

Global Compendium of Land Value Capture Practices

POLICY HIGHLIGHTS

OECD Regional Development Studies



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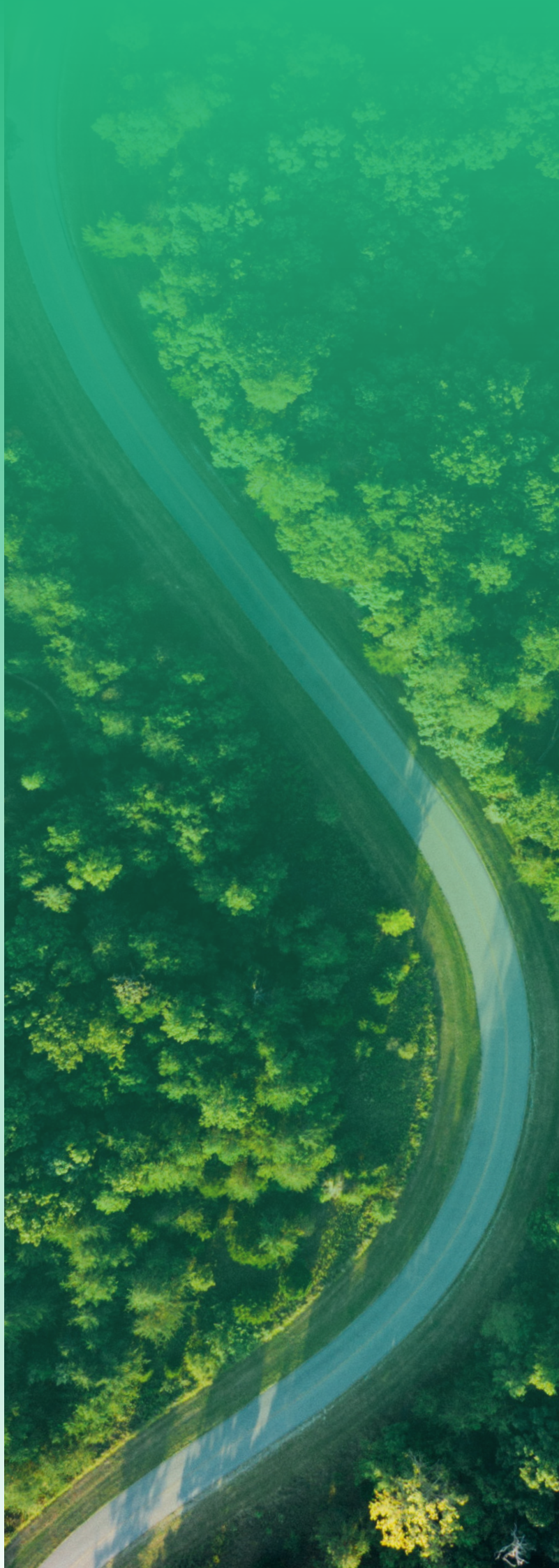
GLOBAL COMPENDIUM OF LAND VALUE CAPTURE PRACTICES



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Global megatrends require greater investment in infrastructure and services

The global population living in cities has doubled over the last 40 years. It will increase another 1.5 billion to reach 5 billion by 2050. Global environmental challenges require cities to become climate neutral, reduce other environmental footprints and deal with unavoidable global warming. Cities will need to provide public services inclusively, to all their citizens, while reaching these objectives. These megatrends require different and more upfront investment in sustainable public transport, water supplies, renewable energy, and green open space, among others. They also require better urban planning to make jobs and facilities in cities accessible with low energy input and zero emissions.

If used well, land value capture (LVC) can contribute to meeting these challenges. **LVC encompasses a set of policy instruments that allow governments to capture the land value uplifts generated by public interventions.** Changes in land use regulation or the provision of public services by governments often triggers significant increases in the value of land. Making even some of this additional value available for public investment can greatly help make cities more liveable and sustainable. This is because land is one of the most valuable forms of capital, making up approximately 40% of the total capital stock, amounting to USD 152 trillion for the entire OECD.

THE PRINCIPLES OF LAND VALUE CAPTURE

LVC is based on the simple premise that public action should generate public benefits. It refers to policies that allow public authorities to recover increases in land values that result from government actions, including the development of land, infrastructure and service deployment, and the alteration of land use regulations.

