Getting Creative about Revenue Generation:

Land Value Capture (LVC) To Help Finance City Resilience

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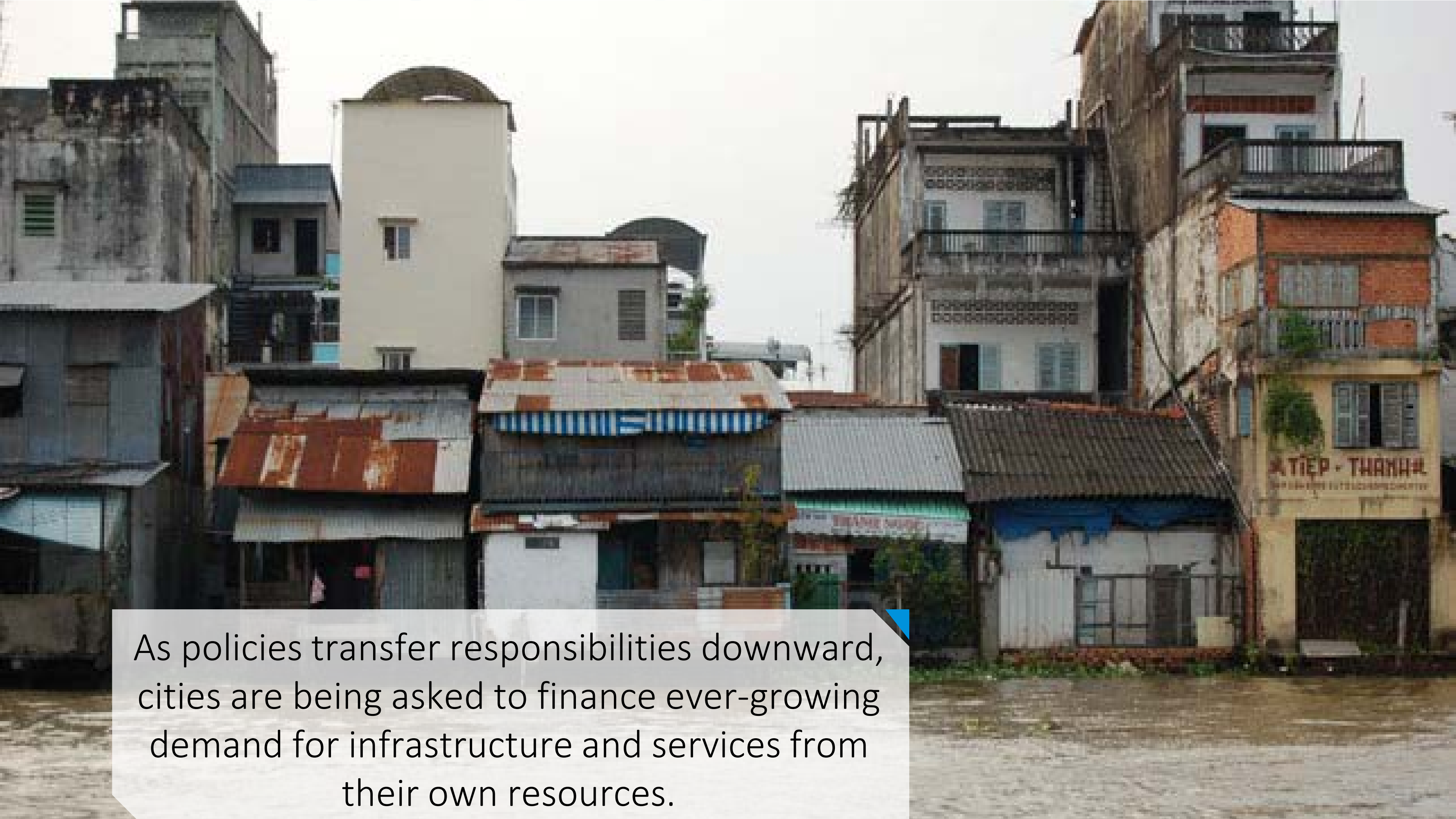
Pace, scale of urbanization requires large-scale investment in infrastructure, access to public services

