LAND VALUE CAPTURE (LVC)

INVESTMENT IN INFRASTRUCTURE
Three pillars of city resilience

- Infrastructure investment needs beyond the reach of public finances
- Projections show need of $4.1 to $4.3 trillion per year
- Additional $1.0 trillion needed to be climate resilient
- Capital does not flow easily to meet this demand due to lack of knowledge and support from financial services
LVC is a new source of project financing promoted by The World Bank

If there is a $1 billion capital investment program contemplated by a city:

- **Traditional Model:**
  - The World Bank finances $100 million with an interest-bearing term loan
  - Another $900 million is raised from general funds, public/private debt and grants

- **Leveraging LVC:**
  - World Bank – Promotes proceeds from sale of land-development rights, special tax assessments
  - Reduces principal of loans and need for additional funding
  - Enhances bankability of projects
LVC is a financial policy mechanism that helps governments to:

• Finance public investment in infrastructure to reduce physical vulnerabilities thereby unlocking land value
• Secure (or reimburse) upfront infrastructure funding
• Levy direct beneficiaries of public improvements, which would otherwise benefit from such improvements as “windfall gains”
• Unlock additional funding in conditions of limited access to traditional sources of public sector financing
• Promote infrastructure cost-sharing
• Incentivize wider policy measures that increase land value
Despite being largely associated with transportation upgrades, LVC opens financing opportunities for many more infrastructure items.

**Investment in Infrastructure**

**Areas with proven track record in LVC**
- Transportation and transit-related assets
- Water-supply sanitation
- Sewage and landfill

**Lack of LVC track record but high LVC potential**
- Flood mitigation
- Slum upgrades and resettlement
- Water-basin / land decontamination
- Environment cleaning and rehabilitation
- Historic preservation
- Land consolidation
1. What are your city's primary infrastructure needs? (Pick top 3)

- Flood Control
- Seismic retrofit
- Urban waterfront redevelopment
- Storm water and drainage
- Water supply and sewage
- Power supply
- Airports, ports or train stations
- Affordable housing
- Roads
- Slum upgrades
- Solid waste management
Example 1: LVC – Ahmedabad Riverfront

**INVESTMENT IN INFRASTRUCTURE**

- **$17 mln of upfront public investment**
- **30 ha of reclaimed land is for sale**
- **15% of sale proceeds recovers the cost of entire upfront public investment**
Example 2: LVC – Rio de Janeiro’s Historic Bay

INVESTMENT IN INFRASTRUCTURE

City earns $1.8B from sale of rights to build extra density

New density and height regulations adopted

3-4 years to sale of a first tranche of development rights, 15 years to full build out

Regenerated modern mixed-use community
Example 2: LVC – Rio de Janeiro’s Historic Bay
Example 3: LVC Park Construction & Economic Development – Tirana, Albania

**INVESTMENT IN INFRASTRUCTURE**

- Informal settlements removed
- Land rights transferred to neighboring owners
- Landowners benefit from increased density
- Informal settlers can quantify their claims
- City receives revenue and land for park redevelopment
Range of tools used by public sector to capture land value gains

<table>
<thead>
<tr>
<th>Local taxation</th>
<th>Locally administered tax increments (property taxes, sales taxes) generate additional tax revenues for re-investment in local infrastructure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special purpose fees</td>
<td>Planning approval fees, user charges, direct financial district funding or infrastructure add-on tariffs</td>
</tr>
<tr>
<td>Collaterization of incremental value</td>
<td>Capturing increases in property tax base, and using such Incremental proceeds as collateral source for infrastructure loans</td>
</tr>
<tr>
<td>Land exchange or transfer</td>
<td>Swapping land assets or land contributions to facilitate infrastructure</td>
</tr>
<tr>
<td>In-kind provision</td>
<td>Infrastructure upgrades financed by private entities as a condition precedent to approval of proposed private development</td>
</tr>
<tr>
<td>Leveraging public assets</td>
<td>Disposition of excess/underutilized public assets for cash that is re-invested in local infrastructure</td>
</tr>
</tbody>
</table>
The key distinction between LVC mechanisms lies in the ownership of land

Privately-owned land
- Change of permitted land-use for a fee (cash/in-kind)
- Selling additional density
- Special tax assessments, tax surcharges
- Marked up fees for building permits

Publicly-owned land
- Sale of land that underwent public infrastructure upgrades
- Disposition of land with development conditions
- Swapping land assets / land readjustment
- Sale of land with adaptive reuse requirement
2. How much of the land in your city is owned by the public sector?

