

***“Capturing Unearned Value/ Leakages  
to Assist Markets to Work for the Poor”***



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# Structure

## Introduction

1. Background and Context
2. “The Apartheid City”
3. Apartheid City (cont.)
4. Post-Apartheid Planning
5. A Booming Land and Property Market
6. Capturing Value for Infrastructure and Services Provision
  - 6.1. Property Taxes – Land Value Taxation
    - LVT and SA
    - International Experiences of Value Capture
7. Planning and Regulatory Instruments – Towards more Sustainable and Inclusive Cities
  - 7.1. Development and Zoning Levies
  - 7.2. Incentive Zoning
  - 7.3. Exactions
8. Implications for South Africa
9. Concluding Remarks

# Introduction

## Central argument of the paper

*“in the same way as a strong state was needed to create the apartheid city over a protracted period, for restructuring and transformation to take place an equally strong and ‘developmental’ state is needed”*

# Background and Context

Despite progress over the last 11 years, huge developmental challenges still remain

**Unabated poverty** – number of poor people in South Africa increasing

**Increasing informality** - between 1996 and 2001 there was a net increase of 735 627 informal dwellings excluding backyards

**Land reform remains a challenge** - by mid-2003 only 2.3% of agricultural land had been redistributed



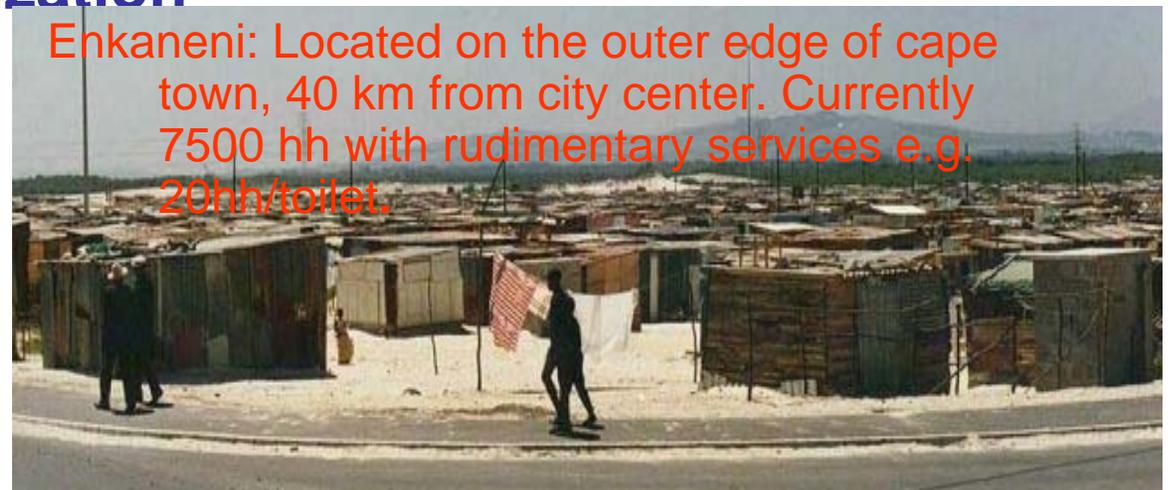
# The Apartheid City

**Racially-based spatial planning** - Apartheid urban planning reserved specific spaces for specific races and classes.

**Unequal development** – poor black citizens were pushed to the margins of the city, while well-located, well-resourced and well-serviced areas were reserved for the rich mostly white sector of the population

## Exclusion and marginalization

the poor were geographically, materially and psychologically distanced from opportunities and advantages



# The Apartheid City (cont).

## Costs of Apartheid Planning Policies

1. **Social** - forced removals robbed people of prime land and also destroyed important community **social networks**
2. **Economic - cross-subsidization** of services to the rich by the poor. **Zoning** and planning laws placed restrictions on trading and retail activity in the townships and ensured that commercial activity was concentrated in rich white suburbs
3. **Environmental** - the use of **water resources** in at least four of the nine major cities could run into crisis, sewerage networks in many cities are running at full capacity and **congestion** on roads places enormous pressure on road networks