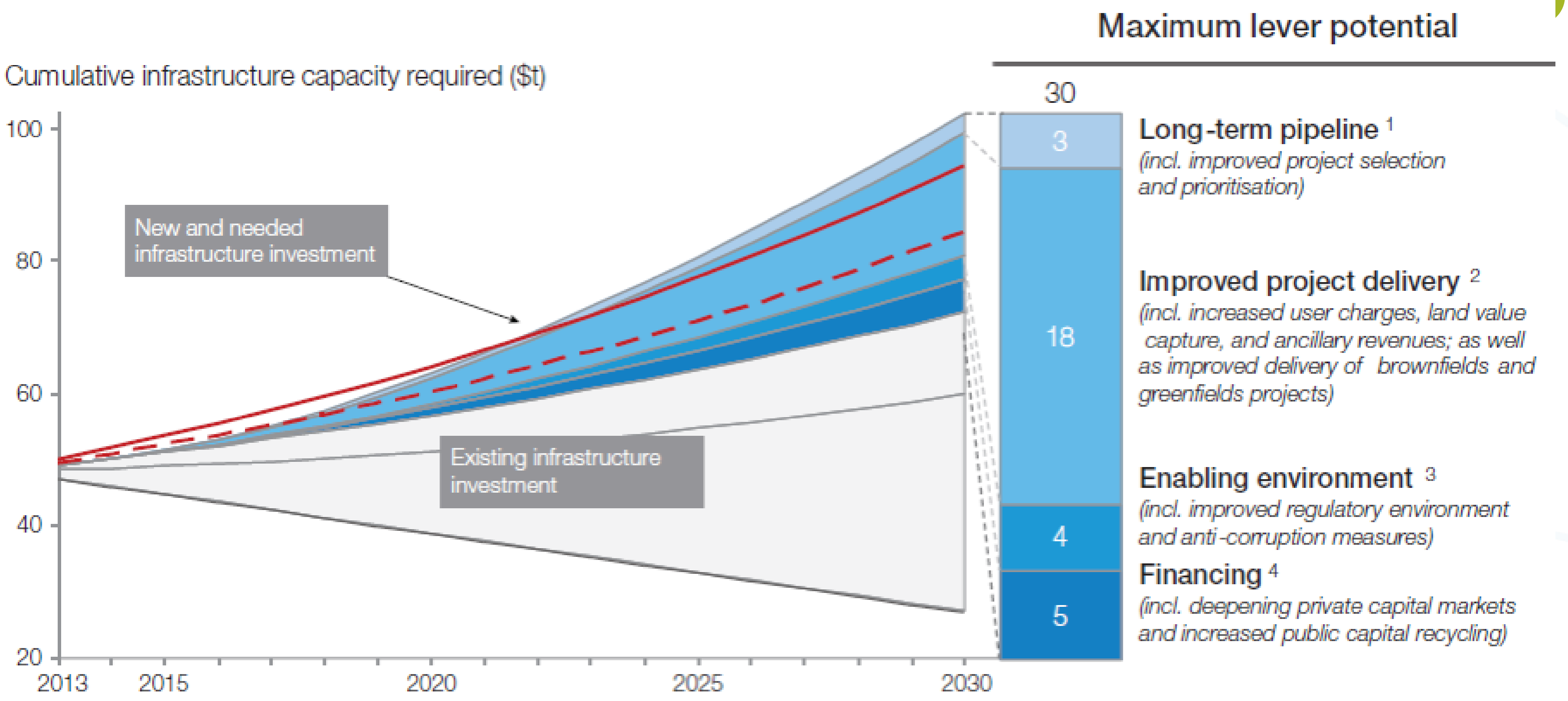
Khayelitsha township - Cape Town, South Africa <

Increasing concentration of people, assets in cities increases their exposure and vulnerability to disasters.

“Garbage City” Cairo , Egypt<



As policies transfer responsibilities downward, cities are being asked to finance ever-growing demand for infrastructure and services from their own resources.



Source: World Economic Forum, *Accelerating Infrastructure Delivery: New Evidence from International Financial Institutions* (2014)

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Cities need to squeeze more value from existing assets, increase return on public investments.

11 hectare Esplanada District - downtown Bucharest, Romania <

City Resilience Framework

Leadership & Strategy

Health & Wellbeing

Infrastructure & Environment

Economy & Society

What is “land value capture”?

