Land Policy in China | Housing and the Economy | Mediating Land Use Disputes | New Publications | Fellowships | Calendar

Land Lines

JANUARY 2010

LINCOLN INSTITUTE OF LAND POLICY

Land Lines

JANUARY 2010 • VOLUME 22, NUMBER 1

EDITOR
Ann LeRoyer

PRESIDENT & CEO
Gregory K. Ingram

CHAIR & CHIEF INVESTMENT OFFICER
Kathryn J. Lincoln

PUBLICATIONS ASSISTANT
Robyn F. Salbo

DESIGN & PRODUCTION
David Gerratt & Amanda Wait
www.NonprofitDesign.com

The Lincoln Institute of Land Policy is a private operating foundation whose mission is to improve the quality of public debate and decisions in the areas of land policy and land-related taxation in the United States and around the world. The Institute's goals are to integrate theory and practice to better shape land policy and to provide a nonpartisan forum for discussion of the multidisciplinary forces that influence public policy concerning the use, regulation, and taxation of land.

We seek to inform decision making through education, research, demonstration projects, and the dissemination of information through publications, our Web site, and other media. Our programs bring together scholars, practitioners, public officials, policy advisers, and involved citizens in a collegial learning environment. The Lincoln Institute of Land Policy is an equal opportunity institution.

Land Lines is published quarterly in January, April, July, and October to report on Institute-sponsored programs.

For More Information

The Lincoln Institute Web site *(www.lincolninst.edu)* provides a variety of features that make it easy for users to quickly obtain information on land and tax policy issues and on specific education programs, research, and publications. The e-commerce function permits users to order publications and multimedia products and to register for courses.

You can create your own "My Profile" to download current and past issues of *Land Lines*, more than 630 Working Papers, and other materials posted on the Web site. After you have completed your profile, you can "Log In" at any time by entering only your username and password. To create a profile, go to *www.lincolninst.edu/login/createprofile.asp.*

Copyright © 2010. All rights reserved.

Lincoln Institute of Land Policy
113 Brattle Street
Cambridge, MA 02138-3400 USA

Tel: 617-661-3016 or 1-800-526-3873
Fax: 617-661-7235 or 1-800-526-3944

E-mail: *annleroyer@lincolninst.edu* (editorial content)
help@lincolninst.edu (information services)

Web: *www.lincolninst.edu*

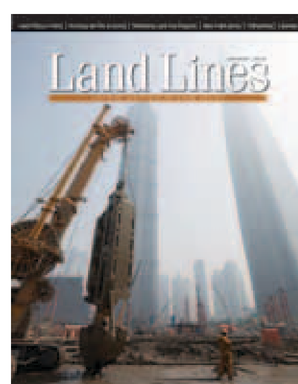
Mixed Sources
Product group from well-managed forests, controlled sources and recycled wood or fiber
25%
FSC www.fsc.org Cert no. SCS-COC-001366
© 1996 Forest Stewardship Council

LINCOLN INSTITUTE OF LAND POLICY

CONTENTS

FEATURES

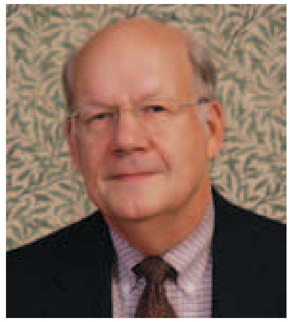
DEPARTMENTS



Construction in Shanghai
© iStockphoto.com

Improving Access to Land and Tax Data

A major tragedy of empirical work is the low ratio of analysis to data, in part due to the lack of publicly available datasets. Many data collectors are reluctant to share data with other researchers until they have harvested all its new insights. Accordingly, researchers often collect new data because they cannot access existing information.



Gregory K. Ingram

A new initiative of the Lincoln Institute is to compile data relevant to the analysis of land and tax policy, make it available on our Web site, and encourage new research. Three very different datasets are currently available, and a fourth is under development.

Significant Features of the Property Tax. This database title refers to the well-known publication, *Significant Features of Fiscal Federalism*, produced by the Advisory Commission on Intergovernmental Relations, which between 1959 and 1996 reported on the relationships among local, state, and national levels of government. This online and interactive database, produced and continually updated in partnership with the George Washington Institute of Public Policy, presents property tax data for all 50 states.

Great care is taken to ensure that data reported across jurisdictions are comparable and similarly defined. Users may access property tax information and data online in standard tables or create new downloadable tables containing the specific data they seek. Unlike many interactive databases, Significant Features also includes many table entries in text that explain, for example, how each state categorizes property, defines taxable value, and restricts or caps rates and assessments.

Land and Property Values in the U.S. These more traditional tabular files contain numeric data on the values and rents of residential properties in the United States. The national ratio of rents to prices for the stock of all owner-occupied housing is available quarterly from 1960 to the present. National indices of prices and values of housing (land inclusive of structures), land, and structures are available quarterly from 1975 to the present and annually from 1930 to the present. For 46 metropolitan areas, quarterly indices of prices and values of single-family, owner-occupied housing (land inclusive of structures), land, and structures are available from 1985 to the present.

The implicit rents of owner-occupied housing, the value of structures, and the value of residential land are rarely observed directly, and therefore are estimated using techniques that are explained on the Web site. These data were created and are updated by Morris A. Davis, a fellow at the Lincoln Institute and a faculty member at the University of Wisconsin School of Business, Department of Real Estate and Land Economics.

University Real Estate Development Cases. Many university real estate development projects involve the expansion of facilities, the upgrading of neighboring properties, and long-term investment in real estate. Such projects are often controversial when they displace current residents and businesses or transform neighborhoods. As part of the Lincoln Institute's research on town-gown issues, this database presents quantitative and qualitative information on 897 projects that are outside traditional campus boundaries. These cases provide a useful composite picture of recent university real estate activities.

Digital Maps of Urban Spatial Extension. Visiting fellow Shlomo Angel is examining the spatial growth of a sample of global cities and has created a set of digital maps derived from satellite data and historic sources. Focusing on measures of developed versus undeveloped land, the maps form the basis for several Lincoln Institute working papers on the spatial growth of cities over time. The maps will exist as digital files that can be downloaded and analyzed by others who want to pursue related work.

These datasets are the Lincoln Institute's first steps toward increasing the availability of data to researchers, analysts, policy makers, and concerned citizens with an interest in land policy and taxation. The information is freely accessible on the Resources and Tools section of the Institute Web site at *www.lincolninst.edu*.

Land Policy Issues in China

Joyce Yanyun Man

As the world's most populous country and its third largest economy, China and its rapid urbanization and development will represent one of the defining trends of the twenty-first century. Over the past 30 years, China has made remarkable economic and social progress, lifting hundreds of millions out of poverty and catapulting China onto the international stage.

This economic transformation has also involved an institutional transformation as China's centrally planned economy has moved pragmatically to a broad reliance on market mechanisms. This movement has been especially challenging in the case of land, which for decades was owned by the state or peasant collectives. Progress has been made in urban areas, where the leasehold term of land ownership is now normally 70 years, but in rural areas collective land ownership continues.

Despite its noteworthy accomplishments, China is facing critical land policy issues that will determine the direction of its future economic development and urbanization.

- ***Property rights***. The rapid growth of cities has led to government transfers of rural land to urban and industrial uses. Inadequate compensation to farmers whose property rights have been poorly defined has fueled growing civil unrest, while urban leaseholders seek to strengthen their new property rights.
- ***Property tax implementation***. Recent tax reform has reduced local government revenues and prompted local officials to rely on land sales receipts, fees, and off-budget revenues to finance government expenditures. China's government is seeking to implement a property tax as a local revenue source to take advantage of the rapid growth of real estate markets.

- ***Farmland preservation***. The large amount of land removed from agricultural production by the complex forces of urbanization has exacerbated concerns about farmland preservation, especially related to food security.
- ***Urban planning and development***. Rapid urbanization has also resulted in increased urban poverty, housing affordability problems, inequality between urban and rural population groups, regional disparities, and other social and economic challenges. China's urban planning practices are in need of reform to better reflect market forces and economic behavior.
- ***Environmental sustainability.*** China's economic and demographic changes over the past 30 years have been associated with severe environmental degradation. With rapid urbanization forecast over the next decade, there is growing consensus that China must find a more sustainable development model. More sustainable cities are integral to any low-carbon development trajectory.

With these diverse issues in mind, the Lincoln Institute of Land Policy's China Program was inaugurated in 2003 and continues to focus on improving the quality of public debate and decisions concerning land policy and urban development in China through sound research and the leveraging of international experience and expertise.

The China Program has grown considerably in capacity, scope, and geographic footprint, highlighted by the establishment of the joint Peking University–Lincoln Institute Center for Urban Development and Land Policy in October 2007. The Center's mission is to study land, urban, and fiscal policies and to facilitate education, training, policy analysis, and research. Having this joint facility in Beijing provides the China Program with an ongoing domestic presence that expands the Institute's networks and resources and brings together government officials, practitioners, and foreign and domestic scholars to engage in dialogue and to share experiences to promote a better understanding of land policy, urbanization, and property taxation in China and around the world.

The China Program has identified six key research areas that are highly relevant to China's future development and also offer the best opportunities to utilize the Lincoln Institute's expertise and resources.

Adoption of a Property Tax

China's 11th Five-Year Plan (2006–2010) elevated the issue of a property tax onto the official agenda, and pilot property tax projects are currently under way in more than 10 provinces. However, the issue's sensitive political nature, lingering technical difficulties concerning data and valuation, and continued debate about the exact form of any proposed property tax have slowed implementation and made it unlikely that a broader property tax and related tax policy reforms will be implemented before the 12th Five-Year Plan begins in 2011.

Through close working relationships with the State Administration of Taxation (SAT), the Ministry of Finance (MOF), and the Development Research Center for the State Council (DRC), the China Program has offered a number of educational programs and provided significant intellectual and capacity building support for China's adoption of a property tax.

For example, in October 2009 representatives of the British Columbia Assessment Office, the Altus Group, and ESRI Canada led a China Program training workshop on property tax implementation and design of computer-assisted mass appraisal (CAMA) systems. More than 50 SAT officials participated, including representatives from each of the property tax pilot cities.

Delegates from the SAT and the Lincoln Institute attended a three-day conference on valuation and mass appraisal at the University of Pretoria, South Africa, in March 2009, before traveling to Johannesburg's valuation office to discuss the challenges of implementing a property tax in that country.

In November 2008, training on technical aspects of property valuation was provided in Beijing by property tax experts from Canada, the United States, South Africa, and Hong Kong for more than 40 administrators and assessors from China's property tax pilot cities.

Local Public Finance

Fiscal policy reform is a key component in addressing many of the social and economic problems China faces. Restructuring the current tax system and promoting balanced tax and expenditure responsibilities at the local government level is one of the main policy objectives of the Chinese government. The underlying efforts are closely related to the future development of any property tax, a

Gregory K. Ingram, President and CEO of the Lincoln Institute, and Jianhua Lin, Executive Vice President and Provost of Peking University, sign the agreement to establish the joint center in Beijing.

necessary and critical solution to local public finance challenges.

The China Program is focused on issues of fiscal decentralization, public service financing, land-related taxes and fees, regional inequity, intergovernmental finance, and the role of property taxation in a modern public sector finance system. Representative activities have included a January 2009 workshop in Beijing on fiscal policy and economic growth in China with leading fiscal policy scholars and experts, including officials from the MOF, DRC, and SAT.

An international conference held at the Lincoln Institute's headquarters in Cambridge, Massachusetts in May 2008 focused on local public finance and property taxation. Those proceedings will be edited and published in a Lincoln Institute book in 2010, and the volume will be translated and published in China as well.

Land Policy and Land Management

The revision of China's Land Management Law has been a sensitive issue over the past several years, as the country struggles to define rural land rights, land expropriation, and the public good. With a new land law revision on the horizon, land-related issues remain at the forefront of China's policy agenda, particularly issues concerning urban and rural property rights, land expropriation, land use efficiency, land use planning, land conservation, and urban expansion and sprawl.

In June 2009 the China Program co-organized a roundtable discussion on the most recent draft revision of China's Land Management Law with the Land Law Committee of the China Land Science Society in association with the Ministry of Land and Resources (MLR). Experts and prominent scholars from across the political spectrum engaged in direct dialogue and discussion with government officials at MLR who are working on the revision.

The China Program is now compiling and translating several land management laws from a dozen developing and developed countries for use by Chinese officials and scholars. The Program also cosponsored a comprehensive survey of land use and farmland conservation issues in a dozen provinces in China, and is building a database for future research on land management issues.

Urban Planning and Development

Rapid urbanization has led to the explosive growth of Chinese cities and their populations, presenting an enormous challenge in terms of city planning, infrastructure, and transportation. New approaches to urban planning are fundamental to the development and management of cities, as well as a prerequisite to ensuring the efficient use of land and integrated development in China. Efforts also must be made to use land sensibly and to coordinate the spatial layout of urban areas, thereby avoiding rampant and uncontrolled urbanization.

The China Program cooperated with the Chinese Society for Urban Studies and the Urban Planning Society of China, affiliated with the Ministry of Housing and Urban-Rural Development, in organizing the July 2009 International Forum on Urban Development and Planning, which featured the theme "Harmony and Ecology: Sustainable Cities."

In cooperation with the Lincoln Institute's Department of Planning and Urban Form, more than 20 international speakers attended a symposium on megaregions and spatial planning practice worldwide, held in Beijing in October 2008.

Affordable Housing

Housing policy, and in particular affordable housing, is becoming an important focus for China's policy makers during this period of rapid urbanization. With upwards of 15 million new urban residents expected annually over the next decade, the growth in the supply of affordable housing is an immediate concern. In addition to a one-year joint policy research project with the DRC, the China Program is conducting original research in the field of housing policy and introducing international experience to China's policy makers and the academic community.