- Majority of the land
- Small Share
- I don’t know
## Investment in Infrastructure

<table>
<thead>
<tr>
<th>Instruments</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Impact fees</strong></td>
<td>Developer / User reimburses pro rata cost of infrastructure</td>
</tr>
<tr>
<td><strong>Developer exactions</strong></td>
<td>Developer receives development rights in exchange for obligation to build infrastructure</td>
</tr>
<tr>
<td><strong>Betterment levies / special assessment</strong></td>
<td>Public sector taxes / levies fees to compensate publicly funded infrastructure upgrades</td>
</tr>
<tr>
<td><strong>Leveraging publicly owned land / property</strong></td>
<td>Disposition/lease of excess public land generates cash for area-wide infrastructure upgrades (also consolidation, expropriation, active municipal portfolio management).</td>
</tr>
<tr>
<td><strong>Sale of development rights</strong></td>
<td>Development rights or certificates of additional density are sold for cash to finance infrastructure improvements</td>
</tr>
<tr>
<td><strong>Introduction of land value taxes</strong></td>
<td>Levy on value of underlying land “as unimproved” (as a substitute or supplement to property tax levied to buildings).</td>
</tr>
<tr>
<td><strong>Tax Increment Financing (TIF)</strong></td>
<td>TIF aims to capture and leverage estimated future revenues from incremental increases in collection of property (or other) taxes within a geographically specified area</td>
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</table>
3. What land-based financing or land value capture tools does your city currently use (Pick Your Top 3)

- Property taxes
- Betterment levies (contribucion de valorizacion)
- Special assessment districts (or improvement districts)
- Tax increment financing
- Development charges, impact fees (or other cost recovery mechanism)
- Sale or transfer of development rights
- Sale or lease of government real property assets
- Land pooling / readjustment
Value capture techniques are classified on the nature and timing of charges.

### Tax-based vs. Non-tax-based

- **Tax-based**: Betterment levy, TIF, PILOT
- **Non-Tax-based**: Joint development, exactions, TDR, sale of public land, enhanced use lease

### Value capture timing (one-time vs. recurring; upfront vs. upon completion)

- **One-time charges**: impact fees, density bonus, sale of development rights
- **Recurring charges**: TIF, land value tax, special assessment zone
- **Either-or**: joint development

### Asset-based vs. Rights-based

- **Asset-centered**: sale of land, special assessment
- **Rights-centered**: TDR, density bonus, exaction, betterment levy
- **Both**: land readjustment, joint development
INVESTMENT IN INFRASTRUCTURE

Sampled ranking of key LVC instruments by level of complexity

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<tr>
<td>Exaction</td>
<td>Cash, land or in-kind contribution by developer</td>
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<tr>
<td>Impact Fees</td>
<td>Upfront one time monetary fee to developer</td>
</tr>
<tr>
<td>Leveraging land/development</td>
<td>Value capture through disposition of public assets/FAR</td>
</tr>
<tr>
<td>rights</td>
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<tr>
<td>Betterment levies</td>
<td>Tax on land value gain from infrastructure upgrades</td>
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<tr>
<td>Tax Increment Financing</td>
<td>Municipal borrowing against property tax gains</td>
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4. What are the primary factors that affect land development in your city?

- Market demand
- Cadastral data
- Zoning or use requirement
- Historic or heritage considerations
- Market formality
- Established property rights
- Other
Relevance of LVC tools may vary depending on the implementation conditions

<table>
<thead>
<tr>
<th>LVC Challenges</th>
<th>Unestablished land market</th>
<th>Lack of land use controls and regulations</th>
<th>Deficient land Cadaster / records</th>
<th>Insecure property rights</th>
<th>Limited access to capital markets</th>
<th>Non-devolved fiscal powers</th>
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<tbody>
<tr>
<td>Impact fees / Exactions</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
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<tr>
<td>Betterment levies</td>
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<td>●</td>
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<tr>
<td>Leveraging public assets</td>
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<tr>
<td>Density bonus</td>
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<tr>
<td>Sale of development rights</td>
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<tr>
<td>Land value tax</td>
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<td>Tax Increment Financing</td>
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- ● Prohibitive challenge (regulatory / systemwide changes are prerequisite)
- ● Significant challenge (regulatory/legislative changes required in certain conditions)
- ● Limited systemwide arrangements needed. Respective implementation terms can be set at deal level
Relevance of LVC tools may vary depending on the implementation conditions

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<tr>
<td>Albania rating</td>
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<tr>
<td>Conditions in Albania</td>
<td>• Values well defined</td>
<td>• Good sales comparables</td>
<td>• Defined system for land transfer</td>
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<tr>
<td>Land Market</td>
<td>• Comprehensive plan for central district</td>
<td>• Overall metropolitan area plans lack clarity</td>
<td>• Detailed neighborhood local plans incomplete</td>
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<tr>
<td>Land Use &amp; Regulations</td>
<td>• Multiple cadastral / registration programs</td>
<td>• Data quality and confusion</td>
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<tr>
<td>Cadaster / Recordation</td>
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<tr>
<td>Property Rights</td>
<td>• Clear protections enshrined in law</td>
<td>• Restitution and de facto claims often at odds</td>
<td>• Some claims resolved at the European Court level</td>
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<tr>
<td>Capital Markets</td>
<td>• Domestic capital flowing</td>
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<tr>
<td>Local Fiscal Power</td>
<td>• No market for international / institutional capital</td>
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<tr>
<td>Non-devolved fiscal powers</td>
<td>• Limited local power</td>
<td>• Not unusual for capital city of a small country</td>
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5. What factors do you track in your city's property registry?

- Size
- Permitted Use
- Market/Tax value
- Title or ownership information
- We don't have robust registry or cadastral database
Key Takeaways

• Understand your legal & regulatory context
• Identify LVC strategies in your cities that can be utilized today
• Continue to enhancing and reform the municipal context to expand LVC options in the future