# Post-Apartheid Planning

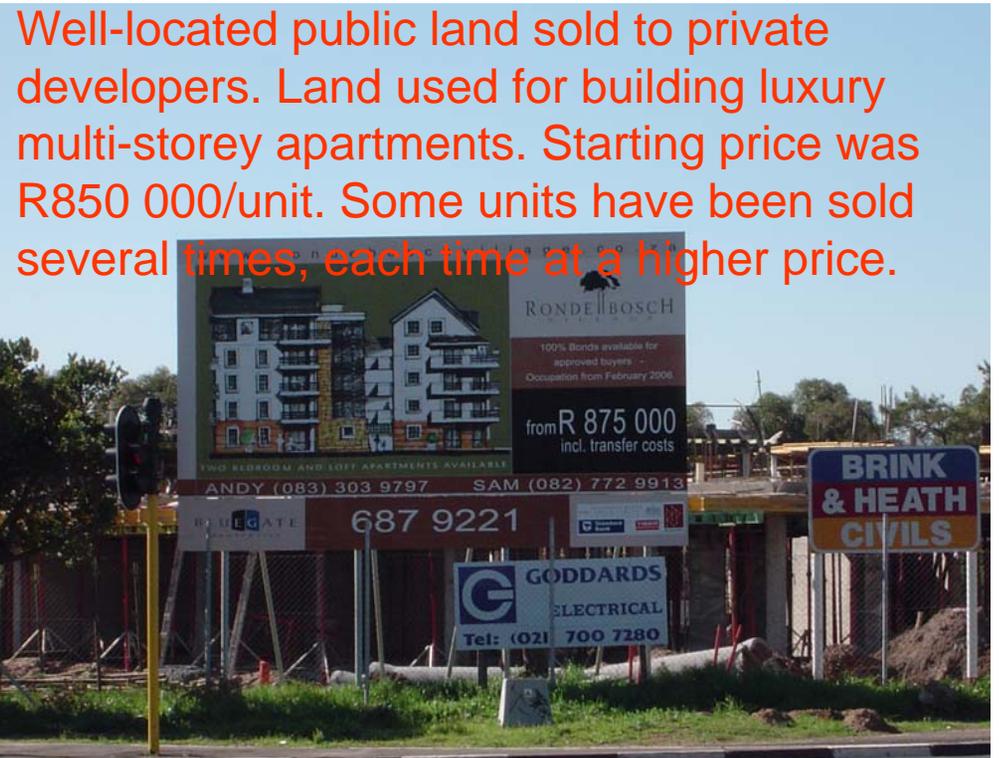
- Rather than address above challenges, post-Apartheid planning and policies compound them, e.g.



- 1.6 million houses have been built since 1994, but they have tended to enforce traditional apartheid planning
- Between 1998 and 2002 the amount spent on the transport subsidy in Cape Town was more than double what was spent on the housing subsidy
- South African cities today are more unequal than they were ten years ago

# A Booming Property and Land Market

- **Astronomical growth** in both residential and commercial property prices since 2000
- A booming land market – fuelled by **speculation**
- **Is there space for the poor to participate in this market?**
  - increasing house prices has put home ownership out of reach of a great proportion of the population
  - “even under perfect market conditions the market will not redistribute land from the rich to the poor”
- Need for **Bold, Decisive** and **Strategic** interventions in this market



# Capturing Value for Infrastructure and Services Provision

- Value Capture (vc) - a process by which all or a portion of increments in land value attributed to public and “community” interventions are recouped by the public sector, either through their conversion into public revenues through taxes, fees, exactions and other fiscal means, or more directly in on-site land improvements to the benefit of the community.
- "Value capture" is the means by which governments attempt to recapture increases in the value of land not created by the investment or labor of the landowner. This increased value can arise from three sources: ***changes in land use regulations, installation of infrastructure, and growth of the population.***

# Value Capture Mechanisms:

## 1) Property Taxes

*“It is the best of taxes, it is the worst of taxes”*

- **Different Forms – Flat rate and land value tax (lvt)**
- **Criticisms of flat rate system:**
  - 1) **impedes urban renewal**
  - 2) **biased against low income earners**
  - 3) **encourages urban sprawl**
  - 4) **more difficult to administer – valuation challenges**



