ANALYSIS HOUSING PRICES IN

METROPOLITAN AREAS OF INDIA

PROJECT :6

NM ID : NM2023TMID43618

PROJECT NAME : ANALYSIS HOUSING PRICES IN METROPOLITAN AREAS OF INDIA.

BOOBESHKUMAR D

EDIN JOVITH R

ROHITH B

**THREE PILLARS OF CITY**

**RESILIENCE**

•

Investment needs for cities extend beyond the reach of public

finances

•

Projections show that investments of $4.1 to $4.3 trillion in

urban infrastructure are needed every year

•

An incremental 9 to 27 percent ($0.4 trillion to $1.1 trillion)

needed to be climate resilient

•

Capital does not flow easily to meet this demand due to lack of

knowledge and support from financial services

Infrastructure

*Physical resilience*

*across sectors*

Finance

*Financial resilience and*

*capital market*

*engagement*

Governance &

Systems

*Institutional*

*resilience and*

*reform*

INVESTMENT IN INFRASTRUCTURE

**PRIVATE SECTOR INVESTMENT IN INFRASTRUCTURE HAS THREE**

**OVERLAPPING MODALITIES**



Direct lending to a responsible jurisdiction



Variety of

borrowing mechanisms

that can complement each other



F

ull control and financial risk born by

public entity

Debt



Public entity transfers some or most of financing (including but not

limited to equity project financing), construction and/or operating

responsibilities (and risks) to a private partner

Concession



I

nfrastructure

financing is part of

a broader

development effort



Reduces impact on government balance sheet



F

acilitate

s

creation of private economic value

in benefiting location

Land Value

Capture (LVC)

INVESTMENT IN INFRASTRUCTURE

LVC is a financial policy mechanism that helps governments to:



* Finance public investment in infrastructure to reduce physical vulnerabilities due to floods, environmental degradation, etc, thereby unlocking land values that are then captured by the city
* Secure (or reimburse) upfront infrastructure funding by recouping real estate value gains generated by infrastructure upgrades
* Levy direct beneficiaries of public improvements, which would otherwise benefit from such improvements as windfall gains
* Unlock additional funding in conditions of limited access to traditional sources of public sector financing
* Promote infrastructure cost-sharing with win-win outcomes to public and private stakeholders
* Incentivize wider policy measures that increase land value, e.g.

reduction of local risks

|  |  |  |  |
| --- | --- | --- | --- |
| * Place for the poor to build their hutments * Inaccessible * No new   commercial/resid ential  development | * 22km enforced promenade * Slums resettlement * Sewage upgrade * Environmental rehab * Land reclamation | * River access open to public * 202 ha of land has been made available for modern development * reduce erosion and exposure of the city to flood risk | 15% of sale proceeds recovers the cost of entire upfront public investment |

7-10 years

***Example 1***

**:**

**LVC helps the city of Ahmedabad to open up the riverfront**

INVESTMENT IN INFRASTRUCTURE

Blighted

urban riverfront

$17 mln of

upfront public

investment

Well serviced,

walkable

waterfront

30

ha of

reclaimed land

for sale

inherited from zoning to allow cargo port construction of

additional density

* Poor accessibility
* Structured SPV to
* Contaminated

sell extra waters

development rights

* Unpleasant views

directed to hard home to 70,000 infrastructure new mixed-income improvements residents in a well-

***Example 2***

**:**

**LVC helps regenerate Rio de Janeiros historic area near Bay**

INVESTMENT IN INFRASTRUCTURE

Underused

industrial lands

in the historic

core of Rio



Low

-

density uses

New density and

height

regulations

adopted



City adopted new

City earns $1.8

bln

from sale of

rights to build

extra density



Proceeds are

Regenerated

modern mixed

-

use community



The area becomes

* More build-up is serviced, accessible facilitated community with Further sale of nice urban views development rights

3-4 years to sale of a first tranche of development rights, 15 years to fully build out

Investments can include hard

infrastructure, slum upgrading,

environmental remediation

Improved infrastructure translates

into higher desirability and increased

development potential of land

Value captured

as a fraction of imputed

private developers profit.

•

Can be captured either upfront or

post project completion

•

Can be in monetary terms or as

in

-

kind contribution of

proportionate value

Captured value contributes to

recover costs of infrastructure

upgrades and/or generates funds for

additional infrastructure investment

**LVC establishes a virtuous circle of value from infrastructure upgrades**

INVESTMENT IN INFRASTRUCTURE



Underserviced land



Investment in

infrastructure upgrade



Upgraded land

commands higher

values



Private developer

earns profit from

further land

improvements



Part of private

developers profit is

captured by the City



Captured value is

reinvested in

infrastructure

Developers profit is large enough to offset some

or entire cost of infrastructure upgrades



**LVC is a new source of project financing promoted by The World Bank**

INVESTMENT IN INFRASTRUCTURE

If there is a $ 1 billion capital investment program contemplated by a city:

•

Business as usual

:



The World Bank finances $100 million with an interest

-

bearing term loan



Another $900 million is raised from general funds, public/private debt and grants

•

Leveraging LVC:



In concert with all of the above, The World Bank provides comprehensive technical assistance to the city to help

structure additional funding with re

-

captured land value (e.g. cash proceeds from sale of land / development rights,

special tax assessments, etc.)



