PRESIDENT'S MESSAGE

March 2018

There appears to have been a significant increase recently in the number of organisations advocating the use of Land Value Capture (LVC) to fund infrastructure projects, particularly transit schemes.

For example, the Lincoln Institute of Land Policy has launched a global campaign to promote the adoption of LVC, which it describes as a policy approach by which communities recover and reinvest the land value generated by public investment and other government action. The Institute states that, whether through a public works project or a re-zoning to allow new development, government actions can cause the value of land to increase dramatically, and land value capture ensures that the public reaps the benefits. As communities grapple with deteriorating infrastructure, rapid growth, fiscal stress, and other challenges, land value capture can help pay for public goods such as infrastructure, affordable housing, and economic development.

The Lincoln Institute goes on to say that, on every continent, communities already deploy numerous forms of land value capture, the most common of which include: betterment contributions, business improvement districts, inclusionary housing and zoning, linkage or impact fees, public land leasing, special assessments, transferable development rights, and certain applications of the property tax. However, these practices face persistent barriers to more widespread adoption, including gaps in research, the lack of local capacity, and inadequate access to practical knowledge.

The World Bank is currently implementing a new approach to development finance that, it says, will help better support its poverty reduction and shared prosperity goals. Called Maximizing Finance for Development, this approach seeks to leverage the private sector and optimize the use of scarce public resources to finance development projects in a way that is fiscally, environmentally, and socially sustainable. LVC is an important part of the way in which the World Bank is advocating funding such projects. According to the World Bank, the question should not be how much money cities need to borrow and from whom, but rather how much money they can afford to spend given society's willingness to pay for sustainable mobility via taxes or user charges? When faced with a financing gap and a request for a loan, the Bank will say: how much more funding can you raise out of the sector? Have you considered urban transport systems' ancillary revenues? Are you maximizing land value capture opportunities? Can you reduce implicit subsidies to cars so that you can reallocate some of that money to fund more sustainable transport? A sustainable urban mobility system generates enormous benefits that can be monetized to create new income streams and raise financing.

The US President recently set out a new infrastructure plan for America's forthcoming subways and light rail systems and stated that all new transit schemes should use some form of LVC. Under this proposal, any city that wants federal money must show that it will collect some of the property value gains that accrue to plots along the new line and use those proceeds to finance the project. The administration wants to make the 5309 Capital Investment Grants (CIG), a program run by the Federal Transit Administration, conditional on LVC. CIG, which includes the popular transit funding grant New Starts, has been responsible for funding virtually every new transit project in the country, including the Manhattan Second Avenue Subway. In many cases, CIG funding is indispensable: Seattle received $830 million from CIG for its $1.95 billion University Link extension, a popular light rail project in the city where fewer people are driving to work alone. It is said that requiring transit planners to recoup real estate gains would dramatically change the selection, viability, and influence of these multi-billion dollar endeavours.

In New York, the State Governor has proposed a new way to fund subway improvements by taxing landlords on increased property values. The proposal is to create "transit improvement districts" within which building owners would pay additional taxes based on the estimated growth in property values due to new or improved subway stops. According to the New York Times, the strategy is called "value capture," and it is already in place in cities like Seattle, Los Angeles, London and Hong Kong. However, critics of the Governor's proposal say that it's impossible to know how much of any rise in property values comes from a given project. Furthermore, they argue that LVC may not produce the anticipated funding and state that "creative financing" is a two-edged sword; it can be a fine way to finance infrastructure or, in their words, it can be highway robbery!

In the UK, a recent report argues that the Scottish Government should change planning laws so that the public sector captures the uplift in land value that is derived from public investment in the land to finance a new generation of public housebuilding. The report is titled "Public Land Value Capture: A new model for housing development in Scotland". The report states "Public authorities should have the legal means to purchase land at existing use value, so that the uplift in land value from planning permission for development of the land is captured for the public good. The effect of this will be to reduce the cost of land for development considerably, as planning permission can increase the value of land by one hundred times or more." A similar approach, cited in the paper, is currently utilised in the Netherlands and Germany, where the cost of housing is significantly cheaper than in Scotland. It was also used in the UK after the second world war, including to build Scotland's New Towns, but was repealed in 1959.

