

Land Values, Public Actions and Value Capture for Affordable Housing

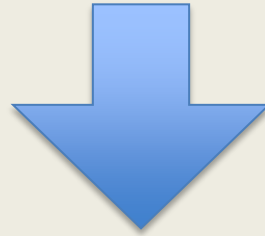
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Land Value Capture

Government actions (**value creation**)



Increases in land value



Community benefits (**value capture**)

Developers and landowners

It is important to make a distinction between developers and land owners. Housing developers take considerable risks and produce what is probably the most important good in society. In contrast, landowners play a more passive role. They realize their windfall profits by waiting for the economy to grow around them.

Developers and landowners

It's only fair for society to recapture some of the increases in land values that result from public infrastructure investments, private entrepreneurship, land use changes and the general growth of the economy. Classical economist John Stuart Mill was the first to make this distinction, proposing that “**unearned increments**” in land value should be recaptured by society.

Government actions that increase land values
include (Value creation):

1) Construction of infrastructure and public facilities

Value capture:

Special-Assessment Financing

2) Plan changes/upzonings

Value capture: Community Benefits

Possible community benefits (Santa Monica)

- Affordable/workforce housing
- Transportation Demand Management
- Historic Preservation – TDRs
- Social Services/Creative Arts
- Enhanced open space and streetscape
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The community benefits, the land owner benefits (not as much), the developer benefits

Does value capture work always and everywhere?

No, it needs places and times with a healthy market

- But how do cities, land owners and developers know what level of community benefits is feasible?
- “Community benefits cannot be calculated or negotiated without using development economics and real estate analysis, and the question is not whether but how” (Cameron Gray, former Director of Vancouver Housing Center)

And now for the other side of the coin:

What happens to land values when we impose regulations such as:

- Inclusionary Housing
- Commercial Linkage Fees for affordable housing?

They increase costs for developers.

Who pays those costs?

It is likely that land prices will go down, that the land market will adjust to the additional development costs

To summarize

- With plan changes/upzonings in areas with a healthy market land values go up
- Programs such as Inclusionary Housing and Commercial Linkage Fees tend to lower land prices

Implications

Housing Element and Land Values

Localities in preparing housing elements must designate sites for multifamily housing and rezone them within three years

What happens to the value of land of those parcels? It goes **UP**

Ironically, it makes more difficult to build affordable housing

1) Change the Housing Element

- For sites designated for higher densities in housing elements **mandate inclusionary requirements** for localities that do not have IH and higher requirements for localities that already have IH

- CEQA

Article on dual inclusionary system:
“Inclusionary Housing, Incentives, and
Land Value Capture;” January 2009,
Land Lines

Nico Calavita and Alan Mallach

2) Establish a Land Gains Tax

Milton Friedman: “the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function, to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes the politically inevitable”

From *The Economist*

12 Leaders

The Economist January 11th 2014

invested in other CDOs that themselves invested in MBSS—have been made prohibitively difficult to recreate. That is also sensible: whereas simple securitisation should be welcomed back, the over-engineered versions that rendered the financial system needlessly opaque should not.

Europe stands to benefit most from securitisation's return. Lenders across Europe are under pressure to improve the ratio of capital they hold to loans made. One way of doing this is to stop extending credit, which is, unfortunately, what many banks have done. If they instead slimmed themselves through securitisation, by bundling and repackaging loans and selling

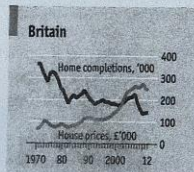
them to outside investors such as insurance firms or asset managers, they could lend more money to credit-starved companies. That would have the added benefit of spreading risk away from wobbly banks.

Securitisation certainly has a black mark against it, but it is far too useful to be banished for good. Almost all financial innovations, from the humble mortgage to the joint-stock company, have had to re-establish their reputations after a bust at some point in their history. Society benefited from their eventual rehabilitation—as it most probably will from the revival of securitisation. ■

Britain's planning laws

An Englishman's home

The shortage of housing is a gathering national crisis. Rev up the bulldozers



NOW that the economy is at last growing again, the burning issue in Britain is the cost of living. Prices have outstripped wages for the past six years. Politicians have duly harried energy companies to cut their bills, and flirted with raising

the minimum wage. But the thing that is really out of control is the cost of housing. In the past year wages have risen by 1%; property prices are up by 8.4%. This is merely the latest in a long surge. If since 1971 the price of groceries had risen as steeply as the cost of housing, a chicken would cost £51 (\$83).

By subsidising mortgages, and thus boosting demand, the government is exacerbating the problem. But that is not the main reason for rising prices. Driven by a baby-boom, immigration and longer lives, Britain's population is growing by around 0.8% per year, faster than in most rich countries. Foreign wealth, meantime, is pouring into London.

If supply were rising fast too, increasing demand would not matter; but it is not. Though some 221,000 additional households are formed in England annually, just 108,000 homes were built in the year to September 2013.

The lack of housing is an economic drag. About three-quarters of English job growth last year was in London and its hinterlands, but high prices make it hard for people to move there from less favoured spots. It also damages lives. New British homes are smaller than those anywhere else in Europe.

current coalition has scrapped that approach in the name of local democracy—but it, too, has resorted to strong-arming councils to release more land. It has also worked with the Bank of England to reduce the cost of credit and has subsidised high loan-to-value mortgages through a scheme called "Help to Buy". This has boosted demand for housing but not supply.

A much better way of encouraging house-building would be to give local councils bigger incentives to allow it. NIMBY-ism is not always irrational. Housing developments spoil views; incomers fill roads, schools and doctors' surgeries. Yet though land prices can soar 200-fold when planning permission is granted, councils cannot extract much of the increased value to spend on public services. A new scheme, the Community Infrastructure Levy, is in disarray, partly in the right direction. But it is hedged with restrictions and expected to raise just £650m a year nationally. That is not nearly enough to change minds.

Local governments, which are short of cash these days, could be allowed to charge developers much more. But the ideal solution would be a tax on the value of land. This would be low or zero for agricultural land and would jump as soon as permission to build is granted. It would prod builders to get to work quickly. It would also help to capture the gains in house prices that result from investment in transport or schools.

The green belts that stop development around big cities should go, or at least be greatly weakened. They increase journey times without adding to human happiness. London's, in particular, mostly protects scrubby agricultural fields and

“Local governments, which are short of cash these days, could be allowed to charge developers much more. But the ideal solution would be a tax on the value of land.”

2) Establish a Land Gains Tax (continued)

Vermont Land Gains Tax

- Taxes the gain from the sale or exchange of Vermont land held less than six years
- The tax goes from a high of 80% for gains over 200% on land held less than 4 months to a low of 5% for gains of less than 100% on land between 5 and 6 years

Finally, in order to build housing we need land, and not suburban land, but...



Why is land so expensive?

Scarcity

No incentive for property owners to sell –

Prop. 13

3) Reform Prop. 13 to assess non-residential properties regularly

Thank you