This works towards overall reduction of the principal of interest

-

bearing loans, general fund appropriations and grant

resources and enhances bankability of the $1

bln

program



**Conceptualization of LVC**

**-**

**hypothetical disaggregation of land value**

INVESTMENT IN INFRASTRUCTURE

Intrinsic land value

Land buyers (or lessees) pay sellers (lessors) to obtain the

property rights of land.

Increases in land value due to

landowners

investments.

Private land owners should profit from this portion of the

increment.

Increases in land value due to public

investment in infrastructure and changes

in land use regulations.

Public service providers could capture this portion of the

increment to cover the costs of public infrastructure and

local service provision.

Increases in land value due to population

growth and economic development.

The government, on behalf of the general public, may keep

this portion of the land value.

**There is a range of tools used by public sector to capture land value gains**

INVESTMENT IN INFRASTRUCTURE

Leveraging public real

assets

Development charges

Sale of development

rights

Land pooling

/readjustment

Special assessments/

betterment levies

Disposition (sale or lease) of excess/underutilized public assets (land, property) for cash that is re

-

invested in local infrastructure

Developer receives development rights (or tenure rights in land, or approval of land use changes) in

exchange for obligation to compensate in cash (or provide in

-

kind) the cost of certain items of

public infrastructure benefitting larger area.

Development rights or certificates of additional density are sold for cash to finance infrastructure

improvements

Land

owners or occupants voluntarily contribute

part

of their land for infrastructure development

and for sale to cover

some

project cost. In return, each land owner receives a serviced plot of

smaller area

with

higher value within the same neighborhood.

Locally administered tax increments (property taxes, sales taxes, etc.) that generate additional tax

revenues for re

-

investment in local infrastructure

Tax increment financing

Capturing increases in property/land tax base (after infrastructure upgrades) and using such

incremental tax proceeds as collateral and refinancing source for infrastructure loans

*\* Long term ground lease in this context is considered equivalent to private ownership*

**LVC mechanisms can be promoted both on privately**

**-**

**owned**

**and public lands, depending on local context**

Privately

-

owned land or public land

lease\*

Development changes

Sale of development rights

Land pooling/readjustment

Special tax assessments

and Tax

Increment Financing

Publicly

-

owned land

Sale

/lease

of land that underwent

public infrastructure upgrades

Sale/lease

of land with development

conditions

(

i.e. negotiated contribution

for infrastructure

or affordable housing

)

Land as an equity contribution

towards a joint venture

INVESTMENT IN

INFRASTRUCTURE

**LVC mechanism allows cost**

**-**

**sharing on initial development**

**stages and that way helps reduce**

**/re**

**-**

**distribute**

**development**

**activation costs**

INVESTMENT IN INFRASTRUCTURE

Underserved Land

hazard

(

-

prone, blight)

Developer Barriers:

•

High risk profile

•

Cost

-

of

-

carry concerns

•

Free

-

rider problem

Development

-

ready Land

(

desirable, properly zoned, resilient

)

Development Enablers:

•

Disaster risk reduction

•

Slum upgrading

•

Hard infrastructure

•

Land consolidation / rezoning

Development Timeline

Land Value

PUBLI

C

UPGRADES

WITH

VALUE

CAPTURE

OPPORTUNITY

Potential for further

exponential

value growth

**Infrastructure windfall**: public costs for infrastructure are offloaded to private sector; private partners returns are high enough to absorb extra costs and extended payback

Cash flow, $

-

120

-

80

-

40

0

40

80

120

1

2

3

4

5

6

7

8

9

10

**Infrastructure bottleneck**: upfront infrastructure costs are too high for private sector and are paid by public funds; public costs are later recovered from private partners operating revenue

**LVC may be structured to either increase or to decrease the infrastructure**

**carrying cost of**

**a private project, depending on the projects risk**

**-**

**return profile**

INVESTMENT IN

INFRASTRUCTURE

-

120

-

80

-

40

0

40

80

120

1

2

3

4

5

6

7

8

9

10

Time periods

Cash flow with LVC Cash flow without LVC

**LVC is a**

**n**

**universal policy tool, which could be implemented**

**in**

**various**

**contexts**

INVESTMENT IN

INFRASTRUCTURE

`

Market

Legal and

regulatory

systems

Public

acceptance

•

Most effective in burgeoning

real estate market

•

Highest land value differential

is achieved in areas that are

most responsive to

infrastructure upgrades (urban

core, waterfront, etc.)

•

Development may face negative

mindset due to displacement,

NIMBY, redlining, spatial

segregation, social stratification, etc.

•

Inadequate land controls,

deficient technology and

data systems (e.g. land

cadaster) may hinder LVC

LVC builds into the local economic development context by:

**Bringing positive development implications**

* Improved urban environment
* Self-financed infrastructure
* Land value gains / Increased tax revenue
* Enhanced budgetary resources for addressing social goals

**LVC presets numerous opportunities for local economic**

**development, but may be hindered by local and system**

**-**

**wide constraints**

INVESTMENT IN

INFRASTRUCTURE

**Being hampered by development challenges**

* Lack of real estate market dynamics
* Insecure land / property rights
* Regulatory constraints
* Lack of knowledge / management capacity
* Corruption
* Sewage and landfill

**Despite being largely associated with transportation upgrades,**

**LVC opens financing opportunities for many more infrastructure items**

INVESTMENT IN INFRASTRUCTURE

Areas with proven track record in LVC



Transportation and transit

-

related assets



Water

-

supply sanitation

Lack of LVC track record

***but high LVC potential***

* Flood mitigation rehabilitation
* Slum upgrades and resettlement Historic preservation
* Water-basin / land decontamination Land consolidation
* Environment cleaning and