In Ireland, Dublin's new tram system is said to highlight the "untapped bonanza" of land values. Besides the tangible benefits of ease of access to parts of the city, the Luas has also had an impact on the value of Dublin, in particular its land prices. Conservatively, the value of land along the new Luas line is said to have increased by 15-20 per cent as a result of its construction. This increase in land values is typically capitalised in house prices. The price of property along the line surged by 15-20 per cent during 2017 as result of Luas inspired land value uplift. As it stands, critics say that this uplift all flows to property owners, in spite of the fact that it is created not by anything individual property owners have done. Dubliners argue that, if they had a progressive tax on the uplift in land value that currently flows to landowners as a result of publicly-funded infrastructure projects like the Luas, this value would flow back into the public purse.

Both Australia and India are actively considering the use of LVC to fund major infrastructure projects as detailed in many recent articles contained in IPTI Xtracts.

Perhaps the last word on LVC should be left to Winston Churchill who famously said: *"Roads are made, streets are made, services are improved, electric light turns night into day, water is brought from reservoirs a hundred miles off in the mountains – and all the while the landlord sits still. Every one of those improvements is effected by the labour and cost of other people and the taxpayers. To not one of those improvements does the land monopolist, as a land monopolist, contribute, and yet by every one of them the value of his land is enhanced. He renders no service to the community, he contributes nothing to the general welfare, he contributes nothing to the process from which his own enrichment is derived."*

Moving on, IPTI has been busy over the last month in progressing a number of projects which are now coming to completion. We have also recently put in bids for some new projects which, I hope, will prove to be successful as they are potentially very interesting areas of work.

During February we held a workshop in partnership with the Institute of Municipal Assessors (IMA) on the topic of "Identification and Quantification of Physical, Functional and External Depreciation". This IMA-IPTI workshop was held in Ontario, Canada and dealt with practical issues in the identification and quantification of physical, functional and external depreciation. Practical case studies were provided, and attendees had the opportunity to test their knowledge, with instructors' assistance, in applying the theory for identifying and quantifying all types of depreciation.

We also held another in our series of IMA-IPTI webinars in February, this time on the topic of "The Valuation of Income Producing Properties - Deriving Capitalization Rates and Expenses". I had the pleasure of chairing this webinar and introducing our two very experienced presenters who expertly covered the topic. They used a wide range of examples to demonstrate how to estimate expenses and derive an appropriate capitalization rate using the direct capitalization methodology.

In February, I attended a round-table event organised by the British Retail Consortium in London which brought together an interesting array of experts to discuss how to develop a system of business taxation that would meet the demands of many different stakeholders, but particularly the retail sector which considers it is bearing too great a proportion of total taxation in the UK in comparison with other sectors. Although business rates (the annual non-residential property tax in the UK) is a pressing issue, if a solution is to be found to the problem, it will require a credible "package" of measures to persuade government that action must be taken to reduce the burden. There will be follow up discussions of the group to develop an appropriate strategy which may alleviate the present perceived unfairness.

Looking ahead, in March, we be holding another discussion session involving IPTI's Corporate Advisory Committee (CAC) and in April the CAC will be hosting a one-day workshop in Chicago on the subject of "Managing Property Tax Portfolios - Multi-Jurisdictional and Global Challenges". This event is for representatives of large corporate entities that have significant property tax liabilities in many different jurisdictions. Effectively managing such property taxes is a challenging process, and this workshop will focus on sharing best practice in this area.

In April, I will be one of two presenters in another IMA-IPTI webinar. This will be on the topic of the "Role of the Assessor and Expert in Mediations and the Negotiation Process". My co-presenter will be a very experienced lawyer and, between us, we will consider a number of questions such as whether the issue is sufficiently complex to retain an expert; the expert's duties; appropriate behaviours; the preparations required; and the role and responsibilities of the assessor and other experts that may be involved.

