

## **Economic Commission for Europe**

### **Committee on Housing and Land Management**

#### **Eightieth session**

Geneva, 2-4 October 2019

Item 2(b) of the provisional agenda

**Review of the implementation of the programme of work 2018-2019**

**Sustainable housing and real estate markets**

## **Land value capture as a factor of housing affordability**

### **Note by the secretariat**

#### *Summary*

The Committee at its seventy-ninth session formulated recommendations for the future implementation of the Geneva UN Charter on Sustainable Housing by member States to promote access to affordable, adequate, decent and sustainable housing, including through taking into account land value capture (ECE/HBP/194).

The importance of the topic of land value capture for addressing housing affordability was underlined at the conferences co-organised by the Committee in cooperation with respective governments in: Sofia, Bulgaria (15-16 November 2018), Prague, Czech Republic (21-22 June 2019) and Lyon, France (7 June 2019).

This Note contains a definition and information on international studies on land value capture. It also includes recommendations to the Committee on how to address the topic in studies on housing affordability to be organised by the Committee.

## I. Introduction

1. Land is a limited natural resource. An increase in land value results from a range of factors starting from its depletion as a resource and most notably due to the investments into its value through expansion of human settlements and building infrastructure. Numerous empirical studies demonstrated that the land value increase is generated by improvements in access to infrastructure and urban services, benefits landowners<sup>1</sup>.
2. To address the negative effects of the increase of land value, such as decreases in land and housing affordability, governments and stakeholders started deliberations on how to address land value capture. Although there is no universal definition of land value capture, it refers to *fiscal instruments through which public authorities can capture those increases in property values that are unrelated to actions of land owners*.<sup>2</sup> It is motivated by the principle of a “*unjustified enrichment with no cause*” (OECD, 2019).
3. Around the world, there are already practical experiences which demonstrated that a portion of increases in value of land can be harnessed for a public benefit.<sup>3</sup> With additional funding gained by value capture, governments are able to address multiple challenges of sustainable urban development, such as the provision of affordable housing. Therefore, land value capture instruments (and other land-use regulations) can be effectively used to increase supply of affordable housing at the local level.
4. Increasing affordable housing supply can be achieved by diversifying the types of homes available for open market sale. Land value capture is being used to create more affordable housing in a range of communities, through “*inclusionary*”<sup>4</sup> housing policies. “*Inclusionary*” housing programmes are the local programmes that tap into economic gains from rising real estate values to create affordable housing for lower income families and other vulnerable groups of population. Inclusionary housing programmes might require developers to sell or rent 10 to 30 % of new residential units to lower-income residents.
5. Public authorities implement different public financing methods to “value capture”. For instance, in the USA, Tax Increment Financing (TIF) is a public financing method that is used as a subsidy for redevelopment, infrastructure, and other community-improvement projects. Transit value capture is used in Hong Kong and Japan to fund railway lines and new town development. “*Betterment levies*” are a form of tax or a fee levied on land that has gained in value because of public infrastructure investments. They are considered the most direct form of value capture (Peterson 2009). Whereas impact fees and developer exactions work from the cost side of budgets, betterment levies try to capture part of the infrastructure investment already incurred by the government.<sup>5</sup>

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<sup>1</sup> The potential of land value capture for financing urban projects: Methodological considerations and case studies / Andrés G. Blanco B., Nancy Moreno M., David M. Vetter, Marcia F. Vetter (Inter-American Development Bank)

<sup>2</sup> [https://read.oecd-ilibrary.org/urban-rural-and-regional-development/land-use-planning-systems-in-the-oecd\\_9789264268579-cn#page36](https://read.oecd-ilibrary.org/urban-rural-and-regional-development/land-use-planning-systems-in-the-oecd_9789264268579-cn#page36)

<sup>3</sup> Lincoln Institute of Land Policy

<sup>4</sup> <http://inclusionaryhousing.org/inclusionary-housing-explained/what-is-inclusionary-housing/>

<sup>5</sup> <https://urban-regeneration.worldbank.org/node/15>

6. OECD organized an expert meeting on July 2nd 2019 that brought together 20 academic experts on land value capture from the fields of urban planning, economics and law. The workshop was held in cooperation with the Lincoln Institute of Land Policy to prepare the OECD's Global Compendium on Land Value Capture. The objective of this Compendium is to provide a systematic overview of the use of land value capture instruments in 80 countries and to present information on the legal, governance and economic framework in which they are applied. For each country, the Global Compendium will contain a country factsheet of approximately three pages covering these topics in a standardised format.
7. Other studies on land value capture were conducted by the City Resilience Programme of World Bank<sup>6</sup>, UN-Habitat, United Nations Economic and Social Commission for Asia and the Pacific<sup>7</sup>, Housing, Communities and Local Government Committee of the UK House of Commons<sup>8</sup>, Lincoln Institute of Land Policy<sup>9</sup>, Scottish Land Commission<sup>10</sup>, the Brookings Institution<sup>11</sup>, World Transit Research<sup>12</sup> and Inter-American Development Bank<sup>13</sup>. While there are many studies which include information on examples how national and local governments implement value capture policies, there are still few studies which would demonstrate the connections between land value capture and housing affordability.
8. Therefore, it is recommended that the Committee on Housing and Land Management in its future work on housing affordability addresses influence of the land value on housing affordability by building on the above mentioned studies on land value capture by the OECD and other organisations. A possible study to be conducted by the UNECE should focus on collection of good practices to capture land value in particular national contexts in countries in the UNECE Region and the impact of those national practices on the provision of affordable housing.

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<sup>6</sup> <https://www.gfdrr.org/sites/default/files/publication/Land%20Value%20Capture.pdf>

<sup>7</sup> <https://www.unescap.org/sites/default/files/Case%204-%20Land%20Value%20-%20Hong-Kong%20MTR.pdf>

<sup>8</sup> <https://publications.parliament.uk/pa/cm201719/cmselect/cmcomloc/766/766.pdf>

<sup>9</sup> <https://www.lincolnst.edu/sites/default/files/pubfiles/land-value-capture-policy-brief.pdf>

<sup>10</sup> <https://landcommission.gov.scot/wp-content/uploads/2018/05/Land-Focus-Land-Value-Capture-May-2018.pdf>

<sup>11</sup> [https://www.brookings.edu/wp-content/uploads/2016/06/0428\\_transportation\\_funding\\_levinson\\_istrate.pdf](https://www.brookings.edu/wp-content/uploads/2016/06/0428_transportation_funding_levinson_istrate.pdf)

<sup>12</sup> <https://www.worldtransitresearch.info/research/6879/>

<sup>13</sup> <https://publications.iadb.org/en/potential-land-value-capture-financing-urban-projects-methodological-considerations-and-case>