STUDY EXPLORES THE POTENTIAL OF LAND VALUE CAPTURE AS A MUNICIPAL REVENUE TOOL

GETTING MORE BANG FOR OUR BUCK

Matt Durnan

As an increasing number of Ontario municipalities turn their focus towards supporting new transit-oriented development, the questions "Who will pay for transit infrastructure?" and "How will transit-oriented communities be financed?" come to the fore quickly. According to researchers from the **University of Toronto**, Canada has one largely under-utilized policy tool that could play an important role in supporting the development of transit-oriented communities going forward–land value capture.

The University of Toronto (U of T) School of Cities **Infrastructure Institute** recently published a study that takes a close look at land value capture and what its role could be in paying for transit-oriented communities.

In simple terms, land value capture is a policy approach that enables municipalities to tap into land value increases resulting from public policy and investment and to reinvest some of the profits for community benefit. It is a policy approach based on the premise that public investment should produce public value.

Commissioned by the **Infrastructure Bank of Canada**, the study was carried out by Infrastructure Institute director **Matti Siemiatycki**, U of T **Munk School of Global Affairs and Public Policy** professor **Drew Fagan** and Infrastructure Institute research fellow U of T doctoral candidate **Robert Nutifafa Arku**.

Land value capture covers a variety of techniques to take advantage of land value increases resulting from infrastructure investments and land use policy measures. These include dedicated property tax levies, development charges, density bonuses, direct benefit fees in designated areas to cover infrastructure costs and tax increment financing, where a local government borrows against future tax revenues to be generated from development in a given area over a given period of time.

Major transit projects are being planned and constructed all over the country, including right here in Ontario, and these investments are still largely funded through the tax base, even though Ontario relies on – especially for major projects – public-private partnerships for project delivery as well as for operations.

"We've tried to break this down as simply as possible, because this idea has been in the air for a long time, going back even to the days of [former **City of Toronto** Mayor] **Rob Ford**, when they were talking about building the Sheppard subway, and they talked about how we can capture value from the land adjacent as it gets up-zoned and use that to pay for transit," Siemiatycki told *NRU*.

"This idea is national, it's across the country and international as well, so we wanted drill into this further and test what is really possible here and [determine] 'What will it take to unlock land value capture at scale here in Canada?'. We have deep transit needs and we are spending a ton of money on transit and we know that we don't have enough money to pay for everything that is needed just through government coffers alone."

In 2018, **Metrolinx** released its market-driven transit development strategy, which called for the development of transit-oriented communities, reducing the need for government funding of infrastructure by leveraging surplus lands and partnering with the private sector in joint developments.

Land value capture mechanisms can be grouped

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	Government (including public agencies)	Property Owners	Private interests (e.g., developers)
Infrastructure Levies	X	X	
Development Charges	X		X
Density Bonuses	X		X
Tax Increment Financing	X	X	X
Land Acquisition, Investment and Disposition	X	X	X

Table identifying the main actors involved in different land value capture mechanisms. Researchers the at the University of Toronto School of Cities' Infrastructure Institute recently published a study on land value capture and its potential as a revenue tool to capture increased land value resulting from new transit infrastructure. The proceeds collected could be used to fund some of the upfront capital costs and related infrastructure needed to support new transit-oriented communities. Each of the five revenue mechanisms involves multiple actors, with the overarching idea that public investment should net public benefit when it comes to transit infrastructure funding.

SOURCE: INFRASTRUCTURE INSTITUTE

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under five broad classes of revenue tools: infrastructure levies, development charges, density bonuses, tax increment financing, and land acquisition, investment and disposition.

A number of different parties and stakeholders are involved in the implementation of land value capture mechanisms, including governments and government agencies like Metrolinx, property owners and private developers.

“The Infrastructure Bank is interested too because they’re a public agency that has the potential to help co-fund and finance projects, so it’s interesting to think what might be possible for some of our public institutions to leverage land revenues and other money to help pay for the hard infrastructure that is ultimately needed,” Siemiatycki said.

“The long and the short of it is, when you build public infrastructure, and in particular, transit, the land around that transit goes up in value because it’s now more accessible. And as it becomes more accessible, there’s opportunity for the land itself to be more valuable and to build higher densities on that land. So the question is: ’Who derives the value from that uplift in the worth of that land?’”

In the case of transit, the investment made is a public investment, with public money going into funding transit projects. The benefits however, accrue largely to landowners around a transit station, gaining private benefits from a public investment.

“The question is: ’How should the uplift in value be apportioned or divvied up? What share should be [allocated] to the private landowner and is there any mechanism for the public to gain value out from the uplift in the land that came from the public?” said Siemiatycki.

“It can be recaptured for different things. It can either be recaptured to pay for a portion of the physical infrastructure, or it can be municipalities which do things like property tax levies or density bonuses, and in those instances, that can go towards municipal infrastructure like schools or libraries or other public amenities.”

Canadian jurisdictions generally have used taxation-based land value capture mechanisms to support transit projects through general property tax levies for specific infrastructure or through the collection of one-time development charges, or through public land sales.

In Toronto, for example, the **City of Toronto** implemented a dedicated 30-year property tax levy to fund its portion of the $3.6-billion Scarborough subway extension and the City estimated that that tax levy would raise approximately $745 million to support the extension project.

“This discussion among us at the Infrastructure Institute came with regard to issues that are coming to the fore and thought leadership in the broader areas of infrastructure development. And by broader, it’s not just doing infrastructure well or better, but getting maximum benefit out of the funding,” Fagan told *NRU*.

“We started thinking about the various means of funding infrastructure, and there’s huge spending on infrastructure and this is overdue. It can’t all fall on the tax base, because the government can’t afford it and it’s probably not the best or most effective way to do it. We thought there’s the potential not just to get more funds out of the benefit of smart infrastructure funding through land value capture, but actually to accelerate the expenditures, and to ensure that there’s a fair distribution of the benefit of infrastructure funding.”

By and large, Canada has not used land value capture widely to fund transit infrastructure, and though it has been used increasingly by municipalities in recent years, typically, it has been through tax-based approaches that may not be viewed as land value capture, rather than through more entrepreneurial development-oriented market approaches.

The research conducted by the Infrastructure Institute provides some valuable insight into potential opportunities to expand the use of land value capture tools to finance transit infrastructure and the transit-oriented communities that develp around it, though it is not a silver bullet solution that on its own will raise enough money to pay for multi-billion-dollar transit projects.

However, land value capture can be an important and effective tool to apply to transit financing that will support strong city building objectives.

“Infrastructure development is complicated, and one of the things we don’t do particularly well with infrastructure development [in Canada] is transit development—connecting the transit line with the land use development around it—we don’t do it well here, period. Not as well as others do,” Fagan said.

To read the full report “Land Value Capture Study – Paying for Transit-Oriented Communities”, please visit the Infrastructure Institute’s website here.