Also in April, we will be holding a one-day IMA-IPTI seminar which will be looking at the "Valuation of Land in Transition - Highest and Best Use". The determination of highest and best use (HABU) is a very challenging process for assessors and appraisers, particularly as it relates to land in transition. The objective of this seminar is to provide the attendees with a better understanding of HABU and the principles to be applied in the valuation of land for property tax purposes. Consideration will be given to both single property and mass appraisal valuation processes and practice. Valuation and legal perspectives will be covered, and jurisprudence and recent court/tribunal decisions will be discussed.

Moving on to May, we will be holding another Ontario Property Tax Summit. In June, our 2018 Mass Appraisal Valuation Symposium (MAVS) will be held in Halifax, Nova Scotia, Canada in cooperation with the Property Valuation Services Corporation (PVSC) of Nova Scotia. We will also be holding a pre-symposium one-day workshop entitled "Addressing Challenges in Property Taxation".

Our annual Caribbean conference, held in partnership with the Royal Institution of Chartered Surveyors, will take place in Montego Bay, Jamaica on 25-26 October 2018. This is a great opportunity to combine developing professional knowledge with a very enjoyable holiday, so come and join us if you can.

More information about all our forthcoming events, along with registration and other details, can be found on our website: www.ipti.org.

Now, it's time for a quick look at what is making headlines concerning property taxes around the world.

South Korea's chief economic policymaker recently said that the government plans to set up a panel to discuss whether to raise property taxes in yet another attempt to limit rising home prices. "We are planning to launch a 30-member panel to discuss property tax in the context of fair taxation," the Finance Minister said during a parliamentary inquiry. The minister said South Korea ranks low in terms of income distribution through taxation compared with other OECD member countries. "We have tried to improve it, but there are still things to be done." He said that there are speculative demands in some areas, such as the wealthy Gangnam Ward and adjacent districts. There have been mounting worries that housing prices in Seoul have recently been rising too sharply despite a series of measures to calm the market, including tightened rules on home mortgages for multiple home owners.

In Bulgaria, it is reported that a neighbourhood in the capital, Sofia, that has no streets pays the highest amount of property tax. Local media refers to the Malinova Dolina neighbourhood as a place which is "out of the boundaries of civilization". There is no road connecting it to the rest of the world, utilities are scarce, the air is poisonous to breathe and there are packs of wild dogs running around. Despite this, residents are paying some of the highest property tax for their homes. In comparison to the Malinova Dolina neighbourhood, there are properties located in the centre of Sofia which pay far less property tax.

The Bulgarian Minister of Finance explained that there may be two identical properties next to one another in Sofia, but one of them may have a recorded market value of 30,000 BGN (€15,000), while the other may have a 100,000 BGN (€50,000) market value. The reason for the difference, he said, is the fact that some of the properties have not been sold in recent years. For a property to be sold, it must pass market evaluation and the price is sent to the National Records. If the properties have not been recently sold, their recorded price remains the same and the property tax remains the same. I am not sure that explanation will bring any comfort to those paying the highest property taxes!

In the USA, local officials hoping that the Wisconsin Legislature would address the so-called “dark stores” issue this year will be disappointed that the legislation will not pass in 2018. It was stated that the issue was too complicated and needed further study before the Legislature acts; these were the reasons for the delay in a vote, according to the Associated Press. Local officials are concerned that large retailers use abandoned properties as comparable sites when challenging their yearly property tax assessments, which means less revenue for the local municipalities. This loss in revenue, in turn, forces municipalities to shift the tax burden to residential homeowners and the owners of small businesses. The appropriate way to value these properties was the subject of discussion at a recent meeting of IPTI’s Corporate Advisory Committee and is a topic that will no doubt continue to be the subject of litigation.

In Nigeria, the Lagos State Government had previously consolidated all property and land-based rates and charges into a single rate in 2001. This was done with the dual aim of simplifying the payment of property tax and generating additional revenue for the state through efficient enforcement. However, the legislation was not effective as only a few residents were aware of it and even fewer complied with the provisions. A member of the Lagos State House of Assembly was reported to have said in December 2017 that only about 300,000 out of an estimated two million liable properties paid their land use charge. So the Assembly passed the Land Use Charge Bill 2017 which was signed into law by the State Governor in February 2018. This law has effectively consolidated all land-based rates and also incorporated several improvements to enable it to correct the inadequacies of the previous land use charge law and reflect current economic realities. The land use charge is now based on the commercial value of a property and valuations will be assessed by professional valuers appointed by the state. Valuations will also now be updated every five years. The law also makes provision for self-billing and electronic payment of the land use charge by owners. I have more than a passing interest in this issue as I was part of several World Bank missions that visited Nigeria over a period of years to try and improve its property tax systems.

