IPTI Xtracts

Property Tax and Assessment News from Around the World

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Dublin's new tram highlights the untapped bonanza of land values

Few, apart from the odd urban motorist, whose well of sympathy has surely run dry, would argue that Dublin's new tram (Luas) line extension isn't both overdue and welcome.

The new cross-city Luas opens up the city in a way not seen in generations, since the previous tram line was closed in 1949. And it's had an instant impact on the atmosphere of Dublin, and will ultimately add to the city's confidence and identity as a European capital.

Besides the tangible benefits of ease of access to previously sequestered parts of the city – the multi-award winning Grangegorman campus springs to mind – the Luas has also had a less visible impact on the value of Dublin, in particular its land prices.

The numbers make this contribution clear: conservatively, the value of land along the new Luas line has increased by 15-20 per cent as a result of its construction. This increase in land values is typically capitalised in house prices.

To be clear, what has actually increased as a result of the Luas being built is the value of the land the house sits on, not the cost of the house itself, a detail that is often lost in the ether of the national fixation on 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, while the value of the actual houses that sit on it has not increased (notwithstanding any improvements the owners have made). This is an important distinction: it disaggregates the value added by the collective (society) to the land, from the value added by the individual property owner to the building that sits on the land.

The important point is that this 15-20 per cent uplift in land value along the Luas line is an absolute cash bonanza resulting from collective public effort. And what we do with it says a lot about where we are as a society.

As it stands, it is presented as a fait accompli that this uplift should all flow to property owners, in spite of the fact that it is created not by anything individual property owners have done. Instead, it's created by the collective efforts of citizens: paying taxes to finance the building of the Luas, and partaking in the activities that make having access to a city valuable: working, eating, drinking, studying, playing and whatever you're into that contributes to the economy. As Churchill put it:

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.*

If we 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 – call it a Land Value Uplift Tax on 80-100 per cent of the uplift – this value would flow back into the public purse. That way, it could be invested in other public infrastructure projects like, say, a public programme of local authority house building, which we are struggling to finance under the status quo.

Crucially, the idea of a Land Value Uplift Tax is not blue sky thinking. Land value uplift capture is done all over the world: Hong Kong built an entire metro and funded public housing for free using land value tax; a significant amount of London's new Crossrail line has been funded with a land value uplift tax; and urban regeneration in the US is typically funded through a value uplift capture mechanism called tax increment financing.

There is no difference in the mechanics of how this all works between Dublin and other cities: public investment on or near a piece of land significantly increases its value wherever you are. The difference lies in our attitude to property owners. Other cities building or expanding public-transit systems to cope with population growth and urbanisation have acted swiftly to both recognise and exploit rising land values for the public good. It is time to connect the dots, and stop the long arm of property assets reaching into the pockets of citizens.