- ✓ Land-based tool to finance urban development
- ✓ Mechanism to recoup (some portion of) government’s cost of expanding, upgrading infrastructure, public services
- ✓ Tool to finance public investment in infrastructure that reduces physical vulnerabilities due to floods, environmental degradation, etc, and unlocks land values that city can then ‘capture’
- ✓ Tool to secure upfront funding for prerequisite infrastructure by borrowing against the anticipated increase in land values (and therefore anticipated increase in taxes collected) that would be catalyzed by such infrastructure upgrades
- ✓ Promote infrastructure cost-sharing with win-win outcomes to public and private stakeholders

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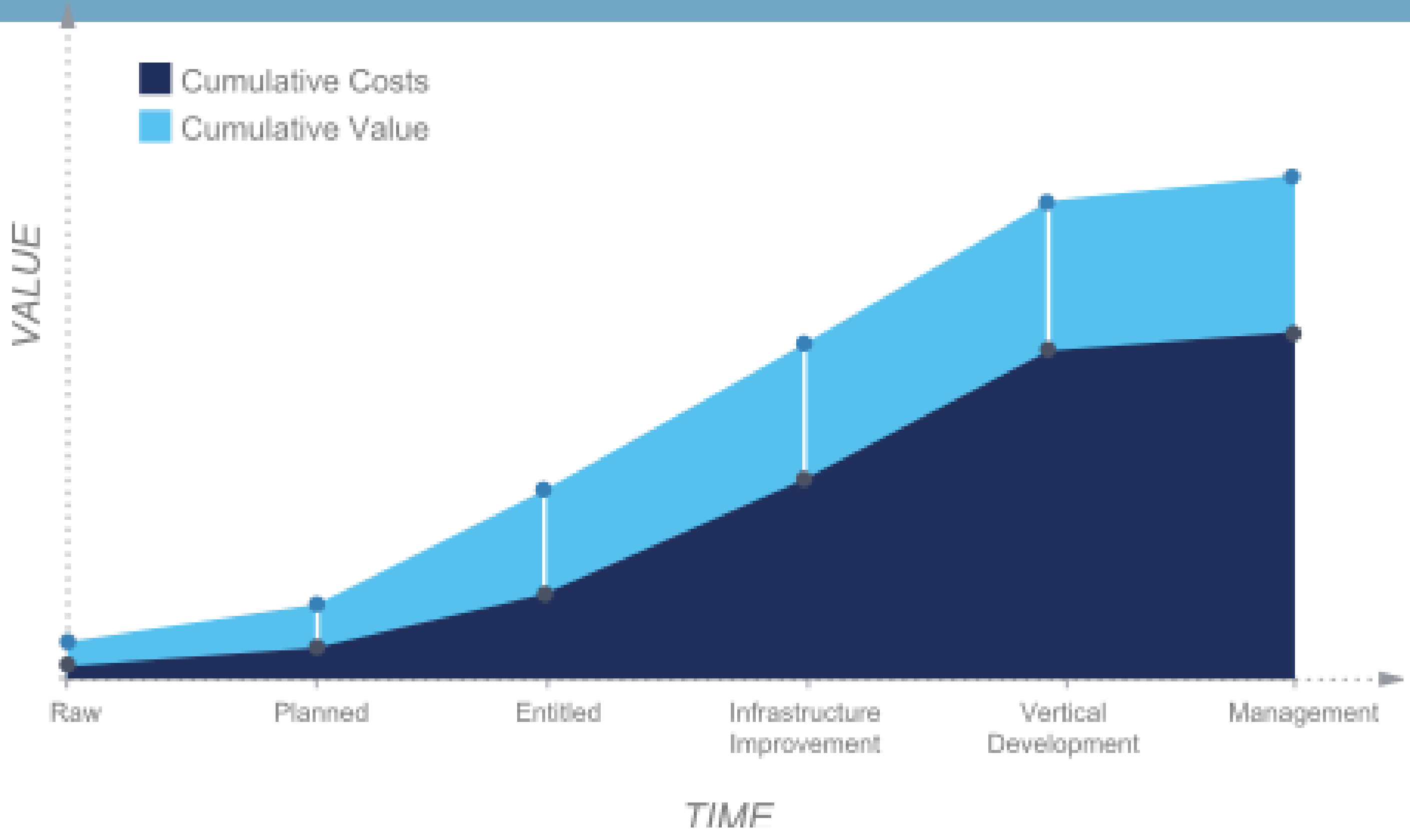
How does land value get created?