In Canada, British Columbia's new property tax targeting out-of-province owners will hit those who have vacation homes there with a big additional bill of thousands of dollars. One of the primary measures in the B.C. budget was the introduction of what the government is calling a “speculation tax”. It is aimed at foreign and domestic property owners who are “parking” capital in real estate and driving up prices in the province. It would apply to owners who do not pay income tax in British Columbia. Principal residences are exempt, as are properties with long-term renters. A typical vacation home that is used several times a year, but is otherwise empty, would not be exempt. The new tax will be imposed on Metro Vancouver, the Fraser Valley, the Vancouver Island regions of Victoria and Nanaimo and the municipalities of Kelowna and West Kelowna in the Interior. The B.C. government estimated the tax will apply to 15,000 residential properties, about 1 per cent of the total in the province.

The speculation tax in 2018 will be 0.5 per cent of a property's assessed value, a rate that rises to 2 per cent for 2019 and thereafter. It will be charged annually, separate from regular property taxes. B.C. predicts it will generate $200-million in revenue a year. The new B.C. tax is unique in Canada, where land ownership is generally not restricted. A rare exception is Prince Edward Island, where a non-resident cannot own more than five acres or more than 50 metres of shoreline. An out-of-province buyer wanting more must seek an exemption from the provincial cabinet.

A recent article highlighted taxes on properties in France and stated, “They can be complicated”. It went on to say that property taxes in France aren’t exactly transparent, no matter the region. France has two annual property taxes: *Taxe Foncière* and *Taxe d’Habitation*, plus a wealth tax, according to experts. Factored into the land or property tax (*taxe foncière*) is the “the cadastral income,” which is determined by halving the property’s rental value, said a tax associate at a law firm with offices in Nice. “The property tax is equal to the cadastral income multiplied by the rates fixed by the local authorities,” she said. “These rates may be modified from one year to the next.” Unless the home is rented out for most of the year, property owners are also liable for the occupancy tax (*taxe d’habitation*). “The tax is payable if the secondary home is habitable, meaning the individual has the right of occupancy and it is furnished, not empty,” according to a lawyer who advises U.S. citizens on French property matters. If the tenant is there most of the year, he or she pays. If empty, the owner pays the tax. French tax authorities use the rental value of the property to calculate the occupancy tax as well, the lawyers said. These are calculated annually, and each town has its own rates. Deductions and income-based ceilings are available for primary residences, one said, but “if it is a secondary residence, the owner cannot benefit from those allowances.” Some cities and towns also levy taxes if homes are vacant, she added. Those taxes are established by the cities and could result in the owner paying a range of 5% to 60% in extra taxes. For individuals whose net taxable wealth is greater than €1.3 million (US$1.6 million), there is also an additional wealth tax (*impôt sur la fortune immobilière*), payable every year. This was previously an annual levy of up to 1.5% on the value French property and assets, including savings and investments, but, as of January 2018, it’s now a tax on real estate only, she said.

And finally, a US billionaire in New York State is taking what is described as a “property tax stand over pooping geese”. He is refusing to pay property taxes on his large lakefront home because, he says, the several hundred geese that have taken up residence on his lawn make it unusable for him and his family. He says he tried stringing up fishing line, spraying smelly repellent and even posting a wolf decoy, but nothing could rid his lakeside vacation home of the geese that turned his lawn into a minefield of poop. He is now refusing to pay his property tax bill until local officials find a way to control the birds. The local town supervisor said, “It's a resident's problem to take care of, not the town's” adding that “no other shoreline residents have complained about the geese; it is a lake, after all.” I suspect what he really wanted to say was “S**t happens; get over it!”

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