SHARING LAND VALUE UPLIFT TO BUILD BETTER TOWNS AND CITIES

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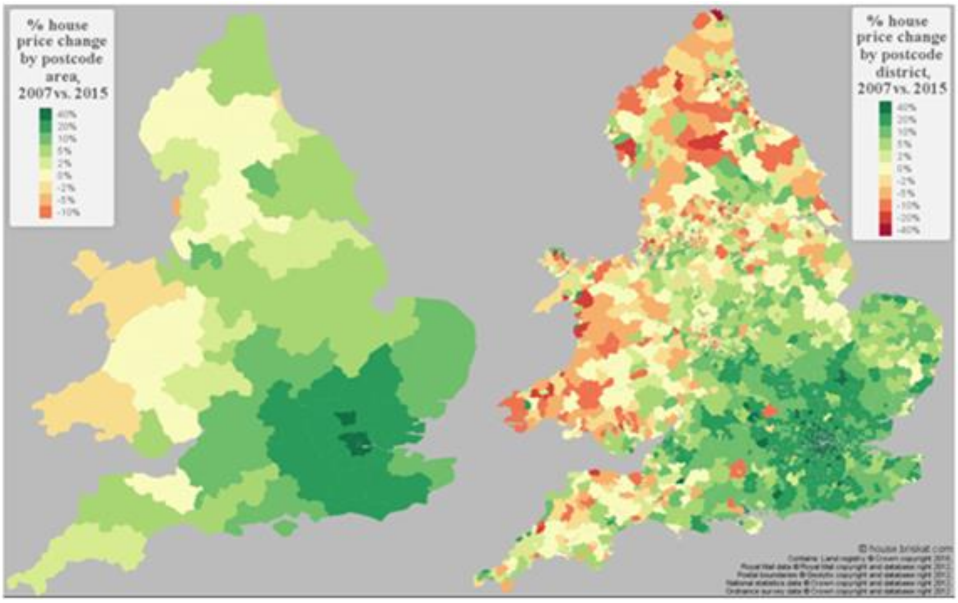
This briefing paper proposes sharing the uplift in land values from development to build better towns and cities. It tackles house price inflation, especially in the wider South East (dark green in the maps below). There are three basic propositions: first plan spatial growth to secure better returns; second use more of the uplift in land values to fund local infrastructure; and third test the proposals in the Oxford to Cambridge 'arc' before applying them more widely. Changing the way land is assembled is crucial to doubling the rate of house-building, regenerating run-down or 'left behind' places and tackling climate change. Such a 'step change' would not only enable our towns and cities to compete with more successful places in other countries but would apply what has worked here in the past.

Land value capture has been proven to work.[1] It has been endorsed by various enquiries.[2] It is key to how cities as different as Portland Oregon or Copenhagen Denmark have managed to change direction and fund new transit systems. But to succeed, it needs to be part of a series of changes. The evidence was set out in a comprehensive policy paper on *Sharing Land Value Uplift* for the Town and Country Planning Association, and so will not be repeated here.[3] The recommendations have been put forward to the UK2070 Commission under Lord Bob Kerslake and are summarised in the second section. As they apply primarily to areas of housing growth they should be tested out in the arc of development between Oxford and Cambridge, which is the subject of the third section.



House prices rose most in the South East around London (2007-2015)

[1] Nicholas Falk and Jonathan Manns; Capital Gains and Spatial Inequalities: developing fairer sububs, The Political Quarterly, 2019, vol 90(1) pp23-31

[2] Land Value Capture HC766, 10th report of Session 2017-19, Housing Communities and Local Government Committee, House of Commons, Sept 2018

[3] Nicholas Falk, Sharing the Uplift in Land Values: a fairer system for funding and delivering housing growth, Town and Country Planning, August 2019 www.urbedtrust.com

1. Planning spatial growth around infrastructure

Professor Paul Cheshire has ably documented in a series of blogs how anomalies in how restrictions on supply have led to house price inflation and inequitable gains for a few landowners.[4] His recent report for the Centre for Cities suggests a remedy by developing land near railway stations.[5] In a research report commissioned by the Greater London Authority, our team showed how to speed up building the homes the capital needs to compete in a global market. We recommended learning from successful cities in France, Germany and the Netherlands in particular [6].