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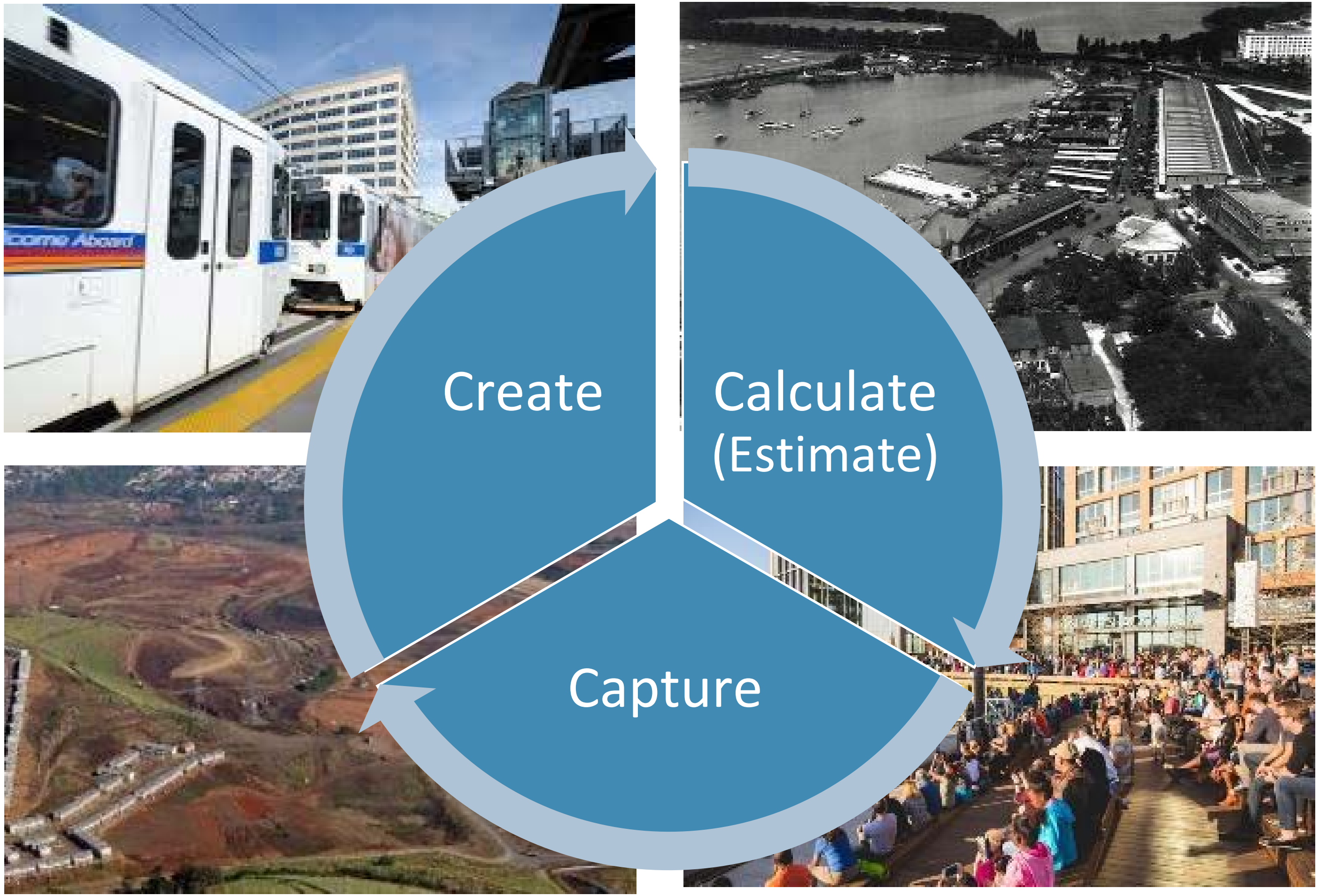
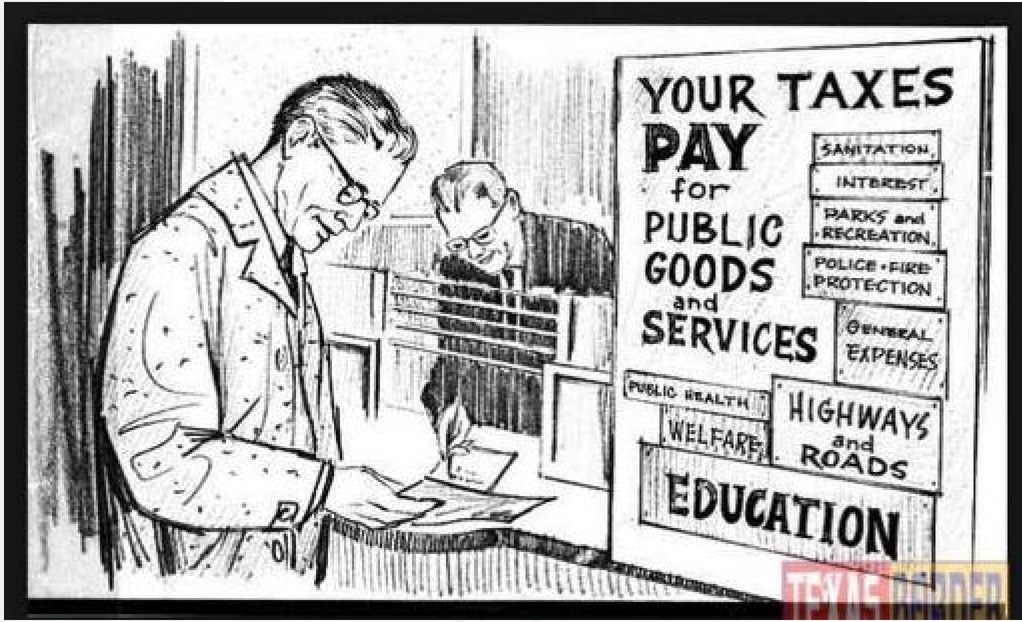