For example, in July 2009 the China Program organized a symposium on low-income housing policy in China to provide a platform for international and domestic scholars and government officials from DRC, the Ministry of Housing and Urban-Rural Development, and the People's Bank of China to engage in dialogue and discussion. Papers from the symposium will be published in an edited volume for distribution in China.

The China Program also hosted an international conference entitled Housing Policy and Housing Markets in China in Cambridge, Massachusetts, in May 2009, and is preparing an edited conference volume for publication in both English and Chinese.

Environmental Challenges

With international attention focusing on recent climate negotiations in Copenhagen, there is a pressing need for timely research on low-carbon development and the complex linkages between land, transportation, and urban and environmental policies in China and globally. The China Program is leading research on environmental taxation in China from a global perspective and developing a database of environmental tax statistics.

The Program organized a roundtable on green cities at Peking University in September 2009, which drew strong interest from domestic and international academics and signaled the need for further study of environmental policy issues in the future. And in May 2008, the Program, joined by Loeb Fellows from the Harvard University Graduate School of Design and Chinese policy makers and academics, held a roundtable discussion at Peking University that addressed urban transformation and sustainability.

Building Capacity to Address the Issues

Since its inception the China Program has been committed to enhancing the capacity of both current policy makers and academics and researchers whose analysis and opinions will influence China's future policies and reforms. This educational emphasis continues with the establishment of the Peking University–Lincoln Institute Center, which has become an important platform for reaching and engaging students and scholars at Peking University and other academic institutions through training programs, fellowships, lecture series, online education, and research publications.

Training the Trainers

This annual program aims to enhance the capacity and awareness of scholars throughout China regarding urban economics, planning, public finance, and related land policy issues. The courses target university faculty and professional researchers, as well as select government officials, with the goal to increase competence through intensive professional seminars on issues related to land policy in China. More than 70 participants on average attend each two-week training program. Leading experts in their fields from around the world offer the participants an invaluable international perspective. The China Program's recently launched online education platform seeks to build on

previous training programs and to move progressively toward more specialized trainings.

Fellowships

The China Program awards several types of fellowships to international and Chinese scholars and graduate students working on Chinese land and urban policy. Two or three international fellowships are awarded annually to leading scholars and professional researchers based at universities around the globe. In addition to producing important research on issues ranging from the spatial structure of megacities to household carbon emissions in Chinese cities, the international fellowship is an invaluable tool to increase scholarly dialogue between China and the world. These fellows are an integral component of the China Program's other activities, such as teaching at Training the Trainers programs, reviewing other fellowship proposals, and speaking at seminars.

Fellowships for Chinese graduate students and junior researchers are administered through the Peking University–Lincoln Institute Center to bring young scholars into Chinese land and urban policy studies. Approximately 15 dissertation fellowships are awarded to aspiring scholars annually, while an additional 6 or 8 research fellowships help strengthen the capacity of scholars based in China's leading institutions.

The China Program's in-country presence at the Peking University–Lincoln Institute Center also facilitates interactions among the fellows, including the provision of constructive feedback on their ongoing research. All fellows are invited to Beijing for a mid-term progress report, where they share their initial research findings with peers and a panel of international experts. This event has proven to be an effective way to help domestic junior scholars and graduate students build research skills and promote studies of urban and land issues in China.

Speaker Series

The China Program also regularly invites distinguished individuals drawn from the Lincoln Institute's network of leading scholars and policy makers to speak to the Beijing scholarly community on vital topics ranging from planning support systems to fiscal federalism and decentralization in the United States. This speaker series helps meet the demand for knowledge about international development and urbanization experiences and how these cases can be adapted to fit China's needs.

Online Education

The Lincoln Institute has long history of employing online education as a tool to reach a broader audience and maximize its resources. Given the vast geographic distances in China and its emphasis on training and capacity building, the China Program has similarly been interested in online education for some time. The establishment of the Peking University–Lincoln Institute Center has accelerated the process of making information, analysis, and data available online, and widened the network of collaborators interested in tapping into the Institute's expertise.

Through the Center, the China Program engaged a local online education company to develop a China-centric platform, which was inaugurated in the summer of 2009 during the China Program's Training the Trainers session on urban economics and planning. The two-week program was recorded and translated into Chinese, and is accompanied online by Chinese transcripts of lectures and associated PowerPoint presentations and other materials.

The value of the online platform has become apparent almost immediately. During the fall 2009 program and demonstration on property taxation and CAMA, which was also recorded for later conversion to the online platform, attending SAT officials expressed their eagerness to use the platform to demonstrate the concepts to their colleagues and superiors.

Publications and Web-based Resources

As the China Program has increased its research capacity and professional support with the establishment of the Peking University–Lincoln Institute Center, it is producing a steadily increasing series of working papers, books, and training materials that are extending the Lincoln Institute's and the China Program's expertise on and influence in China. During 2008 and 2009, nine books were published or made ready for print, and eight other books are at various stages of development. The China Program and the Center's fellows and visiting fellows have also produced about 40 working papers and a number of focused reports and policy briefs, which will soon be available online.

Complementing all of these activities is the Peking University–Lincoln Institute Center's revamped Web site. It provides a window into the China Program's mission and vision, and is an important link between the Lincoln Institute's and the China Program's dual educational and research objectives. Drawing together Chinese and English working papers, training and education materials, and conference proceedings from both the Lincoln Institute and the Peking University–Lincoln Institute Center, the Web site is a rich repository of impartial knowledge and an expanding platform for scholarly dialogue concerning the ascendant land, urban, and environmental policy issues in China.

ABOUT THE AUTHOR

JOYCE YANYUN MAN *is senior fellow and director of the Lincoln Institute's China Program, as well as director of the Peking University–Lincoln Institute Center for Urban Development and Land Policy. She is also professor of economics in the Peking University College of Urban and Environmental Science. Contact: yman@lincolninst.edu*

RECENT CHINA PROGRAM PUBLICATIONS

Books

Local Public Finance and the Property Tax, edited by Joyce Yanyun Man and Yu-Hung Hong. Forthcoming in 2010

Housing Policy and Housing Markets in China, edited by Joyce Yanyun Man. Forthcoming in 2010

Smart Urban Growth for China, edited by Yan Song and Chengri Ding
2009/$30.00/296 pages/Paper/ISBN 978-1-55844-183-5

Urbanization in China: Critical Issues in an Era of Rapid Growth,
edited by Yan Song and Chengri Ding
2007/$30.00/320 pages/Paper/ISBN 978-1-55844-175-0

Working Papers and *Land Lines* Articles
(available for free downloading on the Lincoln Institute Web site: *www.lincolninst.edu*)

Assessment on Planning Institutional Arrangement for Better Managing Urban Growth in China, by Chengri Ding, Yan Song, Yang Zhang, Wu Cifang, Gerrit Knaap, and Terry Moore
Working Paper, June 2009

Beijing and Shanghai: Places of Change and Contradiction,
by Christine Saum
Land Lines, October 2008

Housing Inequality in Chinese Cities: How Important is Hukou?,
by Mark Duda and Bingqin Li
Land Lines, January 2008

Local Officials as Land Developers: Urban Land Expansion in China,
by Eric L. Lichtenberg and Chengri Ding
Working Paper, January 2008

Low-Cost Urban Housing Markets: Serving the Needs of Low-Wage, Rural-Urban Migrants?, by Bingqin Li, Mark Duda, and Huamin Peng
Working Paper, November 2007

Housing Rural Migrants in China's Urbanizing Villages, by Yan Song
Land Lines, July 2007

For publications available in Chinese, refer to the Peking University–Lincoln Institute Center's Web site at *www.plc.pku.edu.cn*

In 2010, the China Program will continue to strengthen its online resources to synthesize and disseminate its recent research to a broader audience of Chinese scholars and policy makers through new publications and focused policy reports, while also striving to advance academic debate through research, demonstration projects, conferences and other activities.

Housing, Land, and

Karl E. Case

At the end of 2009, the United States faced an economic disaster of major proportions, with trillions of dollars of asset value lost, more than 16 million people unemployed, and four consecutive quarters of rapidly falling GDP. These events were the direct and indirect result of extreme volatility in the value of residential property that had served as collateral for the nation's huge stock of home mortgages.

Between 2000 and 2005, the value of residential land and buildings increased from about $14 trillion to $24 trillion. About half of this increase reflected new construction, and half was due to rising land values, primarily on the coasts (Case 2007). But in late 2006 prices began to decline, and by mid-2009 they had fallen roughly 30 percent.

FIGURE 1A
S&P Case-Shiller Home Price National Index, 1987–2008

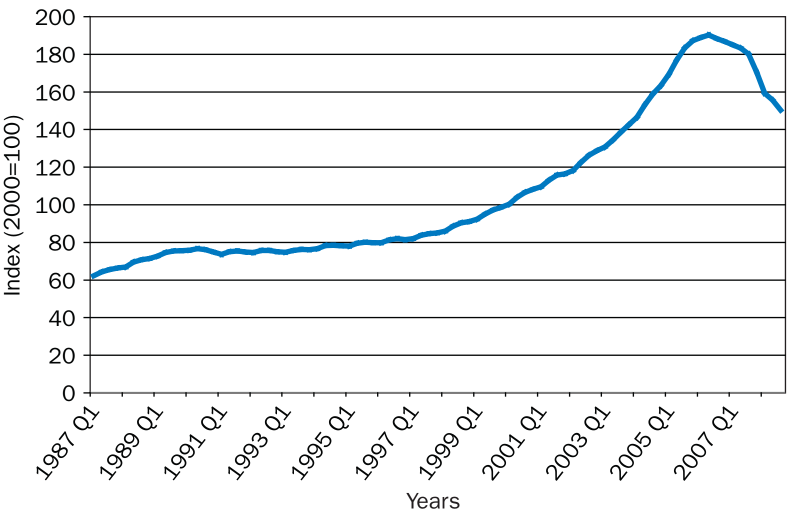
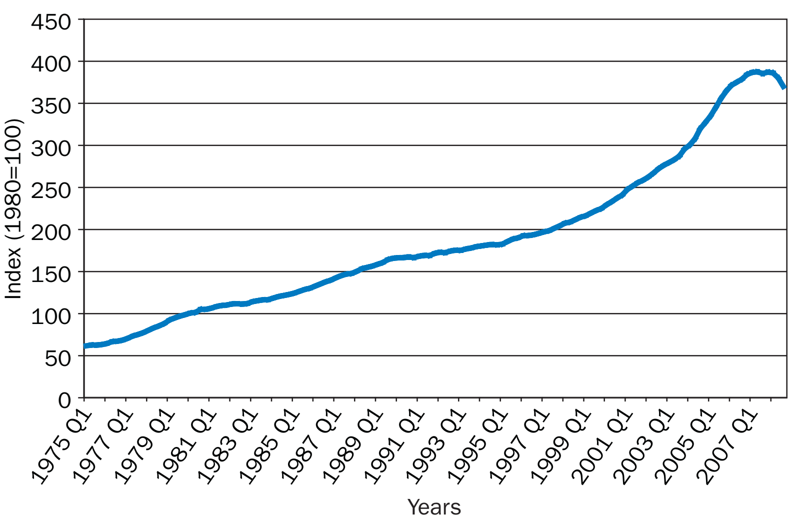


FIGURE 1B
OFHEO House Price Index, 1975–2008



Measuring House Price Appreciation and Depreciation

The S&P/Case-Shiller repeat sales home price indexes were developed 25 years ago to track changes in the market value of existing homes. Based on observed values of properties that changed hands more than once, the indexes were proposed as an alternative to the prevailing measure of home price appreciation or depreciation, which was the median price of homes sold in a city or region. A simple median price will move up or down over time with changes in the mix of properties that sell, as well as with changes in the price or value of houses. This can cause the median price to shift even if no appreciation or depreciation occurs, particularly when new, higher-valued properties are part of the sales base.

In the repeat sales methodology, we collect all available data on home sales and then determine if the same house has been sold in the past 20 years or so. Each pair of sales provides information on appreciation or depreciation. We then eliminate sales where the property has been changed significantly, or the sale was not arm's length, such as purchases by a financial institution or sales where the buyer and seller have the same name.

Finally, we reduce the weight assigned to paired sales that are far apart in time, in part because there is a greater chance that those properties have undergone physical changes. We also eliminate paired sales that are less than six months apart, because they may represent purely speculative activity. We publish only results that are supported by strong statistical tests of confidence.

the Economic Crisis

Home Prices: 1990–2010

Between 1975 and 2006 no measure of home prices showed a national decline. The S&P/Case-Shiller and OFHEO (Office of Federal Housing Enterprise Oversight) national house price indexes both show a continuous rise, accelerating around the year 2000 and peaking between 2006 and 2007 (figures 1a and 1b). However, Case and Shiller (2003) found that in 43 states the ratio of house prices to income remained low and constant between 1985 and 2002, even as house prices rose, suggesting that it was changes in per capita income that explained the increase in home values.

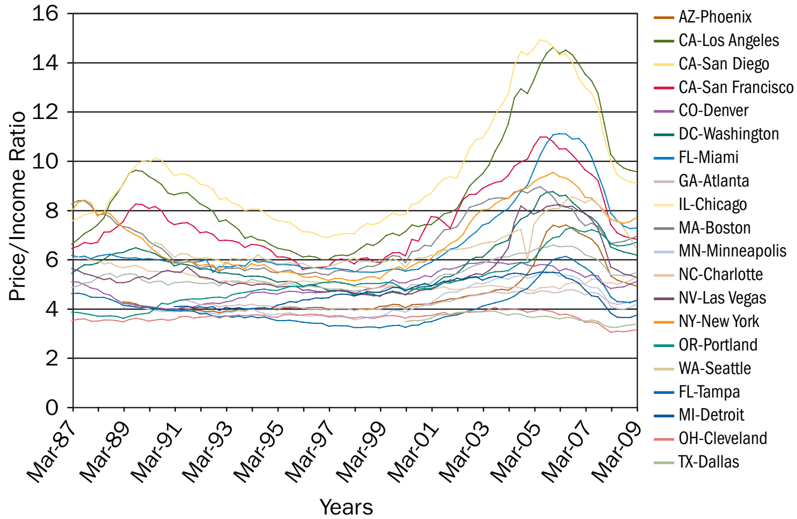
Figure 2 shows the ratio of home price to per capita income for 17 of the more volatile metropolitan areas between the first quarters of 1987 and 2009. After 2000, this ratio began to increase in virtually all of these metropolitan areas, with steep acceleration after 2002. The data suggest four distinct submarkets. The first consists of Las Vegas, Miami, and Phoenix, with a virtually constant price/income ratio until 2000, followed by a rapid increase in 2003 and 2004.