**Table below summarizes the common LVC instruments used in practice**

INVESTMENT IN INFRASTRUCTURE

|  |  |  |
| --- | --- | --- |
| **Instruments** | **Description** | **Examples in developing countries** |
| **Leveraging publicly owned land / property** | Disposition of “excess” public land generates cash for area-wide infrastructure upgrades. Often involve land consolidation (e.g. through *eminent domain*) or/and entitlement before disposition | * Bonifacio Global City (Philippines); * Sabarmati Riverfront (India) |
| **Development charges / impact fees / developer exactions /** | Developer receives development rights in exchange for obligation to compensate in cash (or provide in-kind) the cost of certain items of public infrastructure benefitting larger area. | * Impact fee formula introduced to fund construction of 21-km highway connector between Santiago and northern suburbs * In kind/cash developer exactions in cities of Columbia and Chile |
| **Sale of development rights** | Development rights or certificates of additional density are sold for cash to finance infrastructure improvements | * CEPAC bonds (Brazil), e.g. Porto Maravilla drainage upgrades; * Sale of FSI rights in Mumbai (India) |
| **Land pooling / readjustment** | Land owners or occupants voluntarily contribute part of their land for infrastructure development and for sale to cover some project cost. In return, each land owner receives a serviced plot of smaller area with higher value within the same neighborhood. | * About 1/3 of total urban area in Japan and 1/4 of total urban area in South Korea were developed through LP/R. * Used in many countries to facilitate peri-urbanization, urban regeneration including slum upgrading, and post-disaster reconstruction. |
| **Introduction of land value taxes** | Levy on value of underlying land as unimproved (as a substitute or supplement to property tax levied to buildings). Stimulates development to avoid taxation of idling land. Generates property tax and economic activity. Can be effective in areas plagued by disasters | * Separate taxation of land is introduced in select countries (Taiwan) * Land value tax was temporarily introduced in cities of Baja California   (Mexico) in early 1990s |
| **Betterment levies / special assessment** | Public sector taxes away a portion of land-value gain resulting from publicly funded infrastructure upgrades | * Riverfront in Pimpri-Chinchwad (India); * $2 bln levied during 1997-2015 in Bogota (Columbia) to fund city-wide road/bridge upgrades |
| **Tax Increment Financing (TIF)** | TIF aims to capture and leverage estimated future revenues from incremental increases in collection of property (or other) taxes within a geographically specified area of redevelopment, a TIF district | * Colombia and South Africa are currently piloting TIF. * Proxy TIF in Greater Hyderabad (India) where conventional loans were originated to fund infrastructure projects and set to be refinanced with property tax gains |

I N V E ST M ENT I N I N F R A ST R UCT UR E

**A wealth of value capture techniques established in practice,**

# can be classified based on the nature and timing of value-capturing charges



Tax

-

based

vs. Fee

-

based vs. Incentive

-

based

|  |  |
| --- | --- |
|  | **One-time charges**: exactions, sale of development rights, betterment levies, public land sale, land pooling/readjustment (upfront land contribution) |
|  | **Recurring charges**: TIF, land value tax, special assessment |
|  | **Either-or**: public land lease |

* **Tax-based**: betterment levies, special assessment, TIF, land value tax
* **Fee-based**: exactions, sale/lease of public land, sale of development rights
* **Incentive-based:** land pooling/readjustment, density bonus, negotiated land sale/lease with development conditions, joint development with public land as equity

## Value capture timing (one-time vs. recurring; upfront vs. upon completion)

I N V E ST M ENT I N I N F R A ST R UCT UR E

**Relevance of LVC tools may vary depending on the implementation**

Unestablished

**land market**

Lack of

**land**

**use**

**controls**

and regulations

Deficient

land

**Cadaster**

/

records

Insecure

**property rights**

Limited

access to

**capital markets**

Non

-

devolved

**fiscal**

**powers**

**Impact fees /**

**Exactions**

**Betterment**

**levies**

**Leveraging public**

**assets**

**Land pooling /**

**readjustment**

**Sale of development**

**rights**

**Land value tax**

**Tax Increment**

**Financing**



Prohibitive challenge

(

regulatory / systemwide

changes are prerequisite)

Significant challenge

(

regulatory/legislative changes

required in certain conditions)

Limited systemwide arrangements

needed. Respective

implementation terms can be set

at deal level

**conditions of each context (table below only indicative)**



**APPENDIX**

SELECTED LAND VALUE CAPTURE INSTRUMENTS



Negotiated Exactions



Impact Fees



Leveraging Public Assets



Sale of Development Rights



Land Pooling/Readjustment



Land Value Tax



Betterment Levies



Tax Increment Financing

Negotiated Exaction:

*Overview*

INVESTMENT IN INFRASTRUCTURE

**DESCRIPTION**



In

-

kind (land, improvement) or cash contribution by a developer to foster infrastructure upgrades related to

a proposed real estate project (to that end,

*Exactions*

are similar in principle to

*Impact Fees*

).



It typically works as a payment for building exemptions (higher land use, density, or eased construction

norms) or other forms of development

-

enabling certifications.



In contrast to

*Impact Fees*

(

that are applied systemwide on a formula basis),

*Exactions*

are typically applied

case by case through a

*vis*

*-*

*a*

*-*

*vis*

negotiated transaction.