LVC policies can have an equity benefit by distributing both the costs and benefits of urbanization and land development. This is because land value capture allows a community as a whole to reap the benefits of public action more fully. If land value increments due to public action are not recovered, those increments remain with private property owners.

The Compendium allows to understand the full landscape of LVC instruments, how they are configured and deployed, as well as the conditions that enable their use in 60 OECD and non-OECD countries across the globe. It highlights the differences and similarities in LVC use across countries. It is aimed to help researchers and policy makers recognise what it would take to unleash the full potential of LVC. It can help countries develop the capacity and competences for LVC to understand the opportunities, trade-offs, and pitfalls to avoid when configuring legal, governance, and other enabling frameworks. It can help deploy tools that provide the resources we need for sustainable urban development.

A common taxonomy of LVC instruments for cross-country comparisons

The ‘OECD-Lincoln taxonomy’ of LVC instruments allows meaningful cross-country comparisons across the globe. This is important, as LVC instruments are diverse and tightly integrated with broader legislative frameworks, planning practices and property rights that are unique to countries or regions. The taxonomy cuts through the heterogeneous definitions and uses of instruments across countries and identifies a common set of underlying characteristics for each instrument.

THE OECD-LINCOLN TAXONOMY OF LVC INSTRUMENTS

Infrastructure levy

A tax or fee levied on landowners possessing land that has gained in value due to infrastructure investment initiated by the government.

Developer obligations

A cash or in-kind payment designed to defray the costs of new or additional public infrastructure and services private development requires.

Charges for development rights

A cash or in-kind contribution payable in exchange for development rights or additional development potential above a set baseline.

Land readjustment

The practice of pooling fragmented land parcels for joint development, with owners transferring a portion of their land for public use to capture value increments and cover development costs.

Strategic land management

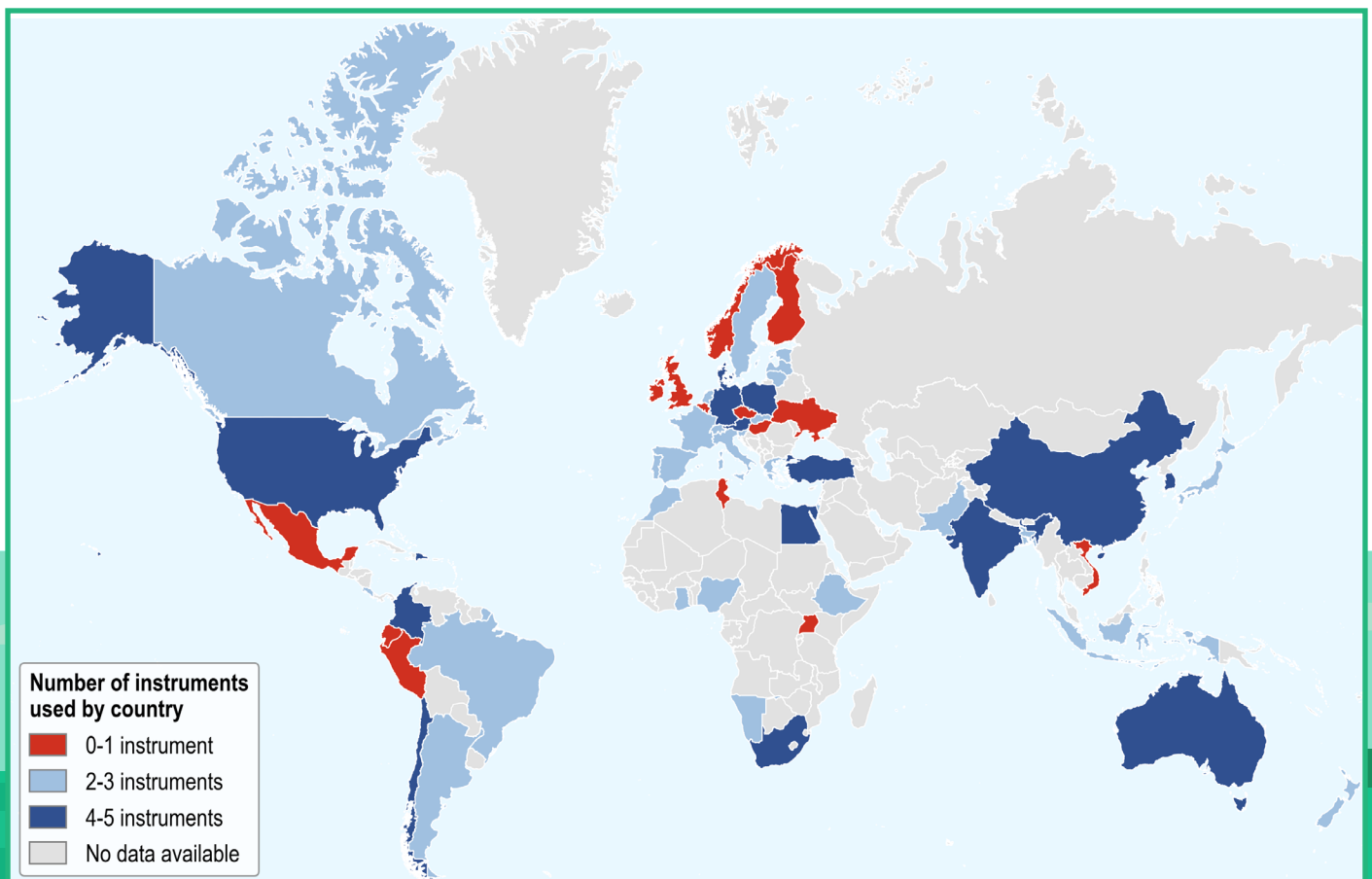
The practice of governments actively taking part in buying, developing, selling and leasing land to advance public needs and recoup value increments borne through public action

