OVERVIEW OF COMMON LAND VALUE CAPTURE TOOLS

SUPPORTING GOVERNMENTS TO GENERATE POSITIVE ECONOMIC AND SOCIAL IMPACT
Agenda

➤ Why land value capture

➤ Some common value capture tools
  • Leveraging publicly-owned land
  • Special assessment districts
  • Tax increment financing
  • Impact fees
  • Sale of development rights
What is land value capture?
Unprecedented scale of urbanization requires large-scale investment in infrastructure, access to public services

Khayelitsha township, at the outskirts of Cape Town, South Africa
Fiscal decentralization, economic slowdown are affecting cities’ sources of funding.

- **Direct Transfers**
  - Equitable share & RSC
  - Levy replacement grant
  - National / provincial operating grants

- **Sources of capital funding**
  - National / provincial infrastructure grants

- **Indirect Transfers**

- **Municipal operating budget**

- **Surplus / cashbacked reserves**

- **Operating Revenues**
  - Rates and Taxes
  - Service charges
  - Municipal borrowing

- **Municipal capital budget**

*Funding of municipal operating, capital budgets - South African Cities Network (2015)*
Cities need to squeeze more value from existing assets, increase return on public investments.
Overview of commonly used land value capture tools

<table>
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<tr>
<th>Leveraging Municipal Real Estate</th>
<th>Special Assessment Districts</th>
<th>Tax Increment Financing</th>
<th>Impact Fees</th>
<th>Sale of Development Rights</th>
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Overview of commonly used land value capture tools

- Leveraging Municipal Real Estate
- Special Assessment Districts
- Tax Increment Financing
- Impact Fees
- Sale of Development Rights
Leveraging the value of government-owned real estate

- Government sells/leases vacant or ‘excess’ property
  - Fee
  - In-kind
  - Equity

- Alienation of government land – if done strategically - can generate positive economic, social impact
When might leveraging real estate be the right approach?

- Government-owned site no longer needed for public use
- Property strategically located within an area targeted for regeneration
- Robust real estate market conditions
CityCenterDC: City-owned lot redeveloped, through 99-year lease, into mixed-use development

<table>
<thead>
<tr>
<th>Location</th>
<th>Washington, D.C.</th>
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<tbody>
<tr>
<td>Site</td>
<td>10 acres (4 ha)</td>
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<td>Vacant site, former convention center</td>
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<tr>
<td>Cost</td>
<td>~$1 B development</td>
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1.5 million sf² completed (Phase 1)
- Civic plaza, public spaces: 0.6 ha
- Residential rental & condos
- Office
- Retail, restaurants
- Underground parking
- New pedestrian alleys knitting site with surrounding neighborhood
Institutional capacity to understand and negotiate with private sector is critical

**Pre-Tender**
- Identify goals for the site, including type of land use(s) envisioned
- Prepare zoning analysis and financial analysis or appraisal to determine value of land with improvements
- Consult with community for preferences for the site
- Prepare tender

**Tender**
- Issue tender
- Review and evaluate responses to tender
- Select development team

**Post-Tender**
- Municipality and developer negotiate land disposition agreements
- Land disposition agreements submitted to local governing body for review and approval
- If approved, developer conducts predevelopment work and puts together project financing
- Municipality and developer execute legal documents
- If applicable, developer submits payment for sale or lease of property

**Project Implementation**
- Developer starts construction
- Developer completes construction
- Building gets occupied
- City continues to collect lease payments (if applicable) and collects any tax revenue generated by the project
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Special Assessment District

- Entails an *additional* tax paid by property owners within a defined geographic area (the “special assessment district”) that is estimated to benefit from specific public improvements.

- Typically, either municipality pays upfront cost of the investment and is repaid over time by special assessment revenues; OR the assessment revenue cash flow is securitized to create a bond.
When might a Special Assessment District be appropriate?

✓ Appropriate to finance projects or services of localized benefit, i.e., to benefit only those taxpayers who are being assessed within the district

✓ District-area (rather than city-wide) improvements, e.g.,
  • building a new rail station, street lighting, public parks

✓ When financing gap exists within required timeframe to fund the infrastructure improvements

✓ When required local support is likely
Tysons Corner, Virginia: Extension of metrorail to link commercial hub

Location
Northern Virginia

Project
23-mile (37-km) metro rail line extension

Cost
~$3 billion Phase 1
How was the Silver Line / extension financed?

