

# FI-H01

## LAND VALUE CAPTURE FRAMEWORK



This Knowledge Product is intended to be used as a process toolkit available online on the GPSC's TOD website and the World Bank's TOD CoP website. The reader should first review the summary presented below before exercising the tool in detail.

*Type: Step-by-Step Guide*



# INTRODUCTION

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Land Value Capture (LVC) has been categorized as a profound means for routing revenue from development potential of land. It refers to a broader term, generally used for a policy approach of sharing increases in land values (generated by urbanization, public infrastructure projects, zoning changes, and/or other government initiatives) between private and public sector. The effective application of land value capture systems typically requires a robust real estate market, conducive legal and regulatory framework, strong property tax collection systems, including clear land tenure systems, strict enforcement and adequate training of relevant stakeholders. Land value capture tools often found in varying forms in World Bank client countries include: transferable development rights (TDR), impact fees, public land leasing, increased densities, business improvement districts, and tax increment financing.

Primarily, the techniques support all forms where infrastructure cost or other investments are expected to be incurred for enhancement of land values. Such enhancement or betterment of land value through Land Value Capture (LVC) frameworks provide support for infrastructure development. In lieu, the betterment of land values requires substantial public investments ranging from new infrastructure, such as parking and utility capacity upgrades to open spaces, streetscapes and multimodal facilities, in response to increased densities allowed “by-right” or as a premium to private landowners. Different means for capturing the land value are being exercised across the world. Examples of such initiatives include municipal borrowing against future property tax increments (California, USA) or through charging vacant land tax in TOD areas (Bogota, Colombia).

**Disclaimer:** *The Transit-Orientated Development Implementation Resources & Tools knowledge product is designed to provide a high-level framework for the implementation of TOD and offer direction to cities in addressing barriers at all stages. As the context in low and middle-income cities varies, the application of the knowledge product must be adapted to local needs and priorities, and customized on a case-by-case basis.*

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## PURPOSE

Financing Transit-oriented Development with Land Values (Suzuki, Murakami, Tamyaoose, World Bank 2015), is the main resource that directly addresses the issues and opportunities in applying LVC instruments in low and middle-income countries. The development of transit infrastructure benefits several stakeholders, direct as well as indirect. In most cases, these benefits remain with the beneficiary and in no manner contribute towards financial sustainability or growth of infrastructure. Therefore, it is needed to devise mechanisms to capture these benefits getting created in transit-influenced catchment areas. There are established mechanism and tools devised across the globe for such practices. The Land Value Capture is important among such tools to be used for funding transit infrastructure projects.

At large, there are many land value capture tools being practiced and documented globally. This step-by-step guide elaborates on the processes to be referred to for assessing and implementing land value capture mechanisms in the identified transit-oriented development zones and areas.

In principally, the various methods being used by different countries, governments and land owning agencies are provided below:

- ➔ **LAND DEVELOPMENT AND SALE-** Holding the land, for which the value appreciates, after rolling the transit infrastructure and then selling or developing the land for potential higher revenue from such land parcels.
- ➔ **LAND VALUE TAX-** Tax on the land itself and not any buildings or other physical assets that may fluctuate in value due to market conditions resulting in stabilized property prices.
- ➔ **LAND USE CONVERSION CHARGES-** Additional fees towards conversion of land use for developments having potential of high revenue generation.


- ➔ **DEVELOPMENT CHARGES-** Typically, fees collected by the planning/municipal authority from developers and builders prior to development of a land for issuing a building permit to offset the cost of infrastructure required to provide municipal services to the new development.
- ➔ **TAX INCREMENT FINANCING-** Municipal Authority earmarking future increases in revenue of property tax generated in an identified district/ area, from new real estate developments, for financing present infrastructure projects.

## ASSUMPTIONS AND LIMITATIONS

- The framework aims at providing broad level strategy and an overall guidance for taking steps towards supporting TOD through land value capture.
- The implementation of land value capture requires an enabling environment with statutory and legislative support to develop a framework for its implementation. This varies from region to region depending on the local government policies, and need not be similar for applicability to all.

## 01


## INITIATION OF THE PROJECT

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- A detailed study of the legislative framework, comprised of rules and regulations in force, for governing land value capture mechanisms, shall have to be conducted.
  - The applicability of existing or approved mechanisms with the rules and regulations will have to be assessed for identification of appropriate techniques.
  - In case the existing tools or mechanisms are inadequate, there may be requirements to introduce new tools as per the needs of the project. All regulatory reforms concerning the project and required for introduction or enactment of the new tool, may be proposed at once to the government or the approving authority. It is essential that benchmarking and comparative analysis with similar regions and neighborhoods should be conducted in the process to identify new LVC tools, prior to proposing it for approval.

*<sup>1</sup>Similar cities, towns, governance pattern etc. Also, further similarity in terms of demographics and economic conditions may be considered.*

## 02

## PLANNING

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- Planning is needed to identify the catchment area getting influenced due to the new transit project, corridor or planned area. The value of land and other properties will increase in the area of influence.
  - The identified would need to be surveyed to collect data on the land ownership pattern.
  - Based on land ownership, different tools, like land amalgamation, etc., will need to be planned and structured.
  - Identify potential land in separate categories of government and non-government lands.