There is nothing new or radical in using compulsory purchase powers to assemble land for strategic development. The UK did it to tackle bomb damage in Comprehensive Development Areas after the Second World War. The New Town Development Corporations greatly relieved pressures on housing, while attracting new jobs. More recently the London Docklands Development Corporation attracted large scale private investment in Canary Wharf through an Enterpriser Zone linked to new transport infrastructure. Currently the much acclaimed Kings Cross development is going ahead because the government made the land available through London and Continental Railways, where a previous private scheme had collapsed. The process is documented in an excellent World Bank book, [7] and the approach in the diagram below is being applied by fast growing cities in SE Asia.

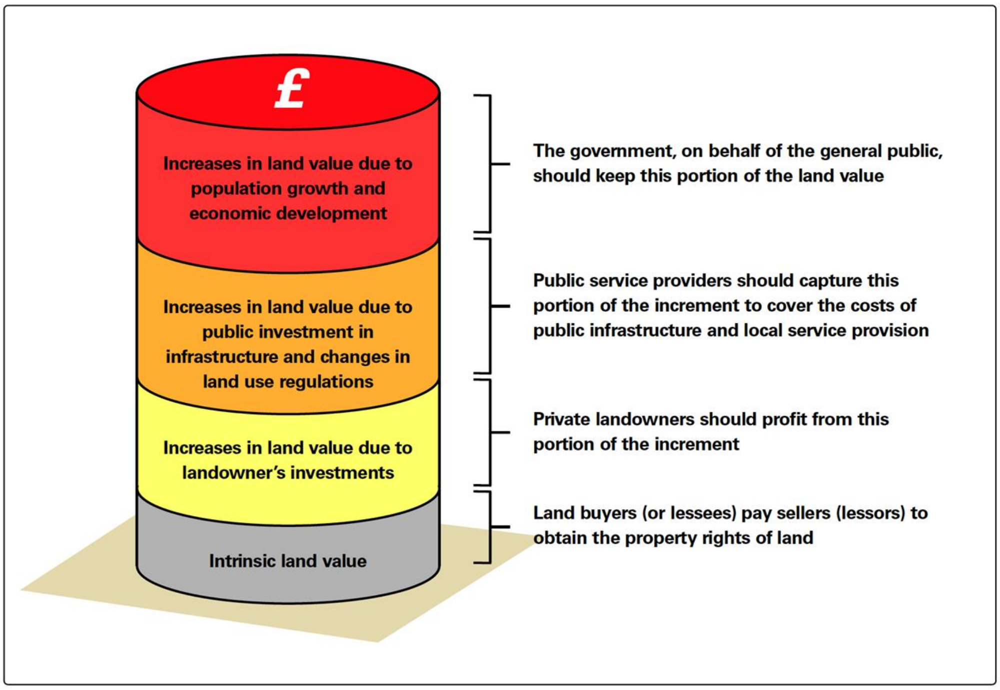
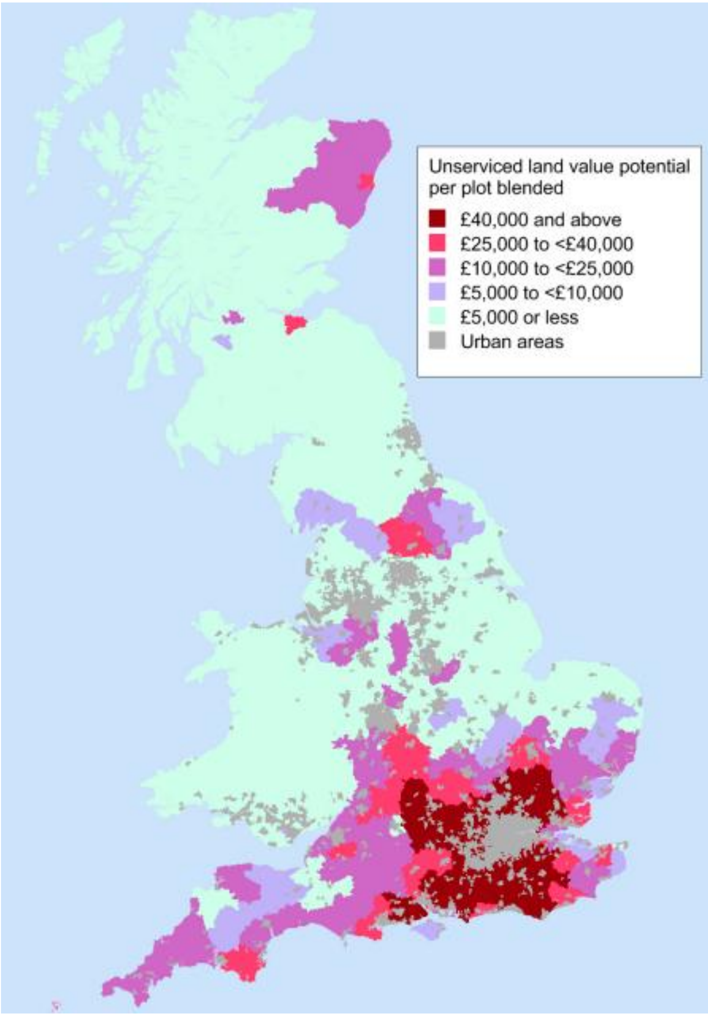


