

# Land Value Capture: Issues, Options, and Implementation

**Enid Slack**

**Institute on Municipal Finance and Governance  
University of Toronto**

**Presentation to the 5<sup>th</sup> Annual Caribbean Valuation and  
Construction Conference**

**Saint Lucia**

**November 9, 2016**

# What is land value capture?

- Recoup some or all of the unearned increment in land values arising from:
  - public investment
  - change in regulations (e.g. increased density, building height)
- The argument behind land value capture (LVC) for infrastructure is that at least some of the resulting increase in land value should be captured by governments to pay for infrastructure

# Ways of capturing land value

- Betterment levies/special assessments
- Tax increment financing
- Sale of building rights

# Betterment levies

- Also known as special assessments
- Direct charge on owners of select properties to pay for infrastructure or services that benefit their properties (e.g. street lighting, sidewalks, extension of water supply networks)
- Could be one time or annual levy
- Relates tax to benefits received
- Is property value the best measure of benefits received? What about other measures such as front footage, zones?

# Examples

- Some Canadian municipalities levy special assessments to pay for sidewalks, street lighting, local parks; Toronto levied a special assessment for transit
- Supplementary levy on business property tax in London to help pay for transit (Crossrail)

# Tax increment financing (TIF)

- Designate TIF area and then earmark future growth in property taxes to pay for infrastructure investments
- Borrow (issue TIF bonds) on the basis of anticipated increased property tax revenues
- Finance development from increase (increment) in tax revenue generated by the development
- Issues: Will the necessary revenues be generated? Where will TIFs be successful? What other taxing authorities are giving up the tax increment?

# Examples

- Used as an economic development tool
- In US, TIFs are used to redevelop areas in need of revitalization
- In UK, TIFs permitted since 2013-14
  - Local authorities can borrow against retained business rate revenues or in specific geographic areas (e.g. Enterprise Zones)

# Sale of building rights

- Capture land value increase from a change in land use regulations e.g. taller buildings, higher density, etc.
- Also known as density bonusing
- Additional development rights over and above existing zoning are sold to developers and revenues used to pay for community infrastructure
- Developers can make cash or in-kind contributions
- Issues: How do you isolate the increase in value arising from the change in regulations? How much of that increase should go to the developer versus the local government?



# Examples

- Density bonusing in Toronto (under Section 37 of the Planning Act)
- Community amenity contributions in Vancouver
- CEPACs in São Paulo

# Final observations

- Need a good property tax system to implement land value capture
- Betterment levies and sale of building rights most widely used
- Issues:
  - How do you estimate the increment arising from public investment or change in regulations?
  - Who should benefit from the increase in land value?
  - How much money can be raised?