# Value Capture Mechanisms (cont.)

## 2) *Why the Land Value Tax makes sense*

- Two forms – **site value rating** and **composite rating** (two-rate system)
- Fairer and more **socially just** system, land is a natural resource.
- *“The equal right of all men and women to the use of land is as clear as their equal right to breathe the air. It is a right proclaimed by the fact of their existence. For we cannot suppose that some men and women have a right to be in this world and others do not”*

But, also makes **economic sense**:

1. it brings unused land close to the city into production – reduces **urban sprawl**
2. it discourages **land speculation**
3. it makes the **economy** grow more efficiently by diverting investment into expanding businesses which could stimulate job creation and productivity
4. Intensifies land use



# LVT and South Africa

- SA does have a long history of property taxes - 1836
- Current property tax regime in SA – rate on the market value of immovable improvements on a property, no land value tax
- LVT again mentioned in recent times
- LVT one of the main recommendations of National Land Summit held in 2005
- In August 2006 – Report by Department of Land Affairs and World Bank on LVT for SA

When implemented, agricultural land taxes are likely to be an important element in the fiscal system of South Africa. The effective rate can be very low, around a half percent of value annually. It has been estimated that a tax at this rate will yield more than the current Property Tax and the RSC levy together.

# International Experience of VC

*VC Mechanisms – Grouped in Descending order i.t.o their level of interference with land markets (Doebbele, 2001)*

**Full public ownership of land** – significant source of revenue for Hong Kong and Singapore. Hong Kong 55% of annual infrastructure costs

**Land banking** (public ownership of land around major cities) – Used in Sweden and the Netherlands to capture value and to direct suburban development

**Land Value Increment Taxation** – used in Colombia, Argentina, Mexico and Korea to capture value and deter speculation. Currently under consideration in Australia (NSW) in light of property boom

**Right of Pre-emption** – government pre-empt land transactions by buying the land. Used in Japan, Thailand and Indonesia to discourage speculation.

**Land price freezing** – government freezes the price of land in certain “overheated” areas, particularly those close to major public investments. Used in Korea and France to limit landowners’ benefits from increases in land value

**General Property Taxation** – used in Mexicali (Mexico) and Porto Alegre, (Brazil) as means of financing infrastructure and housing for the poor

# International Experience of VC (Cont.)

## Lessons for South Africa

1. Value Capture mechanisms can be NB sources funding for urban development
2. Political will, vision and leadership are crucial
3. In certain instances the legislative framework needs to be adjusted to allow value capture mechanisms
4. Should use regulatory and planning instruments to transform the city whilst capturing value

# Planning and Regulatory Instruments – Towards more Sustainable and Inclusive Cities

## 1) Development and Zoning Levies

- **The Telecommunications analogy**



- **Development Levies**
- **Zoning Levies**
- **The Planning Gain Supplement**

# Planning and Regulatory Instruments (cont.)

- Use of zoning as a planning and regulatory tool

## Incentive Zoning

- Used in US cities to obtain certain benefits for the community from a specific development
- Zoning incentives e.g. density bonus
- Win-win situation



## Exactions

- Conditions or financial obligations imposed on developers
- Similar to development levies, except can also include “payments in kind”
- Different Forms - impact fees, financing of infrastructure improvements, land donations, inclusionary housing, other community benefits



# Implications for South Africa

- Future research objectives:
  1. Identifying other VC mechanisms
  2. Investigate the applicability of VC mechanisms to SA context
  3. Investigation of the SA legislative framework
  4. Testing the Waters
  5. Origin and Destination of captured value
  6. Investigation into the level of speculation under current tax regime

# Concluding Remarks

- Divergence Between Policy and Practice
- The market will not eradicate spatial and socio-economic challenges inherited from Apartheid
- Need for a developmental state and strategic interventions in the market to capture value
- The state must learn to effectively use existing and devise new innovative instruments for effective spatial planning and land development
- The state needs to explore the use of both the 'carrot' of incentives and 'stick' of legislation approaches for implementing inclusionary development programmes.
- Cocktail of interventions needed