- Based on the land ownership and the location plan, the land value capture mechanism shall be identified:

500m ↑	Hold the land for densification / property price appreciation	Government land - hold the land for densification / property price appreciation Non-Government - Land Development Charges, land Value Tax, Land Use Conversion Charges etc.	Government land - hold the land for densification / property price appreciation Non-Government - Land Development Charges, land Value Tax, Land Use Conversion Charges etc.	Government land - hold the land for densification / property price appreciation Non-Government - Land Development Charges, land Value Tax, Land Use Conversion Charges etc.	Non-Government - Land Development Charges, land Value Tax, Land Use Conversion Charges etc.
400m	Hold the land for densification / property price appreciation	Government land - hold the land for densification / property price appreciation Non-Government - Land Development Charges, land Value Tax, Land Use Conversion Charges etc.	Government land - hold the land for densification / property price appreciation Non-Government - Land Development Charges, land Value Tax, Land Use Conversion Charges etc.	Government land - hold the land for densification / property price appreciation Non-Government - Land Development Charges, land Value Tax, Land Use Conversion Charges etc.	Non-Government - Land Development Charges, land Value Tax, Land Use Conversion Charges etc.
300m	Land development with allied revenue generating components	Government land - land development with allied revenue generating components Non-Government - Land Development Charges, land Value Tax, Land Use Conversion Charges etc.	Government land - land development with allied revenue generating components Non-Government - Land Development Charges, land Value Tax, Land Use Conversion Charges etc.	Government land - land development with allied revenue generating components Non-Government - Land Development Charges, land Value Tax, Land Use Conversion Charges etc.	Non-Government - Land Development Charges, land Value Tax, Land Use Conversion Charges etc.
200m	Land development with allied revenue generating components	Land required for transit - joint development, else separate development of government land and tax increment and other charges applied for non-government land	Land required for transit - joint development, else separate development of government land and tax increment and other charges applied for non-government land	Land required for transit - land amalgamation & joint development, else separate development of government land and tax increment and other charges applied for non-government land	Land required for transit - land amalgamation & joint development, else separate development of government land and tax increment and other charges applied for non-government land
100m	Land development with allied revenue generating components <sup>2</sup>	Joint development with allied revenue generating components- financing and contractual arrangements to be made accordingly	Joint development with allied revenue generating components- financing and contractual arrangements to be accordingly	Tools like land amalgamation to be applied, then joint development with allied revenue generating components	Tools like land amalgamation <sup>3</sup> , if required to be applied and then joint development
Area of Influence	Government	Non-Government			

Table 1: Typical LVC strategy for land parcels within radial distance of 500 meters of the transit infrastructure and depending on land ownership

<sup>2</sup>Here, allied refers to supporting real estate developments for cross subsidizing capital / operational cost of infrastructure development and/or maintenance, as applicable.

<sup>3</sup>Land amalgamation refers to the framework for enabling and also requiring private land owners to come together for a purposeful development that supports the transit-oriented development approach of governments.

- In order to maintain transparency, accountability and to reduce unnecessary reconciliation issues, separate financial accounts with the bank may be maintained by the implementing agency for revenue and expenditure. This helps distinguish and segregated identification of fund flows for complex projects with longer durations.
- It would be essential to execute formal agreements with detailed terms based on the land development / settlement strategy agreed upon between the parties for a land value capture mechanism. Such agreements shall be governed by the prevailing legislative framework and the terms of arrangement shall have to abide by the available framework within the permitted laws.
- In order to protect the interest of either party and to facilitate financial protection towards shared revenue, if applicable, the arrangement of an ESCROW account with a bank may be considered by the parties for operationalizing the value capture mechanism.

## 04 EXECUTION AND OPERATION

- The following documents (including but not limited to) shall be placed in public disclosure:
  1. Planning and Methodology of TOD Area Development
  2. Proposed Transit Infrastructure Development
  3. Prevailing norms of land value capture mechanisms, approved by local or regional government
- The details of the land value capture mechanism will be shared with each individual owner and also placed in the public domain.
- The procedure of the deposition of funds and the approval or clearance, thereupon, shall be put in place for non-government land/properties.
- A monitoring and evaluation mechanism of the land value capture shall have to be put in place in the following forms:
  - (i) Identification of Key Performance Indicators and their measurement from time to time;
  - (ii) Constitution of monitoring team / committees with assignment to conduct regular review of the progress and effectiveness of the implementation framework
  - (iii) Regular financial and performance audits to keep check on irregularities and system slack, if any.
  - (iv) Any other method or institutionalization that the implementing authority or the Government may perceive are required for effective monitoring and control.
- In case of joint developments, the contractual arrangements, including the terms and conditions, shall be placed in the public domain to follow open and transparent procedure.