From: "Johnston, Sadhu" <Sadhu.Johnston@vancouver.ca>
To: "Direct to Mayor and Council - DL"
CC: "City Manager's Correspondence Group - DL"
"Kelley, Gil" <Gil.Kelley@vancouver.ca>
"Impey, Patrice" <Patrice.Impey@vancouver.ca>
Date: 10/18/2019 6:18:52 PM
Subject: Memo - Land Value Capture
Attachments: Memo to Mayor and Council - Report Back on Land Value Capture Motion.pdf
Land Value Capture - Coriolis - LVC as a Source of Revenue - Final Repor....pdf

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Dear Mayor and Council,

The attached memo from Gil Kelley and corresponding consultant report from Jay Wollenberg respond to a December 2018 Council motion directing staff to evaluate how the City currently uses land value capture and to explore the pros and cons of further land value capture mechanisms that might be applied in Vancouver to fund infrastructure and address housing affordability.

After considering the consultant report, it is concluded that:

- the City already has a comprehensive and effective framework for generating funding from increases in land value. The property tax system and the city's financing growth program (DCLs/CACs/DBZ) are effective, long-standing systems that already act as land value capture framework.
- the City focus on further improving our existing systems of land value capture (DCLs, CACs, DBZ) instead of replacing these systems with a new LVC framework.
- Removing the City's development contribution system would create a major windfall for owners of development land and transfer large, ongoing costs to homeowners, renters, commercial tenants, and taxpayers at large.
- A new land value tax may have the potential to generate additional funding for infrastructure, housing and public amenities, but it would also result in a significant increase in property tax which impacts affordability and business viability. This would require very careful and comprehensive evaluation of who benefits and who pays, in order to achieve the City's goals and not result in unintended consequences.
- A new City land value tax would be complex to implement, burdening taxpayers with extra costs having unintended affordability impacts on residential/commercial tenants, require amendments to provincial legislations, changes to Assessment Authority valuation practices, and coordination with other stakeholders that are also exploring land value capture (Province, Metro Vancouver, and TransLink).

Please do not hesitate to contact Gil Kelley at 604.873.7456 or Gil.Kelley@vancouver.ca should you have any follow-up questions.

Best,
Sadhu

Sadhu Aufochs Johnston | City Manager
Office of the City Manager | City of Vancouver
604.873.7627 | sadhu.johnston@vancouver.ca

Pronouns: he, him, his

The City of Vancouver acknowledges that it is situated on the unceded traditional territories of the Musqueam, Squamish, and Tsleil-Waututh peoples.

MEMORANDUM

October 18, 2019

TO: Mayor and Council

CC: Sadhu Johnston, City Manager
Paul Mochrie, Deputy City Manager
Lynda Graves, Administration Services Manager, City Manager's Office
Rena Kendall-Craden, Communications Director
Katrina Leckovic, City Clerk
Neil Monckton, Chief of Staff, Mayor's Office
Alvin Singh, Communications Director, Mayor's Office
Anita Zaenker, Chief of Staff, Mayor's Office
Katheryn Holm, General Manager, Development, Buildings & Licensing
Susan Haid, Deputy Director of Planning, Long-Range & Strategic Planning
Chris Robertson, Assistant Director of Planning, City-wide & Regional Planning
Patrice Impey, CFO/General Manager of Finance, Risk & Supply Chain
Grace Cheng, Director, Long-term Financial Strategy & Planning

FROM: Gil Kelley, General Manager, Planning, Urban Design and Sustainability

SUBJECT: Report Back on Land Value Capture Motion

In December 2018, Council passed a motion directing staff to evaluate how the City currently uses land value capture and to explore the pros and cons of further land value capture mechanisms that might be applied in Vancouver to fund infrastructure and address housing affordability (see Appendix A: Council motion).

The following steps were taken in response to the Council motion:

- Land Value Capture Steering Committee formed (January 2019)
- Land economics consultant hired (Jay Wollenberg, WMCI, February 2019)
- Information meetings: BC Assessment, BC Government and Service Employees' Union (BCGEU) (Feb/March 2019)
- Council Briefing highlighting consultant findings (June 2019)
- Consultant report (July 2019)
- Staff memo to Council (October 2019)

As part of the research program to respond to Council's direction, the City engaged Jay Wollenberg of WMCI (Wollenberg Munro Consulting Inc.) to prepare a discussion paper about the use of land value capture by local governments in general and the City in particular (see Appendix B: WMCI discussion paper). Jay Wollenberg is one of the founders of Coriolis Consulting Corp., a planning and real estate consulting firm that provides services in real estate analysis, urban planning and development policy. Jay is also an adjunct professor at UBC's School of Community and Regional Planning.

The WMCI discussion paper was commissioned to be an independent and informative resource for use by the City and other stakeholders including the Province, Metro Vancouver and TransLink. The discussion paper provides a common understanding of Land Value Capture (LVC) terminology, categories and application. The paper provides an overview of LVC to allow consideration for expansion and/or enhancing the City's use of land value capture as a means of generating additional funding for infrastructure, public amenities or other capital investments, and contributing to housing affordability.

The WMCI paper examines how land value capture functions within the context of the City's financial and taxation framework. The discussion paper focuses on possible enhancements to the use of land value capture by the City within the existing framework of Federal and Provincial taxation.

<u>Definition of Land Value Capture</u>

Land value capture refers to a broad range of approaches to obtaining public sector revenues or benefits derived from the value of land. Land value capture approaches can be divided into two main categories:

- One-time approaches that capture land value at a specific event. This group includes property transfer taxes, capital gains tax at the time of sale, charges on new urban development, and public benefits obtained in exchange for approving changes in land use or increases in density.

- Recurring approaches that involve taxes paid by the owner of property, usually annually. The most common recurring approach is property tax (which in BC applies to land and improvements), but there are other approaches such as benefitting area taxes and tax surcharges on particular groups of properties (usually based on value).

Land value capture is used by governments to fund infrastructure such as transit, to fund affordable housing, to suppress growth in land value when affordability is a concern, or to redistribute wealth. The main argument in favour of using land value capture to raise government revenue is that increases in land value are almost entirely due to public sector actions pertaining to development approval (particularly zoning), infrastructure investment, and community building, so the public sector should benefit from these actions rather than have all of the benefit accrue to private owners of land.

WMCI Discussion Paper, June 2019

Findings from Discussion Paper:

The WMCI discussion paper highlights the following key findings for the City to consider:

- The City already has an effective Land Value Capture (LVC) framework through Development Cost Levies (DCLs), Community Amenity Contributions (CACs), Density Bonusing (DBZ), and property taxes, and is making full use of its existing powers.
- Replacing the CAC system with a recurring LVC tax (as was proposed by the BCGEU speaker during the December Council motion) at time of implementation would give rise to a one-time windfall to landowners . An LVC tax would also result in ongoing costs for other end users of the rezoned land such as homeowners, renters, and commercial tenants (through triple net leases). A recurring LVC tax, particularly in the form of recurring property tax, does not reflect ability to pay which could be challenging for some home owners and businesses.
- One-time LVC at property sale is a capital gain tax, requiring changes to the taxation authority for local governments.
- Depending on how it is structured, a new or revised LVC framework will have a complex mix of benefits, costs, impacts for different groups, and potential for unintended consequences. Those paying the new LVC tax will not necessarily be the ones benefitting from new investment funded by the tax.
- Any new LVC mechanism should not be considered as a replacement for the City's existing system of development contributions such as DCLs, CACs and DBZ.
- A new recurring LVC tax could hypothetically increase revenue, but the City could do this by simply increasing overall tax levies without requiring any amendments to provincial legislations. It should be noted that within the existing property tax system, properties having a higher than average increase in value are already shouldering a bigger burden of property tax relative to other properties.
- Options for a new recurring LVC tax include benefitting area tax, an affordable housing levy (similar to Seattle), or taxing land at higher rate than improvements (all these options, which are explained in more detail in the WMCI discussion paper, would require amendments to provincial legislation).
- A new LVC tax would require the following:
    - Establishing the purpose of the tax (i.e. generating additional funding for infrastructure and public amenity investments, dampening land value, enhancing housing affordability, etc.)
    - Determining the function of the tax within the existing property tax system – will it be a surcharge, or will it replace some aspects of the current system (e.g. reducing taxes on improvements in favour of increasing taxes on land).
    - Determining whether the tax applies city-wide or only in defined tax benefitting areas
    - Confirming the property types that would pay those that would be be exempt

- In contemplating an LVC tax, there can be outcomes that are consistent with the initial objective(s) and outcomes that are unintended or inconsistent.

Staff Summary

When compared to other jurisdictions, the City already has a comprehensive and effective framework for capturing increases in land value. The property tax system and the City's financing growth program (DCLs/CACs/DBZ) together are long-standing systems that form an effective land value capture framework. Property taxes provide a recurring mechanism in capturing increases in land value, while financing growth tools (DCLs/CACs/DBZ) capture one-time increases in land value delivered through new development and rezoning. Financing growth tools have been in place since the early 2000s and the development industry generally accepts that new development must pay its fair share of growth costs city-wide.

Introducing a new LVC tax requires a thoughtful considered process, cooperation with senior levels of government, legislative changes that would need to apply to municipalities across the Province and changes to Assessment Authority valuation practices. The WMCI report notes that the City's current one time LVC system of development contributions through DCLs, CACs and DBZs is effective in capturing land value and is regarded by municipalities across North America as a model LVC approach. Implementing a new recurring LVC tax system would create one-time windfall for landowners and would transfer ongoing increased costs to homeowners, renters, commercial tenants, and taxpayers alike resulting in potential widespread affordability impacts. The consultant findings recommend that any new recurring LVC tax only be considered together with the City's existing LVC system and not seen as a replacement. A recurring land value tax has the potential to generate additional funding for infrastructure, housing and public amenities, but the recurring nature of the tax has ongoing affordability implications on owners, renters and business operators. A careful and comprehensive evaluation of who benefits and who pays is required in order to achieve the City's goals and to avoid unintended impacts.

In light of the consultant findings, it is recommended that the City continue to focus its efforts on further improving the existing systems of land value capture (DCLs, CACs, DBZ). Staff are currently working on an update to CAC policy which is scheduled to be presented to Council in December this year.

Please do not hesitate to contact Chris Robertson (chris.robertson@vancouver.ca) or me should you have any follow-up questions.

Gil Kelley, FAICP
General Manager, Planning, Urban Design and Sustainability
604.873.7456 I gil.kelley@vancouver.ca

Appendix A: Council Motion, December 12, 2018

FINAL MOTION AS APPROVED

WHEREAS

1. Land speculation has had a significant impact on increasing land values within Vancouver, deepening the city's affordability crisis and putting a significant portion of housing out of reach at local incomes;
2. Rezoning, density increases and redevelopment also have a significant impact on increasing land values, including all the surrounding land immediately in the proximity of developed land;
3. Infrastructure projects in Vancouver, such as hospitals, new roads, new transit, parks, or other development decisions approved by the city, there is a dramatic increase in the value of surrounding land. That wealth is not captured but rather becomes a transfer of wealth from the public to private landowners;
4. The increase in land value due to market demand is not captured by anyone except the property owner, who may withhold development awaiting land value lift or rezoning, then capture the majority of the wealth with limited social benefit;
5. Vancouver is now one of the most expensive cities in the Western hemisphere, with a lack of available affordable housing, and a lack of sufficient financial tools for ensuring new housing is truly affordable for low and modest incomes;
6. Over the past 20-plus years, municipalities have experienced cost downloading from senior levels of government, including housing and social infrastructure, without new municipal finance tools or revenue to fund those costs;
7. A Land Value Capture (LVC) mechanism is designed to dampen speculation and generate revenue by measuring and 'capturing' a portion of the increase in land value (created by rezoning, public investments, etc.) to direct toward public priorities;
8. LVC has the potential to be a more transparent method of capturing land value than Vancouver's existing CAC system, and more accurate than Development Contribution Expectations (DCEs). Applied broadly, it decreases rampant land speculation and unfettered value increases, thus ensuring long term affordability;
9. The creation of a City Wide plan creates a timely opportunity to be exploring and implementing a municipally controlled financial mechanism such as a LVC;
10. Some form of LVC is in use in about 25 countries around the world, including South Africa, Australia and New Zealand. A few jurisdictions in the U.S., mostly in Pennsylvania, also use a blended version that is partly a land value tax and partly a buildings tax. And Vancouver had a Land Value Tax from 1910 to 1984.

THEREFORE BE IT RESOLVED

A. THAT Council direct staff to consult with policy makers, researchers, other stakeholders, and BC Assessment to assess current land value capture (LVC) mechanisms to collect on behalf of the public a percentage of the land value wealth being created by City of Vancouver decision making, including Community Amenity Contributions (CACs) and Development Cost Levies (DCLs), and explore the pros and cons of further LVC mechanisms, including looking at other jurisdictions.

B. THAT Council direct staff to report back to Council with their initial findings and recommendations as part of their planned July 2019 report and review of Community Amenity Contributions.

Appendix B: WMCI Discussion Paper

Land Value Capture as a Source of Revenue for Local Government: Discussion Paper

June 2019

Prepared for:
City of Vancouver

Wollenberg Munro Consulting Inc.

Table of Contents

Summary

Definition of Land Value Capture

Land value capture refers to a broad range of approaches to obtaining public sector revenues or benefits derived from the value of land.

Land value capture approaches can be divided into two main categories:

- One-time approaches that capture land value at a specific event. This group includes property transfer taxes, capital gains tax at the time of sale, charges on new urban development, and public benefits obtained in exchange for approving changes in land use or increases in density.
- Recurring approaches that involve taxes paid by the owner of property, usually annually. The most common recurring approach is property tax (which in BC applies to land and improvements), but there are other approaches such as benefitting area taxes and tax surcharges on particular groups of properties (usually based on value).

Land value capture is used by governments to fund infrastructure such as transit, to fund affordable housing, to suppress growth in land value when affordability is a concern, or to redistribute wealth.

The main argument in favour of using land value capture to raise government revenue is that increases in land value are almost entirely due to public sector actions pertaining to development approval (particularly zoning), infrastructure investment, and community building, so the public sector should benefit from these actions rather than have all of the benefit accrue to private owners of land.

Purpose of this Discussion Paper

The City of Vancouver already uses several land value capture mechanisms and it is interested in exploring the potential for more use of land value capture to achieve City objectives. City Council directed staff to examine possible new approaches.

The City engaged WMCI to prepare an independent, informative, and readable discussion paper as a resource for use by the City and stakeholders in considering whether or how to expand the City's use of land value capture.