Almost all countries use some form of LVC

Excluding Uganda, all countries use some form of value capture at least on an occasional basis. Low- and lower middle-income countries use an average of 2 LVC instruments at least on an occasional basis, compared to 2.5 for high- and upper middle-income countries. Chile, Egypt, India and Turkey use all five instruments on a regular basis.

Figure 1. Number of LVC instruments used

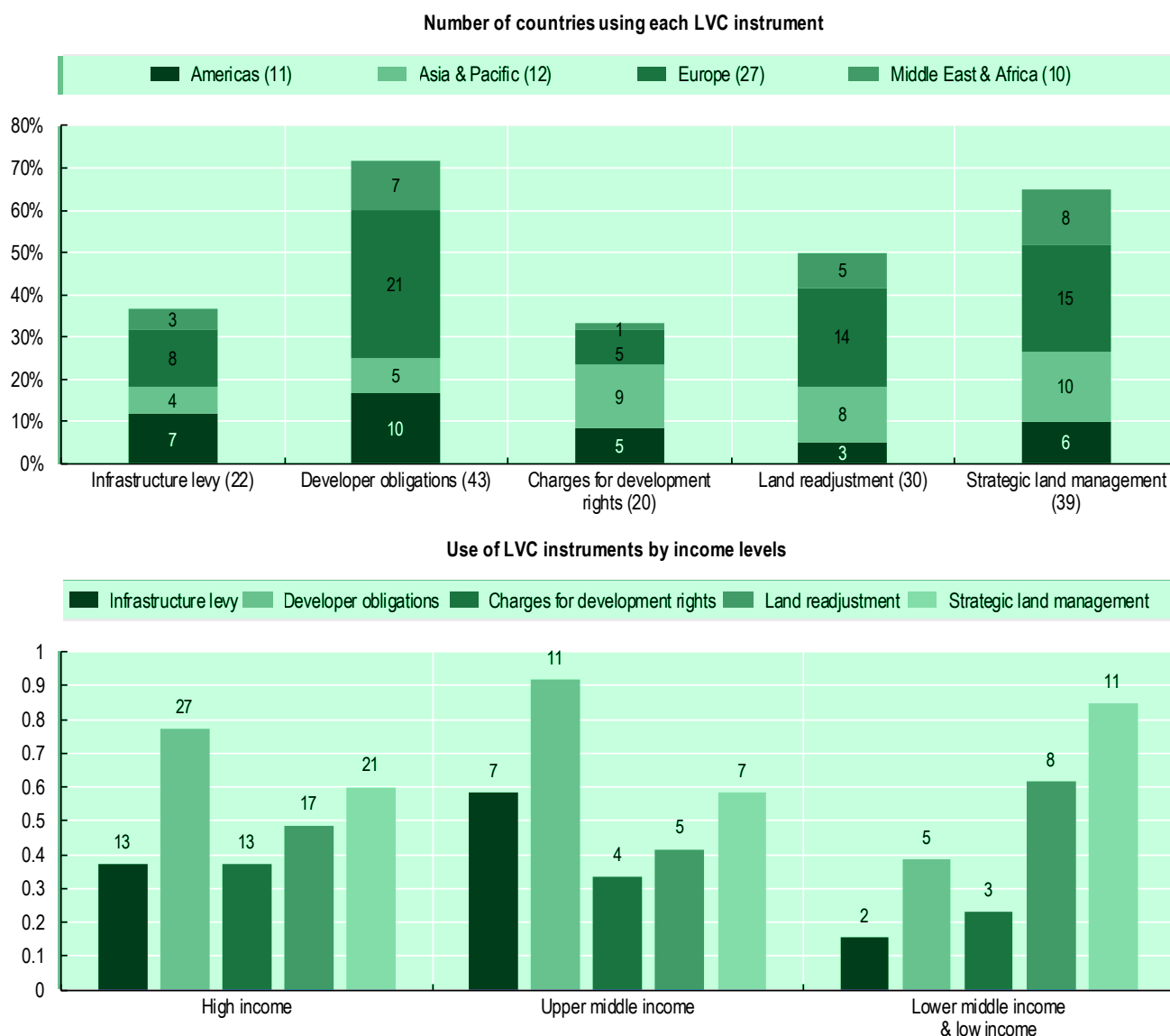
Number of LVC instruments countries use at least on an occasional basis.