Diagram showing how land values could be shared

[4] Paul Cheshire, Turning Houses into Gold: The failure of British planning, LSE British Planning and Policy May 2014
[5] Paul Cheshire and Boyana Buyuklieva, Homes on the Right Tracks, Centre for Cities, September 2019
[6] Capital Gains: a better land assembly model for London, URBED, Dentons, Gerald Eve and Housing Futures, February 2018 www.london.gov.uk
[7] H Suzuki t al, Financing Transit-Oriented Development with Land Values, World Bank Group, January 2015

Proactive spatial planning is also used by the European cities that British visitors often envy. For example, Paris uses ZACs (Zones d' Amenagement Concertes) to regenerate poorer areas such as around St Denis, as well as to build over the railway lines running into Gare de L'Austerlitz. Montpellier, the fastest growing French city, has turned an ancient university city into a leading Technopole, and offers a good model for similar cities such as Cambridge. Perhaps most relevant of all, land value uplift from the new town of Orestad between Copenhagen and the main airport has been used to finance their first Metro. Split-level rating in Denmark distinguishes between the land and the building on it and provides a powerful incentive for developers to build once land has been rezoned and taxes are due.

Rapidly increasing house prices, especially around London, have buoyed up landowners and developers' expectations and made housing unaffordable to those not on the housing ladder. High rise towers are no answer, as demand for apartments is limited while their maintenance costs are much higher than terraced housing. The areas with the greatest potential for tapping land value capture are highlighted below. [8]



Where most uplift from land values can be secured

[8] This map by Savills is taken from Peter Freeman's submission for the 2014 Wolfson Economics Prize.

2. Rebalancing Britain

To create a better-balanced Britain in social, environmental and economic terms, government needs to harness the uplift in land values from development, which should then be channeled into local infrastructure where it will create most value. This includes building more social and affordable housing, as well as replacing worn-out transport and utilities. Eleven proposals are put forward below which draw on what has worked in the past as well as research into best practice around the world. The general principle is to invest in projects that will be self-funding over the longer period while producing short-term social and environmental benefits that command local support. The national Exchequer should be concentrating spending to regenerate cities that have lost their economic base.

My proposals are grouped in terms of the reforms to spatial planning, public finance and local government organization. Not all need to proceed at the same time, and most can be done without legislation, given the necessary ambition.

