

Getting Our Fair Share

Every planner is familiar with this scenario: A landowner or developer comes in with a plea to upzone his land or update a plan to allow greater density—almost automatically increasing the value of the land. The pitch may be cast in terms of public benefit, but generally the real beneficiary is the landowner. But if public action raises the value, doesn't fairness call for the public to benefit as well? More specifically, the public should be allowed to "recapture" a reasonable share of the increased land value in the form of community benefits.

This approach, Land Value Recapture, is used in some European and South American countries, and is beginning to catch on in some U.S. cities. It is time now for planners and city officials elsewhere to consider LVR as an option for funding the public city.

There are two basic approaches to LVR. The plan-based model calls for community benefits to be tied to land-use changes when a new plan is adopted or an old one revised. For example, zoning in a particular area might be changed from industrial to residential, increasing the value of the land. San Francisco's Eastern Neighborhood Plan ensures LVR by offering a tiered fee structure. A first tier includes a baseline contribution that all development is obliged to provide. Second and third tier contributions are triggered in areas where the plan grants additional height.

Negotiation-based LVR allows a locality to work with developers to come up with appropriate land-use changes and increases in density on the one hand and community benefits on the other. In Vancouver, British Columbia, where most development is the result of site-specific rezoning, land value increases are largely recaptured in the form of "community amenity contributions." Closer to home, Santa Monica, which has considerable experience negotiating development agreements, is now working on adding a conditional use permit alternative that would tie increased densities to a point system.

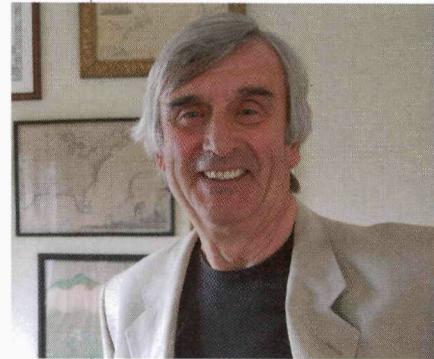
Community benefits vary. In San Francisco's neighborhood plan, the possibilities include affordable housing, open space and parks, child-care facilities, and streetscape and pedestrian amenities. In Santa Monica, the emphasis is on creating transportation alternatives, although affordable housing is high on the list. A key point is that these benefits are required in addition to those paid for by development impact fees, inclusionary housing programs, or commercial linkage fees.

Who wins with LVR? The owners of rezoned land may see the price of their land reduced from what it would have been without land value recapture, which could mean a benefit for developers. And, admittedly, the potential exists for landowners to withhold their land from the market, hoping for LVR to go away or prices to rise. But in the right context, the biggest winner is the public, which benefits from the return of some of the proceeds generated by public action. Just look at Santa Monica, Vancouver, and San Francisco.

In this country, interest in LVR has been triggered by the fiscal crisis facing government at all levels. In California, an additional spur is the loss of redevelopment financing. As other regions plan for higher density infill and transit-oriented development, the need for community amenities and affordable housing will be greater than ever. LVR is a way to achieve those goals.

The land value recapture approach won't work everywhere. There must be a strong real estate market, and economic analyses must be in place to establish the market value of the entitlements sought and the cost of the proposed benefits. That cost should not be set so high that new development becomes unfeasible. Geographically, the best chance of success could well be on the periphery of metropolitan regions, where the pressure to build is likely to accelerate once the real estate market revives. In such places, LVR could provide funding for regional open-space preservation and socially balanced transportation-oriented developments. It also might discourage development in inappropriate areas.

The message for planners is clear: Land value recapture is a fair system with great potential. Its positive track record in other countries and implementation in a number of North American cities should embolden planners to incorporate LVR in their plans. So, land-use planners, don't upzone or change your plans willy-nilly. Recapture some of the increases in land value for the building of the public city.



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