Some advocates of land value capture suggest that it should take the place of income tax and other taxes and fees as part of a comprehensive restructuring of how all government is funded, but this kind of sweeping tax reform is beyond the scope of this paper. This paper focuses on possible modifications or additions to the use of land value capture by the City within the existing overall framework of Federal and Provincial taxation.

This discussion paper does not recommend a specific course of action, but the research and analysis support some conclusions and key messages that the City should consider if it proceeds further.

Conclusions

1. Land value capture is used in many forms in many jurisdictions around the world, as a means to achieve public sector objectives such as funding infrastructure, addressing housing affordability, or taxing wealth. Common forms of land value capture are one-time approaches (such as taxes on capital gains at property sale, taxes on the transfer of title of property, development charges, and obtaining public benefits in

exchange for new density) and recurring property taxes (which usually tax land value and improvements value).

2. In Canada, the Federal and Provincial governments capture land value by taxing capital gains at land sale (except principal residences, which are exempt). The Province of BC also captures land value via annual property tax, the Property Transfer Tax at time of sale, the School Tax surcharge on high value residential property, and the Speculation and Vacancy Tax.
3. The City of Vancouver already has a comprehensive and effective framework for generating revenue from land value. The system includes Development Cost Levies (DCLs), Community Amenity Contributions (CACs) and density bonusing, and annual property tax (on land and improvements). The City also owns a large portfolio of land that benefits from market-wide increases in land value.
4. Under existing Provincial legislation, the City can increase its property tax revenues by setting a larger annual budget and setting tax rates accordingly. The main difference between this approach and initiating a new recurring land value tax is that the existing system also taxes improvements.
5. There is not much room to increase DCLs in Vancouver, because the City already periodically updates these to reflect inflation and the changing economics of development. There is not much room to increase CAC rates, which already capture a large share of the market value of new density, unless the City is willing to reduce the use of fixed rate districts or increase the rates in these districts.
6. Any new recurring land value tax should not be viewed as a replacement for the City's existing system for obtaining DCLs and CACs. The existing systems of one-time charges on new development and one-time exchanges of new density for public benefits are generally working well and generate significant revenue and public benefits. Replacing these systems with a new ongoing land value tax would create a major one-time benefit for owners of land being rezoned and would transfer a large ongoing tax cost to all other property.
7. Changes to Provincial legislation would be necessary for the City to implement new kinds of ongoing land value taxation such as taxing land at a higher rate than improvements, creating a benefitting area tax, or adding a tax surcharge on particular categories of property. Changes to Provincial legislation would also be necessary for the City to charge a tax on transfers of title.
8. For the City to obtain new tax revenue based on land value gains at the time of property sale, it would be necessary to change legislation and make significant changes to the existing income tax structure.
9. Each way to capture land value has different costs and benefits for different groups. Depending on the approach(es) used, those paying the new tax are not necessarily the ones that benefit. Also, as with existing property tax, the imposition of new recurring land value taxes is not linked to the ability of the property owner to pay the tax.
10. A new recurring land value tax has the potential to generate new City revenue, but to yield a meaningful net gain in total revenue it will have to cause a significant increase in total property tax. This will require very careful and comprehensive evaluation of which properties should pay and how much, in order to make sure the distribution of benefits and costs is consistent with the City's goals and does not have unacceptable impacts on tenants, homeowners, and developer/investor interest in creating new housing and employment space.

11. Because different approaches have different advantages, disadvantages, and impacts, it is important to decide on the purpose of a new form of land value capture before choosing an approach. If the City aims to implement a new or revised approach, it will be necessary to make policy decisions such as:
    a. What is the primary reason for additional land vale capture?
    b. Is the new approach layered onto the existing system or does it replace some aspects of the current system (e.g. reducing taxes on improvements in favour of increasing taxes on land)?
    c. Is the approach applied across the whole City, or only to certain types of property, or only in defined benefitting areas?
    d. What kinds of property should pay and what kinds should be exempt?
12. If the City wants to explore in detail options for new approaches to recurring land value taxation, specific approaches that could be looked at include:
    a. A benefitting area tax in locations that are receiving major benefits from infrastructure such as transit. This probably has the advantage of perceived fairness because the tax is directly linked to new value creation. However, it is important to keep in mind that TransLink already has the legal ability to charge a benefitting area tax in areas that receive transportation investment.
    b. A new levy for a specific purpose, such as the City of Seattle's affordable housing levy that voters approved and periodically renew.
    c. A surcharge on properties above some threshold, similar to the Province's School Tax surcharge, although this is likely to spark opposition because it is a wealth tax not linked to any direct new infrastructure and not linked to ability to pay.
13. In addition to changes to legislation, a new City recurring land value tax would require:
    a. Changes to BC Assessment Authority valuation practice to ensure accurate assessment of land value (rather than total property value) for all properties.
    b. Coordination with other levels of government that are using or considering approaches to land value capture, including the Province, Metro Vancouver, and TransLink.
    c. Consideration of the overall complexity of the property tax system and the combined total cost of various City and Provincial taxes on property.
14. The City could increase its use of strategic land acquisition and disposition to take advantage of land value growth. For example, the City could acquire land at or near the sites of planned transit investments or in locations where the City will be making significant changes to land use and density. Land disposition via long-term leases rather than sale allows the City to capture new land value at the end of each land lease term. This new value can be used for infrastructure or affordable housing. The key is to tap the increase in land value as leases expire.

1.0 Introduction

1.1 Background

As cities grow, the influx of population, employment, and investment creates a wide range of challenges for all levels of government. How to pay for infrastructure and public services? How to keep housing affordable for residents? How to ensure a reasonable standard of living for all citizens, when there is disparity in income and wealth?

While a large share of responsibility for dealing with these challenges rests with senior governments, municipalities carry much of the burden for paying for services and infrastructure, managing urban development to create housing and employment space, addressing housing affordability, and creating livable communities for all residents.

This situation is occurring in many cities around the world, so many of them are looking for new or better ways to generate revenue. The question being asked is whether there are ways to fund local government that will generate the necessary revenue in as fair a way as possible, that will have a better alignment between who benefits from urban growth and who pays for the costs of this growth, and that will help to make housing more affordable for more people.

In the search for better ways to raise revenue, an approach called Land Value Capture is receiving attention from governments, academics, and think-tanks around the world. Land value capture is a broad term that covers a wide variety of approaches for obtaining public revenues or benefits from growth in the value of urban land. Many of these approaches have long been in use in some ways in various places, but there is increased interest in many jurisdictions in expanding the use of this tool. The rationale for land value capture is usually expressed along these lines:

- *The value of land is based on where it is, how it can be used, and its access to urban infrastructure and amenities.*
- *Increases in land value are almost entirely due to public actions pertaining to development regulation (particularly zoning), investments in infrastructure, and community building, so the public sector should benefit from these actions rather than have all the benefit accrue to the private owners of land.*
- *Investment in land is not as productive to the economy as investments that create jobs and income growth, so tax policy should discourage passive land investment in favour of more active forms of investment.*
- *High land cost can be a deterrent to some desirable forms of urban development, such as affordable housing, so there could be social benefits to curbing land value growth.*
- *In an urban area, land should be used to its maximum potential, not left vacant or under-used, so property tax policy should discourage under-use and encourage development to accommodate more housing and employment space.*
- *Land can't move so it cannot avoid taxation.*

Local governments in BC use a wide variety of means to raise the revenue they need to pay for capital and operating costs, including property taxes, user fees, levies on new urban development, and obtaining funds or amenities in exchange for new development rights. These are commonly used but they are not perfect. Each has advantages and disadvantages, they have not had ideal outcomes from the viewpoints of all stakeholders, and there continues to be a daunting housing affordability problem in Metro Vancouver.

The City of Vancouver already uses land value capture in several ways, including property taxes, Development Cost Levies (DCLs) and Community Amenity Contributions (CACs) but it is interested in exploring the potential for improved use of this funding mechanism. In December 2018, City Council passed a resolution directing staff to evaluate how the City currently uses land value capture and to explore the pros and cons of further land value capture mechanisms that might be applied in Vancouver to pay for infrastructure and address housing affordability.

As part of the research program to respond to Council's direction, the City engaged WMCI to prepare a discussion paper as an independent, objective, informative, and readable resource for use by the City and other stakeholders in considering whether or how to expand the City's use of land value capture.

Some advocates of land value capture suggest that it take the place of income tax and other taxes and fees as part of a comprehensive restructuring of how government is funded, but this kind of sweeping reform is beyond the scope of this paper. This paper focuses on possible modifications or additions to the use of land value capture by the City of Vancouver within the existing overall framework of Federal and Provincial taxation.

1.2 Definitions

Land value capture is an idea – securing a share of land value growth to achieve public sector goals – rather than a specific tool. There are many ways that the idea of land value capture can be implemented.

This discussion paper uses these terms:

"Land value capture" means any mechanism whereby a public entity obtains benefits or revenue derived from land value or increases in land value.

"One-time" means a form of land value capture that occurs at a particular event, such as the sale of a property, development approval, or rezoning. "One-time" in this sense does not mean only once in the history of a property, but rather once per major transition (such as sale or redevelopment).

"Recurring" means a form of land value capture that is ongoing (typically annually) and is not linked to a specific event. Property taxes on land are in this category.

1.3 Professional Disclaimer

This document may contain information and opinions regarding development and land taxation policy, and recommendations regarding development, taxation, or municipal policy. All such opinions and recommendations are based on interpreting information from other jurisdictions and past trends, gauging current conditions, and making judgments about the future. As with all judgments concerning future trends and events, however, there is uncertainty and risk that conditions change or unanticipated circumstances occur such that actual events turn out differently than as anticipated in this document, which is intended to be used as a reasonable indicator of potential outcomes rather than as a precise prediction of future events.

Nothing contained in this report, express or implied, shall confer rights or remedies upon, or create any contractual relationship with, or cause of action in favor of, any third party relying upon this document.

In no event shall Wollenberg Munro Consulting Inc. be liable to the City of Vancouver or any third party for any indirect, incidental, special, or consequential damages whatsoever, including lost revenues or profits.

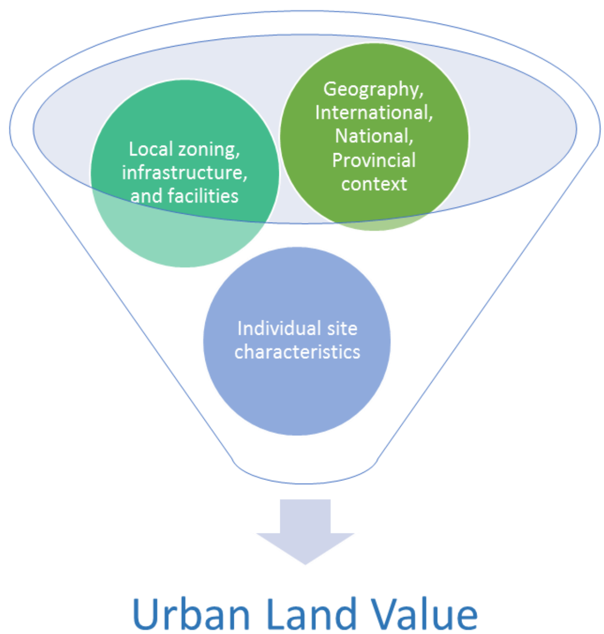
2.0 Land Value Basics

2.1 The Factors that Drive Land Value

One of the often-expressed rationales for land value capture is that land value growth is largely caused by public investments and decisions, so the public sector is entitled to at least some of the benefit.

Simply put, land value is determined by where the land is, what can be done with it, and the relationship between demand and supply in the marketplace for property for different uses. If land value is going to be captured for public purposes, it is worth looking in more detail at what drives land value and who might take credit for it.

The factors that determine land value can be divided into three broad categories:



1. **Geography and international, national, and provincial context:**
   - A place's natural geographical setting, climate, physical environment, and topography affect the supply of developable land and the appeal of a place to live, work, develop, and invest.
   - The international, national, and provincial contexts create the overall market for urban land in a city or region, driving demand for housing and employment space. Increased demand for land comes from growth in the number of households, employment growth, increased purchasing power due to low mortgage rates, local and non-local investment, income growth, and other factors.
2. **Local zoning, infrastructure, and facilities:**
   - The supply of developable land in this region is determined by geography and land use regulation. Strong demand and constrained supply have inevitably pushed up the value of all land in Metro Vancouver.
   - Local planning policy and zoning define the type and amount of development that is allowed.
   - Infrastructure such as transit and community facilities affects the value of land served by these public investments.
3. **Site characteristics:**
   - While the above factors create the overall marketplace for urban land in the region, the unique qualities and features of individual properties determine the value of each parcel within the market context.

Using Vancouver as an example, these factors are examined in more detail below.

Geography and History

What is now the City of Vancouver was one of the first large urban settlements when BC was colonized. As the region urbanized, Vancouver gained momentum as the regional core with BC's largest concentration of employment, the convergence of regional transportation, and the main centre of services and amenities. The region's natural environment (topography, oceanfront, climate, scenic value) and its function as an import/export gateway helped to propel this growth and in more recent times the region's placement within international time zones has positioned it well for economic ties to Asia, the rest of North America, and Europe. No current level of government can take credit for the momentum of history and geography that set Vancouver on the course of a long trajectory of rising land value. In addition to being a major driver of demand, geography is also a key determinant of the supply of land for urban use in the urban region. In Metro Vancouver, the ocean, mountains, and the US border combine to create hard limits on the supply of land for housing, employment space, and other land uses.

International Context

International economic, environmental, social, and political forces create the impetus for global movement of people, companies, and capital. Canada's economic growth is based in large part on exports and trade. Canada welcomes immigrants and some kinds of foreign investment. These add to the demand for urban land.

National Context

Canada has an established fabric of property rights and the rule of law. It is a comparatively safe, tolerant, and culturally diverse place to live and invest. Canada has a national network of air, marine, rail, and highway infrastructure. It has a national immigration system that generates population growth. While there are critics of national regulatory and tax regimes, because some kinds of investment are discouraged, the framework is sufficiently attractive to support continued business creation and investment. The Federal government invests in regional infrastructure such as transit. Also of great significance, the Bank of Canada sets the benchmark interest rate that determines mortgage lending rates. A long period of low interest rates has had a huge impact on housing demand. Without this national context, cities in Canada would be much less likely to experience growth in land values.