Create
Calculate
(Estimate)
Capture

Property tax is form of land-based finance

- ➢ Tax base: land, improvements or both?
- ➢ Assessment method:
  - Availability of data?
  - How assess value?
  - Frequency of assessment
- ➢ Benefits:
  - (Relatively) Efficient to administer
  - Predictable source of revenue
  - Difficult to avoid (land is immobile)
  - Can help reduce speculation



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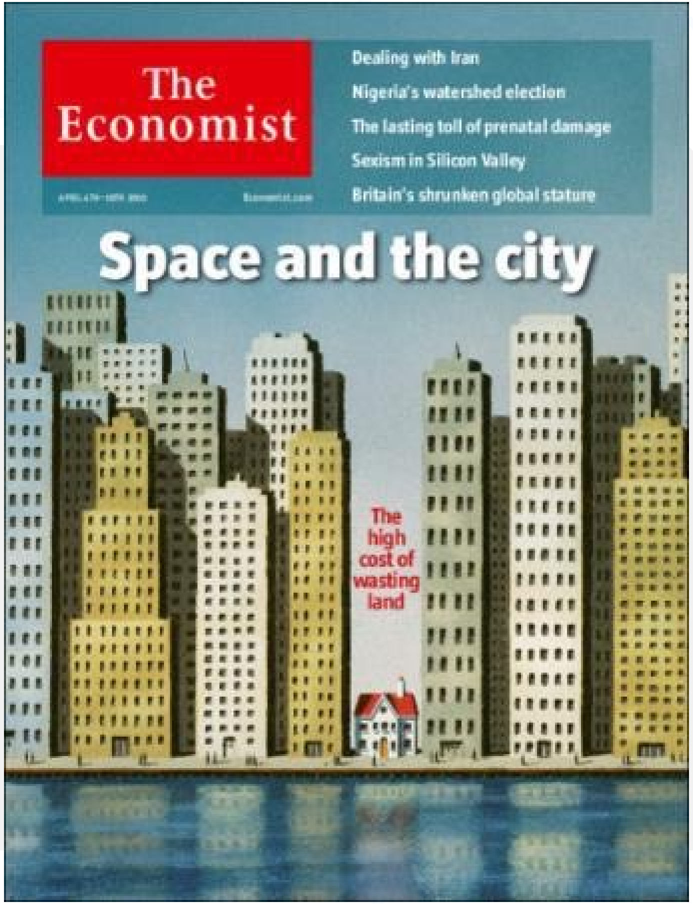
"…Governments should impose higher taxes on the value of land….Land taxes are efficient. They are difficult to dodge… a high tax on land creates an incentive to develop unused sites….

