Land Value Capture: Building Interest

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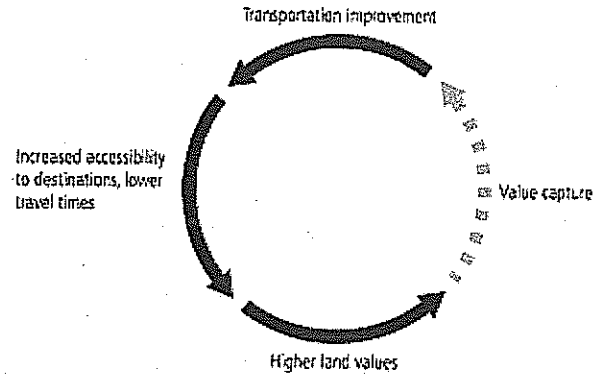


Once you have land values on your radar, they are hard to ignore. There is a growing understanding of the role they play in society, both from a public and private perspective. Here are a few recent tastings that have come to my attention:

Terry Ryder, Property specialist and journalist states: Increasingly I find transport infrastructure the most powerful creator of price growth in residential property. This is confirmed by research from multiple sources in recent years, which shows homes close to public transport services tend to grow faster in value than the norm. (The Australian, Aug 18, 2011)

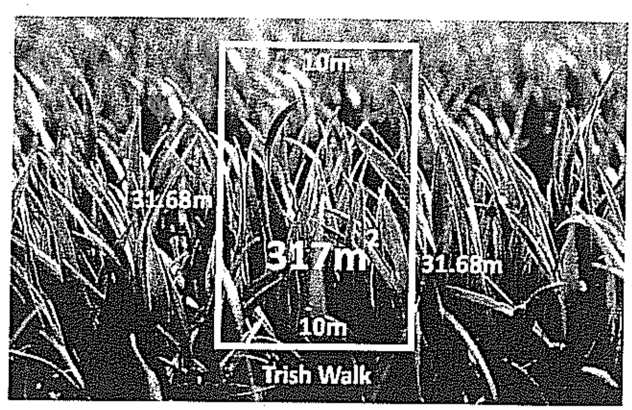
UDIA Gold Coast president Steve Harrison revealed: "There's a handful of smart developers who have actually grabbed land around each of the stations -- they're waiting to see the pushback from council." (Goldcoast.com.au, Sept 26th, 2010)

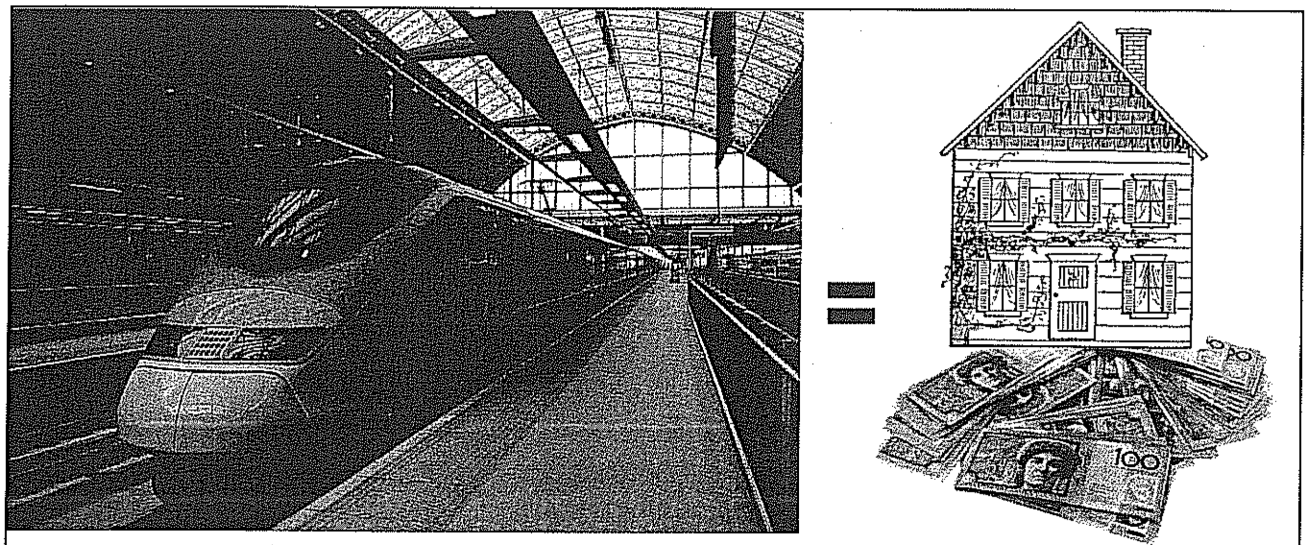
"Massachusetts developer Frank McCourt used the increased value of his Seaport District properties – from roughly $10 million to $200 million – to help finance his acquisition of the Los Angeles Dodgers. In a recent conference on value capture, Richard Henderson, an executive involved in the Seaport District's transformation, described the investments as 'a tremendous boon to the landowners in the area.'" (Smart Growth America, June 30, 2011)

