})) - (\text{Land Improvement Costs}))$$

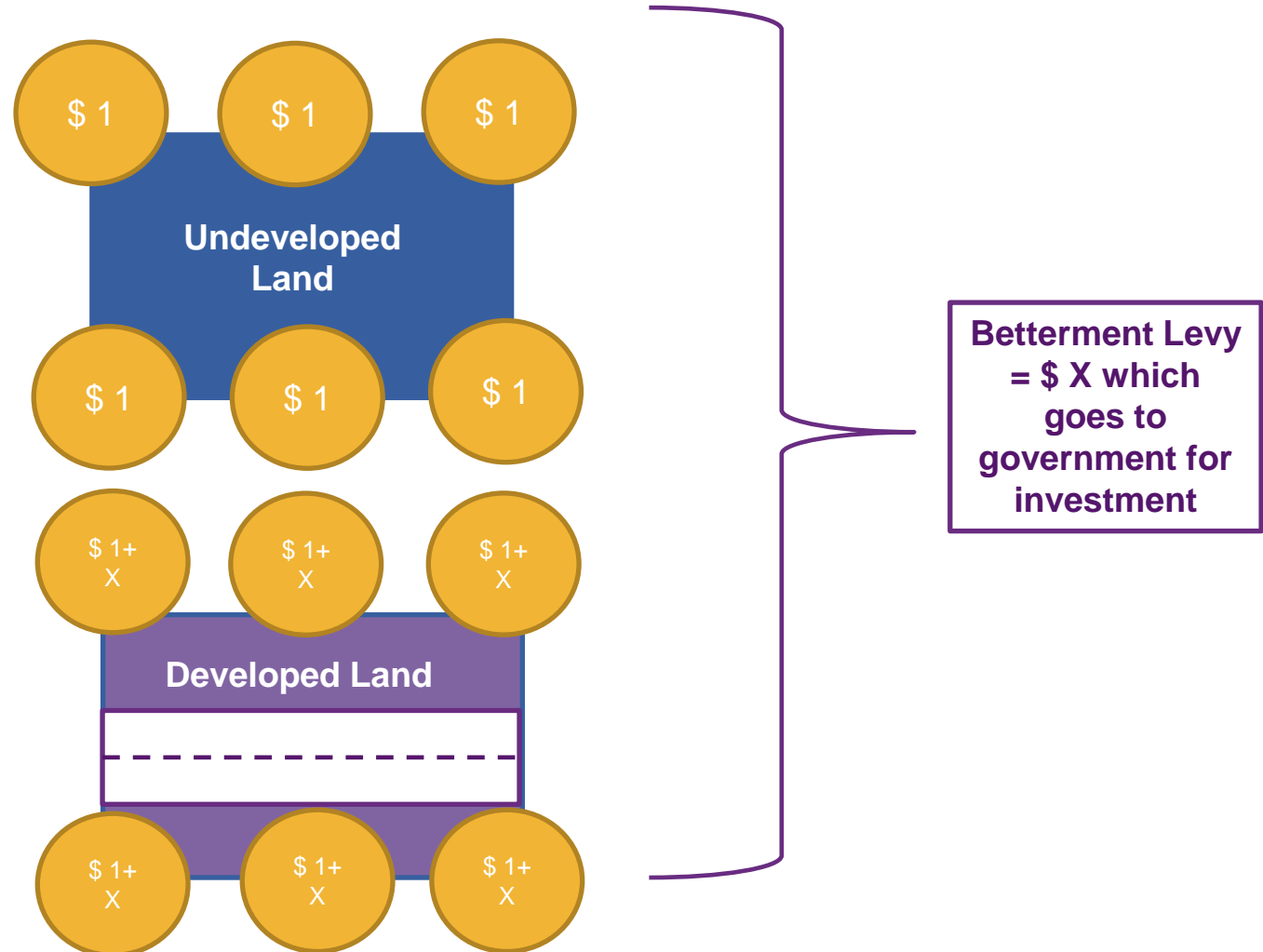
- Current Value:
 - Total contract price current sales agreement OR
 - Land value released by government x acreage
- Previous Value:
 - Total contract price last sales agreement OR
 - Original value set by government x acreage
- Land Improvements: cost of improvements, development impact fee paid, cost of rezoning, land donated, public facilities, fees for rezoning
- Reductions based on how long previous owner held land
- Rates applied in three bands based on Land Value Increment:
 - <100 % of previous value
 - 100-200% of previous value
 - >200% of previous value

...as well as careful assessment of (re)zoning...