Provincial Context

The Province is responsible for providing the health care system, public K to 12 education, the post-secondary education system, and investments in regional infrastructure such as highways, bridges, and transit. The Province also has a role in attracting population, employment, and investment. This Provincial context contributes to land value growth in communities across BC. The effect of the Provincial framework for key institutions and services (such as health and education) is magnified in Metro Vancouver, because it has the largest concentration of post-secondary educational institutions and specialized health care facilities and services in BC. The Province also has a large influence on the supply of developable land in Metro Vancouver in the form of the Agricultural Land Reserve, which protects arable land but also shrinks an already-constrained supply of land for housing and employment space.

Local Context

Local governments and regional agencies also contribute to the basis for land value. The planning and zoning framework governs allowable land use and density, which are the most significant factors in the determination of the market value of specific sites. These agencies also provide basic infrastructure (e.g. roads and transit, water, sewer), park systems, cultural facilities, police and fire protection, and other key elements of the community.

Site Characteristics

The national, provincial, and local contexts create an overall market for urban land in a city or region, driving demand for housing and employment space and determining the available supply of land for development. Within this context, a second complex set of factors determines the market value of individual parcels of land. These factors include:

- Zoning, which determines the allowable uses, height, and density of development.
- Accessibility, mainly by road and transit for residential and commercial uses but also including rail for some industrial uses.
- Services and utilities, which provide the water, sewer, drainage, electricity, natural gas, and communications networks that development requires.
- Nearby amenities such as shopping, parks, cultural facilities, recreation, and schools.
- Soil conditions and topography.
- Special site features such as view or waterfront.
- Character of the immediate surroundings.

Note that investment in improvements on land would cause the total value of the property (land plus improvements) to rise, but this would not change the value of the land.

Overall Creation of Land Value

These contextual and site-specific factors interact to create the value of a specific parcel of land at a specific time. Changes in the contextual factors tend to affect all property (although not necessarily equally) and changes in site-specific factors affect individual properties.

The land value of a property over time can be illustrated graphically, as shown in Exhibit 1. The Exhibit is based on these assumptions:

- Assume a property is purchased at a start date and that the land value is $1,000,000. Assume that general inflation in the economy would push up the value of the property by at least the Consumer Price Index (say 2% per year).
- Now assume that increased demand and constrained supply, possibly combined with investments in infrastructure, cause the value of this property to rise even faster than inflation, at say 7% per year. This growth may also be partly caused by purchasers who are willing to pay more for land because they anticipate future infrastructure investments or zoning changes. Under typical property tax systems, the

tax paid on this property would increase as its value rises[1]. Whether or not this increased tax results in growth in total City tax revenue depends on how the City sets its budget and distributes the tax load across all properties.

- Now assume that at some point this property is upzoned to allow significantly more density (as strata residential) and simultaneously benefits directly from a significant investment in nearby infrastructure such as a new rapid transit station. This causes an increase in value because of the larger allowable development potential and the market demand for transit access. This higher land value is temporarily the value of a single parcel, as a development property owned by one party, but upon completion and sale of the development, the higher land value is now distributed among the individual owners of the strata units. These combined individual land values then grow at the market-wide rate.

Exhibit 1: Components of Growth in Land Value

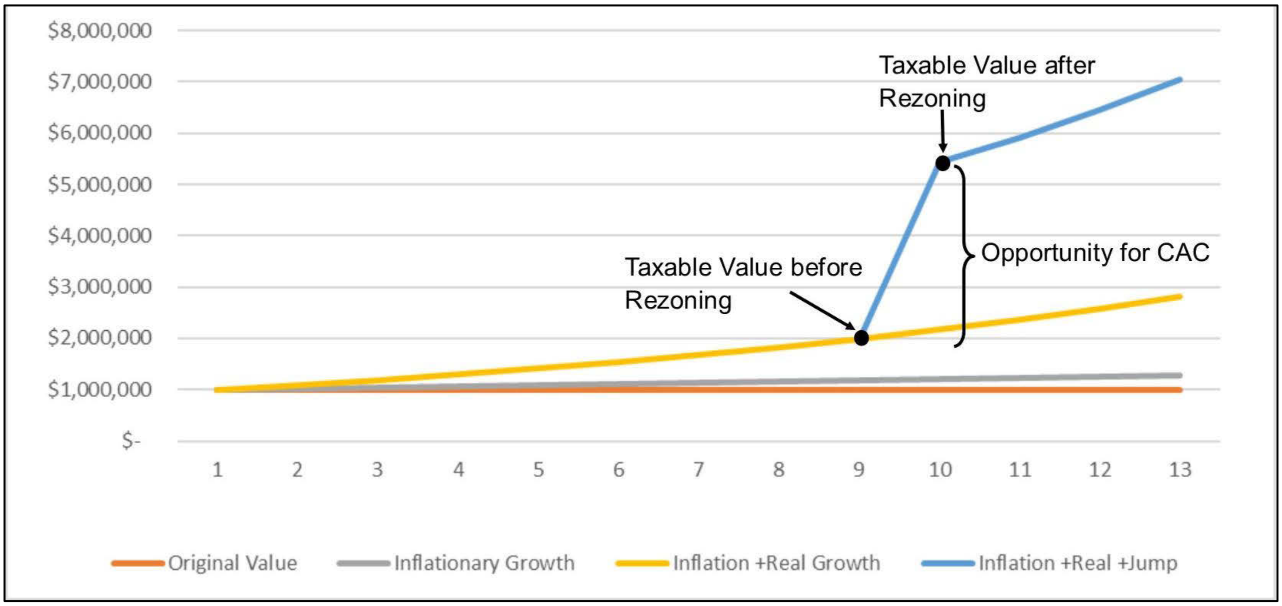


Exhibit 1 shows three different stages of a land value evolution for this hypothetical property:

- There is a land value prior to rezoning that can be taxed. The property tax would be paid annually by the property owner.
- When the rezoning occurs, there is a one-time significant increase in land value because of the approval of additional density and possibly other factors such as new nearby transit infrastructure. This one-time increase in value is an opportunity for local government to exchange new density (which has value that is essentially the same as land value) for public benefits such as amenities, affordable housing, or recovery of transit investment. This payment for density is made by the developer, who presumably wants the extra density in order to earn more profit by developing a larger project.
- After redevelopment, the new land value (which is now divided among the individual strata units) is taxable, with the property taxes (on land and improvements) paid on an ongoing basis by the individual

[1] The property tax for this hypothetical property would increase assuming the tax rate does not go down.

unit owners. Note that the higher land value and the recurring tax on the new units are based on the market value of the land after rezoning and are not affected by whether (or how much) the developer paid to acquire the extra density.

2.2 The Role of Land Owners

In the breakdown of factors that drive land value, all of them can be considered contextual, inherent in the site itself, or the result of actions by others (mostly local government) that directly benefit the parcel of land.

The land owner does not really have a direct ability to cause land value to rise. Certainly land owners can invest in improvements, which increase the total value of the property, but this does not change the value of the land. The land owner can seek rezoning, but local government makes this decision. Therefore, many commentators treat land value gain as a sort of windfall for the owner: *the owner benefits from public decisions (such as rezoning, transit investment, nearby public amenities such as parks) without having directly paid for them*. However, the characterization of the land value gain as a pure windfall makes it sound accidental, which is not entirely true:

- Land owners have usually made deliberate decisions about where and when to buy land for housing, business use, development, or investment. They may not ***cause*** land value gain, but they make a choice that presumably includes some thought about where there is an opportunity. An investment in land involves taking risk, weighing options, and making choices. This is different than finding money on the sidewalk. While land values have risen rapidly in Metro Vancouver during the last decade, there have been periods of decline or very low growth (e.g. 1981 to 1988, 1995 to 2002, 2008 to 2009, 2018 to ?), indicating that there is risk.
- Owners of houses or residential strata units may have made tradeoffs when they acquired their homes. For example, suppose two households each have a house purchase budget of $1,000,000. One opts for a small, older home near the region's core so family members can walk to work, school, or shopping. This purchase involves $800,000 of land value and $200,000 of improvements. The other opts for a suburban location because of a higher priority on larger, newer space. This purchase involves $200,000 in land value and $800,000 in improvements, and also means that this household drives more. Now suppose land values in both cases rise by 25% over some period. The first household will realize a higher land value gain and, if a land

An investment in land involves taking risk, weighing options, and making choices… if land value goes up, it is not the same as the lucky accident of finding money on the sidewalk…

Household 1: Purchases $1,000,000 modest older house on land with higher lot value ($800,000 land, $200,000 improvements)

Household 2: Purchases $1,000,000 newer, larger house on land with lower lot value ($200,000 land, $800,000 improvements)

value tax mechanism were in place, would pay more tax. This may be perceived as inequitable considering the tradeoff that was made at the outset.

- Developers or land owners who seek rezoning would receive a windfall if extra density is available at no cost. But if they exchange cash or amenities to obtain increased density there is no land value windfall as long as the amount they pay is commensurate with the value of the density.

If extra density granted at rezoning were available at no cost, the landowner would enjoy a windfall ...

There is no windfall if the amount paid for the new density is commensurate with its value.

The conversation about land value capture in Metro Vancouver is in part stimulated by the rapid rise in land values over the last decade or so.

The trend in Metro Vancouver house prices from 2005 to 2018 as indicated by the Greater Vancouver Real Estate Board's MLS Home Price Index[2] is summarized in Exhibit 2.

Exhibit 2: Metro Vancouver Housing Price Trend (2005 – 2018)

Type of Property	Average Annual % Increase in Value (2005 – 2018)		
	City of Vancouver (East Side)	City of Vancouver (West Side)	Metro Vancouver
Single detached	10.0%	10.5%	8.7%
Strata apartment	9.5%	7.7%	9.1%

Source: MLS Home Price Index, Greater Vancouver Real Estate Board

All owners of residential property in the region have seen significant percentage increases in the land value component of the total value. The dollar value increases are larger in some areas (such as the west side of Vancouver) because values were higher to start with, but the percentage gains are high across the region.

[2] The index is based on the estimated annual change in sales price of a benchmark property within each submarket.

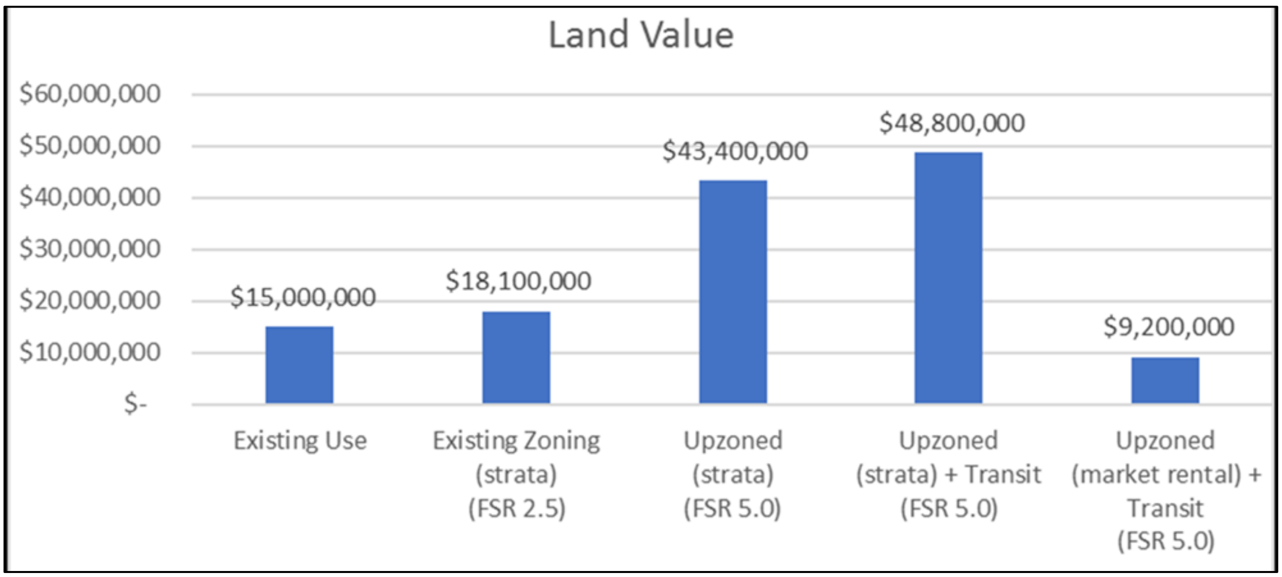
2.3 The Relative Significance of Upzoning and Infrastructure Investment

There is a common assumption in the literature about land value capture that *transit investment can cause a large lift in value for the benefitting properties*. However, while accessibility – whether by car or transit – has value, it is important to note that investments in transit, especially rapid transit, are often made in conjunction with significant changes in allowable development (i.e. increased density). It is worth examining the relative impact of these two factors.

Exhibit 3 shows a hypothetical case study involving a development site that benefits from new transit infrastructure and is a candidate for rezoning for more density. The Exhibit shows the land value implications for five scenarios.

Detailed calculations for each scenario are contained in Attachment 1. The figures used in this hypothetical example are generally consistent with recent revenues and costs in the central part of the City (e.g. Cambie Corridor, central Broadway).

Exhibit 3: Increases in Land Value due to Upzoning and Transit Investment



The five scenarios are as follows:

Existing Use

This scenario shows the value of this hypothetical site based on the current use of the property. In this case, either a group of older single detached houses or a site occupied by older commercial space are assumed to support a land value on the order of $15 million. Without reference to redevelopment potential, this is the value that would be paid by prospective homeowners or commercial investors ***just to leave the property in its current use***. Any developer intending to redevelop this site must be able to pay at least this much, or else the property will remain in its current use.

Existing Zoning

This scenario assumes the property is currently zoned to allow multifamily (strata) at FSR 2.5. Under current assumptions about development economics, a developer is able to pay about $18 million for the site. This is more than the value supported by the existing use, so redevelopment is likely (assuming the current owner is willing to sell) because a developer can outbid those who would buy the property to retain the existing use. This is presumably a good outcome if the City's aim is to see this property redevelop to add to housing stock.

Upzoned (Strata)

This scenario assumes the site can be rezoned to FSR 5 for strata residential, in accordance with a policy that encourages densification in this neighbourhood. This scenario also assumes that average unit price increases by about 7% because the much taller building offers better views. The outcome is that the land value has more than doubled, to about $43 million. This increase in density would be attractive to a developer and would generate a significant CAC under current City policy.