Spatial planning for better returns:

- ***Proposal 1: Spatial growth plans*** should distinguish between areas in terms of their economic potential and related land values. They can promote self-funding development in ***growth zones*** where it will add most value, without penalising areas where ***regeneration*** is needed.[9] Most areas will be untouched by this change. The *Dutch VINEX plan* provides a good model for how to increase the housing stock, and some 95 new settlements have been built in appropriate locations, increasing the housing stock by almost 8%.

- ***Proposal 2:*** A ***better model for land assembly*** should tap 'marriage value' from putting adjoining land together on larger sites and avoid 'free riders' (who hold land back until values have risen). This will open sites to a much wider range of developers and occupiers. Development frameworks should be used to shape land values and reduce uncertainties. Minor changes to the Compensation Code will be needed. The *French Zones d'Amenagement Concerte* provides a good precedent for what we call *Land Assembly Zones (LAZ)* in our *Capital Gains* report for the GLA *.* The best candidates lie around railway junctions and major stations where service upgrades are being considered.

Funding local infrastructure:

- ***Proposal 3: A development land charge***, implemented as a levy or tariff on the sales value of new housing in growth areas, could replace the Community Infrastructure Levy and possibly other forms of property taxation on larger sites. This would provide a straightforward means of funding local infrastructure, such as social housing, provided

[9] Tony Crook et al, Planning Gain: planning infrastructure and affordable housing, John Wiley 2015

the proceeds are hypothecated to the area where it is raised, as Professor Paul Cheshire is proposing for locations close to public transport[10]

- ***Proposal 4: Land value rating*** should be tried out in Growth areas to redistribute wealth and narrow spatial differences. Funds need to be raised from all property-owners not just from developers. Values must be reassessed more frequently. Modern GIS systems and aerial photography make it much easier to distinguish between land and buildings. Small businesses and housing can then be encouraged to use space in failing town centres, and VAT removed from refurbishment.
- ***Proposal 5: Property tax reform*** needs an authoritative Commission to recommend the best ways of rationalising the various sources of funding such as council tax, inheritance tax, stamp duty, the Community Infrastructure Levy and Section 106.[11] This should provide local authorities with better and fairer sources of funding without increasing national taxes. Split level rating has many appeals, as taxpayers can see where extra funds are going. A study tour to learn from Copenhagen would be a good first step.
- ***Proposal 6: Growth bonds*** should be used to raise private and institutional finance for the infrastructure needed for strategic new housing in areas with relatively high property values, and thus speed up the rate of development. Land value uplift will provide the security investors need to support local partnerships. Bonds are already being used on a large scale by housing associations and the universities of Cambridge and Oxford to fund ambitious development plans. The 'Smart City' of Portland Oregon offers a model for how bond finance can be used to upgrade transit systems through Tax Increment Finance (TIF).
- ***Proposal 7: Community or co-operative investment banks*** should be supported at regional levels to make it attractive for people to act collectively in tackling common problems such as affordability, climate change, and regional disparities. This will reduce the need for business-owners to borrow against the value of their homes and hence boost economic growth. The German *Sparkassen* or savings banks show how this can work, with successes in cities as diverse as Freiburg and Leipzig.
- ***Proposal 8: A Municipal Investment Corporation*** should be set up to boost local authority capacity in devising and evaluating good projects. [12]This will help package finance from all sources to raise investment levels to European levels. It will replace the role of the European Investment Bank and provide regions with the equivalent of the French Caisse des Depots, and German KfW, and most relevant of all the Dutch BNG, which is 50% owned by the municipalities and provinces.