**KEY REQUIREMENTS / IMPLEMENTATION FACTORS**



Clear land use and town

-

planning regulations and rigid construction norms (for setting baseline conditions).



Local government’s capacity in planning and implementation (to be able to fulfill infrastructure obligations).



Rigid public outreach approach to explain what standard building/land use regulations are traded for.

Negotiated Exaction:

*Lessons Learned*

INVESTMENT IN INFRASTRUCTURE

|  |  |  |
| --- | --- | --- |
| CHALLENGES |  | OPPORTUNITIES |
| * As long as exactions are negotiated on case by case, entry barriers to development projects are less predictable * Regulatory exemptions traded for development permits may fail to generate enough public good outside of a project itself. Infrastructure upgrades and related development with eased regulations shall generate wider public benefit and justify diversion from standard regulations * In view of the above, objection from the public to exaction-driven private development is common | * Straightforward two-way transaction * Minimal fiscal impact * Minimum framework regulatory arrangements needed. Transaction can be fully structured with *ad hoc* deal terms |

|  |  |
| --- | --- |
| **Project**  **Description** | The project equips the city of Casablanca with a 9-km long collector to drain and canalize floodwater of Oued Bouskoura river and discharge directly into the ocean.  The collector will reduce exposure of large parts of Greater Casablanca to flooding and will increase the citys flood protection to a 20-year level.  $90 million, 95% complete as of March 2017. Funding sources include PPP to include government (40%) and municipal funds (30%), National Fund to Combat Natural Disasters, and private funds |
| **Value Capture Component** | A fraction of the project was financed with contributions from private companies owning and developing real estate in the flood-affected areas of Oued Bouskoura basin. |

## Western super-collector, Casablanca, Morocco

**Negotiated Exaction:**

***Sample Project***

INVESTMENT IN INFRASTRUCTURE

Such contributions included $8 million from the Moroccos largest private company, OCP Group (phosphate producer), which develops industrial facilities and a leisure center in the Bouskoura basin.

Impact Fees:

*Overview*

INVESTMENT IN INFRASTRUCTURE

**DESCRIPTION**



Developers are assessed an extra cash charge to compensate the cost of area

-

wide infrastructure

upgrades.



Per standard scheme, it is a one

-

time charge applied routinely by a local jurisdiction to real estate

development projects contemplated in the area impacted by infrastructure upgrades. The proceeds from the

charge finance (or refinance) a portion of the cost of facilities upgrades.



Such charge is assessed on a formula that considers benefit allocation, intensity of land use, distance to the

upgraded infrastructure etc.

**KEY REQUIREMENTS / IMPLEMENTATION FACTORS**



Strong planning and analytical capacity at local level needed for planning and costing infrastructure

upgrades, along with devising a solid approach in allocation of benefits across different locations / projects.



Strong execution of public investment plans.



Transparent and stringent formula for impact fee calculation (allowing developers to credibly project impact

fees in development financial pro forms).

**Impact Fees:**

***Lessons Learned***

INVESTMENT IN INFRASTRUCTURE

|  |  |  |
| --- | --- | --- |
| CHALLENGES |  | OPPORTUNITIES |
| * Extra charges may hinder development activity. * If applied improperly may become a disincentive to develop land to its highest and best use * Infrastructure benefits are distributed unevenly. Imperfections in apportioning off-site costs are inevitable * Works best for hard and basic infrastructure that has direct and quantifiable impact (such as transit or sewer/water upgrades). Less prudent for infrastructure items where short-term impacts are less tangible (e.g. resilience enhancement, green infrastructure). | * Relatively straightforward two-way transaction * Minimal negative fiscal impact (e.g. municipal cash flow is not ring-fenced in any way) * Efficient tool to redistribute costs of development-enabling infrastructure (avoids overburdening of first-comers and free-riding of followers) |

|  |  |
| --- | --- |
| **Project**  **Description** | In late 1990s Santiago metropolitan region started expanding north in the Chacabuco province with 14 major real estate projects approved (primarily housing), adding 40,000 new households to the metro region.  The new housing projects were to be built on agricultural land lacking urban infrastructure services. Most notably the new urban districts were lacking connectivity to Santiagos urban core. To address that, a 21-km radial highway connecting to central Santiago was to be built with additional 41-km of byways and interchanges.  The total cost of new road network development was estimated at US$106 million. |
| **Value Capture Component** | National government took the upper hand in planning, organizing a builder concession and structuring funding that comprised 39% government funding and 61% coming from developer impact fees. |

## New highway to connect sprawled development with urban core, Santiago, Chile

**Impact Fees:**

***Sampled Project***

INVESTMENT IN INFRASTRUCTURE

The impact fee formula implied a cash charge levied per buildable housing unit. The fee varied based on each projects formalized impact on regional road network: location relative to new road, project size, and estimated travel demands.

The impact fee averaged about US $1,600 per housing unit.