Upzoned (Strata) + Transit

This scenario assumes upzoning to FSR 5 as above, but also assumes that the average price of the new units is higher because of new rapid transit service completed just before redevelopment occurs. Sales prices for these units within easy walking distance of a rapid transit station are assumed to be at most about 5% higher than prices for similar new units not near rapid transit. This is based on work we have done across Metro Vancouver, in which we have consistently found that sales prices and rent rates for new units near rapid transit do not achieve a large premium over similar new product served by frequent bus service. Most of the assumed 5% premium (minus the higher sales commission and additional profit) goes to land, so there is a higher percentage impact on the value of development parcels. In this case, the transit assumption takes total land value to about $49 million. The upzoning is responsible for around 80% of the increase and transit is responsible for around 20%. The numbers would be different for different locations in Vancouver, but the conclusion would be the same in almost all cases: a significant increase in density will usually add more land value than transit proximity on its own.

Upzoned (Market Rental) + Transit

This scenario shows the impact on land value if the land is rezoned to allow more density (FSR 5) but is also zoned to allow only rental tenure in the redevelopment. Rental residential supports a much lower land value than strata in Metro Vancouver. As shown in Exhibit 3, the land value that a rental developer could afford to pay is about $9 million, even if all units are rented at full market value, and would be even lower if some of the units had to be rented at below market. This is much less than the value supported by strata under existing zoning (which would be of great concern to the property owner). But of even greater concern, the land value supported by rental redevelopment is much less than the value supported by the assumed existing low density use of the site. In this case (which would be typical of many properties in the City) rental tenure zoning would cause the property to remain as a holding property rather than become a redevelopment site.

Implications

The land value changes shown in Exhibit 3 occur at one time because of increased density and increased transit access. The figures show that:

- Upzoning and transit can generate significant strata land value. This value is an opportunity for the City to obtain CACs. If the City did not seek CACs, ***all the extra land value created by the upzoning would flow to the landowner or developer***.
- Zoning to allow rental tenure only does not generate much land value; ***it can risk shifting a property from being a redevelopment site to remaining as a holding site*** unless the increase in density is very large and a significant portion of the units are at market rent.
- Once the new residential strata project has been completed and sold, the land value (including the additional land value resulting from the new density created by rezoning) is spread among the individual strata unit owners, who would then pay annual property taxes in accordance with whatever land value property tax system is in place.

Lessons from Case Study:

- *Upzoning and transit investment can generate significant strata land value…but without CACs, all the extra value would flow to the landowner.*
- *Zoning for rental tenure does not generate much land value…and it can shift a property from being considered as a redevelopment site to being a holding property.*

2.4 Pros and Cons of Land Value Capture as a Means of Taxation

Governments have a variety of ways to raise revenue from individuals and corporations, including income tax, sales tax (such as PST or gasoline tax in BC), value added tax (such as GST in Canada), user fees, and property tax. Each of these revenue tools has advantages and disadvantages in terms of fairness, progressiveness (i.e. rising progressively with income in order to make the tax burden more equitable in its impact), economic efficiency (minimizing negative impacts of taxation on the economy), the ability to modify behaviour (e.g. using a carbon tax to reduce fuel consumption), and other factors.

With this wide variety of tax measures available, it is important to consider whether there are particular advantages and disadvantages to taxing the value of land.

The idea of taxing land is not new. *In the late 1700's, Adam Smith advocated taxing land as a means of generating revenue without reducing total economic output because it does not impede productivity. George Henry, a 19th century economist, proposed that taxes on income reduce incentive to work and taxes on production are a disincentive to productivity, but taxes on land do not discourage productive economic activity. Land investment is passive; capital tied up in land does not generate economic benefits the same way that investments in business do.*

Taxing land value can recoup some of the investment that caused land value gains. Taxing land value can also lead to reductions in land value and house prices, although the advantage of a lower upfront price (which would lower the requirement for down payment and result in lower mortgage costs) can be offset by higher ongoing taxation costs.

Note that these are arguments for taxing land but not improvements, as these do contribute to productive capacity and provide benefits such as housing. Taxing land can encourage investment in improvements (because the tax burden would be spread over more space).

One of the main arguments against recurring taxation of land value is that this tax is unrelated to income or ability to pay. This concern is often articulated with regard to homeowners whose homes have risen in value but whose incomes have not. The counterarguments are that such people can sell their homes and move to lower value accommodation or that, in places such as BC, some households (mostly based on age) can defer property tax until time of sale. But there is still some social and political objection to tax policy that forces people to sell their home, take on debt, or see their equity decline.

Business owner/occupiers may also face financial challenges if their taxes rise, because their business may not generate enough income to cover the new cost.

Another possible concern is that increased property taxes can in some cases be passed on to residential and commercial renters.

Advantages of taxing land value (i.e. not improvement value):

- *Can recoup some of the investment that caused the land value gain*
- *Can lead to reductions in land value*
- *Can encourage investment in improvements*

Disadvantages:

- *Land value tax is unrelated to income or ability to pay*
- *May not be affordable for business owners/occupiers*
- *Increased taxes may be passed on to renters*

3.0 Approaches to Land Value Capture

Land value capture of one sort or another is already in use or is being considered in many jurisdictions. Land value capture is also the subject of a large body of research papers, technical reports, and opinion pieces. The terminology is not consistent across the documentation. Sometimes "land value capture" and "land value tax" are used interchangeably and sometimes these are used to mean very different things.

This section suggests one useful way to categorize different ways to obtain public sector revenue or benefits based on land value.

3.1 One-Time Sources of Revenue or Benefits

There are several commonly used ways to derive revenue from land value at a point in time, usually at a transaction or at a development milestone. These include:

- Taxes on the transfer of property ownership at time of sale.
- Income tax or capital gain tax on the increase in property value when sold.
- Development fees charged on new development at the time of permit approval.
- Public benefits in exchange for the approval of new development entitlements (density), usually at rezoning.

One-time sources:

- *Transfer taxes at time of sale*
- *Income or capital gain tax at time of sale*
- *Development fees at time of permit approval*
- *CACs at time of rezoning*

…Paid with proceeds of sale or development.

There are some important features of these one-time approaches:

- Property transfer taxes are paid by the purchaser and do not require a cash outlay by the existing owner.
- Capital gain tax occurs when the owner sells, meaning the sales proceeds provide the cash used to pay the tax.
- Fees paid at development and the cost of any public benefits provided at the time of rezoning are paid by developers as part of the process of creating a new project.

3.2 Recurring Charges

The second major group of land-based revenues consists of different kinds of ongoing taxes on land. These include:

- Property Tax. Almost all jurisdictions levy annual tax on the value of land, improvements, or (most commonly) both.

Recurring charges:

- *Property tax*
- *Property tax surcharge*
- *Local improvement surcharge*

…Paid annually from income, cash on hand, or borrowing.

- Property Tax Surcharge. Some jurisdictions apply a tax surcharge to some categories of property, such as property above a certain value.
- Benefitting Area Surcharge. Some jurisdictions apply a tax surcharge to properties that benefit from a specific public sector capital project. These are sometimes called betterment taxes.

These recurring charges are paid by the owners or users of the property out of their income or wealth, not out of proceeds from disposition or development of the property. The taxpayer must have a source of income, have cash on hand, or borrow to cover the cost of the tax, unless there is some system of exemption or deferment.

3.3 Other Approaches: Land Disposition and Tax Increment Financing

Some commentators consider the disposition of public land, via sale or lease, as a form of land value capture in the sense that the public owner takes advantage of rising land values to turn fallow land into revenue. This is not the same as capturing land value that would otherwise accrue to private land owners, but it is a way for governments to take advantage of rising land values or to reap directly the benefits of transit investment or increased density.

Another approach that is often mentioned is called Tax Increment Financing (TIF). TIF works like this:

- A public agency with property tax authority borrows money (either as a loan or by issuing a bond) to pay for some form of infrastructure that is expected to cause land values to rise.
- To provide security for the lender or bondholders, the agency pledges to apply growth in property tax revenue in the benefitting area to repayment. This pledge is a way to reduce the risk of default.

So, TIF is not land value capture per se. It is just a means of using increased value (i.e. the growth in property taxes in a specific area) as security to obtain financing. There is no “new money”; the gains in property tax revenue caused by infrastructure investment are going to occur whether or not TIF is used; the TIF is just an allocation of new taxes to the specific purpose of repaying borrowed funds.[3] This approach can make sense if a local government can only obtain financing by pledging the future tax growth in a defined area. In jurisdictions that do not have difficulty borrowing, it makes more sense for a lender or bond buyer to have repayment obligations secured by the entire tax base of the agency, not just the portion of the tax base inside the TIF area. For these reasons, TIF is not considered in this discussion paper.

[3] There are special circumstances in which a TIF-like instrument creates new revenue for a local government. For example, in Alberta municipalities can create Community Revitalization Levy districts in which the Province agrees that any growth in what would have been the Provincial share of property tax is transferred to the municipality. In this case, it is not the “TIF” that is creating new local money, it is the willingness of the Province to transfer revenue to the municipality.

4.0 Land Value Capture Approaches Used in Vancouver and BC

4.1 One-Time Capture

Income Tax

The Federal and Provincial governments collect tax on the net income from property disposition, except in the case of properties designated as a principal residence. Proceeds are either treated as a capital gain or income, depending on the tax status of the seller.

Property Transfer Tax

BC has a Property Transfer Tax with a sliding scale[4]. BC also has a 20% tax on the value of property acquired by foreign purchasers. The intent of these taxes is to reduce non-local demand and to capture revenue from higher value properties.

Development Fees

Development fees in BC are called Development Cost Levies (DCLs) in Vancouver and Development Cost Charges (DCCs) elsewhere. These charges are levied on most new urban development at the time of permit approval, regardless of whether rezoning is involved. In the City of Vancouver, new development pays City DCLs, the regional sewer DCC levied by the Greater Vancouver Sewerage and Drainage District, and (starting in 2020) the new TransLink DCC for regional transit infrastructure.

The use of DCLs and DCCs is consistent with the policy objective that residential and commercial urban growth should help to pay for the infrastructure associated with the growth.

Community Amenity Contributions

In strong markets, developers want to obtain changes in land use or increases in density to take advantage of opportunities for new development. Obtaining new density is akin to obtaining new land – in the sense that it allows more urban development to occur – and it has value. In many jurisdictions, development entitlements (i.e. density) are exchanged for amenities, affordable housing, infrastructure contributions, cash, or other benefits.

Obtaining new density on a site is akin to obtaining new land area…it allows more development to occur and it has value.

This is the basis for the City of Vancouver's Community Amenity Contribution (CAC) system. It could be argued that this is not really "capture" of value, in the sense that the City is essentially manufacturing land value by

[4] BC Property Transfer Tax: 1% on first $200,000, plus 2% on the portion between $200,000 and $2,000,000, plus 3% on the portion over $2,000,000 plus (for residential property only) an additional 2% on the portion over $3,000,000.

creating new valuable density and then exchanging this density for public benefits. This approach can be structured as density bonusing, fixed charges for density, or negotiated on a case-by-case basis.

By approving new valuable density, the City is essentially manufacturing new land value. ...the CAC program exchanges the new density for public benefits...to achieve the goal of growth paying for growth.

The objective of obtaining CACs is to help achieve the goal of growth paying for growth. CACs take the form of cash, amenities, affordable housing, and infrastructure that help address the impacts and costs of new development that accommodates growth in the number of households and businesses/employees.

City Land Investment and Disposition

The City has a large portfolio of land, which it uses for investment, generating income (from leases), raising capital (from disposition), or to assist in the creation of affordable housing. Arguably, this is not really a “capture” of land value because the City owns the land and it is exchanging one asset (the land) for another (the sale proceeds or land rent), but it allows the City to take direct advantage of land value growth due to market growth, rezoning, or new infrastructure. Land leases have the advantage of retaining public ownership of the land for future City use, or for benefitting from land value capture by re-leasing at market value upon expiry.

Local and regional agencies can take advantage of land value growth by acquiring land ahead of transit investment or major planning changes and then subsequently deploying the land (by sale or lease) for development.

Summary of Approaches to One-Time LVC

Single Event	Vancouver	Regional	Province
Purchase tax at acquisition	• No	• No	• Property Transfer Tax • Foreign Buyers Tax
Income/capital gain tax at disposition	• No	• No	• Yes (except principal residences)
Development fees	• DCLs	• TransLink • GVSDD	• No
Public benefits at rezoning	• CACs (fixed rate and negotiated) • Density Bonus	• No	• No
Land acquisition and disposition	• Yes	• Yes (limited)	• Yes

4.2 Recurring Charges

Property Tax

In BC, property tax is levied on 100% of the value of land and 100% of the value of improvements, so it is not solely a land value capture mechanism. This taxation system has been in place since 1984. Prior to that, BC had periods in which land was taxed at 100% of value and improvements were taxed at a lower percentage. There were even periods during the early 20th century when property tax was only levied on land value.[5]

Properties in BC pay property tax to local government, the Province, and regional agencies including TransLink. The assessment and taxation system requires properties to be divided into classes (e.g. residential, business, agricultural) each of which has its own tax rate. This is called a variable tax rate system. Current legislation in BC does not allow municipalities to set different tax rates for land versus improvements, different tax rates for vacant or under-developed property, different tax rates for similar properties in different areas, or different tax rates based on value.

Property Tax Surcharge

Several property tax surcharge mechanisms exist in BC:

- The Province's Speculation and Vacancy Tax charges an additional percentage of property value on properties in a defined area that are not a principal residence and not rented out, or are owned by a non-resident not paying income tax in BC (so-called satellite families). The Province's stated purpose for this tax is to shift vacant dwellings into the rental market, to decrease the non-local demand for property, and to help make housing more affordable in the applicable areas.
- The Province's School Tax surcharge applies to high value residential properties (including vacant land but not including rental buildings), at an extra 0.2% on the portion of assessed value between $3 million and $4 million and an extra 0.4% on the portion of assessed value over $4 million. While called a school tax, the funds go into general revenue and are not earmarked for education spending. The stated purpose of this tax is to reduce non-local demand, but it also affects local owners of higher value homes. For this reason, this tax is essentially a means of wealth redistribution.
- In addition to TransLink's basic property tax, the agency has the ability to levy a surcharge in benefitting areas. Section 25(7) of the South Coast British Columbia Transportation Authority Act allows TransLink *to "establish zones" and "adopt different tax rates… in different zones based on the benefit…that accrues to the land and improvements…as a result of proximity to a transportation station, or to another major transportation facility, that has been constructed or funded by the authority."* TransLink has not used this benefitting area tax, on the premise that if there is a land value benefit to proximity to transportation infrastructure then the property will have higher assessed value and will already pay more property tax than a similar property that does not have the transportation benefit.