[11] The Mirrlees Review for the Institute of Fiscal Studies, 2011
[12] Nicholas Falk, Funding Housing and Local Growth, The Smith Institute, 2014

Rebuilding capacity:

- ***Proposal 9: Development Corporations*** can achieve smarter urbanisation and rapid growth by joining up land and infrastructure where major public investment is required. They can boost confidence and assemble land at closer to existing value, thus speeding up development. These need to be supported by local authorities, not imposed, and should be given a long enough life to recover initial investment.
- ***Proposal 10: Community Land or development trusts*** can regulate occupation and create fairer societies with a much broader range of tenures provided they can acquire land on equitable terms. They also help tap local initiative in transforming and maintaining run-down environments. Hence, they will be particularly important in areas where property values are too low to attract private investment, but there is potential to mobilise natural and social capital.
- ***Proposal 11: Local infrastructure finance trusts (LIFTs)*** should be considered as a means of packaging different sources of finance. Public private partnership needs to match local conditions, and there are many possible forms of joint venture for smaller schemes, including ones led by private developers and landowners, but also social enterprises. These would make available finance go further and avoid the failings of Section 106 and CIL.

3. Testing the proposals

The government is giving priority to developing a million new homes in an area between Oxford and Cambridge which is expected to benefit from public investment in new railway lines and some new roads.[13] On economic grounds alone growth is essential as otherwise the universities and their spin-offs will lose ground to their competition, which is now world-wide. But there is no agreement yet on where long-term development should be concentrated, or on the overriding principles. Furthermore, the report of a major modelling exercise by the ITRC Mistral consortium concludes that road capacity will be overloaded if traffic is not diverted to rail. [14] As, the area extends beyond the Arc to the wider conurbation in the Travel to Work Area, a further challenge is that new homes could readily be taken by people moving out of London, which would do little to make housing more affordable.[15] This calls for further modelling before key decisions are taken.

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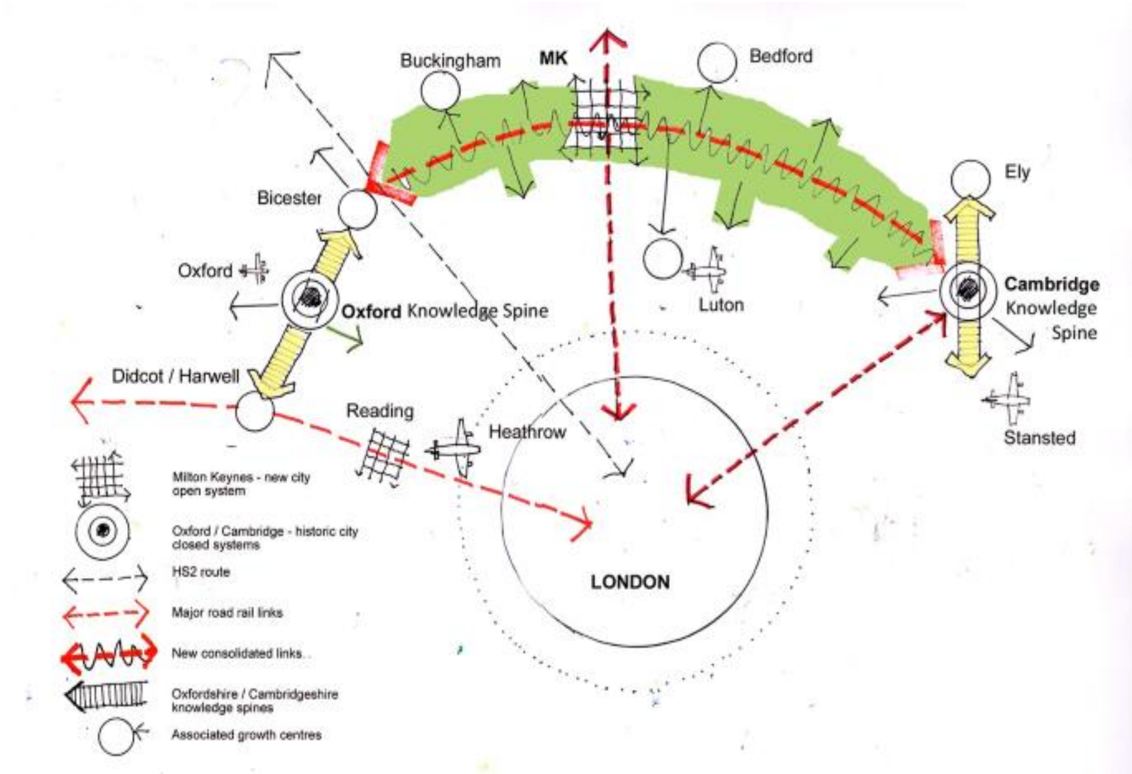
[13] Partnering for Prosperity: a new deal for the Cambridge- Milton Keynes-Oxford Arc, National Infrastructure Commission, 2018