I N V E ST M ENT I N I N F R A ST R UCT UR E

Leveraging Public Assets*: Overview*

### DESCRIPTION

* Disposition of publicly-owned assets (land, buildings) to a private developer whereby value is realized either directly (e.g. sale proceeds) or through creation of future development value or socioeconomic benefit
* Depending on market conditions and a specific deal structure such disposition may come through direct arms length sale, auctioning, lease, or conveyance/below-market sale as a form of in-kind contribution to developer equity or for infrastructure or amenity provision
* The asset may be disposed either in as is condition (if it immanently represents tangible value to the private-sector partner) or following some initial investment by government

### KEY REQUIREMENTS / IMPLEMENTATION FACTORS

* Availability of excess/underutilized public assets either *per se* or through asset consolidation / optimization
* Market value of the public assets can be clearly established and have potential to generate additional value
* Government must communicate effectively to citizens its rationale for disposing public assets
* Public entity must have negotiating capacity *on par* with private sector developers to achieve fair pricing

**Leveraging Public Assets:**

***Lessons Learned***

INVESTMENT IN INFRASTRUCTURE

|  |  |  |
| --- | --- | --- |
| CHALLENGES |  | OPPORTUNITIES |
| * Sizing and timing market demand requires special knowledge that municipality may not posses * Regulatory /legislative limitations on public asset disposition may stall or encumber the process * Sale of municipality-owned land may result in loss of control over future development (especially when city-level land use controls are not robust) * Negotiated disposition price of publicly-owned assets may face public objection and raise political concerns | * Can result in direct cash revenue for a municipality * Puts a vacant or underutilized asset back into productive use * Allows quick value recycling (in certain conditions enables a city to invest in infrastructure upgrades upfront without tapping general revenue funds) * Minimal negative fiscal impact * Relatively straightforward two-way transaction (once value to private sector partners is established and price of property negotiated) |

|  |  |
| --- | --- |
| **Project**  **Description** | Aims to provide the city of Ahmedabad with an improved and accessible waterfront along the Sabarmati River, reduce erosion and exposure of the city to flood risk, upgrade sewers, and rehabilitate and resettle slums  $17 million spent on all heavy engineering works and land reclamation as well as on 22 km lower river promenade complete, upper promenade still in development. Key financing sources are loans from a local municipal corporation and a central government financial institution  SPV established to manage initial investment in riverfront upgrade and subsequent land sales to the private sector. |
| **Value Capture Component** | The project is self-financed  cash for recovery of capital expenditure and operating costs comes from sales of reclaimed and serviced land for commercial development |

## Sabarmati Riverfront Upgrade, Ahmedabad, India

**Leveraging Public**

**Assests**

**:**

***Sampled Project 1***

INVESTMENT IN INFRASTRUCTURE

Completion of major infrastructural components have already led to increased land values, thus reducing the amount of land that needs to be transacted for servicing the loans.

Overall the amount invested has been recovered from sales of less than 15% of improved land.

|  |  |
| --- | --- |
| **Project**  **Description** | An underground drainage detention structure serving as a flood control facility for Bonifacio Global City  Core element of an elaborate drainage system that collects rainwater from paved urban surfaces then releases it under controlled conditions  Construction was financed by proceeds from the $800 million land sale following packaging of public/private interests into a development joint venture |
| **Value Capture Component** | Funding infrastructure improvements with land sale proceeds post entitlement of undeveloped military lands to real estate development area |

**Leveraging Public Assets:**

***Sampled Project 2***

INVESTMENT IN INFRASTRUCTURE

|  |  |
| --- | --- |
| **Bonifacio Global City Drainage, Manila, Philippines** | |
|  |  |

### DESCRIPTION

* Generates funding for public infrastructure by selling development rights instead of rights in land (rights in land may either be already obtained, or not intended for transfer or simply come with development rights)
* Sellable development rights fall into two categories: the right to convert less productive (lower) use to a higher use, and the right to build at greater densities than normally would be allowed by existing zoning
* Sale of development rights can be organized through sale of development certificates that act as financial market derivatives (bonds) transferrable in the stock market and thus able to increase liquidity and cash generating potential of this instrument (such as CEPAC bonds in Brazil)

**Sale of Development Rights:**

***Overview***

INVESTMENT IN INFRASTRUCTURE

### KEY REQUIREMENTS / IMPLEMENTATION FACTORS

* Larger urban areas with strong real estate markets maintaining enough demand and growth potential for high-density development
* Relatively deep capital markets for realization of schemes similar to CEPACs
* Rigid land use controls, property records (cadaster) and property appraisal systems have to be in place

**Sale of Development Rights:**

***Lessons Learned***

INVESTMENT IN INFRASTRUCTURE

|  |  |  |
| --- | --- | --- |
| CHALLENGES |  | OPPORTUNITIES |
| * Restricted applicability, i.e. may not work in the secondary markets where demand for higher density development is not strong enough * Vulnerable to macroeconomic conditions (more than many other LVC tools) * For efficient and equitable implementation, strong and transparent land use controls are prerequisite | * Direct revenue source that may generate cash for front-funding or expedited cost recovery of infrastructure projects  i.e. positive fiscal impact * More liquid revenue source than sale of land rights * Sale of development rights better mitigates the risks of loss of control over land use (relative to selling land title alone) |

|  |  |
| --- | --- |
| **Project**  **Description** | Revitalization of underutilized Guanabara Bay waterfront (mostly government-owned port and near-port lands) into a brand new mixed-use, mixed-income community. The main rationale is the regeneration of this heavily underserviced area in the heart of Latin Americas major metropolis, by intensifying and blending new uses  The development plan includes complete reconstruction of local water, sanitation, and drainage systems, extensive streetscaping and landscaping, installation of three brand new sanitation plants, historic preservation, social inclusion (at least 3,000 social housing units are being delivered), and cultural and education initiatives  The area comprises 1,250 acres and is home to 35,000 residents (subject to increase to 100,000 post regeneration).  The program commenced in 2009, with full recycling of approved additional density anticipated by 2025. |
| **Value Capture**  **Component** | Project-underlying infrastructure has primarily been financed through CEPACs, following adoption of a new law to substantially increase density and height limitations set in the Porto Maravilha area. |