[5] For an excellent history of property taxation in BC, see "Land Value Taxation in Vancouver: Rent-Seeking and the Tax Revolt", Christopher England, 2018, American Journal of Economics and Sociology Vol 77, No. 1

Local Improvement Area Taxes

Pursuant to Section 500 of the Vancouver Charter, the City of Vancouver can levy a tax for local improvement projects when the project involves capital investment by the City that will *"specially benefit real property in a limited and determinable area"*. Local improvement taxes in Vancouver are usually only applied for relatively small projects that benefit a few properties, such as improvements to lanes.

Summary of Approaches to Recurring LVC

Recurring	Vancouver	Regional	Province
General Property Tax	• Land and improvements with variable tax rates for residential, business, etc.	• Yes	• Yes
Benefitting Area Tax	• Local improvement tax (limited to places where City invests)	• TransLink has authority	• No
Property Tax Surcharge	• Under existing legislation cannot vary tax rate based on value or location, and cannot vary tax rates for land vs improvements	• No	• School Tax surcharge on high value residential properties

4.3 Combined Approaches

All the above approaches are in use at the same time in Vancouver and BC. There are three implications of using multiple approaches:

- Different approaches capture different sorts of land value growth. For example, a CAC captures a large share of the one-time significant increase in value caused by upzoning. On the other hand, the rising land value portion of strata unit and single family house market values is captured by ongoing property tax. These are not an either/or choice: if only property tax on land value growth is used, then the immediate value of the upzoning goes entirely to the land owner or developer, not the City. If only the one-time increase in value is captured via CAC, then the City would not benefit from the long term growth in the land value portion of residential and commercial property values.
- The revenue comes from different groups of people. DCLs and CACs are ultimately borne by land owners and developers. Ongoing property taxes are borne by the owners and occupants of residential and commercial floor space. More on the impact of these charges is contained in Sections 6.0 and 7.8.
- Layered approaches can create administrative complexity for taxing agencies, multiple layers of tax for property owners (which can be financially challenging if different agencies do not take into account the

total impact of all taxes), and can make it hard for taxpayers who have to deal with the paperwork of multiple tax payments, forms, and applications for exemptions.

4.4 Summary of the City's Current Approach

The City of Vancouver already has a comprehensive and effective system of land value capture, that consists of:

- The property tax system, which levies annual taxes on the value of land and improvements.
- The DCL system which raises money from new development to pay for infrastructure and is ultimately derived from land value.
- The CAC system, which exchanges new density (land value) for public benefits.
- A portfolio of City-owned property, some of which it leases to others.

The City does not currently have the ability to charge benefitting area tax on a widespread basis, to levy surcharges on specific properties based on value, or to tax land at a different rate than improvements.

5.0 Other Examples of Land Value Capture

There are many jurisdictions that use, or are considering, some form of land value capture. Property tax is almost universally used to generate local government revenue, and in the US and Canada there are many cities that use some form of density bonus or other means of obtaining public benefits or affordable housing in exchange for new density.

This section provides brief descriptions of examples of approaches used in other places.

Ontario

While the enabling legislation is different than in BC, Ontario municipalities have the ability to charge development fees (Development Charges) similar to DCLs and they have the ability to obtain amenities or cash-in-lieu when granting additional density (called Section 37 benefits, they are similar to density bonus or Community Amenity Contributions in Vancouver).

Portland, USA

The City of Portland constructed a light rail link between the airport and the existing transit system. The project was funded via a tax increment financing district to support borrowing, an agreement with a developer that provided a capital contribution in exchange for development rights on a large property served by the new line, and a levy on passengers arriving at the airport.

Kansas City, USA

This City has a Transportation Development District that raises revenue for streetcar (LRT) construction. The package includes a sales tax (maximum of 1%) on retail sales within the TDD boundary, a real estate tax surcharge on property within the TDD boundary, and a special assessment on surface parking lots in the boundary. These assessments are limited by state law to 20 years.

Miami-Dade County, USA

This county has established a Transportation Infrastructure Improvement District within a half mile of transit corridors, in which any increase in property taxes above a defined base rate is allocated to pay for transit infrastructure. This is not a new source of revenue or a net gain in revenue; it is a mechanism to ensure that tax revenues above a threshold are channeled to pay for transit.

Pennsylvania, USA

The state has authorized the creation of Transportation Revitalization Investment Districts, in which a portion of future property tax revenue gains can be earmarked for transit infrastructure. There is not necessarily new revenue, but an ability to pledge a portion of revenue to the repayment of loans or bond issues. Pennsylvania is also one of a few jurisdictions in the US in which a significant number of municipalities use what is called split rate property tax, with a higher rate on land value and a lower rate on improvements value.

Seattle, USA

The City of Seattle includes a Housing Levy in its property tax. The levy raises funds that are used to construct affordable rental housing for low income households. This levy has been in place since 1981 and it has supported the construction of around 12,000 units. The City estimates the median cost per home owner to be about $125 per year. The Housing Levy must go before voters for renewal every few years.

Los Angeles and Seattle Metropolitan Regions, USA

These two regions are similar to Metro Vancouver in that they are made up of a large number of local governments served by a single regional transit authority. In both regions, the transit authorities use a form of land value capture to help fund transit infrastructure and to assist in the creation of affordable housing. They use what they each call “strategic land acquisition”. When planning and implementing transit infrastructure projects, they:

- locate stations where there are good opportunities to assemble land.
- acquire more land than the minimum needed for construction.
- ensure that post-construction, the surplus land will be in configurations that are easy to develop.
- take advantage of the land value gains due to transit and upzoning.
- offer surplus land to the market, in some cases at full market value to fund transit and in some cases at less than market value for the provision of affordable rental housing.

Both the City of Seattle and the City of Los Angeles make extensive use of density bonusing to achieve affordable housing and amenities.

Australia

Jurisdictions in Australia use various forms of land value capture including a “stamp duty” (similar to BC’s Property Transfer Tax), development charges, and property tax. Some public agencies in Australia are considering more broad-based approaches to land value capture that could be applied at the federal, state, and local levels. So far, government has produced research and discussion papers on the subject but has not yet enacted new tools.

New Zealand

The government of New Zealand is considering land value capture as a means of funding new infrastructure projects. Based on published statements from officials, one measure being considered is to tax the incremental growth in land value caused by transit improvements, measured by comparing the growth in land value for similar properties that have not directly benefited from transit investment.

Sao Paolo, Brazil

This South American City has taken an unusual approach to raising revenue from new development rights:

- The City identifies a redevelopment zone in which it wants to see increased density.
- The City defines how much additional floor space, beyond that allowed under current zoning, is appropriate in the area and then issues “bonds” for this density.
- The bonds are auctioned; the purchasers of the bonds are then able to use the density on properties they own within the redevelopment zone (or they can sell it to others in the area).
- The revenue raised from the auction is invested in housing and infrastructure in the redevelopment zone.

This has similarities to Vancouver’s Community Amenity Contribution system (developers provide cash or amenities in exchange for density) and to Vancouver’s system of transferrable density for heritage projects (the density is not confined to a specific single site, as in a typical rezoning), but the Sao Paolo approach is of course different in that the new density is auctioned to the highest bidder rather than negotiated with individual property owners. Another key difference is that for the system to work, most or all properties in the redevelopment zone must be deemed to be appropriate to absorb extra density.

Hong Kong

The Hong Kong Mass Transit Railway Corporation funds transit infrastructure through involvement in urban development at stations. The corporation obtains from government the development rights for land on and beside transit infrastructure and then tenders development opportunities to the private sector. The corporation enters into profit sharing arrangements or leases.

Africa

In order to supplement property tax revenues, some African nations use or are considering land value capture. Development charges, infrastructure contributions from development projects, and land sales and leases (in locations where government owns a large share of total land area) are used to generate revenue, particularly for infrastructure.

General Observations

Some general observations can be drawn from these examples:

- In a large proportion of the examples around the world, land value capture is mainly considered as a means to fund infrastructure, particularly transit as there is a correlation between transit improvements and increased value. There are fewer cases where land value capture is used to fund affordable housing.
- The most common land value capture approaches appear to be some form of property tax, development fees, and the creation and disposition of new development rights (i.e. density)[6].
- Tax increment financing is often used as a means of securing loans or bond issues. This vehicle allows agencies to secure investment capital, by providing assurance for repayment, but it does not generate any new revenue.
- There do not appear to be many instances in which land value capture is used specifically to suppress land values or discourage investment in land. In fact, many of the jurisdictions are counting on land value increases so they can tap the gains to pay for infrastructure.
- In most jurisdictions there is more than one form of land value capture in use, including property taxes as well as development fees of some kind.

Based on this survey, the City of Vancouver could be considered in the forefront of using a comprehensive approach to land value capture in the form of annual property taxes, development charges, and CACs. Other jurisdictions show possible avenues for refinement including benefitting area tax, differential tax rates on land and improvements, and special levies for transit or affordable housing.

[6] It is worth noting that CAC-like mechanisms are used in many cities in Canada and the US. While many landowners and developers have the view that the value of additional density should belong entirely to the landowner, this is not the premise of many North American rezoning frameworks. New York, San Francisco, Seattle, Los Angeles, Toronto, Halifax, and of course Vancouver are just a few examples of cities that approve new density in exchange for public benefits.

6.0 Market and Financial Effects of Different Land Value Capture Approaches

Different land value capture approaches have very different impacts, particularly with regard to who ultimately absorbs the cost and who receives the benefits.

6.1 Development Charges

Development charges such as DCLs are technically infrastructure cost recovery mechanisms because they collect revenue from new development projects to pay for community-wide networks such as roads, water, sewer, or parks. However, because of the way development sites are valued in the market, development charges have the effect of putting downward pressure on the amount developers can pay for land. While a development charge may be imposed for the purpose of paying for infrastructure, its economic impact is to capture what otherwise would have become land value.

Development charges (DCLs or DCCs) are infrastructure cost recovery mechanisms. They have a downward influence on the amount developers can pay for the land…

…but, as long as the rates for these charges are set carefully, they do not have a negative impact on project viability or housing affordability.

Development fees are not simply added to the end sales or rent price of units, as these are determined by supply and demand for housing units in the market. However, the added cost of development fees causes developers to be able to pay less for land than they otherwise would have. This does not necessarily mean that land values are declining; it means that fees can cause the pace of land value growth to be slower than it otherwise would.

In the face of this downward pressure on land value, there are two possible outcomes:

- As long as land is still significantly more valuable as redevelopment property than as holding property (in its current use), there is not likely to be a reduction in the flow of land to the redevelopment market. In this case, there is not a negative impact on the pace of development, the viability of development, the price of new product, or overall housing prices.
- If development fees are too high, however, developers cannot offer enough to compete land away from purchasers who want to retain the existing use (e.g. single detached houses or older low-density commercial property). This means that the flow of land to redevelopment is reduced, so the pace of new construction is reduced. If demand remains strong, reducing the pace of new development will cause all housing prices (not just the price of new units) to rise.

As long as development charges are set carefully, they do not have a negative impact on project viability or housing affordability. The cost of levies such as DCLs is absorbed by the owners of redevelopment land.

The parties that benefit from the DCL system are those that use the new infrastructure, those whose property value is increased by the new infrastructure, and (indirectly) those whose property taxes are lower than they otherwise would be because some infrastructure is paid for by DCL revenues rather than property tax.

6.2 Community Amenity Contributions

Rezoning creates new development density that has land value. CACs obtained in exchange for this new density capture some of the value created by rezoning that would otherwise become additional value for the owners of development sites.

New density creates new land value…by obtaining CACs in exchange for this new density, the City gets a share of the additional value that would otherwise have gone to the land owner or developer.

CACs do not add to the market price of housing and can help address housing affordability if new density is offered in exchange for affordable housing benefits.

CACs do not add to the market price of housing because CACs are always associated with an increase in housing capacity and, in any case, housing prices are determined by demand and supply forces. CACs can help address housing affordability if new strata or market rental density is offered in exchange for affordable housing benefits.

CACs are paid by developers but they receive valuable density in exchange, so there is not a net cost to them. The cost could be said to be absorbed by land owners (who would otherwise have obtained all of the value of new density), but only if one assumes that rezonings would be approved even if no public benefits result.

The parties that benefit from the CAC system include those who use the new amenities and infrastructure, those whose land value is increased by the new amenities and infrastructure, developers who earn additional profit by developing the additional density, households who benefit from any new affordable housing provided as part of the CAC, and (indirectly) those whose property taxes are lower than they otherwise would be if the amenities and infrastructure were funded via property tax.

Eliminating CACs in favour of a new broad-based property tax on land value would provide an immediate windfall for owners of upzoned development land and transfer the financial burden of paying for amenities to taxpayers.

Whatever the City does with regard to ongoing taxes on property or land value, there is no sound reason to link this to a reduction in the use of CACs as a land value capture mechanism.

6.3 Land Acquisition and Disposition

The acquisition and subsequent resale or lease of land by public entities can generate revenue and add to housing supply, so there are positive outcomes for infrastructure funding and housing affordability.

One common strategy for land disposition as a land value capture tool is advance acquisition of more land than is needed for transit construction and subsequent sale of rezoned development sites with transit access, either to help pay for the transit or to provide sites for affordable housing.

Strategic acquisition and disposition of land for transit infrastructure projects can generate revenue to fund the infrastructure or pay for affordable housing near transit

There is no direct cost to any party that results from public sector involvement in land acquisition and disposition, unless a particular transaction results in a loss that must be covered from another revenue source.

The main benefit is that there is less reliance on all other sources of revenue, including property tax.

One way to take advantage of land value capture using public land is to lease rather than sell property. When a land lease expires, there is an opportunity to take the land back if necessary for a civic purpose (thereby eliminating the need to acquire a site) or there is an opportunity to re-lease the land at the current market value, taking advantage of land value growth over the life of the lease. Of course, this requires either that the current occupants pay market value for a lease renewal or that the property is made available under a new lease for redevelopment.

6.4 Property Tax, Property Tax Surcharge, and Benefitting Area Tax

The impacts of a higher city-wide land value tax, a property tax surcharge, or a benefitting area tax vary with the type of property and the nature of any leases or rental arrangements.

Those who benefit from such taxes depend on the structure of the tax and what the revenue is used for. Benefitting groups could include:

- Those buying their first home, if the tax is large enough to affect value. However, the reduction in home price could be offset by the ongoing cost of the tax to the owner. Note that people selling a home would see a loss in equity.
- Any property owner whose taxes fall due to a redistribution of the tax burden (i.e. some owners would pay more tax, but some would pay less if the new tax shifts more of the tax burden to specific property types).
- Those who benefit from any new infrastructure or affordable housing constructed using the tax revenue.
- Those whose land values rise as a result of new infrastructure funded by the tax (although in a benefitting area tax this increase in value is all or partly offset by the tax).
- Development land owners, if a new recurring land value tax replaces the existing CAC or DCL systems.