- Institutions:
 - How do you determine when and why rezoning to happen?
- Assessments:
 - How do you determine land value before and after?
- Incentives:
 - Can you ensure that the land is actually developed?
- Equality:
 - How do you address the adverse consequences of zoning?

...or value can be captured by taxing private ownership of land where public investments have been made...

Betterment Levy: **Tax or Fee** usually levied on **land and property owners** based on the gains they have accrued in land value as a result of a public investment.



...which if done successfully can fund further infrastructure projects...

Case Study: Bogota, Colombia

- Funds about \$ 1 bn in public works from revenue
- Represents between 20% and 30% of municipal revenue but has represented up to 45%
 - Directly linked to projects → increased willingness to pay

Calculation

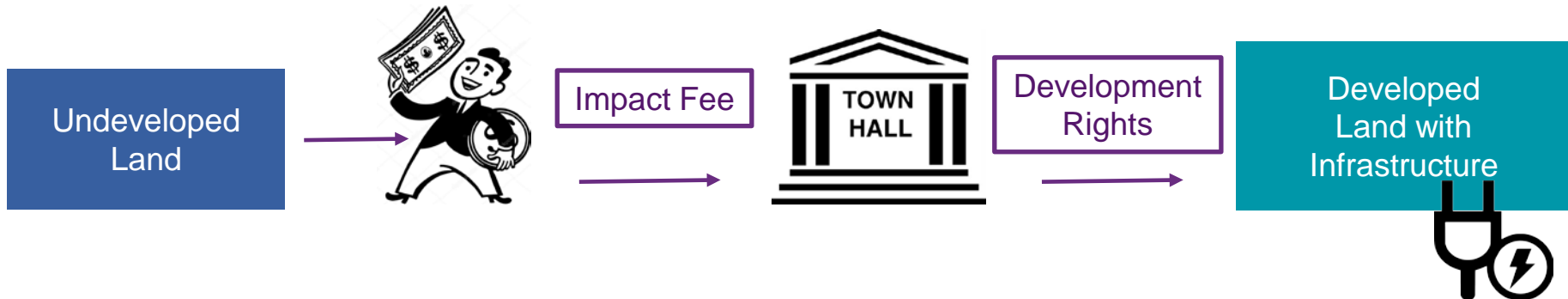
- Charged to all property owners in area of influence
- Calculated by Urban Development Institute
- Main factors taken into account in calculation:
 - Cost of construction of projects
 - Value added to properties based on project
 - Area of influence
 - Benefits of the project
 - Affordability to property owners
- Period of Collection:
 - Usually after completion of project
 - Maximum 5 years (average 2 years)



...or by requiring an upfront monetary contribution from the developer in the form of an impact fee...

Impact Fee: Monetary **fee** to cover the cost of additional infrastructure and public services as a result of a development.

- **One time upfront charge** directly to **developers** linked to permits
- Needs to go to expand or improve infrastructure and public services directly linked to the development
- Best used in rapidly expanding real estate markets



...which requires careful calculations...

Case Study: >1000 US local governments

- Understand the direct increase for public services and infrastructure that will be required as a result of the development
 - *Inductive*: cost and capacity of services x expected increase in demand
 - *Deductive*: additional demands on facility and infrastructure x specific requirements of area
- Determine unit of impact (e.g. roads → increased traffic)
- Identify what can:
 - Be accommodated within the existing service level
 - Requires extra capacity
- Charge to developer + identification other revenue sources to complete financing

...that could be mitigated through use of exactions...

Exaction: Required in-kind contribution (**fee**) related to the cost of additional infrastructure and public services as a result of a development.

- **One time upfront contribution** directly from **developers**
- Determined in conjunction with the municipal authorities
- Linked to infrastructure and public services required by new development



...but this both methods have to meet the *rational nexus test* to overcome resistance...

- Proof:
 - How the new development will require additional infrastructure and services
- Proportionality:
 - Investment and development and amount of impact fee or level of exaction
- Reasonableness:
 - What can be expected to be paid by the developers and how will this be supplemented by other sources
- Connection:
 - Definitive link between what the fee is spent on (or the exaction) and the development itself

...some of which apply to the current charges in the zoning and expropriation laws as well.

- Increasing transparency:
 - How can you unbundle current charges and better assess obligations?
- Refining assessment:
 - What data is available and how can this be used for fair calculation of land values and fee rates?
- Overcoming resistance:
 - How can you link any taxes and fees paid directly to improved infrastructure and services?

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