The California submarket was even more explosive. San Diego doubled its ratio from below 8 to above 16, with San Francisco and Los Angeles close behind. New York and Boston, in the third group, experienced accelerating ratios, but they were not as dramatic as those in the first two subgroups. In the Midwestern cities of Chicago, Charlotte, Portland, and Minneapolis, the increases were much lower than those observed on the coasts.

Figure 3 shows the volatility of home prices in the same 17 metropolitan areas based on sales in the lower third tier of sales prices. Home prices tripled in Miami, Los Angeles, Washington, DC, San Diego, and Las Vegas. In September 2005, Boston saw a price drop that later spread to every metropolitan area in the country.

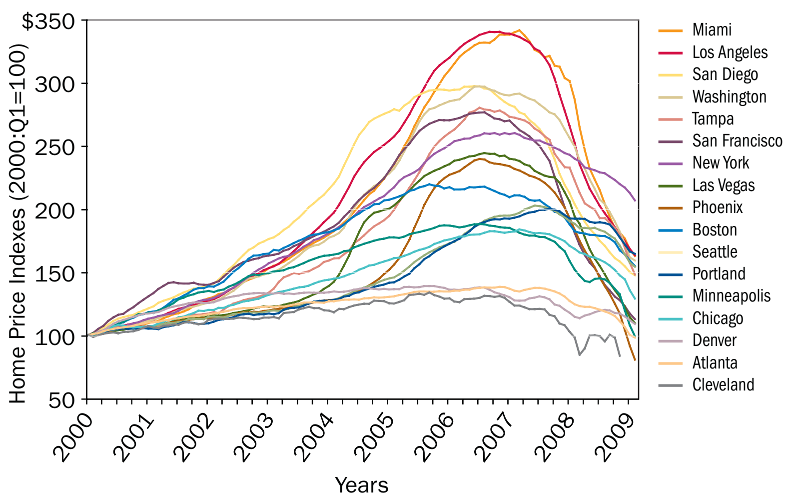
Table 1 shows the S&P/Case-Shiller Index through September 2009, when prices began to stabilize and then rise. The bottom two lines show composite indexes for two sub-samples of the 20 available metropolitan areas. Both have fallen nearly 30 percent since the summer of 2006.

FIGURE 2
Home Sales Price/Per Capita Income Ratios for Selected Metropolitan Areas, Q1 1987–Q1 2009



Data sources: S&P/Case-Shiller Index; Census Bureau; BEA; Moody's Economy.com

FIGURE 3
Low Tier Sales Prices in Seventeen Metropolitan Areas



How Did It Happen?

The national housing boom had its roots in unprecedented events that unfolded in U.S. financial markets beginning in 2000. The rapid decline of high tech industries, the stock market collapse in 2000 and 2001, the slow level of technology investment resulting from Y2K, and finally, of course, the

TABLE 1
S&P/Case-Shiller Index Through September 2009
Released November 24, 2009

Metro Area	Peak	% Δ Since Peak	% Δ Last Year	% Δ from July to August	% Δ from August to Sept.	% Δ 2000 to Sept. 2009
Las Vegas	Aug 2006	-55.4%	-28.5%	-0.3%	-0.9%	4.8%
Phoenix	Jun 2006	-52.0%	-21.8%	1.6%	0.8%	9.3%
Miami	Dec 2006	-46.7%	-16.2%	1.1%	0.5%	49.7%
Detroit	Dec 2005	-42.6%	-19.2%	1.9%	1.8%	-27.1%
Tampa	Jul 2006	-40.1%	-16.7%	0.4%	-0.6%	42.6%
Los Angeles	Sep 2006	-38.7%	-9.0%	1.6%	0.8%	67.9%
San Francisco	May 2006	-38.6%	-7.8%	2.8%	1.3%	34.2%
San Diego	Nov 2005	-38.2%	-5.7%	1.6%	0.9%	54.8%
Washington	May 2006	-28.1%	-5.0%	1.8%	0.5%	80.5%
Minneapolis	Sep 2006	-27.0%	-11.0%	3.1%	1.8%	25.0%
Seattle	Jul 2007	-22.5%	-13.8%	0.1%	-0.4%	48.9%
Chicago	Sep 2006	-21.6%	-10.6%	1.7%	1.2%	32.1%
Portland	Jul 2007	-19.7%	-11.8%	0.3%	-0.5%	49.7%
New York	Jun 2006	-19.2%	-9.1%	0.6%	-0.3%	74.4%
Atlanta	Jul 2007	-18.5%	-9.3%	1.1%	-0.0%	11.3%
Boston	Sep 2005	-14.7%	-3.3%	0.9%	-0.2%	55.6%
Cleveland	Jul 2006	-14.4%	-3.7%	-0.5%	-1.6%	5.8%
Charlotte	Aug 2007	-11.8%	-8.1%	-0.4%	-0.7%	19.8%
Denver	Aug 2006	-7.7%	-1.2%	1.0%	-0.5%	29.4%
Dallas	Jun 2007	-4.7%	-1.2%	0.2%	-0.7%	20.6%
Composite-10	Jun 2006	-29.9%	-8.5%	1.3%	0.4%	58.6%
Composite-20	Jul 2006	-29.1%	-9.4%	1.2%	0.3%	46.5%

events of 9/11 led to a relaxed monetary policy as the Federal Reserve continually reduced interest rates in an attempt to stimulate the economy and prevent recession. In January 2001 the Fed cut the federal funds rate (the interest rate banks charge one another for the use of federal funds) from 6.5 percent to 6 percent, and by the end of 2002 had reduced the rate 11 times, to 1.75 percent.

When the easing of credit began, the 30-year fixed rate for a conventional mortgage was 7.17 percent, down slightly from the 8.3 percent average rate over the first nine months of 2000. By the time the federal funds rate fell to 1.75 percent in the fourth quarter of 2002, the conventional fixed mortgage rate was 6.39 percent. The federal funds rate continued its downward trend until it hit 1 percent in July 2003 and remained there for over a year. By that time, the conventional 30-year fixed-rate mortgage carried an interest rate of 4.6 percent. This easing of credit was the result of a massive injection of liquidity. The dramatic drop in interest rates reduced returns on many investments, placing pressure on yields around the world.

The expansionary monetary policy pursued during this short period reduced the cost of buying a home by almost a third. If its purpose had been to stimulate the mortgage and housing markets, the policy certainly worked, as lower interest rates reduced mortgage costs. Housing production and sales of existing homes boomed. In October 2001 there were about 1.52 million housing starts annually. By the end of 2003 housing starts had increased by a third, to well over 2 million.

Existing home sales were 5.2 million annually at the beginning of 2001 and 6.5 million by the third quarter of 2003. By 2005 they reached 7 million and stayed at about 6 million until 2007. There is little doubt that the housing market kept the economy out of recession through the turbulent early years of the decade.

Figure 4 shows the explosion in home sales and mortgage volume at the end of 2002 and into 2003. Low interest rates stimulated demand for refinancing, and between the fourth quarters of 2002 and 2003, $5.5 trillion in mortgages were originated, and $3.7 trillion were paid off. Over five quarters, the total value of new mortgages was about the same as the entire stock of mortgage debt outstanding in 2001. Seventy-five percent of the new mortgages were written for refinancing rather than purchases of new homes.

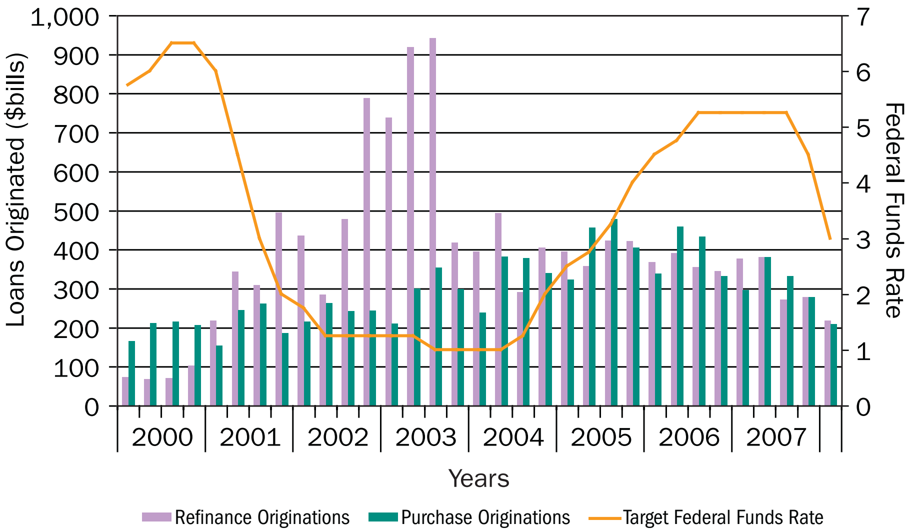
By bundling large numbers of mortgages into securities, Wall Street could offer an investment vehicle that combined the implicit government guarantees of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) with a history of very low default rates. As a result, much of the liquidity that drove the economic expansion was channeled directly into mortgages.

In June 2003, mortgage rates began to rise, moving from 4.60 percent to 5.97 percent by August. The third quarter of 2003 saw the highest volume of refinancings, with originations of $942 billion. The refinancing boom ended with the rise in interest rates, dropping 56 percent in the fourth quarter.

During this expansion of credit, the mortgage industry became highly profitable, collecting fees of about 2.5 percent of the $4 trillion in total originations in 2003 alone—over $100 billion. Greenspan and Kennedy (2008) estimate that fees for refinancings and home equity loans in 2004 reached $200 billion. With default and foreclosure rates low and housing prices high, lenders competed for the business of homebuyers.

FIGURE 4

United States Total Quarterly Originations, 2000–2008



Data sources: Greenspan and Kennedy; Federal Reserve Board of Governors; S&P/Case-Shiller.

The total value of mortgages originated per quarter for the purchase of one- to four-family homes doubled from $239 billion in 2004:Q1 to $478 billion in 2005:Q3. Much of this business was directed at low-income neighborhoods and sub-prime borrowers. Between 2002 and 2006, the market originated $14.4 trillion in mortgages, retired $10.3 trillion in debt, and increased the stock of outstanding mortgage debt by $4.1 trillion.

Needless to say, a credit expansion of this magnitude had a major impact on the housing market. As noted earlier, between 2000 and 2006 prices in the bottom tier of the market increased the most—by 241 percent in Miami, 249 percent in Los Angeles, and 200 percent in Washington, DC, Las Vegas, and San Diego. The S&P/Case-Shiller composite indexes more than doubled, and the national index increased by nearly 90 percent.

At the end of 2005 and into 2006, the housing market began to soften. Interest rates rose, and the 30-year mortgage interest rate was back to 6.6 percent by the last half of 2006. Gluts of speculative building slowed markets in Florida, Arizona, and Nevada. Homes in California and in the Northeast had become very expensive relative to incomes, and the manufacturing base of the Midwest fell into recession. As expectations turned gloomy in 2006, 16 of the 20 S&P/Case-Shiller metropolitan areas showed price declines, and by 2007 all were declining. This had never happened before.

Then inventories of houses for sale began to increase. In the past, when markets rose too quickly, prices were slow to change and adjustment was orderly. With house prices falling nationally, and with the bulk of the newly written mortgage debt carrying high loan-to-value ratios, mortgage default rates rose sharply.

Underwriting standards changed over this period as well. Statistical models of default and foreclosure seemed to "explain" defaults as a function of borrower and loan characteristics. These models were used by all market participants, sometimes even without their knowledge. The most widely known underwriting tools were Loan Prospector and Desktop Underwriter, developed by Fannie Mae and Freddie Mac respectively. Their low cost and ease of operation made them the industry standard. As these models spread throughout the market, mortgage lenders and insurers that did not accept their results garnered little new business. The rating agencies also fell victim to the same statistical methods, which suggested a very low likelihood of rapidly rising defaults.

The stated goal of the new model of underwriting was to transform a patchwork risk-allocation process into a more efficient and accurate pricing system. But this proved to be not only difficult, but ultimately impossible. Analysts seeking to predict the likelihood of default had little choice but to look to the past: at what rate did mortgages with the same characteristics fail in the past?

But past experience dealt with a 30-year period of rising prices in which the collateral was in most cases sufficient to cover claims. Thus, outside of a few regional downturns, no experience provided data that could accurately measure the impact of falling house prices on delinquency, default, and foreclosure. The historic housing boom of 2000–2005, together with the change in underwriting standards and credit market operations, made the period of 2000–2008 one of the truly important economic episodes of the last century. Its legacy is a flood of bad mortgages with millions of homes headed for foreclosure.

The Government Has Played a Big Role

One additional factor clearly played a role in all of this: the federal government's strong efforts to promote home ownership for rich and poor alike. In 1977 Congress passed the Community Reinvestment Act (CRA) and the Home Mortgage Disclosure Act (HMDA), designed to increase bank lending to low-income and minority households. Even today, banks have a CRA exam every year to determine whether they are meeting the credit needs of their entire CRA area, which in almost all cases includes low-income neighborhoods that in previous years might have been rejected ("redlined") for loans or insurance.