Academia are stepping up with various studies on behalf of the public interest:

... [We] found that within 1/4 mile of one of Philadelphia's 54 branches, the value of a home rose by $9,630. Overall, Philadelphia's public libraries added $698 million to home values—which in turn generated an additional $18.5 million in property taxes to the City and School District each year. That benefit alone recouped more than half of the city's investment. (p8, The Economic Value of The Free Library In Philadelphia, Fels Institute of Government, 2010)

"... Research into quantifying park quality continues; in the interim we have chosen to assign the conservative value of 5 percent as the amount that parkland adds to the assessed value of all dwellings within 500 feet of parks. (The preponderance of studies has revealed that excellent parks tend to add 15 percent to the value of a proximate dwelling) " (p8, Measuring the Economic Value of a City Park System, Harnik and Welle, 2009)





The High Speed Rail 2 project in the UK, linking Leeds to London has been estimated to add £1000 to property values in Leeds, per minute of reduced commute time.

Land Value Capture Primer

Infrastructure adds enormous value to land in prime locations according to proximity and serviceability.

Land Value Capture (LVC) is a simple technique to recycle the publicly funded windfall gains that accrue to land owners. Importantly, these windfalls are captured over the life-cycle of the infrastructure, such that one generation is not hit with the total infrastructure costs (ie as per the current preference for Developer charges).

How it works:

Macro:

- Government bonds finance the infrastructure project.
- Infrastructure proposal announced = windfall gains for nearby landowners
- Yearly land valuations quantify the windfall gain.
- Land Value Capture (a subset of Land Taxes) ensures the public receive a share of the increase.
- Over time (20 years) this higher government income repays the government bonds.

Micro:

- Fixed costs are covered by LVC.
- Marginal costs are covered by marginal revenue (ie ticket sales on a train).

Political machinations:

A Metropolitan Regional Improvement Tax, similar to Perth's, could be included in the Federal tax mix. However, it must be set at a higher rate than the 0.14% rate that the Western Australian government has used to provide Australia's most modern PT system.

If taken to its logical conclusion, revenue from this Betterment Levy type charge could be used to fund the abolition of payroll tax and stamp duties at the state level. We propose a change in the tax mix so that future infrastructure pays for itself by expanding the tax base without increasing the tax burden. The Henry Review quoted "A recent OECD report found that a 1 per cent switch to land or property tax (but not to taxes on transactions) away from income tax would improve long-run GDP per capita by 2.5 percentage. points (Johansson et al. 2009)."

Examples of LVC:

- MTRC – Hong Kong: has returned dividends for the last decade, dispelling the myth that PT can never be profitable.
- Japanese Railway East – efficiencies of LVC have enhanced profitability (ticket prices have remained at 1987 prices.)

We should take stock of how past generations financed public transport:

- Glen Waverly Station (Vic): How did they do it? Residents were asked and agreed to donate £30,000 worth of land (1925) to build the train station and rail line. Additionally, they were asked to pay a Betterment Levy of £10,000 per annum to cover the first five years operational costs. (http://tinyurl.com/3kb2kjo)
- Sydney Harbour Bridge – 30% financed by council rates on the land only component.