[14] A sustainable Oxford-Cambridge corridor? Spatial analysis of options and futures for the Arc, 2019, www.itrc.org.uk

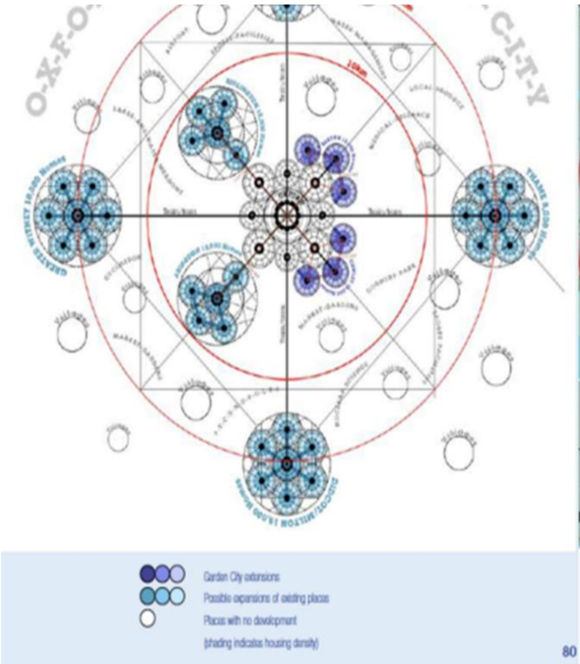
[15] Nicholas Falk, Oxfordshire Futures 2050, URBED Trust with Oxford Civic Society 2019, www.urbedtrust.com



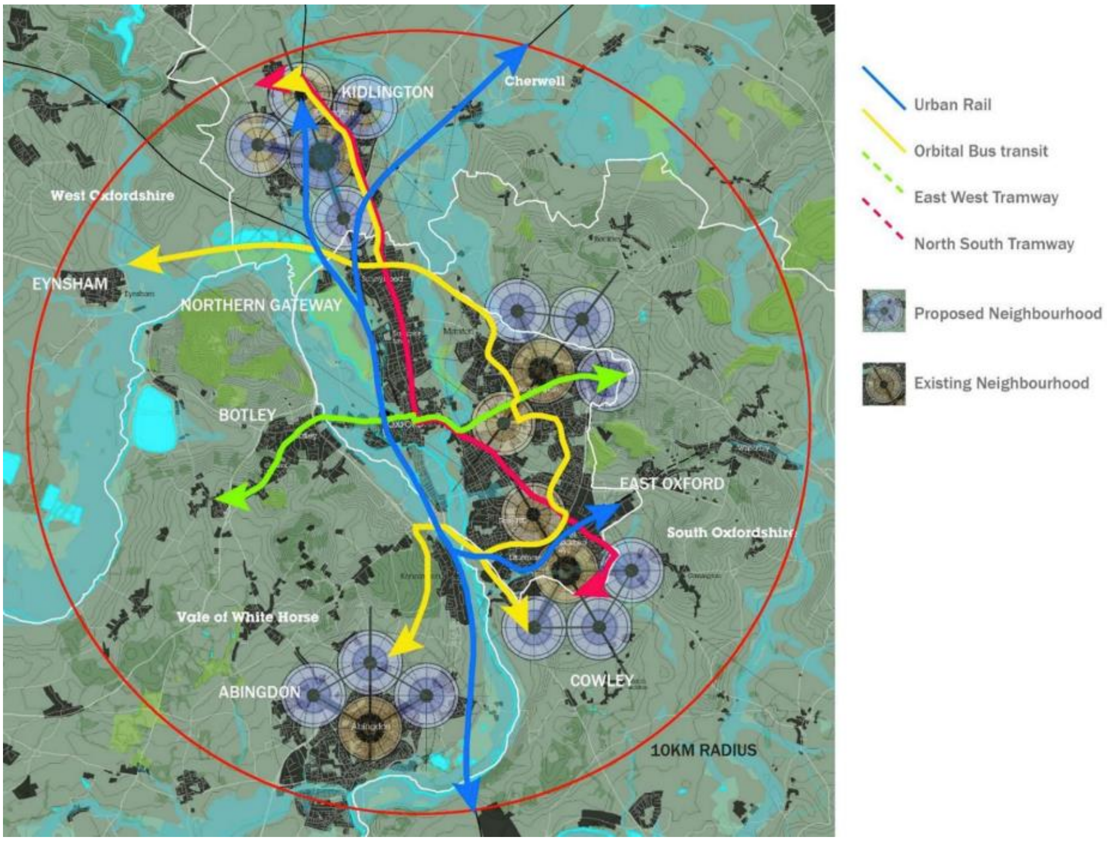
The Oxford-Milton Keynes-Cambridge Arc relates to London