These programs reflect a belief that the nation has an interest in promoting home ownership as the American Dream, which is thought by many to lead to meritorious behavior. A homeowner is considered likely to be a better citizen, and more involved in local affairs. Home ownership was also thought to be a way of building wealth for low-income households, part of the social safety net (Case and Marynchenko 2002).

Home ownership was encouraged in a variety of ways. The federal subsidy in the income tax treatment of home ownership (the mortgage interest deduction, the capital gains exclusion, the property tax deduction, and the nontaxation of imputed rent on owner-occupied housing) amounts to about $140 billion annually. The Government Sponsored Enterprises (GSEs) including Fannie Mae, Freddie Mac, the Government National Mortgage Association (Ginny Mae), and the Federal Housing Administration (FHA) were all set up to channel capital into home mortgages.

This not-so-subtle pressure from the Congress was clearly accepted by Fannie Mae and Freddie Mac as the price they needed to pay to maintain the implicit guarantee of their debt, which they enjoyed as a result of their government franchises. There can be no precise division of responsibility between the GSEs and the private sector in expanding the housing bubble.

Several factors played a role in the ultimate collapse: the competitive battle for market share waged by Wall Street investment banks, the private securities markets, and some highly leveraged specialty firms; the high credit ratings that were distributed by the rating agencies; and the fact that default and foreclosure rates remained low. In the end, it was a combination of unfettered private-sector competition, some irrational exuberance, and what turned out to be poor regulatory oversight that led to the disaster.

Where Do We Go From Here?

By late 2009, housing markets seemed to be approaching a bottom with prices stabilizing, but many forecasts anticipate declines extending well into 2010. If that were to happen, numerous mortgages written in 2008 and 2009 would not be fully secured and could turn unprofitable.

A prolonged period of falling prices would prevent a significant increase in housing construction. Despite record low interest rates, housing starts have been in uncharted territory for more than a year, having fallen below levels seen in prior downturns. The last four recessions began with large declines in housing starts. At the end of 2008, starts were down from a peak of 2.27 million in 2006 to around 500,000, where they stayed for more than a year, well below the typical bottom of one million starts per year. Currently, starts are running at a seasonally adjusted rate of 574,000, which is 28 percent below the lowest level recorded. Since 1959, only in the month of January 1991 did starts go below 800,000, to 798,000. Starts bounced back in February 1991 to 968,000.

Two market-clearing processes are currently underway in the housing market, operating side by side, often neighborhood by neighborhood, within metropolitan areas. First, there is the traditional search for a new equilibrium. Inventories remain high as risk-averse sellers seek to avoid sharp price reductions. Sellers without access to liquid capital can be among the most reluctant to sell, because they cannot afford to incur high transactions costs. Homeowners do not like to sell at a loss, and may postpone sales in hope of a rising market. This type of market-clearing process is slow and usually results in a long and costly period of quantity adjustment with relatively little change in sale prices.

Second, banks, loan servicers, and other market participants are left holding properties because of defaults and foreclosures. These houses are typically sold at auction, often at very low prices. In every past regional decline these two processes worked together to clear the market. The final result will be the product of a battle between them.

At the end of 2009, homes were selling at a rate of about 6 million per year, 5.5 million existing and 500,000 new homes, including between 1 and 1.5 million sales at foreclosure auctions. The bad news is that new properties are entering the foreclosure process faster than older cases are being resolved, suggesting that the portion of all sales through the auction process is likely to grow.

But a number of facts suggest that the current bottom could hold and eventually turn upward. First, prices have fallen substantially. In Boston, they have been falling for some time, and in California they are down over 50 percent. Eventually, when prices get low enough, people will start buying again. Furthermore, interest rates are remaining at all-time low levels, with the conventional 30-year fixed-mortgage rate below 5 percent.

In short, all housing market indicators are improving. Pending home sales, existing home sales, new home sales, and housing starts were all up during 2009; and prices actually stopped falling. The OFHEO price index and the S&P/Case-Shiller indexes for 18 of the 20 cities analyzed were up for several months in a row. New home inventories fell to 251,000 (7.4 months of inventory) in September, after having fallen for 13 consecutive prior months.

California represents about 25 percent of all the land value in the United States, and events there have major implications for the rest of the country. The good news is that for the last three months, the indexes for San Francisco, San Diego, and Los Angeles have led the nation in price appreciation. The California Association of Realtors reports substantial increases in home sales volumes except in the Central Valley.

It is important to remember that it takes only a relatively small number of buyers to move the market. Our measures of home values are based on observed sales, but only 5 to 7 percent of the total housing stock changes hands annually. Even with an unemployment rate near 10 percent, homebuyers continue to be very optimistic, and now there may be enough of them to change the market's direction.

But, we are by no means out of the woods. Unemployment remains very high and jobs are still being lost. In addition, the foreclosure pipeline is moving very slowly, and foreclosures are spreading from the sub-prime market to the presumably more secure A-, Alt A, and prime loans. If the jobs picture does not brighten, and the market does not speed up the process of resolving foreclosures, the housing market could face a long period of stagnation and even a return to falling prices.

ABOUT THE AUTHOR

KARL E. "CHIP" CASE *is the Katharine Coman and A. Barton Hepburn Professor of Economics at Wellesley College in Massachusetts. With Robert J. Shiller he developed the S&P/Case-Shiller Home Price Indices. Case is a former member of the Lincoln Institute of Land Policy board of directors. Contact: kcase@wellesley.edu*

REFERENCES

Case, Karl E. 1986. The Market for Single-family Homes in Boston. *New England Economic Review* May/June: 38–48.

———. 2007. The Value of Land in the United States: 1975–2005. In *Land Policies and Their Outcomes*, ed. Gregory K. Ingram and Yu-Hung Hong, 127–147. Cambridge, MA: Lincoln Institute of Land Policy.

Case, Karl E., and Maryna Marynchenko. 2002. Home Appreciation in Low and Moderate Income Markets. in *Low Income Homeownership: Examining the Unexamined Goal*, ed. Nicolas Retsinas and Eric Belsky. Washington, DC: Brookings Institution Press.

Case, Karl E., and Robert J. Shiller. 1987. Prices of Single-family Homes since 1970. *New England Economic Review* September/October: 45–56.

———. 1989. The Efficiency of the Market for Single-family Homes. *The American Economic Review* 79(1): 125–137.

———.2003. Is There a Bubble in the Housing Market? *Brookings Papers on Economic Activity. Washington, DC: Brookings Institution.* September 5.

Greenspan, Alan, and James Kennedy. 2008. *Sources and Uses of Equity Extracted from Homes.* Federal Reserve Board, Finance and Economics Discussion Working Paper Series 2007-20, October. *www.federalreserve.gov/PUBS/feds/2007/200720/200720pap.pdf*

Integrating Mediation in Land Use Decision Making

A STUDY OF VERMONT

© iStockphoto.com

Patrick Field, Kate Harvey, and Matt Strassberg

Across the country, decision makers at the local and state levels increasingly are turning to new methods for resolving conflicts that arise during land use decision making processes. For disputes over permitting or enforcement of local and state land use regulations, mediation is considered a reasonable alternative to at least some litigation. Although mediation has successfully resolved many land use disputes, its use typically has been applied *ad hoc* as inclination and resources determine.

To better understand the use of mediation across a land use decision-making system within a single state, the Consensus Building Institute (CBI) and Green Mountain Environmental Resolutions (GMER) conducted an 18-month screening and evaluation study in Vermont.

Mediation and Land Use Disputes

Previous studies by the Lincoln Institute of Land Policy and the Consensus Building Institute have demonstrated that negotiation and mediation can be effective in resolving land use disputes. A successful mediation program requires selecting suitable cases for mediation at the right time in the process, and matching them with appropriate forms of mediation assistance.

Although mediation is widely used in some areas of law, such as family or employment cases, its application in land use law has been limited. There is no systematic program or set of programs that integrates mediation into the land use permitting process at all levels, from local planning boards to state courts. Increasing the use of mediation and integrating it into the land use permit application and appeal process can reduce the burden on valuable judicial resources, save the parties time and money, and, perhaps most important, resolve disputes that otherwise could divide a community into opposing camps. This study of Vermont aimed to identify lessons that can inform land use decision-making process in other states.

Methodology

Vermont's manageable size, its diversity of small cities and rural towns, and the frequent use of mediation, especially at the court level, made it an ideal laboratory in which to learn how mediation might be better integrated into different levels of land use decision making. Vermont also has a strong land use planning law, Act 250, passed in 1970 to protect the environment, balance growth and development needs, and provide a forum for neighbors, municipalities, and other interest groups to voice their concerns. Depending on the nature of a proposed development project, an applicant may need to obtain permits from a local board, a regional commission, various state agencies, or federal agencies.

As in most states, land use disputants in Vermont may utilize mediation via one of two routes: when there is consensus to try it, or in court when a judge orders mediation or a hearing officer suggests mediation at a prehearing conference.

This study investigated two methods for identifying cases that might be appropriate for mediation. First, we sought to better understand action at the state court level, after other opportunities for consensus building and mediation had failed. In collaboration with the Vermont Environmental Court, CBI developed a screening and evaluation process for 285 active land use cases in the court between July 1, 2006 and December 31, 2007. Judges were asked to fill out a form to identify why and how they screened each case for mediation, and the parties were asked to complete an evaluation form after the mediation ended.

Second, GMER and CBI developed a protocol to determine whether it was possible to identify cases appropriate for mediation at both local and Act 250 levels prior to the appeal stage. Over the 18-month study period, GMER screened 54 contested Act 250 permit applications. Most cases that make their way to the Act 250 and Vermont Environmental Court dispute systems start at the local level. However, despite many efforts by GMER to identify local-level cases to be screened, only 13 local cases were reviewed.

Nine Lessons Learned

1: Screening for mediation assists with settlement.

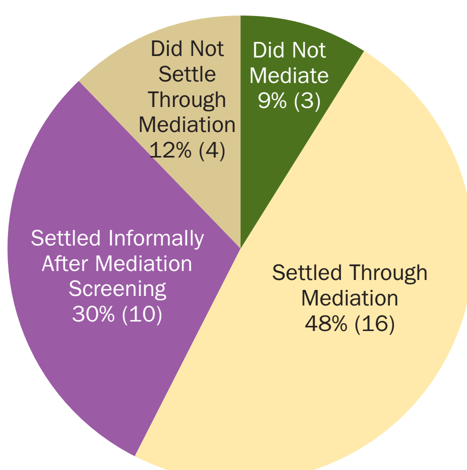
Mediation screening—that is, evaluation of the appropriateness of mediation for a particular case—prior to proceeding with traditional avenues of land use conflict resolution is an effective tool for encouraging settlement as a general approach; encouraging mediation specifically; and distinguishing among cases that are more amenable to resolution and those that require more formal quasi-judicial or judicial decision making. Given the current barriers to mediation—lack of knowledge about mediation, jointly finding a mediator, and simply communicating with the opposing party—screening is an effective tool to increase its use.

In the Act 250 cases, the act of screening itself seemed to encourage informal negotiations and settlement in some instances (figure 1). Many of the screenings were essentially informal phone mediations that included discussions of the parties' interests and possible options to satisfy those interests.

2: Screening criteria are useful but not fully determinative.

There is no simple formula or correlation between key factors in a case and the parties' willingness to mediate as a way to successfully resolve issues. However, the data on screening do suggest a few key criteria that are important in determining if a case is more likely to be recommended for mediation.

FIGURE 1
Act 250 Outcomes of 33 Cases Recommended for Mediation



- Does the case turn on a particular issue of law?
- The type of case matters. Permitting cases tend to be more amenable to mediation than enforcement cases, and general commercial and residential cases are more amenable than industrial cases, especially those involving major public health or nuisance issues (e.g., noise, odor).
- The parties' willingness to explore options and ideas is a key indicator for whether mediation is more or less appropriate.
- Timing is important. Screening is generally best done after filing (of an application or appeal) but before any formal proceedings have occurred (an administrative hearing or court hearing).

The data also suggest that some criteria are *not* important in determining whether mediation is appropriate for a specific case.

- Whether the parties have talked or not, or even tried to settle informally, does not indicate that the parties should not consider mediation. Surprisingly, parties in many cases had simply not communicated with one another once the case was filed, but when encouraged by a mediator or screener, they were amenable to doing so.
- The need or desire for future relationships is not an important criterion, at least as practiced in this context in this state. Most parties appear to be seeking an end to litigation and a settlement or agreement, not necessarily desiring to repair or maintain a relationship.
- The kind of issue, such as traffic, noise, visual impact, or odor, does not seem to be as important for considering mediation as the intensity and breadth of the issue's impacts on abutters and other interested stakeholders.
- The number of parties does not appear to be a factor. A case with two parties is as likely to be mediated as one with many parties.

3: The screener's qualifications and credibility do matter.

A mediation screener for land use disputes requires a specific skill set, knowledge base, and credibility. At the Environmental Court level, a judge's expertise in land use issues, law, and regulatory structure allows a more informed assessment of cases amenable to mediation. Analysis of the court's screening data concluded that the two most important factors in determining the appropiateness of mediation were the issue of law at stake and the judge's "sense" of settlement potential. Both are professional judgments rather than more rote or formulaic means of determining appropriateness. Furthermore, the judge's authority gives the resulting determination legitimacy.

In a nonjudicial setting such as a permitting body, a screener without legal authority or stature can also be effective. Most parties will participate and take seriously the recommendations of the screener, as long as the screener has the express support and legitimacy provided by an official governing body.

4: Screening program design is also important for legitimacy.

As part of the research, we established and implemented the screening program for the District Commissions, entities that provide review under Act 250. This screening program was highly instructive because it raised several key issues. The primary question was whether screeners should be part of or separate and independent from an appropriate government agency (table 1). A secondary concern was whether a screener might also later mediate the case. Protocols can be used to avoid or minimize the perception of any potential conflict of interest.