Generally, these benefits are spread widely across the community, whereas the cost of a new recurring land value tax is borne by the property owners (or their tenants) who pay the tax. Only with a benefitting area tax is there a direct link between those who benefit and those who pay.

All property taxes are initially paid by the owner of the property, but the nature of the impact varies depending on the type of property and in some cases the cost is shifted to others (tenants).

Residential Rental Properties

In most residential rental properties, rents are structured on a gross basis meaning tenants do not directly pay the property tax; the landlord pays the tax using some of the rental income. Because residential rents in BC are set by the market and by regulations under the Residential Tenancy Act, the effect of property tax increases on residential rents is as follows:

- For units rented at full market rent, there is no impact on tenants. The increased tax cost cannot be passed on in the form of "above market" rent, so landlord net income is reduced. This can have the negative consequence of reducing developer/investor interest in constructing new rental housing if the tax is so high that net income is not sufficient to make projects viable. If the pace of rental construction is too low (as we have seen in this region over the last several decades), vacancy is too low and rents rise faster than inflation.
- For units that have had rent growth limited by the Residential Tenancy Act, rents are typically below current market rates. If these below-market rates are then allowed to rise faster than inflation because increased operating costs (including property taxes) result in higher allowable rent increases, then increased property tax will result in these rents being higher than they otherwise would be (although still below market).

Impact on residential tenants:

- *No impact on tenant if unit is rented at full market rate … but landlord receives lower net income.*
- *For units at below market rent, tax increases can lead to higher rent increases than would otherwise be required, to cover the increase in operating*

Commercial Properties

In many commercial properties, leases are structured so that the tenant pays rent and pays a pro rata share of the property tax (and other operating expenses). If one takes the view that over the long term, commercial tenants can pay a maximum total amount to occupy space (regardless of how this value is parsed into rent, tax, or operating costs) then theoretically, property taxes do not add to the cost of occupancy. The impact of property tax in the long run is to reduce the market rent that can be charged by landlords.

However, in the short run commercial tenants are locked into rent payments based on their leases which are typically 3 to 5 year terms. In this case, the tenants must pay the increased tax but have no ability to offset the cost by reducing rent. This can be very challenging for small

Impact of higher property tax on commercial tenants:

- *No impact on tenant over long term after current lease but landlord receives lower net income.*
- *Potentially serious impact during term of existing leases.*

businesses, especially those that are already paying very high property taxes because they happen to occupy potential redevelopment sites with high value.

Businesses that own their own premises will absorb any new property tax, so net income from the business will be reduced unless the owner can reduce other costs or increase revenues to offset the tax.

Homeowners

The impact of annual property tax on residential land values or housing prices is not as clear as one would like. The academic research does not always show a direct link between property tax and value, possibly because property taxes tend to be small (on an annual basis) relative to the value of the property, there are many other more significant factors that affect value, and property owners may not expect to own property long enough to absorb the long term impact.

A large increase in property taxes would probably lead to a reduction in property value.

- *disadvantage for current owners (equity falls)*
- *advantage for buyers (prices are lower) …although this is offset by higher ongoing tax costs*
- *Some owners may not have sufficient income to absorb recurring tax*
- *Ability to defer taxes may be constrained if there is not sufficient equity after secured lines of credit, reverse mortgages, or traditional mortgages*

Financial analysis would suggest that a large increase in property tax (i.e. large enough to stand out among other factors) would lead to a reduction in property value, so it is reasonable to assume that a significant new tax on residential land would result in a reduction in the market price of affected freehold and strata units. This would be a disadvantage for owners (their equity falls) and an advantage for buyers (prices are lower), but the upfront affordability benefit of a lower purchase price (a lower down payment, lower mortgage payments, or both) would be somewhat offset by higher ongoing property tax costs.

Additional broad-based taxes on land value would affect all property owners in the targeted category of property, not just those who own redevelopment sites. This approach would enable the City to benefit from market-wide increases in land value that are due to the full range of factors that make Vancouver an attractive place to own land.

However, because land value tax is not linked to the income of the owner, one possible impact is that some residential property owners may not have enough income to absorb a recurring tax. Such owners have the option of selling and moving to a lower-value property, if possible, or if they are eligible (mainly older owners of residential property) they can defer the tax until they sell the property. A property owner's ability to defer taxes is constrained if there is not sufficient equity after allowing for secured lines of credit, reverse mortgages, or traditional mortgages.

7.0 Policy Choices and Questions

This part of this discussion paper explores some of the policy choices and questions that need to be considered if the City wants to expand its use of land value capture.

1. What are the options for the City?
2. What is the main purpose for expanding land value capture: raising revenue for infrastructure, raising revenue to pay for affordable housing, reducing the rate of land value growth, redistributing wealth, a combination, or something else?
3. What part of land value should be captured and by whom?
4. Should land value capture be implemented at the municipal level or is it better to have a regional approach?
5. Should land value capture generate net new revenue or be revenue neutral? What are the implications for the City's approach to budgeting?
6. How should land value changes be measured for the purpose of capturing a share of the increase?
7. How much revenue might be raised?
8. What are the main advantages and disadvantages of different approaches?
9. What is required to implement a new land value tax?

7.1 What are the Options for the City?

There are several possible options for increased land value capture under existing Provincial legislation. These include:

- Seek more revenue from development fees, if there is room to increase fees without changing the viability or pace of new development.
- Seek more revenue from CACs. Under current policy, the City does not seek 100% of the lift in land value at rezoning. It targets on about 75% for negotiated CACs and a lower percentage in most of the fixed target districts. It is essential to leave some incentive for land owners and developers to rezone (assuming it is desirable to have an increased supply of housing and employment space), so the City should not seek 100% of the lift. It may be possible to seek a higher share without negative impact, particularly in fixed rate districts where the CAC rates are significantly lower than the market value of density.
- Make greater use of local improvement taxes to fund specific capital projects paid for by the City. This is only

Options for increased revenue from land value capture under existing legislation…

- *More development fees*
- *Higher CACs*
- *More use of local improvement taxes*
- *Higher tax rates for selected property classes*
- *Increased strategic acquisition and disposition of land*

with legislative amendments…

- *Tax land at a higher rate than improvements*
- *Benefitting area tax or higher tax rates on higher valued property*

applicable when the City is making the capital investment and it requires the ability to clearly define the benefitting properties and quantify the benefit.

- Increase property tax rates for selected property classes (e.g. residential, business). This is a direct, immediate option for increasing revenue based on growth in land value. Because a recurring land value tax is just another name for property tax on the land portion of value, this is a way to achieve the goal of increased land value capture (although it also increases tax on improvements). The City could set a larger annual budget (to have more funds for affordable housing or infrastructure, for example) and then increase tax rates accordingly.
- Increased strategic acquisition and disposition of land.

There are other options which would require amendments to Provincial legislation:

- Tax land value at a higher rate than improvements value.
- Create a benefitting area tax, in which tax rates would be higher than for property in the same class outside the benefitting area(s). TransLink currently has this authority but does not use it. This is the approach that has been suggested in a recent presentation to the City by BCGEU, which proposes the use of a land value tax to fund transit and possibly also to contribute to housing affordability.
- Use a sliding scale for property tax, with higher rates for higher value property (based on total property value or the land component only).

7.2 What is the Main Purpose for Expanding Land Value Capture?

There are several possible policy objectives for expanding land value capture in the City: raising revenue for infrastructure, raising revenue to pay for affordable housing, reducing the rate of land value growth, encouraging redevelopment, or redistributing wealth.

The policy objective(s) with highest priority should influence how and where the City seeks to increase land value capture. For example:

- To raise revenue to pay for new infrastructure, new charges could be targeted at property that will benefit directly from the infrastructure in the form of increased development potential and increased value, using higher land value taxes, new development fees, or higher CACs.
- To raise revenue for affordable housing, the City can approve additional density in exchange for affordable housing or it could apply a broad-based property tax on all property with the aim of creating an affordable housing fund such as Seattle's Housing Levy.

The main purpose of expanding the City's use of land value capture will influence the choice of property types and locations that are expected to contribute more revenue.

- To encourage redevelopment, increasing the tax rate on vacant or under-developed lands would tend to encourage owners to maximize improvements on the land.
- To suppress the value of land, by making it less attractive as an investment, higher taxes on land value could be used. Small increases in tax rates tend to not have an obvious impact on land value (because there are so many other more powerful influences on land value) but large increases in land value tax

will tend to reduce the value of land and the value of freehold and strata housing. Note that lowering the value of the tax base would result in lower taxation revenue unless tax rates are adjusted upward.

- To redistribute wealth, property tax rates could be higher on high-value property and lower on low value property. The Province's School Tax surcharge could have this effect: the new higher tax on high value property is going into general revenue, which means that some taxes (e.g. income tax) will be lower for some households than they otherwise would be.

The City should choose the highest priority purpose(s) of expanding land value capture before selecting an approach. The purpose will influence the preferred method and it will influence the choice of property types and locations that are expected to contribute more revenue.

7.3 What Part of Land Value Could be Captured and By Whom?

Land value is already captured in the City of Vancouver in several ways including one-time capture via DCLs and CACs and recurring capture in the form of property tax (although the current system also taxes improvements).

New approaches would require amendments to Provincial legislation.

A new land value tax could be applied to:

- Total land value or land value in designated benefitting areas.
- Growth in land value after some deemed start date.
- Growth in land above some threshold after a start date (e.g. land value growth above inflation or land value above some minimum value).

It is important to note that different public entities might claim the right to capture a portion of land value. For example:

- The Province could take the view that general land value growth above inflation is due to the overall context it creates and its investment in infrastructure.
- The City could take the view that land value growth from rezoning is due entirely to municipal authority and that the added density will create costs that are borne by the municipality.
- TransLink could take the view that land value growth due to transit infrastructure investment should be reclaimed to help pay for the transit.

7.4 Should Land Value Capture be Implemented at the Municipal Level or is it Better to Have a Regional Approach?

Land value capture – in the form of property tax, development fees, and CACs – occurs throughout the region, but the approaches vary and so do the rates. There is no reason why the approach to land value capture must be the same from municipality to municipality, unless the charges become so large in one place that home purchases, development activity, and property investment redistribute to other areas in order to avoid the cost.

Vancouver already has the ability to set its own DCL rates, CAC policy, and property tax rates without reference to what other municipalities are doing. However, if Vancouver seeks new taxation powers from the Province, such as the ability to tax land at a different rate than improvements, then it is likely that this idea will be considered in a regional and Provincial context for these reasons:

- TransLink has already put land value capture on its list of possible new mechanisms to fund regional transportation.
- Other municipalities and Metro Vancouver are already considering land value capture as a means of funding affordable housing and infrastructure.
- The Province has recently begun to use land value capture (in the form of the School Tax surcharge) to obtain higher tax revenue from high value residential properties.

Because the Province, TransLink, Metro Vancouver and other local governments in the region are either using or considering land value capture, there is likely to be some competition among agencies for securing a higher share of land value. There is also a risk that the overall tax structure becomes overly complicated (which may already be the case, with the wide array of vacancy, speculation, school, and property taxes) and creates too large a total tax burden to be sustainable.

The actions of each government agency with the authority to levy taxes or fees will affect the ability of other agencies to use the same tool. The combined impact of all taxes and fees must be taken into consideration when evaluating the impact of proposed changes, suggesting there is value in a coordinated approach.

7.5 Should Expanded Land Value Capture Generate Net New Revenue or Be Revenue Neutral? What Are the Implications for the City's Approach to Budgeting?

Expanded land value capture could be designed to achieve two very different total City revenue outcomes:

- The system could be designed to be revenue neutral, such that increased land value capture is offset by reductions in other fees or taxes. This would affect the distribution of total land value tax payments across properties, but not the total amount of revenue. This is the approach used for some taxes (e.g. the national carbon tax) which are intended to influence behaviour but not result in a net new cost to most taxpayers.
- The system could be designed to generate net new revenue. The total revenue and the distribution across properties could change.

This choice has implications for how the City budgets.

If the aim of a revised approach to land value capture is to generate more revenue, not just redistribute the tax burden, the City would have to define new priorities for spending (to see how much new revenue is needed) or calculate the new amount that can be achieved by land value capture and then decide how to allocate the funds. Assuming the revised approach includes a new recurring tax on land value, the total property tax load on all properties (subject to the new tax) would increase.

7.6 How Should Land Value Changes be Measured for the Purpose of Capturing a Share of Increase?

If the City opts for expanded land value capture in the form of a new kind of property tax, the City will have to address some challenging methodological questions, such as:

- If a new land value capture tax is to be applied only in benefitting areas, how are these areas to be defined?
- Should all properties pay, or only a subset of properties? What kinds of property should be exempt?
- What portion of land value should be taxed? All, or a portion of total above some threshold, or a portion of the increase from some deemed start date?
- Could the tax be deferred, as with the current property tax system for eligible property owners?

In addition to defining the basis for the calculation of land value capture, the City would have to choose a source for land value data. One obvious option is the BC Assessment Authority which is responsible for property assessments across the Province.

The City contacted the BC Assessment Authority about this possibility and received these comments:

- While the Authority is confident in its ability to distinguish between land value and improvements value for non-strata properties, the current system does not produce accurate strata land value figures. BC Assessment anticipates that a land value capture tax applied to strata properties would require significant changes to its valuation systems.
- The Authority notes that there is a working group examining ways to reduce the property tax burden on small business that occupies development property, where the land value is currently based on residential redevelopment potential. This may lead to legislative changes, which may affect the structure of a land value capture tax.
- The Authority notes that it can be challenging to accurately value land that has rezoning potential because of the need for extensive knowledge about rezoning requirements and development charges.

There would need to be significant changes to assessment systems to implement a new recurring land value tax.

7.7 How Much Revenue Might be Raised?

The potential revenue depends on the kind of land value capture mechanism(s) that might be used.

DCLs

The City's current DCL system already includes an update process to increase rates when appropriate and possible (based on development economics) and to ensure that they do not become so high that they have a negative effect on the flow of land to the redevelopment market. At present, there is financial "room" to increase these charges in some high-value parts of the City but there is little room for additional charges in some locations and for some forms of development. Consequently, other than periodic increases to adjust to inflation there is not much potential to create new DCL revenue.