## Porto Maravilha Urban Waterfront Revitalization, Rio de Janeiro, Brazil

Sale of Development Rights:

*Sampled Project*

INVESTMENT IN INFRASTRUCTURE

More than 4 million sq m of additional density was sold via CEPACs during 2011-2013 generating US$1.8 billion in upfront infrastructure funding (the initial purchaser of a CEPACs was a state-owned financial bank CEF, which passes

CEPACs through, selling them at a profit, to private real estate developers as demand arises)

**Land Pooling / Land Readjustment:**

***Overview***

INVESTMENT IN INFRASTRUCTURE

**DESCRIPTION**

•

A participatory process in which land

owners

(

or occupants

)

voluntarily contribute

a certain percentage

of

their land for infrastructure development and for sale to cover

part of

project cost. In return, each land owner

receives a serviced plot of smaller area

but with

higher value within the same neighborhood

•

LP/R provides an alternative to expropriation, with minimal displacement

•

Many countries used LP/R to facilitate peri

-

urbanization, urban regeneration including slum upgrading, and

post

-

disaster and post

-

conflict reconstruction

**KEY REQUIREMENTS / IMPLEMENTATION FACTORS**



Generally requires consent of supermajority of land owners to approve the project



Appropriate legal framework that empowers local authority to legally take land from dissenting landowners

when supermajority agrees



More feasible in areas with high land value increase potential after project completes



Shall be guided by a city’s mater plan



Quality of property records and cadaster map is important to expedite implementation

**Land Pooling / Land Readjustment:**

***Lessons Learned***

INVESTMENT IN INFRASTRUCTURE

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| |  | | --- | | CHALLENGES | | * Land owners consensus can be difficult to obtain especially if projects fully rely on their voluntary participation * Requires strong project management and   technical capacity, particularly in negotiation and building consensus with land owners   * Not all projects can achieve self-financing and may require public funding to cover part of project cost | | |  | | --- | | OPPORTUNITIES | | * Assembles land for urban expansion and revitalization with minimal displacement. * Helps recover a portion of the project cost. * Promotes intensification of land use, thereby enhancing land value for landowners and expanding the property tax base for the municipality. * Distributes land redevelopment costs and benefits equitably among landowners and other stakeholders such as the municipality, private developers, and the community, especially the urban poor and landless. * Encourages public participation in policy decision-making. | |

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| **Project**  **Description** | With technical assistance from the World Bank, Tra Vinh city in Vietnam is currently piloting land pooling/readjustment approach to redeveloping a centrally located low income neighborhood, in order to address issues of flooding and lack of drainage network and access roads. The city has very limited budget, and LP/R becomes the only viable approach as development cost is shared between the city and local residents.  The neighborhood has an area of about 24 hectares, including about 1000 land plots that belong to 480 land users (under Vietnams public leasehold system). A sub-area of 4 hectares was selected as the pilot site. Site plan ensures access to every land parcel yet avoid demolition of existing structures to the extent possible. Over 90% of the land users in the pilot area have agreed to participate in the project so far.  With World Bank support, a new decree that includes LP/R provisions was approved in January 2017, which became the first legal framework for LP/R in Vietnam. |
| **Value Capture**  **Component** | As this is the first pilot project, the city plans to cover about 70% of the total investment cost from its budget in order to reduce land contribution from the land users and gain support from the community. The remaining 30% of the total cost will be covered by sale of surplus land. |

## Land Pooling/Readjustment Pilot, Tra Vinh, Vietnam

**Land Pooling / Land Readjustment :**

***Sampled Project***

INVESTMENT IN INFRASTRUCTURE

For agriculture land, each land user will contribute 33% of their land area into the project, and for residential land each land user will contribute 13%. Preliminary land value assessment shows that land price on average is estimated to increase by 3.5 to 5 times after the pilot project.

The city expects that future revenue from land in the project area, such as land transaction tax, land use conversion fee (from agricultural to residential), and land tax, will also increase substantially as a result of the pilot project.

Land Value Tax:

*Overview*

INVESTMENT IN INFRASTRUCTURE

**DESCRIPTION**



Tax instrument that assesses value of land “as unimproved”, opposite to conventional property tax that

focuses on taxing factual value of land with improvements.



Aims to differentiate tax burden to land owners based on “windfall” benefits of unimproved land

–

location,

physical characteristics and neighboring uses



Directed at incentivizing improvement of underused urban sites by making land idling and holding prime

lands for speculation a burdensome option for landowners

**KEY REQUIREMENTS / IMPLEMENTATION FACTORS**



Robust land cadaster, land assessment and regular re

-

assessment practice



Effective tax administration capacity at the local level



Strong local real estate market that naturally differentiates values of land in unimproved condition based

purely on location quality and preeminent development potential



Fiscal decentralization

**Land Value Tax:**

***Lessons Learned***

INVESTMENT IN INFRASTRUCTURE

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| CHALLENGES |  | OPPORTUNITIES |
| * Might increase complexities of tax administration * Needs technical capacity at municipal level for maintaining advanced land cadaster and land reassessment systems * Fiscal powers have to be devolved so that municipalities could structure and impose such a tax | * Incentivizes development of unimproved/underutilized land in prime urban locations * Can leverage property tax assessment systems already in place * Can be an effective tool to spur revitalization in areas affected by natural hazards * If adequately structured and implemented can increase tax revenue providing additional funds for public works |