A few survey respondents raised concern that the Act 250 screener was also available to mediate the cases screened, though the screener always provided the parties a roster of mediators from which to choose. The concerns were about ethics (Can one conduct a fair and neutral screening when one has both the economic and professional incentive to recommend mediation in order to then mediate?) and the marketplace (Is it fair to and competitive for other mediators if the screener has an "inside track" on certain cases?).

We assume that screeners as mediators may be influenced by the opportunity to mediate, if they are eligible. We would argue that this incentive is not merely financial, but also professional in the sense that one wishes to practice one's craft. Nonetheless, countervailing arguments suggest that a strict separation of screening and mediation poses an equally difficult set of problems.

- Though mediators perhaps should not judge their professional performance by the number of cases settled, many do. As a result, there is an incentive to not recommend mediation for cases that will lower one's success rate of settle-

TABLE 1
Considerations for Who Screens Cases on Behalf of a Public Agency

	Inside the Agency	Outside the Agency
Referral frequency and ease	More likely to have day-to-day contact, trust from other staff, and "ear to the ground" on cases. May be more efficient in ensuring a steady and regular stream of cases for screening.	More challenging to ensure ongoing coordination and steady stream of referrals from the land use body without prior relationships. Outside screener must expend time in coordination, communication, and trust building to obtain case referrals.
Administration	Can be administered effectively inside or outside the organization.	Can be administered effectively inside or outside the organization.
Legitimacy with parties	Parties may trust a screening process from inside the land use body and may be less fearful or skeptical of an inside entity and its motives. On the other hand, an outside screening entity may be seen as less likely to be influenced by internal politics of a land use body.	An outside organization, by itself, will have to gain trust and reputation over time in terms of conducting screenings, and this outside status may affect some parties' willingness to participate in a screening (as well as in mediation).
Willingness of parties to talk about underlying interests	Parties may be reluctant to reveal willingness to compromise or consider modifications before staff of the permitting body.	Parties may be more willing to openly discuss their willingness to compromise or consider other options before a screener who is separate and distinct from the decision-making process.
Longevity and flexibility	Incorporating screening into standard operating procedures is likely to increase the longevity of a screening program. However, it may also reduce the flexibility, adaptability, and learning that an outside organization or occasional re-compete of a paid program may provide.	Provides a greater opportunity for innovation and adaptation, especially if the program is competed from time to time. On the other hand, the outside status of such a program makes it more susceptible to budget cuts, avoidance by staff, and waning interest over time.
Authority	Depending on the legal structures, a land use body may have the power to "order" mediation, which in practice may result in more settlements, even with reluctant parties.	No land use body is likely to delegate authority to an outside entity to "order" mediation. Thus, although voluntary screening can and does work, as this study shows, outside entities may be limited by their inability to compel parties to act.
Cost	Cost may be less, depending on salary structures, but if multiple tasks are assigned to one job, focus on the effort and quality of the work may suffer.	Cost may be greater, depending on salary structure, overhead, and other factors. However, contracting for services may ensure more dedication to the effort and its quality.

ments. No mediator likes to recommend mediation only to later fail in resolving the case.

- Screeners are likely to become better and more seasoned if they actually experience the results of some of their choices by later mediating them.
- Parties are likely to gain trust in a capable screener, and this allows a quicker entry into the mediation process. A screener who either provides mediation if desired or offers assistance in identifying a mediator is more efficient and can help overcome the reluctance of parties to proceed.
- In public policy mediation, a screener as mediator is standard practice in many cases.

5: Land use mediation may be more effective in helping parties reach a settlement than in restoring relationships.

Data gathered through the court mediation evaluation forms offer a somewhat surprising reflection on how participants value their mediation experience. While mediation is often lauded for its contributions to improving relationships among parties, evaluation survey results suggest that parties valued mediation more for its ability to make them consider options than for its impact on their relationship with other parties.

Sixty-six percent of participants reported that the mediation process encouraged them to consider various options for resolving the dispute (59 percent [154] agreed and 7 percent [18] strongly agreed). On the other hand, 42 percent of respondents felt that at the end of the mediation process they were better able to discuss and seek to resolve problems with other parties on this project (39 percent [102] agreed and 3 percent [8] strongly agreed). While one might wish, optimistically, for a mediation program that restores relationships and rebuilds social capital, it seems that participants are more interested in exploring various options for settlement than in broader social or relational goals.

6: Land use mediation may not always result in satisfying agreements, but it generally results in satisfaction with the process.

Parties support mediation and are willing to participate again, despite indications by many that their most recent experience did not result in an agreement that satisfied them. Figure 2 shows that 40 percent agreed that mediation resulted in an agreement that was satisfying to them (88 agreed and 15 strongly agreed), while 35 percent disagreed (55 strongly disagreed and 36 disagreed).

Despite these findings, when asked if they would participate in a mediation again, respondents show more varied results (figure 3). More than 50 percent (131) agreed and 17 percent (45) strongly agreed, while only 12 percent (30) disagreed and 7 percent (19) strongly disagreed.

We interpret these data to mean that the agreement reached was tolerable, given their constrained choices. The mediation process more often than not seems to have offered enough benefits, cost or time savings, or some other advantage that many respondents would be willing to participate again.

The evaluation process did reveal some concerns about the role of pro se parties (who represent themselves without an attorney). Some pro se parties expressed frustration with the mediation process, which they felt did not provide an adequate forum for exploring and resolving the full range of issue that concerned them. Other parties expressed their own frustration with the pro se parties, whom they felt slowed down the process and demanded too much time from the mediator. Additional research on best practices for defining and communicating the role of pro se parties could improve overall satisfaction with the mediation process.

7: Mediation of particular issues does not relieve the larger burden on municipalities to make complex decisions on land use projects.

Lower levels of satisfaction were expressed by town officials than other parties, which suggests that mediation in and of itself is not assisting local officials to the extent one might hope. Town representatives were more likely to disagree or strongly disagree (56 percent) that the mediation resulted in an agreement that was satisfying to them than were applicants (36 percent), agencies (36 percent), and interested parties (35 percent).

FIGURE 2
Responses in Environmental Court Cases: Mediation Resulted in An Agreement that Was Satisfying to Me

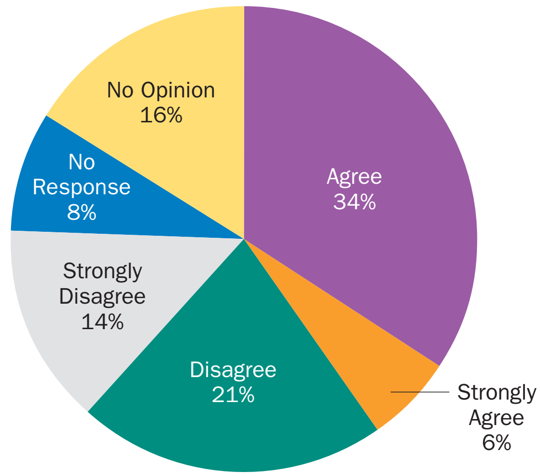
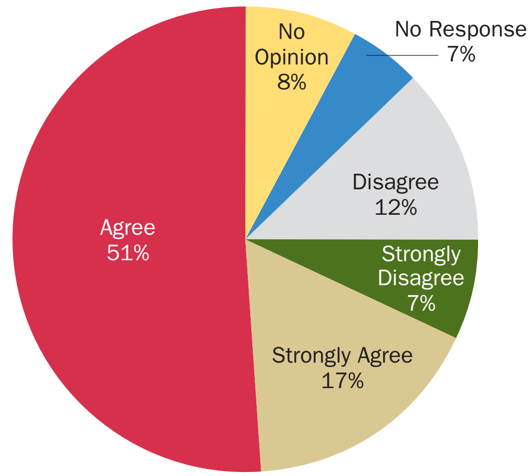


FIGURE 3
Responses in Environmental Court Cases: I Would Participate in Mediation Again



By the time cases, especially enforcement cases, reach the Environmental Court, town officials may feel they have already tried to accommodate applicants and thus are less enthusiastic about mediation with parties who, in their perspective, have been "recalcitrant." A court decision, even if it adopts a mediated settlement, may not resolve an entire dispute. Mediation may resolve issues pending before the court, but does not resolve all barriers to implementation of an agreement at the local level. This finding suggests that municipalities may need more assistance, not only in mediation of specific issues, but also in more comprehensive consensus building or public participation efforts.

8: Encouraging mediation at the municipal level remains challenging.

The research team was not successful in instituting any systematic local approaches to screening and mediation, despite an intensive outreach effort; a no-cost screening service; the support of mediation at the Act 250 and court levels; a state generally amenable to alternative forms of dispute resolution; and a relatively vigorous development climate during the study.

Various factors may explain this resistance. The single largest obstacle on the local level is that in most cases the permitting bodies do not know if an application will be opposed until the hearing begins. Furthermore, most applications have only one hearing day, so there is little opportunity for mediation screening. Hearings that last multiple days clearly have other options.

Other obstacles include the fact that mediation as commonly understood may be introduced too early for parties wishing to see how they might fare in the standard administrative process. Local officials may view mediation as usurping their role. The status quo of existing administrative processes may simply be considered "good enough." Town budgets may account for potential litigation, but not be flexible enough to fund mediation. Some officials may not know enough about mediation or simply be uninformed about its benefits. There may be too few cases in most municipalities in a rural state like Vermont to establish any programmatic approach.

In any case, this study reinforced the assumption that administering mediation at the local level is difficult, however promising the "idea" of mediation may be in assisting communities.

9: The Environmental Court can influence attitudes toward mediation.

The Environmental Court's embrace of mediation as a key tool to its proceedings appears to have an interesting effect on municipal land use decisions, despite the challenges at the local level. It is widely perceived (though inaccurately) among local and regional land use professionals across the state that if a case proceeds to the Environmental Court it "almost always" will be ordered into mediation. The court, in fact, is quite careful about referrals. During our study period, the court referred fewer than half of its cases to mediation.

This finding points to at least two interesting implications for a more rigorous, system-wide approach to mediation and dispute resolution. First, a powerful land use body's support of mediation has a meaningful impact on perceptions of mediation across the system. Second, the active support of mediation by a body such as the court has likely salutary effects on settlements that can occur earlier in the process. This also suggests that when enough of a land use system's regulatory bodies support and encourage mediation, a culture of settlement and dispute resolution may take hold.

Conclusions

This study supports the assertion that mediation is useful in land use conflicts. Upon evaluation of nearly 300 Vermont land use cases at the local, Act 250, and Environmental Court levels, this study found that mediation screening and actual mediation are effective tools for targeting and resolving many cases. As disputes become more complex, and resources, time, and money for resolving land use disputes become scarcer, it will be important to find efficient and reliable methods for settling cases. Mediation and mediation screening hold great potential for meeting those goals.

This research was made possible by the generous support of the JAMS Foundation and the Lincoln Institute of Land Policy.

ABOUT THE AUTHORS

PATRICK FIELD *is managing director of the Consensus Building Institute in Cambridge, Massachusetts, an as associate director of the MIT-Harvard Public Disputes Program, and senior fellow at the Center for Natural Resources and Environmental Policy of the University of Montana in Missoula. Contact: pfield@cbuilding.org*

KATE HARVEY *is an associate at the Consensus Building Institute. Contact: kharvey@cbuilding.org.*

MATT STRASSBERG *is director of the Environmental Mediation Center and principal of Green Mountain Environmental Resolutions based in Moretown, Vermont. Contact: matts@emcenter.org*

RELATED PUBLICATIONS

Susskind, Lawrence, Ole Amundsen, and Masahiro Matsuura. 1999. *Using Assisted Negotiation to Settle Land Use Disputes: A Guidebook for Public Officials*. Cambridge, MA: Lincoln Institute of Land Policy.

Susskind, Lawrence, Mieke van der Wansem, and Armand Ciccarelli. 2000. *Mediating Land Use Disputes: Pros and Cons*. Cambridge, MA; Lincoln Institute of Land Policy.

An architect who specializes in urban and regional planning, Eduardo Reese is the deputy administrator of the Institute for Housing of the Province of Buenos Aires, Argentina. In previous professional positions he provided technical advice for the master plans of more than 20 cities in Argentina; was secretary of socioeconomic policies at the Ministry of Human Development and Labor of the Province of Buenos Aires; adviser for the Urban Planning Counsel of the City of Buenos Aires; and planning secretary in the City of Avellaneda.

Reese also teaches at the Conurbano Institute at the National University General Sarmiento in Buenos Aires. Currently he is a professor of urban management in the Institute's B.A. program in urbanism. He also teaches urban development at master's programs at the School of Architecture, Urbanism and Design of the University of La Plata, as well as at universities in Mar del Plata and Córdoba. In addition, he directs the master planning of the Matanza-Riachuelo watershed in Buenos Aires.

Contact: ereese31@gmail.com

Eduardo Reese

LAND LINES: *How long have you been involved with the Institute's Latin America Program?*

EDUARDO REESE: My relationship dates back to 1997 when we were drafting the plan for the City of Córdoba, which included several large-scale urban projects. We worked to expand the debate about the impacts of these projects on the land market and, consequently, on shaping the city. I continued to participate in various activities, and four years ago I took over coordination of the annual lectures of the Land Management in Large Urban Projects series, following the death of Mario Lungo, who had led that program for many years.

In 2004, in conjunction with the Conurbano Institute of the National University of General Sarmiento, we conducted a course on Land Markets: Theory and Tools for Policy Management, which was the first one involving a seven-month training program for 50 Argentine students. That educational experience helped create a critical mass of technicians and professionals with an innovative vision toward the management of land policies. The program's impact has been reflected in urban policy decisions in different municipalities (such as San Fernando and Morón in Greater Buenos Aires); in the Argentine Constitution; in the Urban Reform Movement in 2005; and in academic changes at the Conurbano Institute itself.