Developer obligations are the most common instrument, followed by strategic land management

European countries tend to rely more on developer obligations and strategic land management, while the use of charges for development rights is relatively rare. Most Middle Eastern, African and Asia-Pacific countries utilise strategic land management. Charges for development rights are common in the Asia-Pacific, while land readjustment in the Americas is particularly rare. Low- and lower middle-income countries rely more on strategic land management and land readjustment, while high- and upper middle-income countries frequently utilise developer obligations.

Figure 2. Use of LVC instruments, by continent and income level



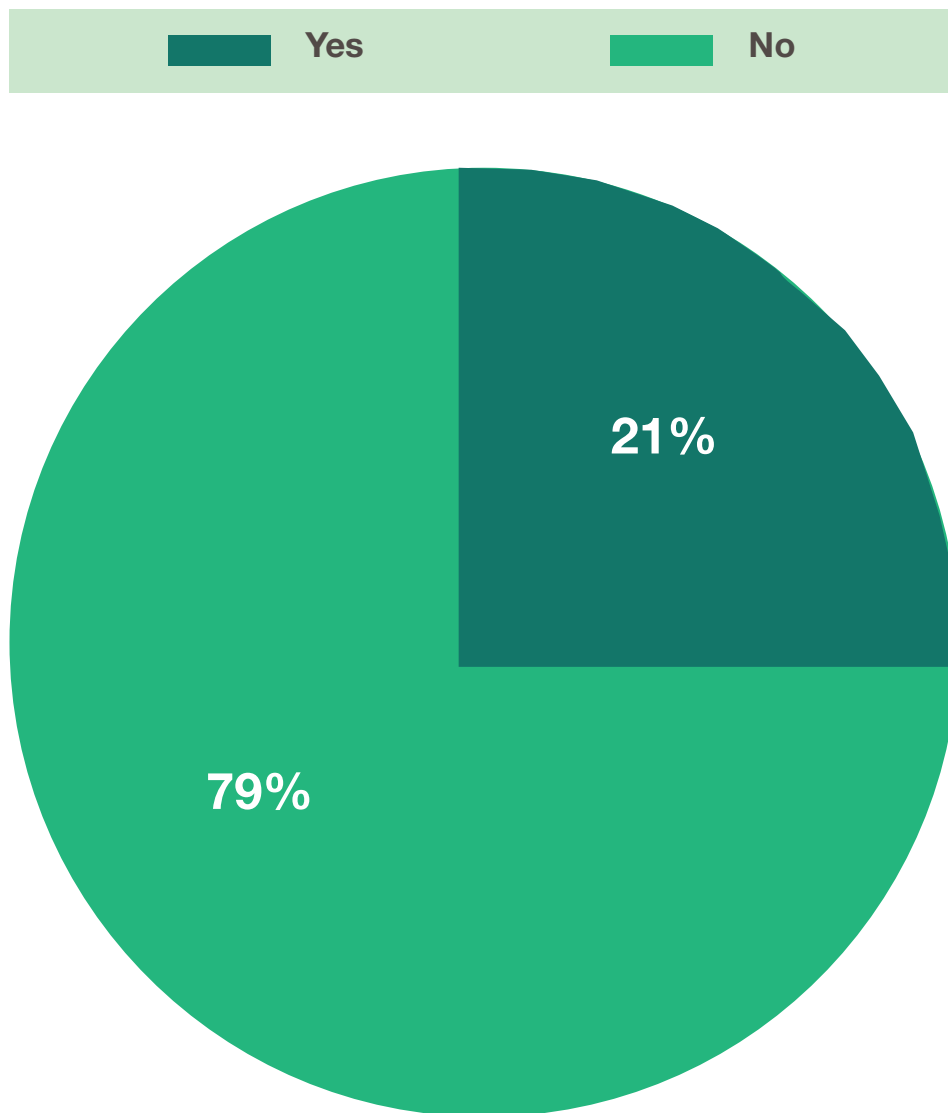
Note: Countries using the instrument only rarely are excluded from counts. Country income groups determined based on World Bank country and lending groups for 2022.