- Fairfax County created special assessment district to finance $400M of Tysons Corner portion of the metro
- Voter-approved rate: $0.22 per $100 of assessed commercial property value
- County successfully issued revenue bonds in 2011, 2012 - oversubscribed
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Tax Increment Financing: an “off-balance-sheet” approach to raising capital for local infrastructure

- Allows local governments to invest in infrastructure and other improvements and pay for the cost of those investments by borrowing against a designated area’s future tax revenues
- If project is expected to result in an increase in value of surrounding real estate
- Structured properly, can achieve positive fiscal impact
- “But for” test: a proposed redevelopment project would be eligible for TIF if the project would be financially infeasible but for the use of TIF
How TIF works

- Baseline tax revenue is assessed at TIF district formation
- Property values projected to rise due to public investment within district (as “incremental” increases)
When might TIF be appropriate to consider?

✓ When a large urban site attractive for development is underutilized because it requires significant upfront investment (e.g., to address environmental contamination) in order to unlock value of its development potential.

✓ Best for:
  ✓ Areas whose value deteriorated, perhaps due to dis-investment, but with strong market potential if infrastructure were upgraded
  ✓ “Excess” government property in non-blighted communities
  ✓ Significant scale of positive impact, given high transaction costs

✓ Requires:
  ✓ Robust property registry, clear real estate market demand, regulatory framework
Atlantic Station: Creating high-density, mixed-use development at centrally located node

**Location**
Atlanta, Georgia, U.S.A.

**Site Description**
- 138 acres (56 ha)
- Former steel mill site
- $2 billion development (2015)

- Residential: 3,600 units
- Hotel, Office
- Retail/entertainment
- Public Space: 4.5 ha of public parks

**TIF district**: 25-year term (2001-2026).
Bonds issued in 2001 ($76.5M) and 2016 ($166.5M)
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Sale of development rights

- Development rights refer to the maximum amount of floor area permissible on a zoning lot.
- When the actual built floor area is less than the maximum permitted floor area, the difference is referred to as “unused development rights” or “air rights.”
- “Air rights” have economic value that a municipality can sell.
- Municipality can sell development rights to a developer, allowing for higher density development in exchange for a fee or in-kind payment.
Process for sale of development rights might include:

1. Identify the location and zoning districts where the sale of development would be permissible.
2. Amend zoning regulations and authorize the sale of development rights. Develop a zoning resolution for review by the local governing body.
3. Establish the initial purchase price for the development rights.
4. Developer to submit zoning application to administering agency. Municipality reviews and approves application.
5. Municipality and developer enter into purchase agreement, and developer submits payment. Project commences.
When might a city consider this tool?

- For areas of a city where the municipality wants to encourage higher density development
- When real estate demand is robust and developable land is scarce
Sao Paulo’s CEPACs: providing a greater financing envelope to fund public investments

What were city’s goals?

• To promote urban regeneration in areas with private investment potential
• To access an additional funding stream for infrastructure and affordable housing

How did the city do it?

• The City reduced the basic FAR to 1.0 to create demand for dev. rights. The City regulates the amount of CEPACs to sell and sells them through auctions
• Auction revenues go to a special escrow account to finance public works projects
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Development Charges
Impact Fees (Development charges)

• Fee imposed by local government on a new development project to pay for all or a portion of the costs of providing public services needed to accommodate the additional population generated by the project

• Imposed as one-time charge, often prior to issuing building permit

• Purpose is to have developer, rather than city, pay cost of additional municipal infrastructure arising from more intensive development
  • Developers pass on costs: charge higher purchase price / higher lease rates
  • Negative impact on value of vacant land subject to development charges

• City might use fee revenue to pay for actual infrastructure construction costs or for related debt service expenses
When might impact fees be an appropriate tool?

- Private developments that aim to create more intensive land use, and that require new infrastructure or public services, e.g.,:
  - Extension of roads, utilities, parks, schools
- For capital costs not operational costs
- Applicable in cities with strong market demand
  - Where developers are attracted to build commercial or residential projects and could make considerable profit in spite of having profit reduced as a result of any required impact fee
exploring possible uses of LVC
Supporting cities in ascertaining whether LVC viable, appropriate

- Understand real estate market demand, existing land values, likely investor requirements and interest
- Confirm legal and regulatory framework
- Estimate costs of up-front public investments
- Calculate project-specific financial viability:
  - How much could new development pay with respect to cost of land, infrastructure, other public goods?
  - Estimate future tax revenues
- Estimate economic & social impact:
  - Help allocate public resources among needs / projects
- Ensure sufficient stakeholder and political support
- Compare development and land value capture options
Exploring applicability in various sector, city contexts

- Capturing benefits of value created by decreasing risk &/or impact of natural disasters (e.g., flood protection) in urban areas
- Helping to fund urban transport investments that would raise land values
- Promoting densification to counter urban sprawl through strategic disposition of government-owned land &/or sale of strategically located development rights
- Strengthening subnational fiscal management
Questions?

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