LAND LINES: *What role can large urban projects play in the quality of life of Latin American cities?*

EDUARDO REESE: Large-scale projects in defined sectors of the city (both central and peripheral areas) have been great protagonists of contemporary urbanism in the past quarter century. Today in Latin America there are many types and sizes of projects, even though more rigorous theoretical thinking is still needed. Important examples are the Bicentennial Portal (*Portal del Bicentenario*) projects in Santiago de Chile; the Integral Urban Projects (*Proyectos Urbanos Integrales*) in Medellín, Colombia; urban operations in different cities of Brazil; and the restructuring project in the northwestern sector of San Fernando (Argentina).

Large-scale urban operations as instruments of intervention in the city have been implemented for many decades. In Buenos Aires, for instance, the Avenida de Mayo and the Diagonals, which were planned about 1880, had important impacts on physical space as well as in social, economic, and symbolic aspects. This approach of multiple impacts undoubtedly allowed better assimilation of the Avenida de Mayo, but it also generated a huge debate over who should finance the operation and who would appropriate the land rents generated. Ultimately the Supreme Court ruled that the municipality could not finance the work with the surplus created, because the rents belonged entirely to the landowners. For many years this case set a judicial precedent regarding the state's intervention in the process of valuing land generated by a large-scale public project.

LAND LINES: *You have a critical view on the widely acclaimed Puerto Madero urban regeneration project in Buenos Aires. What would you do differently in other large redevelopment areas?*

EDUARDO REESE: Puerto Madero is emblematic of urban projects that promote a model of segregated urban planning and are now being "exported" to other countries as a basic tool to compete for international investment. In this project the state submitted to the market and allowed the construction of an exclusive neighborhood for very high-income sectors. It is a notorious example of public policy explicitly designed to favor the wealthy without any recovery of the huge land valuations that were the product of public policy.

Moreover, to guarantee investors an overvaluation of the properties they purchased, the venture has a number of features that cut it off (physically and socially) from the rest of the city, creating even greater value because of its segregation. Puerto Madero has no external wall, as gated condominiums have, but rather multiple implicit, explicit, and symbolic signals that clearly indicate this place is off limits to most of society.

- It is the only neighborhood managed by a state corporation that for 19 years has paid the salaries of public servants and managers to build and maintain a few square meters of park accessible only to that wealthy neighborhood.
- The project has a highly designed urban landscape that contrasts sharply with the brutal poverty in the rest of the city. The parks and amenities are on land already privatized to

ensure that the investments, although made using public funds, benefit only the elite owners of the housing and office high-rise buildings nearby.
- A sophisticated system of cameras and security forces defines and controls access to the overprotected zone.
- All these mechanisms serve to ensure the overvaluation of the properties so that only upper social classes can afford to purchase homes in the area.

In the end, Puerto Madero is a clear demonstration of the regressive distribution of urban planning and public policy: a trouble-free ghetto for the rich.

LAND LINES: *As municipalities continue to compete for outside investments, is it possible to reconcile alternative objectives such as social and environmental priorities?*
EDUARDO REESE: The problem in our cities is not the lack of planning, but the current exclusionary pattern of planning policies. There cannot be one law for the formal city and exceptions for the rest. It is necessary to create a new urban and legal order in Latin America based on the right to the city, the equitable sharing of the benefits of urbanization, and the social function of land ownership.

LAND LINES: *How does the municipality of San Fernando in the Buenos Aires metropolitan area offer an alternative to this approach?*
EDUARDO REESE: San Fernando is located some 30 kilometers (km) north of Buenos Aires, with a land area of 23 square km and a population of 156,000 inhabitants. A 5 km long riverside faces the Río Luján and another part of the city faces the mouth of Río de la Plata, where productive nautical activities are concentrated. This privileged location has high property values and all urban services.

The plan and model of urban land management in the city began in 2003 through an agreement between the municipality and the Conurbano Institute. In 2005, a Lincoln Institute training seminar helped broaden the local debate on land management, which led to a series of major decisions:

- to generate sustainable resources to redirect urban development;
- to recover the culture of public works financed by a tax for improvements;
- to recover land for social housing, urban facilities, and road networks;
- to strengthen the city and municipal administration as innovative actors in implementing public policies; and
- to limit the overvaluation of land by intervening in the market through mechanisms such as new urban planning legislation, instruments to collect the surplus, and a large supply of land for the poor.

The urban policy focused on a set of action strategies including (1) ensuring accessibility to new public spaces for recreational, sports, and commercial purposes on the riverside, especially for the use and enjoyment of the poor; and (2) the comprehensive regularization of the western sector of the municipality, where most poverty is concentrated.

To implement these strategies it was necessary to increase fiscal resources for public investment in two ways: appropriation of the profitability of land use or municipal land on the riverside through the creation of the Consortium San Fernando Marina Park Company (PNSFSA), and participation of the municipality in the surplus generated from municipal tax reform. (PNSFSA is a company created by the municipality of San Fernando to manage the riverside of the northwest sector of the city, defined as Marina Park.)

The experience of San Fernando is based on a set of management tools focused on the redistribution of income to build a more equitable city. Land is considered a key asset within a wider strategy of local development and, therefore, management relies on a broad mix of planning, administrative, economic, fiscal, and legal instruments aimed at strengthening the role of the public sector. The core axis of policies is the search for equity in the distribution of the costs and benefits of urbanization, within the challenging context of growing pressure on land throughout metropolitan Buenos Aires.

LAND LINES: *What could or should be changed in the educational system that trains urban planners?*
EDUARDO REESE: First, it is necessary to incorporate a greater understanding of the functioning of land markets in the present context of developing and shaping cities. Second, a more critical analysis is needed of theoretical, methodological, and technical instruments to undertake the diagnosis and intervention in urban land issues. The 2004 course on Land Markets that I described earlier attempted to develop these kinds of materials to enable students to cover the different scales and dimensions of the problem.

LAND LINES: *What tensions exist between private and public interests in urban planning?*
EDUARDO REESE: This is a critical question because the whole history of urban land management has had a common thread: the rights of private ownership of land and the structure of ownership have always come into conflict with urban planning activity, which is a public responsibility. In that sense, there will always be tension between public and private interests in building the city.

In my view, urban projects in Latin America have the responsibility to contribute not only to the creation of new spaces for public use and enjoyment, employment generation, and environmental sustainability, but also social inclusion, equity in the access to services, and the redistribution of urban rents generated by the project. The four cases mentioned earlier in Chile, Colombia, Brazil, and Argentina show that these benefits are possible in many contexts.

However, many urban projects have been justified as necessary to attract investment and/or consumers and to ensure or reinforce the dynamic competitive advantages of the city. These undoubtedly positive goals are sometimes used as a mechanism to legitimize interventions that deepen the serious socio-spatial segregation of cities. Such adverse effects of the market are not fatal to the city, but are the outcome of perverse political choices.

New Lincoln Institute Book

Conservation Capital in the Americas
Exemplary Conservation Finance Initiatives

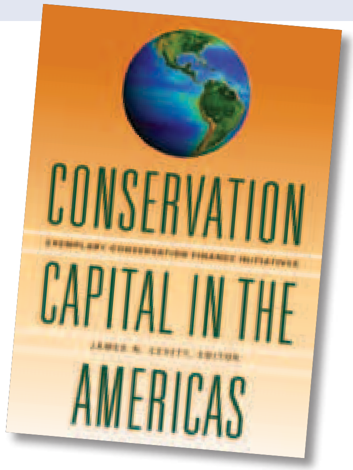
The history of significant advances in conservation and environmental protection reflects ebbs and flows of activity. Over the past 150 years, the United States has seen opportunities arise to create landmark change in conservation and environmental policy and practice every 30 to 40 years. Now, as evidence of global warming becomes ever more undeniable, the entire international community seems poised to take meaningful action to achieve economic, social, and environmental security.

In January 2009, more than 100 conservationists and policy makers assembled for a four-day conference on "Conservation Capital in the Americas." Attendees included senior executives of global conservation groups that had completed deals protecting hundreds of thousands of hectares, as well as first-year college students.

The focus of their conversations is the heart of this book: How do we find the financial capital—as well as the human, social, and natural capital—to steward the earth's resources for this and future generations? Where do we find the money, the talent, and the political will to do the jobs necessary to address complex threats to ecosystems that provide a spectrum of essential services that sustain life?

The answers to these questions are neither simple nor uniform. Carefully crafted solutions will need to fit a dizzying array of local land ownership patterns, political contexts, and economic conditions. New approaches to conservation finance, from the art of conservation deal-making to the practice of sustainable development, are being invented and implemented around the world every day.

The case analyses that form the basis of this book are organized in pairs, with a case from North America and Latin America for each of the seven topics.



Conservation Capital in the Americas: Exemplary Conservation Finance Initiatives
James N. Levitt, editor
2010 / 256 pages / Paper / $30.00
ISBN 978-1-55844-207-8

Ordering Information
Contact Lincoln Institute at
www.lincolninst.edu

Contents

This book is published by the Lincoln Institute of Land Policy, in collaboration with the Ash Institute for Democratic Governance and Innovation at the Harvard Kennedy School, the David Rockefeller Center for Latin American Studies at Harvard University, and Island Press.

ABOUT THE EDITOR

James N. Levitt is director of the Program on Conservation Innovation at the Harvard Forest, Harvard University, and a research fellow at the Ash Institute for Democratic Governance and Innovation at Harvard Kennedy School. Contact: *james_levitt@harvard.edu*

New Lincoln Institute Book

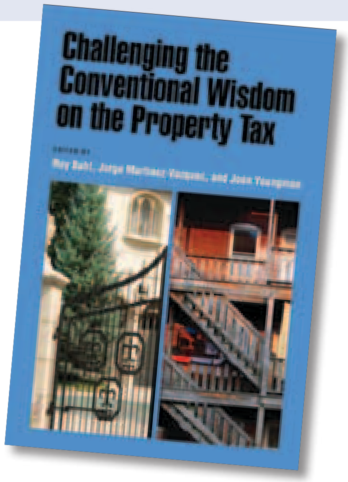
Challenging the Conventional Wisdom on the Property Tax

The future role of the property tax in government finance systems around the world is unclear. Academics, particularly economists, are long-time fans of the property tax and commonly view it as an appropriate and feasible source of local revenue. But, the property tax is highly unpopular among voters and politicians.

To explore this important issue, Joan Youngman, Roy Bahl, and Jorge Martinez-Vazquez hosted a conference in 2006 on the topic "Making the Property Tax Work in Developing and Transitional Countries." A major outcome of that meeting was the realization that more research is needed on issues regarding property taxation that are critical in determining the best form of the property tax in different countries. To that end, a second conference was held in Atlanta in April 2008 titled "What Role for the Property Tax?"

This 2008 gathering compared accepted theories with actual tax practice and experience. Participants took an in-depth look at such issues as how the property tax compares with other taxes in terms of efficiency losses; the political economy of property taxation and land taxation; and what behavioral responses the property tax elicits with respect to location, land use, and a variety of other choices. Several other topics pertain to tax bases, fairness of a market-value tax base, taxing property transactions versus ownership, taxing rental versus capital value, the optimal revaluation policy, and the assignments of revenues and functions for property taxes.

The chapters in this book review the role of the property tax and conventional wisdom in the academic literature and address the reasons for its poor state of affairs in practice. While assessment limits, rollbacks, and even elimination of the property tax are the focus of the U.S. policy discussion, the low rate of property tax collections are an issue in many OECD countries, and the property tax remains a weak revenue source in developing countries. The authors ask whether new reform paradigms might reverse this pattern.



Challenging the Conventional Wisdom on the Property Tax
Edited by Roy Bahl, Jorge Martinez-Vazquez, and Joan Youngman
2010 / 384 pages / Paper / $30.00
ISBN: 978-1-55844-200-9

Ordering Information
Contact Lincoln Institute at
www.lincolninst.edu

There is much room for improvement in the practice of property taxation. This volume suggests policy and administrative reforms that might lead to greater voter confidence and more robust property tax systems in both developed and developing countries.

Contents

ABOUT THE EDITORS

Roy Bahl is Regents Professor of Economics and Founding Dean of the Andrew Young School of Policy Studies at Georgia State University in Atlanta. Contact: *rbahl@gsu.edu*

Jorge Martinez-Vazquez is professor of economics and director of the International Studies Program at the Andrew Young School of Policy Studies at Georgia State University. Contact: *jorgemartinez@gsu.edu*

Joan Youngman is senior fellow and chair of the Department of Valuation and Taxation at the Lincoln Institute of Land Policy. Contact: *jyoungman@lincolninst.edu*

Bahl, Martinez-Vazquez, and Youngman also edited the previous conference book *Making the Property Tax Work: Experiences in Developing and Transitional Countries* (Lincoln Institute of Land Policy 2008; ISBN 978-1-55844-173-6).

New Lincoln Institute Policy Focus Report

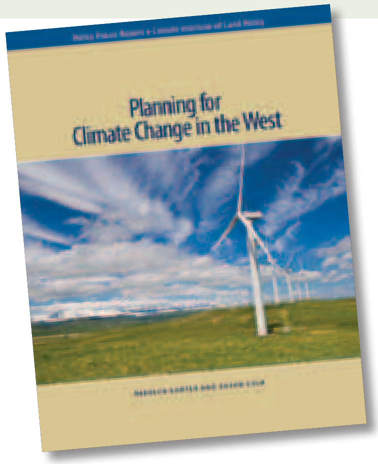
Planning for Climate Change in the West

Primarily arid landscapes link the Intermountain West, which includes all or a portion of 11 states west of the Rocky Mountains. This seemingly boundless region has been shaped since its European settlement by dramatic fluctuations in its water and energy resources, land use patterns, economy, and a climate known for its extremes. Recent trends in all of these forces fueled by rapid growth and change must be altered if the West is to achieve sustainability.