Source: World Bank (2022), World Bank Country and Lending Groups, <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups> (accessed on 25 Feb 2022); OECD-Lincoln LVC survey

The majority of countries lack a legal definition of LVC

Incorporating LVC definitions into law can reduce legal disputes and garner citizen support. For example, the *Organic Law of Spatial Planning, Land Use and Management* of Ecuador establishes LVC as the “equitable distribution of the benefits of public actions, and decisions on the territory and urban development in general”, while stating that “society has the right to participate of these benefits under the social function of property”. In Spain, Article 47 of the 1978 Constitution states, “the society will participate in the land value gains produced by the urban actions of public entities”. These legal provisions help reducing disputes and bringing LVC to the policy mainstream

Figure 3. Legal definition of LVC present in legislation



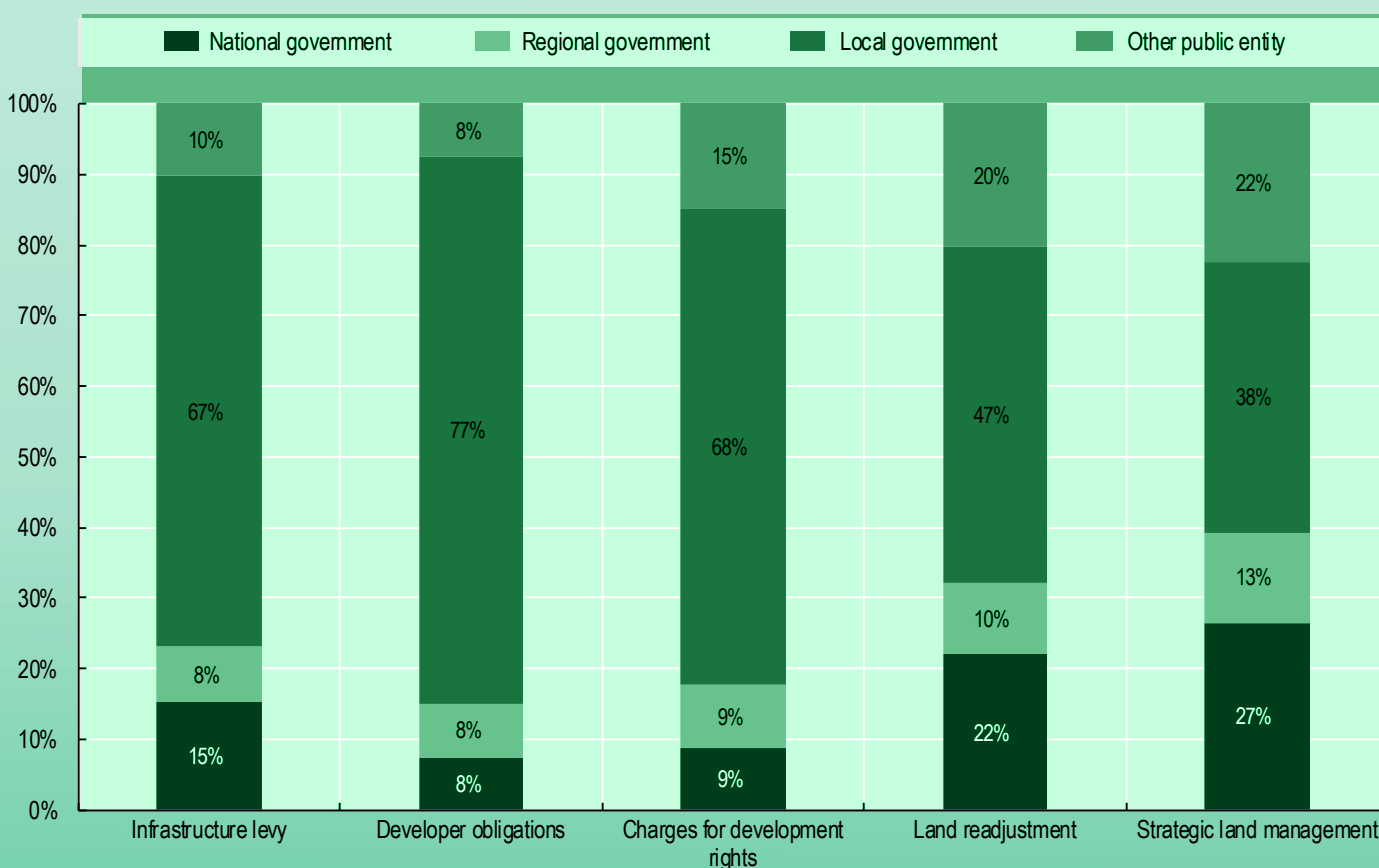
Source: Authors' elaboration based on OECD-Lincoln LVC survey