What we are asking:

Windfall gains from infrastructure add up to several times the cost of the infrastructure to surrounding properties. We propose that a sufficient contribution from this windfall be recycled back to the government so that other infrastructure projects can be funded without substantially burdening one generation over another.

At present land speculators baulk at paying barely 10% of the land bounty (windfall gain) back to the community via government's Land Tax, Council Rates, Stamp Duties and Capital Gains. This abstinence from the public good is limiting government at all levels from funding infrastructure. The LVC rate can be set so that landowners still receive the majority of gains.

Consider:

Northbridge railway redevelopment in central Perth – 50,000 square metres of prime commercial land will be made available by the Rudd government's recent Federal Budget infrastructure initiative (and local WA government efforts). At present it seems that the plan is to sell this prime location to private interests by moving the station underground. It would be in the community's best interests if the government could lease the land to private interests so they capture the upkick in land values over future years.

For example, the Northbridge railway station tunnel development has a Federal budget of $236 million. Conservatively estimated at $3000 p/square metre, this would see the site worth $150m in today's figures. With an average 6% growth rate in land values, this would see all such site holders pay the majority of the $236m back in just 7 years. Land values would no doubt have grown by more than 6% p.a since the infrastructure announcement. Seven years is perhaps too fast a repayment. Sharing the infrastructure costs over a 20 year lifetime would see multiple owners contribute for the received benefit.

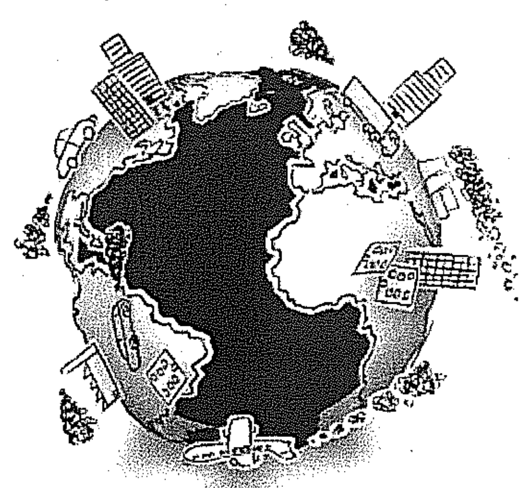
In summary, government bonds finance the initial investment. Land owners pay the community back for the new services over the lifetime of the asset. Such a LVC system would also keep a lid on land prices (the extent reliant upon the rate set at). With land comprising over 70% of a mortgage, the reduced land-based interest payments would assist the creative small business Perth needs to compete with Fremantle. By widening the tax base, more Infrastructure Australia proposals could get off the ground.

Advantages:

- Common sense: Those that benefit, pay
- Can be revenue neutral
- Cheaper public transport ticket prices
- Widens tax base
- Expands public transport and public services as financed with minimum leakage
- Spreads load over the entire community, rather than slugging commerce (ie trucks on tollways)
- Encourages walkable communities by providing a disincentive for land speculation
- Can prevent future GFC's by deterring land speculation

Resources:

- Wheels of Fortune – Fred Harrison (available in our bookshop or free to download)
- http://tinyurl.com/3p8f4vd
- Scottish governments LVC review
- http://tinyurl.com/4xh7kb8
- Scottish list of global LVC report references
- http://tinyurl.com/3t38fub
- Taken for a Ride (Jubilee Train line)
- http://tinyurl.com/3tdeyy6
- Adequacy of Land Value Capture for the funding of infrastructure – Gavin Putland
- http://tinyurl.com/3gvyt8b
- Betterment Levy – Steven Spadijer
- http://tinyurl.com/3rgwalm
- Wiki page on LVC
- http://tinyurl.com/3oggpmp
- Value capture: an innovative strategy to fund public transportation projects
- http://tinyurl.com/449sr9z
- Developers Map of Sydney
- http://tinyurl.com/qtx3mg



Pic: growthandjustice.com