Land Value Capture—Practice and Prospects

Land value capture is now a popular topic among practitioners of local public finance—in part because the recession-related decline in local government revenues has piqued interest in new revenue sources, and in part because of the need for new ways to finance local infrastructure that has been degraded by underinvestment. The Lincoln Institute's sixth annual land policy conference in May 2011 addressed many aspects of value capture, drawing on both international and domestic experience.

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Basics of Value Capture

Changes in the value of land often result from factors unrelated to the efforts of the landowner: actions by the community in the form of infrastructure investments; nearby growth in industrial, commercial, residential, or recreational activity; zoning that permits the owner to develop the land; or the incremental growth of the community. Value capture applies a tax or fee designed to return to the community some or all of the value added to land by community actions. Its application is particularly attractive when public investment—for roads, water supply, sanitation, or even local amenities such as street lights—increases property values.

International Experience

Land leasing. Perhaps the broadest and most comprehensive application of value capture is in China, where municipalities buy agricultural land from farmers at agricultural use prices, service it with infrastructure, and sell it to developers as urban land with permits for urbanization projects. The difference in price between the land's urban and agricultural values accrues to the municipality, provides a large share of local revenue, and pays for the installed infrastructure.

Co-development. Transit companies in Hong Kong and Tokyo have used revenues from the co-development of residential communities and commercial areas around new transit stations to help finance their costly projects. In Tokyo nonfare revenue is 30 to 50 percent of total revenue for some transit lines. In both cities ongoing revenue from property management is becoming more important than profits from development projects and provides a sustainable income stream.

Development taxation. Attempts to tax betterment values in the United Kingdom began in 1909, but implementation was impeded by valuation and other challenges. Direct betterment levies were replaced by contracts with local authorities under which developers contribute to infrastructure and service provision, affordable housing, and other planning obligations. These contracts are evolving into community infrastructure levies, a betterment levy by alternative means. Following a different historic path, France also has a local infrastructure tax on new development.

Land pooling. India has experimented with land pooling in its implementation of new town planning schemes that replace the old master plans. The practice encourages owners of undeveloped or haphazardly developed land to pool their plots together and then receive a serviced parcel or constructed space when the development is completed. Ahmedabad's approach uses 15 percent of the land for roads, 10 percent for parks, 15 percent for auction to others, and 60 percent for the pool members.

United States Experience

Among the specific U.S. policies that embody value capture are special assessment areas that often include betterment charges. For example, Community Facilities (or Mello-Roos) Districts apply fees paid by residents to retire bonds sold to finance developmental infrastructure. Business Improvement Districts and Tax Increment Finance schemes use earmarked tax or fee revenue from a designated area to fund improvements. Privately negotiated Community Benefit Agreements obligate developers to provide community facilities or economic benefits for local residents. Citywide development and impact fees used to finance infrastructure and related development investments are normally cost-based, but succeed only when the betterment value exceeds the cost.

Most notable about the U.S. experience is that the terms—betterment levies or value capture—are used rarely, even though their principles are practiced widely. Moreover, this country can learn some new value capture approaches from international experience.

The conference volume with papers and commentaries by more than 25 contributors will be published in May 2012.