Climate change impacts are expected to wreak particular havoc on this region. Most significant are forecasts that the hydrology of the Intermountain West will become even drier, leading to drought, heat waves, diminished mountain snowpack, earlier snowmelt, catastrophic wildfires, and disruptions to natural processes and wildlife habitat. The rate of these effects will dictate whether communities try to reduce or mitigate the impacts, by decreasing greenhouse gas (GHG) emissions, or adapt after the fact by handling climate change impacts as best they can.

This report underscores the critical role of local planners in the Intermountain West in confronting challenges posed by climate change and acting in concert with federal, regional, and state efforts to implement mitigation and adaptation policies. Of particular value for western planners are state-produced climate action plans that can guide local actions. These state plans contain myriad policy options that not only quantify potential GHG emissions reductions, but also provide specific policy language and cost-effectiveness measures.

While policies at the federal, regional, and state levels serve as important guideposts for reaching sustainability, they require local implementation to be successful. In most communities, land use and transportation policies potentially reap the greatest rewards. An array of familiar smart growth strategies for creating healthier communities now double as climate solutions: building codes and standards, compact mixed-use development, transportation alternatives, distributed and renewable energy, water resource consumption and planning, preservation of open space and agriculture, and mitigation of wildfire impacts.



Planning for Climate Change in the West
Rebecca Carter and Susan Culp
2010 / 56 pages / Paper / $15.00
ISBN 978-1-55844-203-0
Policy Focus Report / Code PF024

Ordering Information
Contact Lincoln Institute at
www.lincolninst.edu

Planners in all regions may face obstacles to implementing climate mitigation and adaptation policies, but these barriers are especially difficult to overcome in the Intermountain West where political, demographic, economic, and geographic factors that can hinder innovative and potentially effective measures to offset climate change impacts.

This report encourages planners to take an active role in overcoming obstacles by taking positive steps to integrate climate-oriented policies into their land use and development agendas as follows:

- ***Mobilize the political will.*** Focus on sustainability, economic and energy efficiency, and the co-benefits of local actions, rather than politically controversial policies and goals.
- ***Recognize local action and citizen participation.*** Coordinate state and local activities to address climate change, and use public education about climate change impacts to foster citizen participation and buy-in for local programs.
- ***Establish peer community networks on a regional scale.*** Develop peer learning networks with guidance from state climate action plans and regional initiatives to help smaller communities learn from each other.
- ***Identify resources and a variety of options.*** Refer to state climate action plans region-wide for a variety of strategies and ideas that communities can select and apply to their own needs and circumstances.
- ***Adapt climate science to local planning needs.*** Seek out current information and tools in reports, Web sites, and other resources that can help planners translate available climate science for local use, and develop a baseline level of GHGs as a first step in measuring climate strategies and results.

Local planners in the Intermountain West face both the challenge and the opportunity to ensure a sustainable future for the region, where the need to respond to potential climate change impacts is particularly urgent. This report presents a regional context and reliable data, case studies, and planner-recommended guidelines for western communities to spur local actions that can minimize those threats.

ABOUT THE AUTHORS

Rebecca Carter is a foreign service environment officer with the U.S. Agency for International Development being posted to Indonesia. She was formerly the adaptation manager for ICLEI-Local Governments for Sustainability, USA, and climate change analyst for the Sonoran Institute.

Susan Culp is a project manager at the Sonoran Institute in Phoenix, Arizona. She is responsible for managing research and policy analysis projects for Western Lands and Communities, a joint venture partnership with the Lincoln Institute. Contact: *sculp@sonoraninstitute.org*

Assessing the Theory and Practice of Land Value Taxation

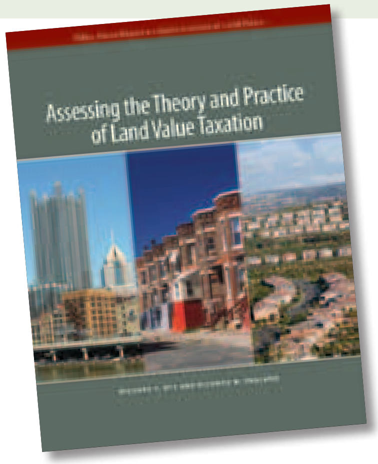
The land value tax is a variant of the property tax that imposes a higher tax rate on land than on improvements, or taxes only the land value. Many other types of changes in property tax policy, such as assessment freezes or limitations, have undesirable side effects, including unequal treatment of similarly situated taxpayers and distortion of economic incentives. Land value taxation would enhance both the fairness and the efficiency of the property tax.

Raising the tax rate on land has few undesirable effects, while lowering the rate on improvements has many benefits. Land is effectively in fixed supply, so an increase the tax rate on land value will raise revenue without distorting the incentives for owners to invest in and use their land. By contrast, the part of the property tax on structures discourages investment.

The burden of the tax on land falls entirely on landowners, who have no opportunity to shift the tax to others (such as renters). The land value tax is neutral with respect to the choice of when to develop a parcel and the density of its development, whereas the taxation of improvements is likely to increase low-density sprawl.

More than 30 countries around the world have implemented land value taxation, so it is not a utopian proposal. In the United States, experience with land value taxation dates back to 1913, when the Pennsylvania legislature permitted Pittsburgh and Scranton to tax land values at a higher rate than building values. A 1951 statute gave smaller Pennsylvania cities the same option to enact a two-rate property tax. While most municipal governments in the state have not adopted two-rate taxation, and a few have tried and then rescinded it, about 15 communities currently use this type of tax program.

The State of Hawaii also has experience with two-rate taxation, and in recent years the Commonwealth of Virginia and State of Connecticut have authorized a few municipalities to choose a two-rate property tax, though none of those communities has yet adopted it.



Assessing the Theory and Practice of Land Value Taxation
Richard F. Dye and Richard W. England
2010 / 36 pages / Paper / $15.00
ISBN 978-1-55844-204-7
Policy Focus Report / Code PF025

Ordering Information
Contact Lincoln Institute at
www.lincolninst.edu

There is strong theoretical support for land value taxation, in particular for reducing the tax on real estate improvements, and real-world experience offers evidence that has been used to test the economic theory supporting the land value tax. A number of studies have attempted to draw statistical comparisons between jurisdictions with and without land value taxation, or before and after the adoption of land value taxation, although the results are generally inconclusive.

Legal and assessment challenges to land value taxation also exist, but they are not insurmountable. Since property taxation in the United States is within the purview of local governments as permitted by the laws of each state, implementation of land value taxation in any state outside of Pennsylvania would require new statutory authority, and in some cases a constitutional amendment.

A land value tax also raises administrative issues. The land and improvements of each parcel need to be assigned a taxable value in a timely and accurate fashion. The good news is that administrative policy and professional standards already require most tax assessors to report separate values for land and improvements. The cautionary news is that this information is not always accurate. A successful two-rate property tax system would require regular assessments of land and improvements using best practices.

Land value taxation is an attractive alternative to the traditional property tax, especially to much more problematic types of property tax measures such as assessment limitations. This report recommends consideration of the following features as part of a tax reform package:

- measures to guarantee best practices by local assessing officials and frequent reassessment of taxable properties;
- phase-in of dual tax rates over several years in order to reduce the immediate negative impact on some property owners; and
- inclusion of a tax credit feature in those communities where land-rich but income-poor citizens might suffer from land value taxation.

ABOUT THE AUTHORS

Richard F. Dye is a visiting fellow at the Lincoln Institute. He is professor at the Institute of Government and Public Affairs at the University of Illinois at Chicago and the Ernest A. Johnson Professor of Economics Emeritus at Lake Forest College in Illinois. His research focuses on state and local government finance as it relates to economic development. Contact: *dye@lakeforest.edu*

Richard W. England is also a visiting fellow at the Lincoln Institute, and professor of economics and natural resources at the Whittemore School of Business and Economics, University of New Hampshire. His recent research has examined how local property taxation and zoning rules affect land use change in the United States. Contact: *rengland@lincolninst.edu*

WORKING *papers*

The Lincoln Institute supports research fellows and other collaborators who document their research in working papers that are posted on the Institute Web site for free downloading (*www.lincolninst.edu/pubs*).

More than 630 working papers are currently available, including the results of Institute-sponsored research, course-related materials, and occasional reports or papers cosponsored with other organizations. Some papers by associates affiliated with the Institute's Latin America and China programs are also available in Spanish, Portuguese, or Chinese. The following papers have been posted since October 2009.

United States Programs

Rosalind H. Bark
Assessment of Climate Change Impacts on Local Economies

Michael Cox, Gwen Arnold, and Sergio Villamayor Tomas
Design Principles Are Not Blue Prints, but Are They Robust? A Meta-analysis of 112 Studies

Timothy F. Green and Robert B. Olshansky
Homeowner Decisions, Land Banking, and Land Use Change in New Orleans after Hurricane Katrina

David Metz and Curtis Below
Local Land Use Planning and Climate Change Policy: Summary Report from Focus Groups and Interviews with Local Officials in the Intermountain West

Latin America Program

Ciro Biderman
La informalidad en Brasil: ¿Tienen importancia las reglamentaciones sobre el uso de la tierra y la edificación?
(Posted in English in 2008)
Informality in Brazil: Does Urban Land Use and Building Regulation Matter?

Roberto Briceño-León
Libertad para Alquilar en la Vivienda Informal de Caracas
(Posted in English in 2008)
Freedom to rent in the informal housing sector of Caracas

Andrea Carrión
Gestión del crecimiento suburbano: Cambios en el uso del suelo y el mercado del suelo en el área de influencia del Nuevo Aeropuerto Internacional de Quito, Ecuador
(Posted in English in 2009)
Management of Suburban Growth: Changes in Land Use and the Real Estate Market in the Area of Influence of the New International Airport of Quito, Ecuador

Rubens Alves Dantas, André Matos Magalhães, José Raimundo de Oliveira Vergolino e José Luiz Portugal
Uma análise espacial do impacto das intervenções urbanas na cidade do Recife sobre os preços dos terrenos no período de 2000–2006
(Posted in English in 2008)
A spatial analysis of the impact on land prices of urban zoning regulations in the city of Recife from 2000 to 2006

N. Ariel Espino
El desarrollo de viviendas de interés social en el centro histórico de la ciudad de Panamá: Hacia nuevos modelos de desarrollo económico e integración social.
(Posted in English in 2008)
Development of Affordable Housing in the Historic Center of Panama City: Searching for New Models of Economic Development and Social Integration

Vladimir Fernandes Maciel
Transport Infrastructure Investment: Assessing the Short-Run Effects of São Paulo's Beltway ('Rodoanel') on Land Prices

Emilio Haddad
Pesquisa sobre os novos procedimentos em processos judiciais de desapropriação do Poder Judiciário da Comarca de São Paulo.
(Posted in English in 2008)
New Judicial Procedures for Eminent Domain Cases in São Paulo, Brazil

Jorge A. Perdomo-Calvo, Camilo A. Mendoza-Álvarez, Juan Carlos Mendieta-López, y Andrés Francisco Baquero-Ruiz
Investigación sobre el Impacto del Proyecto de Transporte Masivo TransMilenio sobre el Valor de las Propiedades en Bogotá, Colombia
(Posted in English in 2008)
Study of the Effect of the TransMilenio Mass Transit Project on the Value of Properties in Bogotá, Colombia

José Luiz Portugal, Rubens Alves Dantas, Lucilene Antunes Correia Marques de Sá, e João Freire Prado
Inferência espacial e geoprocessamento como instrumentos de apoio para o cálculo da contribuição de melhoria em Aracaju, Brasil
(Posted in English in 2009)
Spatial Inference and Geostatistics as Instruments of Support for Calculation of Betterment Levy in Aracaju, Brazil

José Luiz Portugal, Rubens Alves Dantas, João Freire Prado
Análise espacial do impacto do Projeto Orla sobre os preços dos terrenos na Praia de Atalaia – Aracaju – Sergipe – Brasil
(Posted in English in 2009)
A Spatial Analysis of the Impact of the Orla Project on Land Prices in Praia de Atalaia, Aracaju, Sergipe, Brazil

Vera F. Rezende, Fernanda Furtado, Maria Teresa C. Oliveira e Pedro Jorgensen
Revisão bibliográfica comentada dos fundamentos da Outorga Onerosa do Direito de Construir – OODC
(Posted in English in 2009)
Review of the Literature on the Foundations of Outorga Onerosa do Direito de Construir (OODC): The Sale of Building Rights in Brazil

Maria Teresa Souza
El efecto de la reglamentación del uso de la tierra sobre el precio de las viviendas y la informalidad: un modelo aplicado a Curitiba, Brasil
(Posted in English in 2009)
The Effect of Land Use Regulation on Housing Price and Informality: a Model Applied to Curitiba, Brazil

Maria Camila Uribe y Juan Carlos Bejarano
Bibliografía anotada sobre el impuesto a la propiedad inmobiliaria en América Latina
(Posted in English in 2009)
Annotated Bibliography on Property Tax in Latin America

DAVID C. LINCOLN FELLOWSHIPS, 2009–2010

The David C. Lincoln Fellowships in Land Value Taxation were established in 1999 to develop academic and professional interest in this topic through support for major research projects. The fellowship program honors David C. Lincoln, founding chairman of the Lincoln Institute, and his long-standing interest in land value taxation. The program encourages scholars and practitioners to undertake new work in this field, either in the basic theory of land value taxation or its applications. These research projects add to the understanding of land value taxation as a component of contemporary fiscal systems in countries throughout the world.

The deadline for the next application process is September 15, 2010. For more information, visit the Web site at *www.lincolninst.edu/education/dcl_fellowships.asp*.