New infrastructure raises the value of nearby land, automatically feeding through into revenues – which helps to pay for the improvements… "



Land-based financing has enabled many types of projects

Range of tools: one-time, lump-sum vs ongoing revenue

Impact fees	One-time charge applied by local government to a developer as condition for approval of development (or land use changes). Approval is conditioned on obligation to compensate in cash (or in-kind) for the increased requirements of public infrastructure, services
Sale of public real property assets	Disposition (sale or lease) of underutilized public assets (land, property) for cash or in-kind infrastructure
Sale or transfer of development rights	Development rights or certificates of additional density are sold (or transferred) for cash to finance infrastructure improvements
Land pooling /readjustment	Land owners or occupants voluntarily contribute part of their land for infrastructure development and for sale to cover some project cost. In return, each owner receives improved plot of smaller area with higher value within the same neighborhood
Betterment levy	A fee/tax levied on land that has gained in value because of public infrastructure investments
Joint development	A PPP mechanism for cost- and risk-sharing between public sector and private developers/ operators. Public sector might contribute its land; private sector provide financing, know-how

LVC typically requires new development, robust market

Long-term lease of government land	Similar to sale of underutilized public land, except that public sector retains ownership and control while receiving lease revenue
Special assessment district	Tax rates are increased within a geographically defined district that will benefit from the investment(s). Typically requires voter/ property owner approval
Tax increment financing	Defined district is designated, although tax rates are NOT increased. Increases in property value (resulting from public action or investment) are securitized, used as collateral to obtain infrastructure loans

Example 1: Sale of development rights helped finance transformation of Porto Maravilho, Rio de Janeiro's historic port

Underused industrial lands in the historic core of Rio

- ✓ Low-density uses inherited from cargo port
- ✓ Poor accessibility
- ✓ Environmental contaminatoin
- ✓ Poor transit, road connections
- ✓ Social goals

New density and height regulations adopted

- ✓ City adopted new zoning to allow construction of additional density
- ✓ Structured SPV to sell extra development rights

Earned $1.8 B from sale of rights to build extra density

- ✓ Proceeds directed to hard infrastructure improvements
- ✓ More development catalyzed
- ✓ Attention to social goals, particularly job creation, cultural heritage, inclusion

New mixed-use area, with social and cultural assets

- ✓ 70,000+ new residents at various income levels
- ✓ Major new road, tunnel, transit infrastructure
- ✓ New residential, commercial development
- ✓ Museums, cultural heritage assets

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

Porto Maravilha – Rio de Janeiro

Example 2: Value capture enabled Washington DC to close infrastructure financing gap, catalyze redevelopment of underutilized riverfront

Blighted, well-located urban riverfront

- ✓ Low density
- ✓ River largely inaccessible
- ✓ No new commercial/retail development
- ✓ Poor road, transit, connectivity

~US$200 M of TIF Bonds

- ✓ Competitively selected development partner
- ✓ 99 year ground lease
- ✓ Re-enforced river wall
- ✓ Resettlement of existing houseboat community
- ✓ Road, infrastructure upgrades