Implementation of LVC is mostly the responsibility of local governments

The majority of countries task local governments with the implementation of the infrastructure levy, developer obligations and charges for development rights. Responsibilities for land readjustment and strategic land management, however, tend to be shared with the national government and other public entities, such as government-owned corporations.

Local officials have at least some discretion in granting planning permits in 49 out of 60 countries surveyed. However, lower-income countries tend to give less discretion to local officials for implementing LVC compared to higher-income countries. Among other issues, fear of corruption and lack of trust in local governments is a common reason for doing so.

Figure 4. Administrative responsibilities for LVC implementation



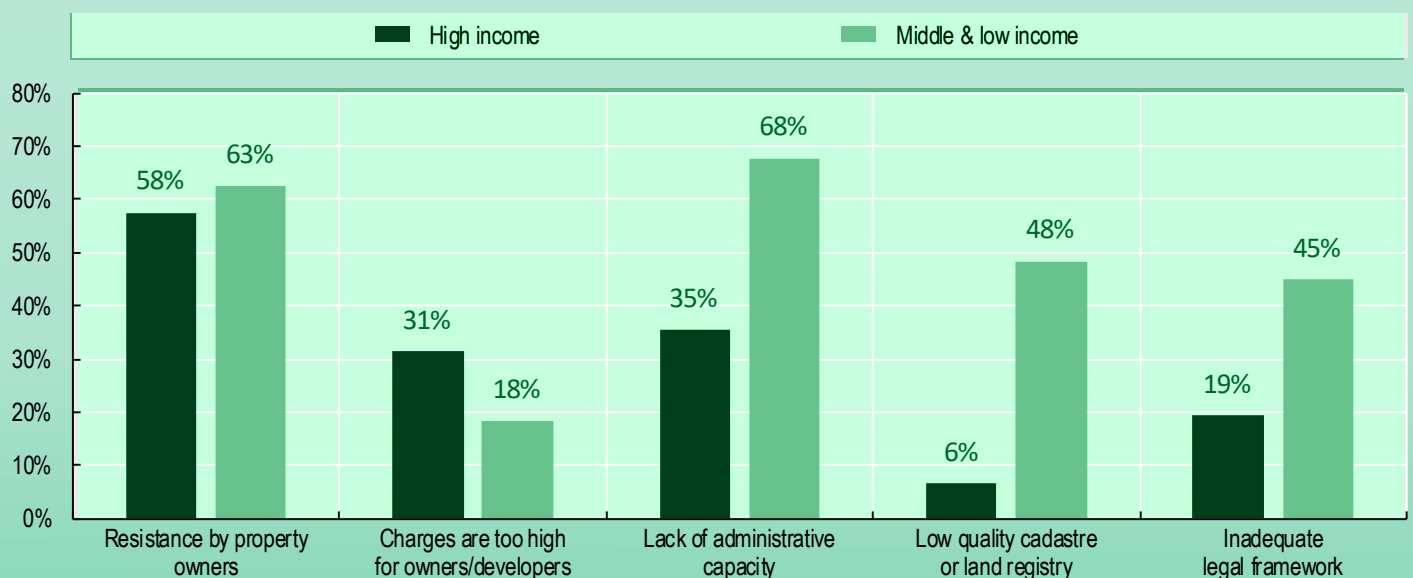
Note: Administrative responsibilities include levying fees, issuing development approvals, selling development rights, and pooling, rezoning, and managing land, depending on the instrument. Other public entities may include independent public entities, special purpose bodies, publicly owned non-profit organisations, and temporary authorities. Multiple responses allowed.