CACs

The current system uses a combination of density bonus, fixed rate CACs, and negotiated CACs. Broadly speaking, density bonus and fixed rate CACs are used in areas where there will be a large number of similar scale projects in similar market conditions. CACs are negotiated for projects that are large, involve a significant change in use, or offer unusual opportunities (e.g. waterfront sites).

For negotiated CACs, the usual target is about 75% of land lift. This target is intended to leave some of the land lift available as incentive for landowners to sell their land for redevelopment and for developers to go through the rezoning process. There is probably not much room to increase the City's share across the board, although there may be individual cases in which circumstances allow the City to negotiate for a higher share.

For the target rate CAC districts, the City sets in advance the amount developers contribute for additional density. For these set rates to work, they must be affordable for all sites and projects in the applicable area, which means they are generally set on the low side of market for that area. The tradeoff the City makes is that the set rate speeds up the process, is more predictable, and puts less of an administrative load on the City and developers, but it also means that the total CAC proceeds are probably less than would have been achieved if all CACs were negotiated on a site-by-site basis.

There are three ways the City could derive more revenue from the CAC system:

- Explore the potential to capture more than 75% of lift in negotiations, but this risks reducing the flow of land for redevelopment.
- Shift some areas from fixed rate to negotiable. This is not likely to be supported by the development industry and it will impose administrative costs and project delay.
- Approve more density. This will increase the total capacity for development in the City, which should help with affordability, but it also increases the load on community systems so the "new" revenue is not necessarily a net financial gain to the City.

All things considered, there is probably not much room to increase the use CACs as a form of land value capture for City purposes.

Recurring Land Value Tax

In the absence of a specific new tax proposal, it is not possible to forecast revenue. However, it is possible to use available data to provide some benchmarks.

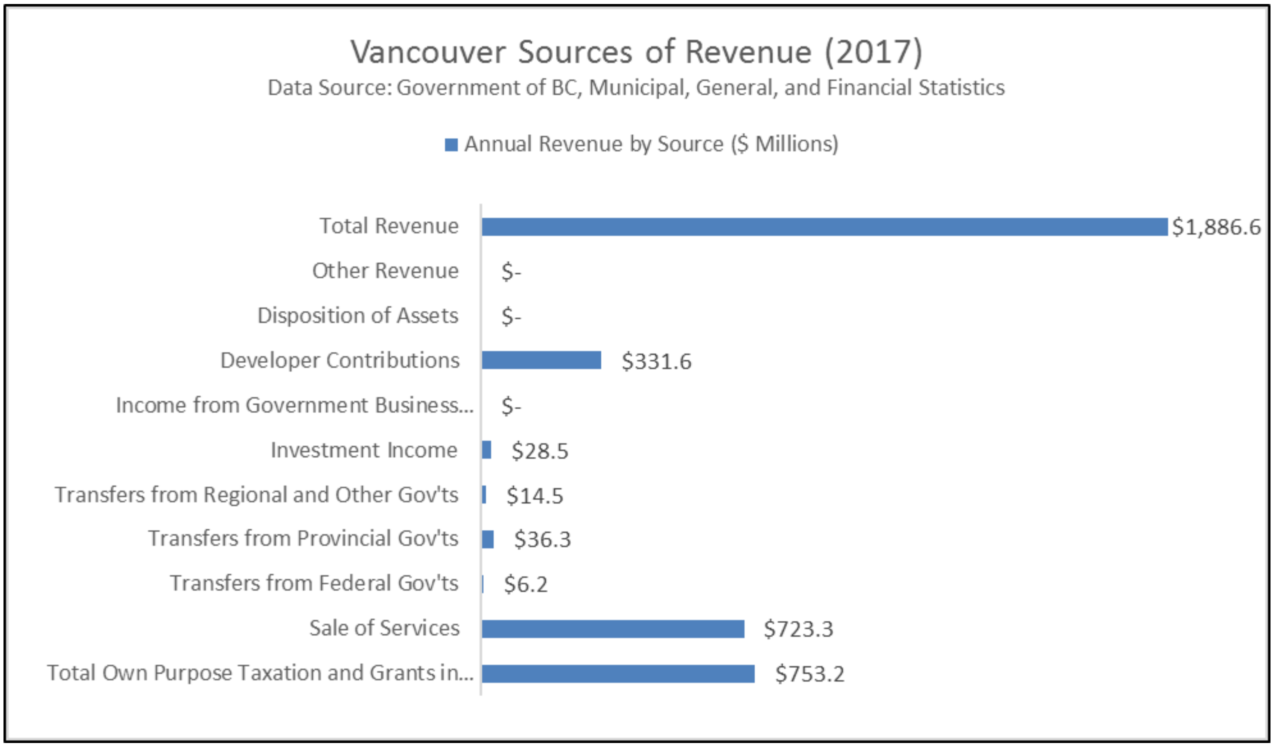
Exhibit 4 shows the total 2019 assessed value of property (land and improvements) in the City (i.e. based on July 2018 values), and Exhibit 5 shows the City's total revenue by source for 2017.

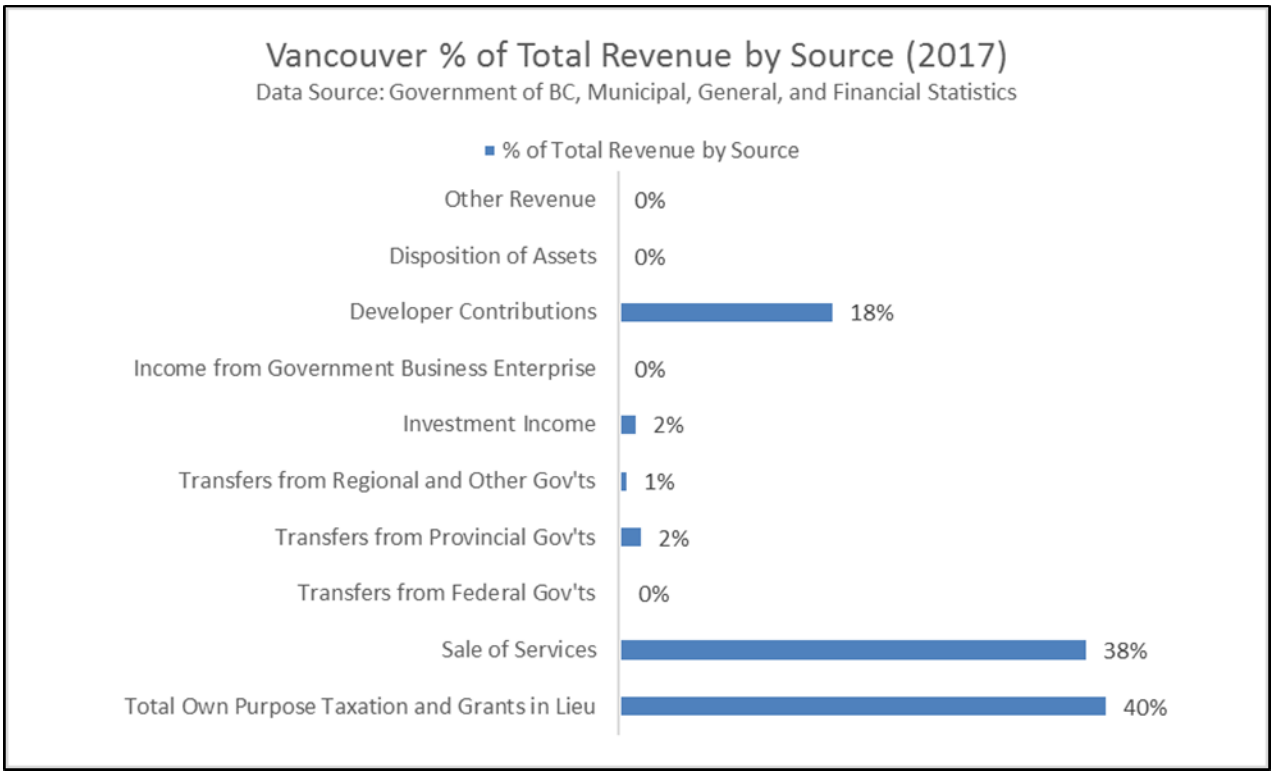
Exhibit 4: Total 2019 Assessed Value of Land and Improvements in Vancouver (July 2018 Values)

City of Vancouver - 2019 Revised Assessment Roll			
	Actual Assessed Values ($ Billions)		
Property Use	Land	Improvements	Total
Total Residential	$ 279.34	$ 62.76	$ 342.10
Other	$ 113.46	$ 22.90	$ 136.37
Total Vancouver	$ 392.81	$ 85.66	$ 478.46

Source: BC Assessment: Area 09; Jurisdiction 200 (2019 Revised Roll)

Exhibit 5: City of Vancouver Total Revenues by Source (2017)





These figures can be used to test some "what if" questions about the potential revenue from a new recurring land value tax. The following tests are only intended to indicate the scale of revenue that could result from some possible ways to structure a land value tax. In all cases, the revenue estimates are for the first year of a new tax. The amounts would escalate over time.

- **What if a new recurring land value tax on all property had to generate enough money to replace the amounts the City obtains from development fees and charges?** Developer contributions totalled about $330 million in 2017 and total City property tax revenue was about $750 million. If the developer contributions had to be replaced by a tax on all land value, then total property tax revenue would have to rise by around 45%. Looked at another way, the total value of land in the City is about $392.8 billion. To raise $330 million per year from this land value requires a new tax on the order of 84 cents per $1,000 of assessed value. The City's current rates are about $1.25 per $1,000 of residential assessed value and $5.03 per $1,000 of business assessed value, so the required tax increase is large in percentage terms.
- **What if a new land value tax is set to be comparable in scale to the new Provincial surcharge of 0.2% on residential properties between $3 million and $4 million?** There is no particular rationale for the figure 0.2%, but it is being applied to some properties now (with some objection from the affected owners) and it provides an interesting illustration of the impact of a new land value tax. For a $4 million-dollar property, a surcharge of 0.2% on the extra $1 million is $2,000 per year. This is equal to 0.05% of the total value of the property. If a new tax of 0.05% is applied to all land value in the City, it would generate approximately $200 million per year, which is significant as it is equal to an increase of just over 10% in total annual City revenues. However, it is also equivalent to about a 27% increase in the City's current total annual property tax revenue, meaning a very large increase in taxes for all properties.
- **What if a new land value tax is set to increase the City's property tax revenue by 5% per year?** 5% is an arbitrary number, but it is large enough to be a meaningful new source of revenue and would also likely appear to most taxpayers to be a large increase in their annual cost. This would generate about $38 million per year ($753 million x 5%).
- **What if a new land value tax is only applied to future growth in value above inflation in certain areas that benefit directly from new infrastructure?** This requires some assumptions. For illustrative purposes, assume that about 10% of the total assessed land value in the City is in defined benefitting areas. Now assume that CACs have captured most of the one-time land value gain due to rezoning and that new area-wide land values are 3% higher than the City average for similar property because of public investment in the area (e.g. construction and operation of transit, community facilities). Finally, assume that the annual share of the extra land value (not of total, just of the increase) captured by a new tax is 5%. The revenue stream would start at a little under $60 million per year ($392.81 billion x 10% x 3% x 5%), which is approximately an 8% increase in total City property tax revenues.

These figures do not represent specific proposals; nor are they offered with any suggestion that these changes could be made without significant market, financial, and political consequences. They simply illustrate the magnitude of revenue that results from various assumptions about a new land value tax.

There are two conclusions that can be drawn from these tests:

1. To replace developer contributions (DCLs, CACs) with property tax would require an enormous increase in property taxes.
2. For a new land value tax to generate a significant amount of net new revenue for the City (say an increase of 5% or more in total annual revenue), it requires a large percentage increase in property tax. If this net gain is achieved by only taxing land in a defined benefitting area, the percentage increase for affected properties would be even higher.

Conclusions from hypothetical tests on how much revenue could be raised…

- *Replacing DCLs and CACs would require an enormous increase in all property taxes.*
- *Generating a 5% or more increase in total City annual revenue via a land value tax would require a large percentage increase in property tax.*

7.8 What are the Main Advantages and Disadvantages of Different Approaches?

To conduct a detailed evaluation of different approaches to land value capture, it would be necessary to have very specific proposals on the table.

Attachment 2 shows a matrix of criteria that could be used in a detailed evaluation, but in the absence of a specific proposal the answer for most of the criteria would be "it depends". The impacts depend on factors such as:

- Is the new approach in addition to the current system or a replacement for some aspects of the current system?
- Will the approach apply city-wide or only in defined benefitting areas?
- Will the approach apply to all property or only to certain types or values of properties?
- How much revenue is targeted?

In order to avoid the frustration of an evaluation matrix populated mainly with "it depends", therefore, this discussion paper offers a high-level qualitative evaluation of the key advantages and disadvantages of each option.

Additional Development Charges

Development charges (DCLs) have some major advantages:

- If they are set carefully, they do not affect the pace or price of new development.
- They are ultimately paid out of redevelopment land value, so they are a direct form of land value capture. As long as DCL rates are not so high that they reduce the flow of land to the redevelopment market, they are a means of ensuring that growth helps to pay for growth.
- They are used to fund infrastructure that enables new development, so broadly speaking the benefits and costs accrue to the same groups (developers and redevelopment land owners).
- They reduce the amount of revenue the City must collect from property tax.

However, there are some disadvantages:

- The City must be careful to ensure that DCL rates do not become so high that they have a negative impact on the flow of land to the redevelopment market. While there is financial “room” to increase these charges in some high-value parts of the City, there is little room for additional charges in some locations and for some forms of development. So, there is not much potential for new DCL revenue beyond inflationary increases.
- The City, TransLink, and GVSDD all levy development charges on new projects. Each time one of these agencies increases its charge, it impacts the ability of the other agencies to adjust theirs.

Additional Community Amenity Contributions

The CAC system has some major advantages:

- It is a form of exchange (new, valuable density in exchange for public benefits such as amenities and affordable housing), so there is a clear connection between benefit and cost. Developers receive the benefit of the additional density and they pay the cost of the CAC. Housing prices and rents are not negatively affected (in fact, there is a beneficial effect because of the extra housing supply that results from the new density).
- The public benefits are obtained without adding to the overall property tax burden. Taxes are lower than they otherwise would be because of CAC revenues.
- The system offers some flexibility for obtaining cash contributions (which can be pooled to create community-wide amenities), affordable housing, or on-site amenities in projects that are large enough to accommodate specific facilities (e.g. day care or community space) or that have special features (e.g. waterfront or heritage buildings).

