

# Land Value Capture

by Karl Fitzgerald

Understanding the link between public infrastructure and the value delivered to location, location is one of the most tangible means of grasping Georgism.

Land values are the barometer of an attractive community. Infrastructure adds enormous value to land in prime locations. Windfall gains deliver several times the cost of the infrastructure to surrounding properties.

Terry Ryder, Property specialist and journalist states:

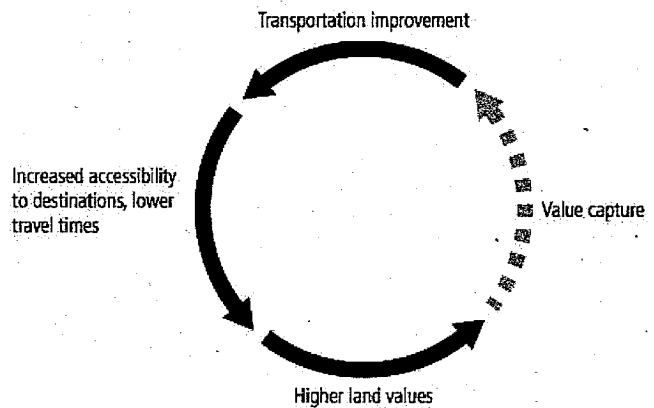
*"Increasingly I find transport infrastructure the most powerful creator of price growth in residential property. This is confirmed by research from multiple sources in recent years, which shows homes close to public transport services tend to grow faster in value than the norm." (The Australian, Aug 18, 2011)*

Steve Harrison, Urban Development Institute of Australia (UDIA) Gold Coast President revealed:

*There's a handful of smart developers who have actually grabbed land around each of the stations – they're waiting to see the pushback from council." (Goldcoast.com.au, 26/9/2010)*

Massachusetts developer Frank McCourt used

the increased value of his Seaport District properties from roughly \$10 million to \$200 million – to help finance his acquisition of the Los Angeles Dodgers. In a recent conference on value capture, Richard Henderson, an executive involved in the Seaport District's transformation, described the investments as: "a tremendous boon to the landowners in the area." (Smart Growth America, June 30, 2011)



Land Value Capture (LVC) is a simple technique to recycle a portion of the windfall gains land owners benefit from publicly funded infrastructure. Importantly, these windfalls are captured over the life-cycle of the infrastructure, such that one generation is not hit with the total infrastructure costs (i.e. as per the current preference for Developer Charges).

## How it works

Macro:

- Government bonds finance the infrastructure project.
- Infrastructure proposal announced = windfall gains for nearby landowners.
- Yearly land valuations quantify the windfall gain.
- Land Value Capture (a subset of Land Taxes or alternatively council rates) ensures the public receive a share of the increase.
- Over 20 years this higher government income repays the government bonds.

Micro:

- Fixed costs of infrastructure are covered by LVC.
- Marginal costs are covered by marginal revenue (ie train ticket sales cover driver wages).

## Political machinations

A Metropolitan Regional Improvement Tax, similar to Perth's, could be included in the Federal or State tax mix. However, it should be set at a higher rate than the 0.14% rate the Western Australian government has used to provide Australia's most modern public transport (PT) system.

If taken to its logical conclusion, revenue from this Betterment Levy type charge could be used to fund the abolition of payroll tax and stamp duties at the state level.

We propose a change in the tax mix so that future infrastructure pays for itself by expanding the tax base without increasing the tax burden. The *Henry Review* stated "A recent OECD report found that a 1 per cent switch to land or property tax (but not to taxes on transactions) away from income tax would improve long-run GDP per capita by 2.5 percentage points" (Johansson et al. 2008).

## Examples of LVC

Hong Kong's Mass Transit Railway (MTR), has returned dividends for the last sixteen years, dispelling the myth that PT can never be profitable.

Japanese Railway East – the efficiencies of LVC have enhanced profitability such that ticket prices have remained at 1987 prices. Read Fred Harrison's *Wheels of Fortune* for detail.

We should take stock of how past generations financed public transport.

Glen Waverley Station (Vic): How did they do it?

Residents were asked and agreed to donate £30,000 worth of land (1925) to build the train station and rail line. Additionally, they were asked to pay a Betterment Levy of £10,000 per annum for the first five years. The Railways Standing Committee presented to the State Parliament in its' 36th general report:

*"It is calculated that there are 6,000 acres within one mile of the new line... It is not intended that a uniform rate shall be charged on each property, but that the rate should be varied according to the distance from the line."*

Sydney Harbour Bridge (NSW): 16% financed by council rates on the land only component.

## What we are asking

Windfall gains from infrastructure add up to several times the cost of the infrastructure. We propose a sufficient contribution from this windfall be recycled back to the government so that other infrastructure projects can be funded without substantially burdening one generation over another.

At present, land speculators balk at paying barely 2% of the economic rent (windfall gain) to the community via government's Land Tax and Council Rates. This abstinence from the public good is limiting government of all levels from providing infrastructure.

Please note, the LVC rate can be set so that landowners still receive the majority of gains.

In closing, government bonds finance the initial investment. Public debt that adds to productivity (at least cost) is a strategic use of borrowings. Land holders repay the community for the new services over the lifetime of the asset.

Such a LVC system would also help keep a lid on land prices (the extent reliant upon the rate in the dollar). With land comprising over 70% of a mortgage, the reduced land-based interest payments could assist consumer demand.

By widening the tax base, more infrastructure proposals could get off the ground.

## Advantages

- Common sense: Those that benefit, pay.
- Can be revenue neutral.
- Cheaper public transport ticket prices.
- Widens tax base.
- Expands public transport and public services as financed with minimum leakage
- Spreads load over the entire community, rather than slugging commerce (i.e. trucks on tollways).
- Encourages walkable communities by providing a dis-incentive for land speculation.
- Can prevent future Global Financial Crises by deterring land speculation.

Academia are quantifying the benefits of infrastructure provision:

... [We] found that within 1/4 mile of one of

Philadelphia's 54 (library) branches, the value of a home rose by \$9,630. Overall, Philadelphia's public libraries added \$698 million to home values—which in turn generated an additional \$18.5 million in property taxes to the City and School District each year. That benefit alone recouped more than half of the city's investment. (The Economic Value of The Free Library In Philadelphia, Fels Institute of Government, 2010, p8)

... Research into quantifying park quality continues; in the interim we have chosen to assign the conservative value of 5 percent as the amount that parkland adds to the assessed value of all dwellings within 500 feet of parks. (The preponderance of studies has revealed that excellent parks tend to add 15 percent to the value of a proximate dwelling). (Measuring the Economic Value of a City Park System, Harnik and Welle, 2009, p8).

Visit Prosper's infrastructure portal:  
[www.prosper.org.au/1m4](http://www.prosper.org.au/1m4)



### A Flag for Geoism?

*A proposal by Jordan van Rhyn (featured on our front cover)*

#### Prosperity

The wheat grain symbolises prosperity. The three grains represent the three factors of production: labour, land and capital. The placing of the symbol in the canton emphasises its importance.

#### Peace

The white field in the left third of the flag represents the peaceful transition of systems.

#### Land

The Green field of the flag denotes the green forests, fields and farms of Earth and emphasises our connection to it.