Source: Authors' elaboration based on OECD-Lincoln LVC survey

The most common obstacles in LVC implementation are property owner resistance and lack of administrative capacity

Owners' resistance is a common obstacle for the majority of countries regardless of income level, while middle- and low-income countries in particular are burdened by a lack of administrative capacity. For high-income countries, the charges or fees that are levied on property owners and developers are often too high, compromising the successful implementation of LVC instruments. For middle- and low-income countries, low quality cadastres together with inadequate legal frameworks are common obstacles in the successful implementation of LVC. Among other obstacles not shown, by far the most common was political will, stated as a common obstacle in countries regardless of income level.

Figure 5. Common obstacles in LVC implementation



Note: Country income groups determined based on World Bank country and lending groups for 2022. Percentages are an average over all relevant instruments.

Source: Authors' elaboration based on OECD-Lincoln LVC survey.

Implementing LVC requires eliciting public support, establishing concrete legal frameworks, and developing government capacity

The Compendium highlights some common issues that need to be addressed for effectively implementing LVC. Importantly, LVC needs to be implemented sustainably, and should not incentivise unnecessary development or urban sprawl. LVC should also be used to incentivise the provision of sustainable infrastructure.

Eliciting public support

Resistance by property owners is identified as a major obstacle for LVC implementation in the majority of countries surveyed. As a result, governments often lack the political will to adopt LVC. Land value increments are captured more successfully when communication channels with land owners and stakeholders exist and the benefits from a proposed public intervention are clearly laid out. Providing opportunities for dialogue between affected owners and the government is important to share information and garner public support. Examples from Colombia, Finland and Israel suggest how public support is greater when land owners are charged according to actual land value gains, rather than to the cost of projects. This also has the benefit of preserving incentives to keep costs under control.

Establishing fair and transparent rules

Legal frameworks for proper LVC implementation are lacking in many countries. The vast majority of countries lack a legal definition of LVC. Clear legislation concerning LVC, its processes, the determination of fees and taxes, affected property owners, and procedures for resolving disputes may reduce conflict, elicit public support, and bring LVC to the political mainstream. Setting LVC fees in relation to increases in land values, instead of costs, also makes the LVC process more fair and transparent to owners and developers. Colombia, Ecuador, Mexico, and Sweden highlight the importance of equity issues, by demonstrating how LVC is better accepted when the socioeconomic status of landowners is considered when assigning fees.

Developing local government capacity

Local governments are mostly responsible for determining which landowners are affected by LVC, setting the fees, negotiating with landowners and developers, and managing land assets, among other items. Yet in many cases, they lack the capacity to carry out these tasks. National governments need to provide lower-level governments with adequate administrative support, policy guidelines, and accurate cadastre and land transaction data for LVC implementation. Local governments should also take greater action on capacity building for LVC. Spatial planning frameworks should clearly define the roles of different levels of government in preparing plans and land-use regulations that serve as the baseline for LVC administration.

www.oecd.org/cfe/cities/land-value-capture.htm

More information: www.oecd.org/cfe

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