The CAC system also has disadvantages:

- Some people criticize the system for not being sufficiently transparent. This is not the case for the districts with fixed CAC rates, as these fixed rates are published. When CACs are negotiated, the negotiations are not conducted in public but the City could do a better job of explaining how the CAC was settled.
- Some people say the system favours developers, but the CAC is intended to capture a large share of the value of new density. The system could only be described as favouring developers in cases in which the City for any reason did not negotiate well or settled for much less than the CAC policy sets as the target.
- The system is often criticized by developers for taking too long, being too complex, and being somewhat unpredictable. For this reason, the City has increased the use of fixed rate districts and tends to negotiate only on relatively large complex projects. To ensure that the process does not hold up development approvals the City should always look for ways to streamline procedures.
- The revenue stream from CACs is somewhat volatile. If the pace of development declines, revenues will decline, although a slower rate of growth means less (or slower) need for capital spending on amenities. If housing prices fall (as they are doing in 2019), land values fall and so will CAC revenues (per square foot of new density). This is an inherent risk in the current system. The only way to mitigate this risk is to recognize that revenues will fluctuate and plan capital expenditures accordingly.
- There is not much room to increase the revenue stream from CACs unless the City is willing to reduce its use of fixed rate districts (because revenues tend to be higher when negotiated site-by-site), but the tradeoff is the loss of predictability and speed of approvals for affected projects.

Recurring Land Value Tax

Most references to the idea of a new approach to land value capture in Vancouver are referring to the introduction of a new form of recurring property tax only applied to land value.

A new recurring land value tax would have these advantages:

- Shifting property tax burden to land and away from improvements has the potential to encourage the development of land to its maximum potential under zoning.
- Revenue from property tax is less volatile than revenue from development-based revenues such as DCLs and CACs.
- If structured as a benefitting area tax, there is a direct relationship between those who benefit (the owners of land that increases in value due to public investment) and those who pay the tax (the same land owners), which probably helps in gaining public acceptance of the tax.
- If the tax is large enough to reduce residential land values, this will benefit households looking to buy their first home. They don't lose equity (because they don't own an existing property), and the reduced price means a lower down payment or lower mortgage payments. However, the savings could be offset by the higher ongoing property tax cost.
- A widespread land value tax would mean that all properties that benefit from land value growth are helping pay for the investments that contribute to the growth in land value

There are some disadvantages to this mechanism:

- As with all property tax, the tax is unrelated to ability to pay. Some strata and freehold unit owners who have higher tax cost may not have enough income to cover it, so they will have to use cash on hand, borrow, defer their taxes (which is a form of debt and ultimately decreases equity), or perhaps sell. Some owners are not eligible for tax deferral because of their age, or if they don't have equity "room" due to existing mortgages, lines of credit secured by equity, or reverse mortgages.
- If the tax is large enough to reduce residential property values, then strata and freehold unit owners would see their equity decline.
- If the tax is large enough to reduce property values, then the total value of the tax base will decline. This means tax rates will have to increase in order to maintain the City's revenue stream.
- Some businesses that own their own premises may not be able to afford the tax and may have to relocate, borrow, or find ways to cut other costs.
- In some cases, higher land value tax will result in higher costs for commercial tenants.
- In some cases, higher land value tax will lead to higher rent increases for residential tenants. Those in units owned by a non-profit organization might have to pay higher rent for the non-profit to stay financially viable, unless it has some other source of funding to cover increases in property taxes. Those in privately owned units that are paying less than market rent because of the Residential Tenancy Act limit on rent increases could see their rents increase if the RTA allows rents to rise more than inflation in order to cover increased property taxes.
- Rising property tax will mean reduced net operating income for landlords. If operating incomes fall too much, there is a risk that market interest in, and the financial viability of, developing new product declines

because of reduced income. The already challenging rental housing market could become worse if new supply is not added. Reduced supply of new rental housing and commercial space will lead to rising rents.

- Developers will absorb additional property tax cost during the time they own development sites and projects. This will put downward pressure on the amount they are able to pay for sites which, indirectly, would reduce the City's ability to increase DCL rates.

Additional Acquisition and Disposition of City-owned Property

Greater City involvement in the acquisition and disposition of land would allow the City to benefit from land value gains and help fund infrastructure and affordable housing. There would not be any negative impacts as long as the City is judicious in making such investments.

If the City leases its lands for development, it can take advantage of land value growth when the lease expires. If new leases are at market value, the City enjoys land value capture that reduces its need to use other sources of revenue. However, re-leasing land at full market value has implications for the occupants of the land at lease expiry.

7.9 Ease of Implementation

For the City of Vancouver to initiate a new land value tax, much work is needed. The major steps include:

- Amending Provincial legislation to allow land to be taxed at a separate rate from improvements.
- Deciding whether the tax is to be applied in benefitting areas or city-wide.
- Deciding whether the tax rate is flat or on a sliding scale, increasing with value.
- Defining which properties are taxed and which are exempt.
- Deciding whether the new tax is layered onto the existing framework or is linked to changes in the existing system.
- Adjusting BC Assessment Authority valuation systems to ensure accurate land value assessments, especially for strata properties.

It is important to keep in mind that TransLink already has the ability to implement a benefitting area property tax, without any changes to legislation. The necessary steps include:

- Defining benefitting areas.
- Choosing the appropriate tax rate and defining the properties that pay and those that are exempt.

Because the TransLink tax would apply to land and improvements, there would be no need for adjustments to the Assessment Authority's systems.

With recent City and Provincial initiatives, the property tax system has become more complex. There is a layering of basic property tax, City of Vancouver Vacancy tax, Provincial Vacancy and Speculation tax, and Provincial School Tax surcharge. Residential owners must file separate City and Provincial declarations, applications for home owner grants, and applications for tax deferrals (if eligible). A new layer of land value tax could add further complexity so the design of a new tax should consider ways to simplify the system.

8.0 Conclusions

1. Land value capture is used in many forms in many jurisdictions around the world, as a means to achieve public sector objectives such as funding infrastructure, addressing housing affordability, or taxing wealth. Common forms of land value capture are one-time approaches (such as taxes on capital gains at property sale, taxes on the transfer of title of property, development charges, and obtaining public benefits in exchange for new density) and recurring property taxes (which usually tax land value and improvements value).
2. In Canada, the Federal and Provincial governments capture land value by taxing capital gains at land sale (except principal residences, which are exempt). The Province of BC also captures land value via annual property tax, the Property Transfer Tax at time of sale, the School Tax surcharge on high value residential property, and the Speculation and Vacancy Tax.
3. The City of Vancouver already has a comprehensive and effective framework for generating revenue from land value. The system includes Development Cost Levies (DCLs), Community Amenity Contributions (CACs) and density bonusing, and annual property tax (on land and improvements). The City also owns a large portfolio of land that benefits from market-wide increases in land value.
4. Under existing Provincial legislation the City can increase its property tax revenues by setting a larger annual budget and setting tax rates accordingly. The main difference between this approach and initiating a new recurring land value tax is that the existing system also taxes improvements.
5. There is not much room to increase DCLs in Vancouver, because the City already periodically updates these to reflect inflation and the changing economics of development. There is not much room to increase CAC rates, which already capture a large share of the market value of new density, unless the City is willing to reduce the use of fixed rate districts or increase the rates in these districts.
6. Any new recurring land value tax should not be viewed as a replacement for the City's existing system for obtaining DCLs and CACs. The existing systems of one-time charges on new development and one-time exchanges of new density for public benefits are generally working well and generate significant revenue and public benefits. Replacing these systems with a new ongoing land value tax would create a major one-time benefit for owners of land being rezoned and would transfer a large ongoing tax cost to all other property.
7. Changes to Provincial legislation would be necessary for the City to implement new kinds of ongoing land value taxation such as taxing land at a higher rate than improvements, creating a benefitting area tax, or adding a tax surcharge on particular categories of property. Changes to Provincial legislation would also be necessary for the City to charge a tax on transfers of title.
8. For the City to obtain new tax revenue based on land value gains at the time of property sale, it would be necessary to change legislation and make significant changes to the existing income tax structure.
9. Each way to capture land value has different costs and benefits for different groups. Depending on the approach(es) used, those paying the new tax are not necessarily the ones that benefit. Also, as with existing property tax, the imposition of new recurring land value taxes is not linked to the ability of the property owner to pay the tax.
10. A new recurring land value tax has the potential to generate new City revenue, but to yield a meaningful net gain in total revenue it will have to cause a significant increase in total property tax. This will require

very careful and comprehensive evaluation of which properties should pay and how much, in order to make sure the distribution of benefits and costs is consistent with the City's goals and does not have unacceptable impacts on tenants, homeowners, and developer/investor interest in creating new housing and employment space.

11. Because different approaches have different advantages, disadvantages, and impacts, it is important to decide on the purpose of a new form of land value capture before choosing an approach. If the City aims to implement a new or revised approach, it will be necessary to make policy decisions such as:
    a. What is the primary reason for additional land vale capture?
    b. Is the new approach layered onto the existing system or does it replace some aspects of the current system (e.g. reducing taxes on improvements in favour of increasing taxes on land)?
    c. Is the approach applied across the whole City, or only to certain types of property, or only in defined benefitting areas?
    d. What kinds of property should pay and what kinds should be exempt?
12. If the City wants to explore in detail options for new approaches to recurring land value taxation, specific approaches that could be looked at include:
    a. A benefitting area tax in locations that are receiving major benefits from infrastructure such as transit. This probably has the advantage of perceived fairness because the tax is directly linked to new value creation. However, it is important to keep in mind that TransLink already has the legal ability to charge a benefitting area tax in areas that receive transportation investment.
    b. A new levy for a specific purpose, such as the City of Seattle's affordable housing levy that voters approved and periodically renew.
    c. A surcharge on properties above some threshold, similar to the Province's School Tax surcharge, although this is likely to spark opposition because it is a wealth tax not linked to any direct new infrastructure and not linked to ability to pay.
13. In addition to changes to legislation, a new City recurring land value tax would require:
    a. Changes to BC Assessment Authority valuation practice to ensure accurate assessment of land value (rather than total property value) for all properties.
    b. Coordination with other levels of government that are using or considering approaches to land value capture, including the Province, Metro Vancouver, and TransLink.
    c. Consideration of the overall complexity of the property tax system and the combined total cost of various City and Provincial taxes on property.
14. The City could increase its use of strategic land acquisition and disposition to take advantage of land value growth. For example, the City could acquire land at or near the sites of planned transit investments or in locations where the City will be making significant changes to land use and density. Land disposition via long-term leases rather than sale allows the City to capture new land value at the end of each land lease term. This new value can be used for infrastructure or affordable housing. The key is to tap the increase in land value as leases expire.

Attachment 1: Land Value Scenarios for Case Study

Table 1: Scenario 1 - Existing Use

Residential Example:

5	Single detached houses @	$3,000,000	each =	**$15,000,000**

Commercial Example:

10,000	sqft Commercial space @	$ 50	/sqft/year =	$ 500,000	NOI/year
	Value if NOI is capped at		4%	**$12,500,000**	

Table 2: Scenario 2 Existing Zoning, Scenario 3 Upzoned (Strata), and Scenario 4 – Upzoned (Strata) + Transit

Assumptions	**Value Based on Existing Zoning at FSR 2.5**	**Value if Upzoned to FSR 5.0**	**Upzoned to FSR 5.0 plus, New Transit Increases Unit Value by 5%**
Site Size (SF)	20,000	20,000	20,000
Zoned Density (FSR)	2.5	5.0	5.0
Floorspace Buildable (SFB)	50,000	100,000	100,000
All-in Construction Cost ($/SF)	$ 650	$ 650	$ 650
Unit Sale Price ($/SF)	$ 1,400	$ 1,500	$ 1,575
Developer's Profit (% of Sales)	12%	12%	12%
Marketing Cost (% of Sales)	3%	3%	3%
Ratio of Net Saleable SF to Gross SFB	85%	85%	85%
Analysis			
Sales Revenue (SFB x Net/Gross x Sale Price)	$ 59,500,000	$ 127,500,000	$ 133,875,000
Marketing Cost (% of Sales x Sales)	-$ 1,785,000	-$ 3,825,000	-$ 4,016,250
Construction Cost (SFB x All-in Cost/SF)	-$ 32,500,000	-$ 65,000,000	-$ 65,000,000
Profit (% of Sales x Sales)	-$ 7,140,000	-$ 15,300,000	-$ 16,065,000
Land Value	**$ 18,075,000**	**$ 43,375,000**	**$ 48,793,750**
	Increase in land value due to upzoning →	**$ 25,300,000**	**$ 25,300,000**
		Increase in land value from premium due to transit →	**$ 5,418,750**
		Total increase in land value from upzoning and premium due to transit →	**$ 30,718,750.00**

Source: Wollenberg Munro Consulting Inc. - April 2019

Table 3: Scenario 5 - Upzoned (Market Rental) +Transit

Assumptions:			
1	Site Size (SqFt)		20,000
2	FSR		5.0
3	Gross SqFt		100,000
4	Net-to-Gross		85%
5	Net SqFt		85,000
6	Average Rent($/SqFt/month)	$	3.50
7	Average Unit Size (Net SqFt)		750
8	All-in Construction Cost ($/ Gross SqFt)	$	550
9	Operating Cost ($/unit/year)	$	6,000
10	Vacancy Rate (%/year)		1%
11	Cap Rate		4%
12	Developer Profit (% of Value)		10%

Analysis				
1	Gross Annual Revenue	$	3,534,300	(net sqft x rent x 12months x (1.0 - vacancy rate))
2	Annual Operating Cost	$	680,000	(net sqft ÷ ave unit size x operating cost)
3	NOI	$	2,854,300	(Gross Revenue - Operating Income)
4	Project Value	$	71,357,500	(NOI ÷ cap rate)
5	Less Developer Profit	$	7,135,750	(Value x %Developer Profit)
6	Less Construction Cost	$	55,000,000	(Gross sqft x Cost/sqft)
7	Land Value	**$**	**9,221,750**	(Project Value - Developer Profit - Construction Cost)

Attachment 2: Criteria That Could be Used to Evaluate Approaches to Land Value Capture

Evaluation Criteria	Additional Development Charges	Increased CACs	Citywide or Benefitting Area Land Value Tax	More Land Acquisition and Disposition
Impact on housing prices				
Impact on owners of strata and single detached units that are not redevelopment sites				
Impact on residential renters and rents				
Impact on commercial tenants				
Impact on owners of rental residential and commercial property				
Impact on owners of redevelopment sites				
Impact on developers				
Effect on the viability or pace of new residential and commercial development				
Potential for revenue generation				
Ease of implementation				
Implications for other levels of government				