New residential / retail /office / entertainment neighborhood

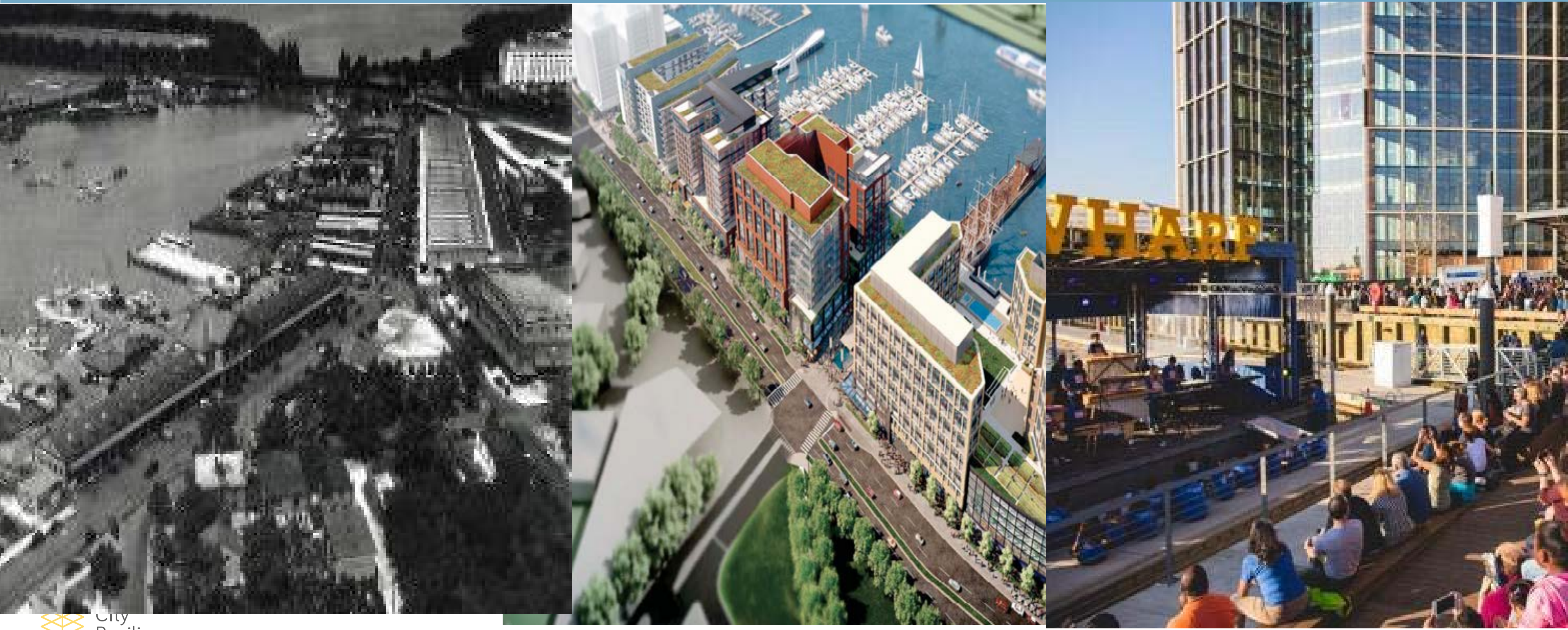
- ✓ Increase river access to public
- ✓ New promenade, road, bike linkages
- ✓ Phase 1 Opened Oct 2017
- ✓ 10 ha land, 20 ha water (incl 3 new public piers)
- ✓ New civic spaces

$2B development

- ✓ Convert unused land into active area
- ✓ Job creation
- ✓ New residents while preserving existing community
- ✓ Improve stormwater management
- ✓ Expand property tax, sales tax base

~20 years (vision to plan to development procurement to construction)

The Wharf - Washington, DC



The Wharf (before vs. rendering vs present day)

Land value capture can expand financing options

If city is contemplating a $1B capital investment program:

- **"Business as usual"**:
  - ✓ The World Bank finances $200 million with an interest-bearing term loan
  - ✓ Another $800 million raised from general funds, debt and/or grants
- **Leveraging land value capture tools:**
  - ✓ In concert with the above, the World Bank can provide comprehensive technical assistance to help attract, structure additional private funding through capitalizing land value (e.g. proceeds from sale of development rights; tax increment financing district)
  - ✓ This approach can reduce the principal of interest-bearing loans, general fund appropriations and grant resources and enhances viability of the $1B program

While LVC widely applicable, preconditions apply

LVC Challenges / LVC tools	Weak **Real estate market**	Lack of **land use controls** and regulations	Deficient land **Cadaster** / records	Insecure **property rights**	Limited access to **capital markets**	Limited **fiscal powers**
Impact fees or Exactions	🟡	🟡	🟢	🟡	🟢	🟢
Betterment levies	🟡	🟡	🟡	🟡	🟢	🔴
Leveraging public real property assets	🟡	🟡	🟡	🟡	🟡	🟡
Land pooling / readjustment	🟡	🟡	🟡	🟡	🟢	🟡
Sale of development rights	🔴	🔴	🟡	🔴	🟡	🟢
Special assessment district	🟡	🟡	🔴	🟡	🟢	🟡
Tax Increment Financing	🔴	🔴	🔴	🔴	🔴	🔴

🔴 Prohibitive challenge (regulatory / systemwide changes are prerequisite)

🟡 Challenge but possible (local regulatory changes, capacity building may be required)

🟢 Limited systemwide changes needed. Implementation possible in near term

urban land, Riyadh, Saudi Arabia<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