Leah Brooks
Assistant Professor
Department of Economics
University of Toronto, Ontario, Canada
Byron Lutz
Economist, Fiscal Analysis Section
Division of Research and Statistics
Federal Reserve Board of Governors
Washington, DC
Estimating the Regulatory Land Tax in Boom and Bust

Seong-Hoon Cho
Assistant Professor
Department of Agricultural Economics
University of Tennessee, Knoxville
Dayton M. Lambert
Assistant Professor
Department of Agricultural Economics
University of Tennessee, Knoxville
Roland K. Roberts
Professor
Department of Agricultural Economics
University of Tennessee, Knoxville
Moderating Urban Sprawl through a Two-Rate Property Tax

Jeremy R. Groves
Assistant Professor
Department of Economics
Northern Illinois University, DeKalb
Estimating the Responsiveness of Residential Capital Investment to Property Tax Differentials

Nicolai V. Kuminoff
Assistant Professor
Department of Economics
Arizona State University, Tempe
Jaren C. Pope
Assistant Professor
Department of Agricultural and Applied Economics
Virginia Tech, Blacksburg
Boom-Bust Implications for Property versus Land Value Taxation

Elizabeth Plummer
Associate Professor
Department of Accounting
Neeley School of Business
Texas Christian University, Fort Worth
The Effect of Land Value Ratio on Property Tax Protests and the Resulting Effects on the Assessment Uniformity of Land Values

KINGSBURY BROWNE FELLOWSHIP

Jamie Williams, director of The Nature Conservancy's Northern Rockies Initiative and a pioneer in collaborative conservation work in the West, received the Land Trust Alliance's fourth annual Kingsbury Browne Conservation Leadership Award in October 2009, to recognize his outstanding leadership and innovation in land conservation.

He was also named to serve in the Lincoln Institute's Kingsbury Browne Fellowship for 2009–2010. The fellowship was established in association with the Land Trust Alliance in 2006. Winners are chosen from a group of their peers to honor their contributions to the field of land conservation and to support researching, writing, and mentoring in the profession. Both awards were presented in Portland, Oregon at the Land Trust Alliance's Rally 2009, the largest annual conference of professional and volunteer conservation leaders in the country.

A graduate of Yale University and the Yale School of Forestry and Environmental Studies, Williams is a former instructor for the National Outdoor Leadership School (NOLS) and a river guide. He joined The Nature Conservancy in 1992 as its Northwest Colorado program manager, and has earned a reputation for setting the standard for "community-based" conservation. He later became the Montana state director for nine years, where he focused on conserving the state's largest, most intact landscapes through strong community programs and private-public partnerships.

Kingsbury Browne (1922–2005) was a fellow at the Lincoln Institute in 1980 when he first envisioned a network of land trusts and convened a group of conservation leaders who formed the national Land Trust Exchange (later renamed the Land Trust Alliance) in 1982.

GRADUATE STUDENT APPLICATION DEADLINES

Dissertation Fellowships

The Lincoln Institute's Dissertation Fellowship Program supports doctoral students whose work focuses on land use planning, land markets, and land-related taxation policies in the United States and selected other parts of the world. The program provides an important link between the Institute's educational mission and its research objectives by supporting scholars early in their careers.

The Institute will award a limited number of fellowships of $10,000 each for the 2011 fiscal year, starting July 1, 2010. To download a copy of the application guidelines and forms, and to learn about the work of current fellows, visit the Institute's Web site at *www.lincolninst.edu/education/fellowships.asp*. An electronic version of the complete application must be received at the Lincoln Institute by the March 1, 2010 deadline.

International Student Fellowships

The Institute's Program on Latin America and the Caribbean will offer a new online thesis forum to support selected master's and dissertation candidates during the 2010–2011 academic year, instead of its traditional fellowship program. Applications for this forum will be accepted during the summer of 2010, and selections will be announced in the fall. For more information, contact *lac@lincolninst.edu*.

Through the Peking University–Lincoln Institute Center for Urban Development and Land Policy, the China Program awards fellowships to master's and doctoral students residing in and studying land and tax policy in the People's Republic of China. The application deadline is April 15, 2010. For more information, see the Peking University–Lincoln Institute Center Web site: *http://plc.pku.edu.cn*.

Courses and Conferences

The education programs listed here are offered as open enrollment courses for diverse audiences of elected and appointed officials, policy advisers and analysts, planning and development practitioners, business and community leaders, scholars and advanced students, and concerned citizens.

For more information about the agenda, faculty, accommodations, tuition, fees, and registration procedures, visit the Lincoln Institute Web site at *www.lincolninst.edu/education/courses.asp*.

Programs in the United States

NATIONAL COMMUNITY LAND TRUST ACADEMY

John Davis, CLT Academy Dean, Burlington Associates in Community Development

The Lincoln Institute and the National Community Land Trust Network joint venture provides comprehensive training on theories and practices unique to community land trusts. The CLT Academy promotes public understanding of the CLT model, sets a high standard for practitioner competence, and supports research and publication on evolving practices.

A community land trust is a means to allow community-based nonprofit organizations to own land and then lease it to building owners. Future increases in the value of the land remain with the CLT and do not affect the value of the buildings, so the housing remains affordable over time.

These sessions are offered in New Orleans, Louisiana, jointly with the NeighborWorks Training Institute. For more information, go to *www.cltnetwork.org*.

MONDAY–TUESDAY, MARCH 1–2

CLTs: Creating Permanently Affordable Housing

This course is a comprehensive overview of the nuts and bolts of the community land trust model: What are the key decisions in starting a CLT? How are CLTs structured and governed? How do they operate? And why are so many communities turning to CLTs as their preferred community development and affordable housing strategy? Participants will learn how CLTs seek to balance the seemingly competing goals of providing homeowners with a fair return on their housing investment while seeking to assure that housing is kept affordable for future occupants of limited means.

WEDNESDAY, MARCH 3

Financing Owner-Occupied CLT Homes

Participants explore various ways of structuring public subsidies so as not to interfere with the private financing of CLT homes or undermine the CLT's stewardship of land and preservation of affordability. Participants examine mortgage financing options for CLT home buyers and learn how to negotiate with banks to secure terms that protect both the borrower and the CLT.

THURSDAY–FRIDAY, MARCH 4–5

The Post-Purchase Stewardship of CLT Homes

Participants examine the challenges that face a CLT in managing an expanding portfolio of resale-restricted, owner-occupied housing after these homes are sold. Among the topics are contractual responsibilities of the CLT; monitoring and managing resales; promoting sound maintenance; and preventing foreclosures in good and bad economic times. Participants are expected to have a working knowledge of the CLT model and to have reviewed the "model" CLT ground lease, which is posted on the CLT Network's Web site at *www.cltnetwork.org*.

Programs in Latin America

MONDAY–FRIDAY, FEBRUARY 1–5

Quito, Ecuador

Value Capture in Latin America

Martim Smolka, Lincoln Institute of Land Policy; Diego Austelia, National Development Bank of Ecuador (BEDE)

This course on capacity building for financial and management operation of municipalities in Ecuador aims to train staff on topics such as fiscal, regulatory, and participatory value capture instruments; their legal and economic justifications; and institutional design and political factors to ensure implementation.

FEBRUARY 9–MAY 7

Rotterdam, The Netherlands

Land Development Strategies

Martim Smolka, Lincoln Institute of Land Policy; Carlos H. Morales Schechinger, Institute for Housing and Urban, Rotterdam

The course is introductory yet comprehensive in scope. The themes are land and economics, sociology, politics, management, and methods. Participants will become acquainted with criteria for designing a strategy to cope with land-related problems in cities. A wide range of land instruments will be discussed, including how to evaluate their impact and select those most coherent for an overall strategy.

MONDAY–FRIDAY, MARCH 22–26

Rio de Janeiro, Brazil

World Urban Forum 5

Lincoln Institute of Land Policy; UN-HABITAT

The Forum brings together thousands of government leaders, ministers, mayors, diplomats, members of national, regional and international associations, local officials, representatives of nongovernmental and community organizations, academia, women's organizations, youth, and slum dwellers groups. The fifth session in Rio builds on the lessons and successes of the previous four events. The Lincoln Institute will be involved in training and network events and will host an exhibit booth.

THURSDAY–SATURDAY, APRIL 15–17

Rosario, Argentina

An Interdisciplinary Vision of Planning, Management and Social Inclusion

Martim Smolka, Lincoln Institute of Land Policy; Analía Antik, National University of Rosario, Argentina.

This international conference approaches the urban law–land policy nexus from an interdisciplinary perspective. Topics include urban planning models geared toward building inclusive cities; instruments for urban management at the local, provincial, and parliamentary levels; the legal framework for land policy; value capture; gated communities; and democratization of access to urban land, including regularization of land occupation.

MONDAY–FRIDAY, APRIL 25–30

San José, Costa Rica

Comparative Analysis of the Property Tax

Martim Smolka, Lincoln Institute of Land Policy; Claudia De Cesare, Prefeitura de Porto Alegre, Brazil; Olman Rojas, Programa de Regularización de Registro Catastral, Costa Rica

This course for senior management on the Latin American and global debate on property taxation focuses on real estate taxation in Costa Rica. It offers opportunities to share experiences and views on practical aspects of tax administration, such as cadastre structure and maintenance, property valuation procedures for tax purposes, equity control of appraisals, and strategies to avoid tax evasion.

What's New on the Web

Land and Property Values in the United States

www.lincolninst.edu/subcenters/land-values

This database contains information on the values and rents of residential properties in the United States in four dimensions.

RENT-PRICE RATIO. Quarterly data, starting in 1960, provide the average ratio of estimated annual rents to house prices for the aggregate stock of all owner-occupied housing in the United States. The rental data are gross and do not account for income taxes or depreciation.

AGGREGATE U.S. LAND PRICES. This section contains three sets of estimates of the price and quantities of land, structures, and housing used for residential purposes. In all data sets, the land price and quantity data are derived from data on housing values and estimates of structure costs using price indexes for housing and construction costs.

LAND PRICES BY STATE. Estimates for 50 U.S. states and the District of Columbia include the prices and quantities of residential housing and its two components, land and structures. The data are all in nominal dollars (not in constant dollars adjusted for inflation) and reported quarterly from the first quarter of 1975 to the latest available quarter.

METRO AREA LAND PRICES. Estimates of the average values and price indexes are available for land, structures, and housing for single-family, detached, owner-occupied housing units in 46 major U.S. metropolitan areas. The dataset is quarterly spanning the 1984:4–2009:1 period.

Land and Housing Prices for 46 Metropolitan Areas

Midwest
Buffalo
Chicago
Cincinnati
Cleveland
Columbus
Detroit
Indianapolis
Kansas City
Milwaukee
Minneapolis
Pittsburgh
Rochester
St. Louis

Southeast
Atlanta
Birmingham
Charlotte
Memphis
Tampa

Southwest
Dallas
Denver
Fort Worth
Houston
New Orleans
Oklahoma City
Phoenix
Salt Lake City
San Antonio

East Coast
Baltimore
Boston
Hartford
Miami
New York
Norfolk
Philadelphia
Providence
Washington, DC

West Coast
Los Angeles
Oakland
Portland
Sacramento
San Bernardino
San Diego
San Francisco
San Jose
Santa Ana
Seattle

The database was created and is updated by Morris A. Davis, a faculty member in the Department of Real Estate and Urban Land Economics in the School of Business at the University of Wisconsin–Madison. Davis is also a fellow of the Lincoln Institute of Land Policy. Contact: *mdavis@lincolninst.edu*

LINCOLN INSTITUTE
OF LAND POLICY
113 Brattle Street
Cambridge, MA 02138-3400
USA

Non-Profit Org.
U.S. Postage
PAID
Boston, MA
Permit No. 57852

RETURN SERVICE REQUESTED

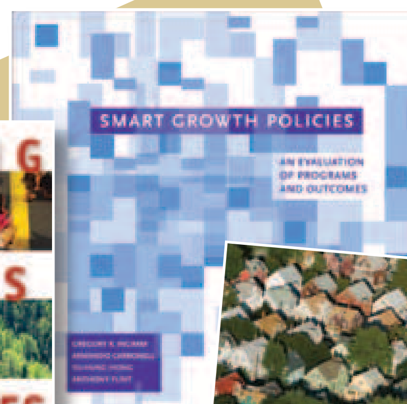
Land Lines
JANUARY 2010

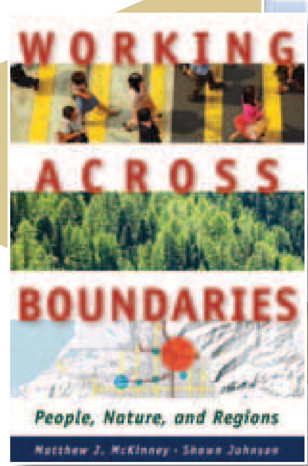
Adopt a Book

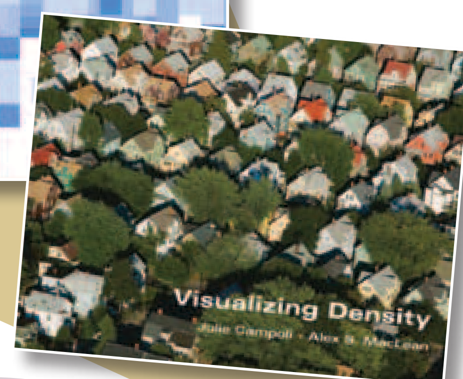
The Lincoln Institute of Land Policy publishes books, policy focus reports, and films that may be appropriate for use in college and graduate school courses on urban planning, public finance, property rights, and other subjects. Our newest titles are announced on pages 22–25 of this *Land Lines* issue, and other recent books are highlighted here. Refer to the Web site for listings of all publications and films that are available for course adoption.

Faculty can request a complimentary exam copy of any title for review, and then decide to order it for classroom use. Contact Marissa Benson to place your order and learn about the terms and conditions: *mbenson@lincolninst.edu*.

Urban Planning, Policy, and Practice







Urban Economics and Property Taxation