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| **Project**  **Description** | In 1989 the city of Mexicali diverted from conventional practice assessing a composite property tax on both land and permanent structures and started taxing only the value of the land  This fiscal policy shift involved major changes in tax administration including changes in land assessment promoted by consensus of representatives from real estate organizations and professional appraisal associations  New tax rates were specified based on distance from pre-specified high-value locations. Separate flat-rate surcharges were applied to residential and commercial lands.  This new tax policy waned out after changes in Mexicalis municipal administration and the land value tax was eventually terminated in the City of Mexicali. However, the positive results in the first years of land taxing in Mexicali prompted other municipalities of the state of Baja California to implement land value taxing in their jurisdictions |
| **Value Capture Component** | During the first periods of implementation the new taxing system allowed the Citi of Mexicali to increase property tax revenue twofold generating additional revenue for infrastructure upgrades |

### Introduction of Land Value Tax in the City of Mexicali, Mexico

**Land Value Tax:**

***Sampled Project***

INVESTMENT IN INFRASTRUCTURE

Betterment Levies:

*Overview*

INVESTMENT IN INFRASTRUCTURE

**DESCRIPTION**



An additional tax/special rate levied to property owners within a specifically defined geographic area, which

is regarded as the main concentration of beneficiaries of respective publicly funded infrastructure upgrades



Betterment levies are also called special assessments in some countries



Application of betterment levy can be narrowed down to specific types of users or owners within the defined

geographic area, such as owners of large commercial building or owners who have an intent to develop in

the area and are seeking construction permit



Rate and length of time of the levy depends on when and how funding requirement is fulfilled



In contrast to Tax Increment Financing (TIF), betterment levy is applied to full assessed value, whereas in

TIF a special assessment applies to incremental property value increase.

**KEY REQUIREMENTS / IMPLEMENTATION FACTORS**



Systemwide fiscal regulations should allow special tax assessment and collection at municipal level



Robust property appraisal and land cadaster systems

**Betterment Levies:**

***Lessons Learned***

INVESTMENT IN INFRASTRUCTURE

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| |  | | --- | | CHALLENGES | | * Can be a legally complex and timeconsuming arrangement * Requires adoption of special fiscal regulations that are out of control of municipality * Administration of such tax may be costly * Delineation of special assessment area often follows jurisdictional borders which causes imperfection in allocation of cost to actual beneficiaries | | |  | | --- | | OPPORTUNITIES | | * Generally allows to raise money off balance sheet without increasing city-wide property taxes * Tends to align costs of public improvements with those who will benefit the most from such improvements * Recurrent and reliable source of municipal revenue * Less complex than TIF as another tax-based   LVC   * Cost effective alternative to municipal borrowing with no negative fiscal impact | |

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| **Project**  **Description** | Local Municipal Corporation is considering complex improvements on the banks of three rivers flowing through the municipality (building embankments for flood protection, sewage treatment, desilting, landscaping, and enhancing connectivity between the banks)  $18 million, concept stage  master planning works started in 2016 |
| **Value Capture**  **Component** | Upfront costs to be covered by government and the municipal corporation  Recovery of municipal costs through charging flood premiums on top of construction permitting fees  Changes in town-planning codes proposed to allow development in the 25-year flood zones on condition of recovering a flood premium from developers |

## Riverfront Development, Pune, India

**Betterment Levies:**

***Sampled Project***

INVESTMENT IN INFRASTRUCTURE

Flood premium is calculated as 25% of assessed value (ready reckoner rate) of land or real property in a respective geographic area of the city

Such flood premium to be administered by the Municipal Corporation and has to be utilized for riverfront development

I N V E ST M ENT I N I N F R A ST R UCT UR E

# Tax Increment Financing (TIF): *Overview*

## DESCRIPTION

* TIF provides an alternative to finance urban infrastructure in blighted and underdeveloped areas, unlocking

(private) development that wouldnt otherwise occur in the absence of those up-front investments

* TIF aims to capture and leverage estimated future revenues from incremental increases in collection of property (or other) taxes within a geographically specified area of redevelopment, a TIF district.
* Local governments use a debt instrument (bonds or loans) backed by the projected future tax revenue within the TIF district. The debt instrument proceeds to pay for up-front investments such as land acquisition, upgrade of water system, road improvements, or remediation of environmental contamination.
* Up-front investments create the real estate market and economic conditions that lead to the incremental increase in land value and tax revenue, which closes a virtuous cycle in which growth pays for growth

## KEY REQUIREMENTS / IMPLEMENTATION FACTORS

* Robust land cadaster, land assessment and tax administration capacity at the local level
* Strong political backing to enabling legislation
* Might require credit enhancement (e.g guarantees) from the city or the nation
* Strong real estate markets maintaining enough demand and growth potential for high-density development Relatively deep capital markets

**Tax Increment Financing (TIF):**

***Lessons Learned***

INVESTMENT IN INFRASTRUCTURE

|  |  |  |
| --- | --- | --- |
| CHALLENGES |  | OPPORTUNITIES |
| * Not all cities, not at all times: it requires a robust real estate market * Requires a strong cadastre and tax collection system * It absorbs and restricts the use of future revenues (the delta generated by development) * It is vulnerable to national and local economic crises, which creates repayment risks * It requires a strong commitment of the city beyond political cycles to ensue continuity of economic development and TIF legislation between administrations | * It complements the traditional financing instruments * If properly structured, TIF debt does not affect the balance of the city * Maximizes private investment since it uses financial structuring * TIF allows for greater private economic investment without requiring infrastructure investment by the city official books * Strengthens municipal management as it requires high coordination between entities * Promotes the depth of capital markets in municipal financing |