Our submission that won the *2014 Wolfson Economics Prize* showed how to develop Garden Cities that are 'visionary, viable and popular' using first York and then Oxford as the test case. The development framework for *Uxcester Garden City* demonstrated how the historic university city of Oxford could double its population without subsidy by developing as little as 5% of the Green Belt that encloses the city. Financial analysis showed that the local infrastructure needed to secure popular support such as a tram line, country parks and social housing could be funded from the uplift in land values while still compensating current landowners, such as Oxford colleges, very generously. [16]

[16] David Rudlin and Nicholas Falk, Uxcester Garden City, www.urbed.coop



Possible zones for housing growth, and lines in an Oxford Metro system



The key to progress is transport. An Oxford Metro should integrate new and existing forms of public transport but needs to be implemented progressively to give cyclists and pedestrians priority in the city centre and to cut pollution and carbon emissions from traffic congestion along the main roads. An agreed strategic spatial plan should share the benefits from growth, and thus reduce conflict. Hence the area, which forms part of a City Deal, would be a good place for experimenting with new funding approaches, as the National Infrastructure Commission recommended in their report on the Arc. This could be a pilot Growth Zone, using '*gap funding'* or tax incentives to support a private bond issue for investment in the basic infrastructure, and thus avoiding over- dependence on government.

Once the proceeds from a development land charge are ploughed back in local infrastructure, making strategic development in growth zones self-funding over the longer term, national resources can be focussed on areas that most need regeneration. Conurbations such as Stoke or Sheffield also need to implement spatial growth plans for investment if they are to thrive. Hence the top priority for implementation should be to agree regional spatial frameworks that focus private investment in growth or regeneration areas and provide a long enough time framework for public bodies to invest in essential transport and utilities.

Ambitious ideas or visions need to be backed up with delivery mechanisms if they are not to add to further speculation, conflict and delay. So a simple and long overdue step is to set up development corporations to mobilise under-used land and package the resources needed. For example, there are 200 acres of under-used land around Oxford's main railway station. The driving force should be a partnership with the existing landowners and would stop 'free riders' hanging on until the uncertainties are resolved. The spatial growth plan under development therefore must not only join up new infrastructure with development, but also be used to 'freeze' land values where strategic public investment is expected. A study tour to Freiburg would show how this can be done.

In conclusion If the UK is not to lose heavily from leaving the European Union, we must double our efforts to learn and apply what leads to higher productivity and successful places. This requires combining investment in local infrastructure such as rapid transit, social housing and skills development to raise hope or ambition, and to generate private confidence. Instead of a lottery for projects, government should back plans for developing centres along upgraded railway lines along the lines proposed in both Oxford and Cambridge. The process will be much less expensive than building new roads and relatively simple providing we rediscover the importance of spatial planning, and good governance.

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