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| **Project**  **Description**  **Value Capture**  **Component** | Since 2011 the World Bank has provided technical advice to the Government of Colombia to support cities to structure & take to market innovative land-based financial instruments that would leverage private finance for urban infrastructure.  The initiative thus far has focused on ascertaining the legal and financial feasibility of implementing a TIF operation of a major urban renovation project in Medellin called the Innovation District  The proposed urban development plan includes redevelopment of 184 hectares comprising four neighborhoods in downtown Medellin, targeting to develop 1.6m m2 over a 12 year period, including 60,000 m2 of social housing  Legal feasibility analysis showed that Colombian legislation indirectly limits the use of incremental revenues by restricting local administrations to securitize future revenues beyond their government periods (four years). With the support of the Bank, the City of Medellin is currently in the process of developing the overall regulatory framework to legally enable the use of TIF at the city level  Preliminary results showed that the Innovation District would potentially benefit from use of TIF to fund catalytic public infrastructure |

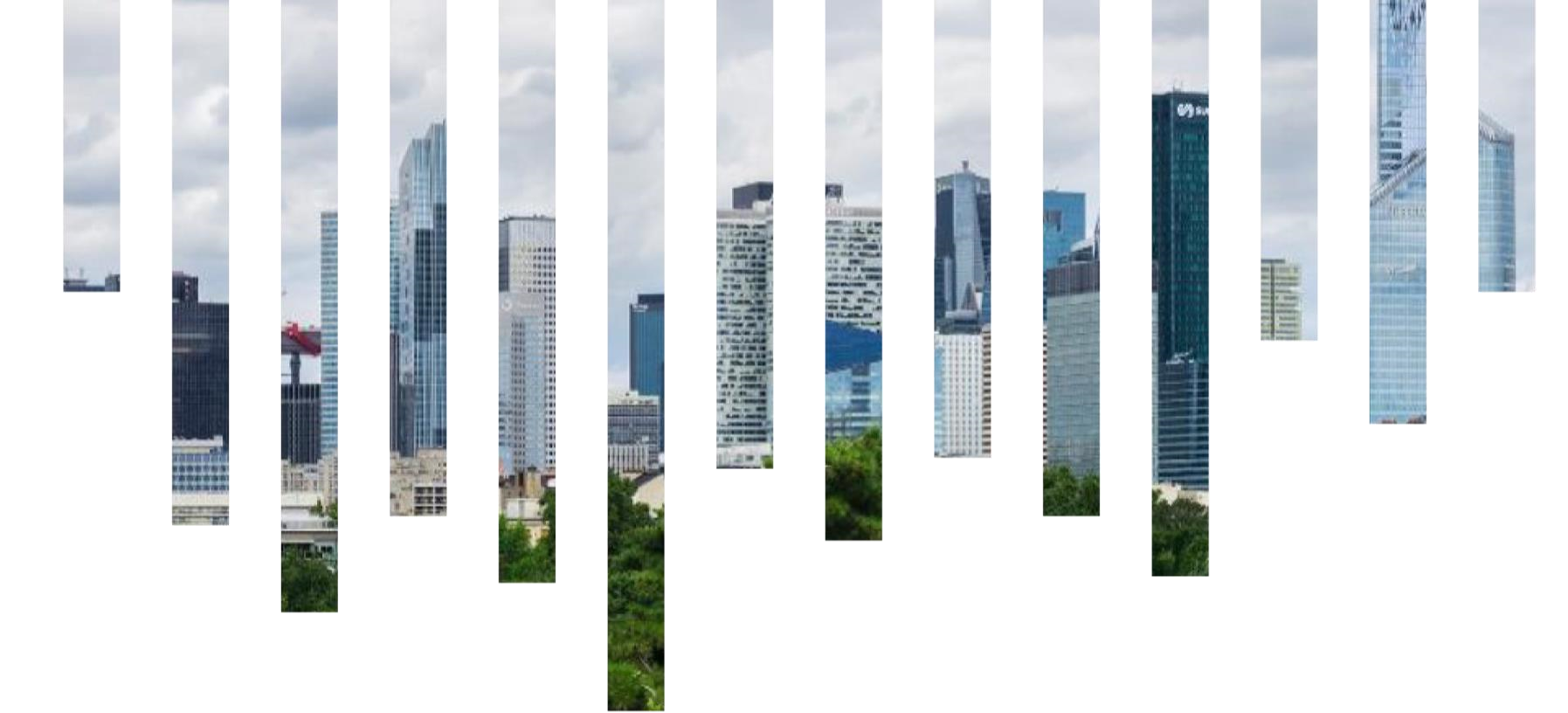
## Creating the first TIF in Latin America in Medellin, Colombia

**Tax Increment Financing (TIF):**

***Sampled Project***

INVESTMENT IN INFRASTRUCTURE

If the project meets expectations (1.6 million m2), cash-flow analyses showed that the project has the potential to increase tax revenue from the area by over 400% in peak years, which could potentially collect about US$45m in revenue bonds, which would enable the city to fund 25% of projected up-front infrastructure requirements.

**THANK YOU**

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