URBAN MOBILITY FORUM

EXAMPLES OF EXPLOITING LAND AND AIR RIGHTS AT METRO STATIONS AS A SOURCE OF REVENUES TO RAIL DEVELOPMENT

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LAND AND AIR RIGHTS AS A SOURCE OF REVENUES TO RAIL DEVELOPMENT: A LONG LASTING STORY

Construction of the Canadian Pacific Railway (1881-1885)

- 1881: Canadian Pacific Railway Company granted $25 million and 25 million acres of land in exchange for building a transcontinental rail line linking Canada's populated centres of the East with its relatively unpopulated West.
- The CP Railway undertook an ambitious program of hotel construction: Glacier House in Glacier National Park, Mount Stephen House at Field, British Columbia, the Château Frontenac in Quebec City, and the Banff Springs Hotel.
LAND AND AIR RIGHTS AS A SOURCE OF REVENUES TO RAIL DEVELOPMENT

Urban rail is recognized as the most efficient transport mean for a dense multimillion inhabitant city when properly coordinated with other transport modes and urban policies.

Rail transport generates value for citizens, business and public authorities and part of the land value increase created by a rail project can be used for the development of local infrastructures and services through “Land Value Capture” – LVC - mechanisms.
LAND AND AIR RIGHTS AS A SOURCE OF REVENUES TO RAIL DEVELOPMENT

Initial approach to exploiting land and air rights in urban areas:

• careful design of new urban rail lines or systems - difficult task involving huge data collection and many studies
• proper coordination with overall urban transport and mobility policy and other global urban policies
LAND VALUE CAPTURE

LVC is a financial mechanism used to finance part of a rail project investment by returning the increases in property prices arising from the project to the source of investment – the taxpayer.

LVC has been widely applied throughout the world since decades.
LAND VALUE CAPTURE

Wide literature and debates about evaluation of property prices increase (empirical studies and application cases)

Rail projects may have negative impact if not properly designed and implemented (depending on the area)

Positive impact is difficult to assess: a rail project is very dependant on its environment (transport, land use, social status...)

Yves Amsler, Cairo, 19-20/11/2016
“London has the densest network of stations and services, with 94% of properties within 1.5km of a station, compared with 72% in Greater Glasgow and 69% in Greater Manchester.” (Nationwide 2014)
LAND VALUE CAPTURE

Three main mechanisms:

• **Betterment Tax** - levy on property that has benefited from transport infrastructure gains

• **Tax Increment Finance** - economic development incentive package

• **Joint Development** - cooperative system between public sector and private developers
**LAND VALUE CAPTURE – BETTERMENT TAX**

**Betterment Tax** is a tax based on the increased property value directed at the beneficiaries of PT investment (also known as Benefit Assessment)

**Drawbacks:**
- Evaluation/assignment of effects to the project
- Land registries
- Effectiveness of benefits in time
- Impact on economic groups in relation to benefits

Impact easier to measure in the case of industrial and commercial users
Special increase in business property tax levied since 2011 for the next 24 years on all businesses in Greater London

Expected revenue £4.1bn of a total of £16bn for the new line

Business rates:
• 2p per £1 of “rateable” value,
• Businesses with a “rateable” value of £50,000 or less are exempted
Identified opportunities to grow non-fare incomes from 1.9bn GBP to 4.5bn GBP (2.6bn EUR to 6.2bn EUR) over the next 10 years.

Objective: reinvesting commercial assets while reducing public funding (grants and loans)

Activities envisioned:
- Property partnership to generate 2.7bn GBP creating 9,000 residential units next 10 years
- Enhance commercial and retail activities
- Develop digital hub (Old street)
Hong Kong – MTR Corporation

Applications based on the land rent earned concept

- The Hong Kong government leases, under different restrictions, the land in station areas to the MTR Corporation
  The lease: generally 50 years or more, and renewable

- MTR Corporation
  - rents the land (direct betterment value)
  - develops station commercial and related businesses, such as retail and advertising sales (indirect betterment value), and other public mass transport investments

The revenue of MTR Corporation, generated from non-fares, accrues to 35% of their total revenue. MTR Corporation receives no subsidy.
LAND VALUE CAPTURE – BETTERMENT TAX

WASHINGTON – WMATA - NoMa–Gallaudet U infill station

First Washington’s WMATA infill station (red line), opened in 2004.

Project cost ($103.7 million) funding:
- Private land owners: $25 million
- Federal government: $25 million
- Washington D.C. : $53.7 million

Property owners distant up to 2000 feet from the new infrastructure pay annual assessments for 20 years.
Tax Increment Finance is an economic development mechanism available to local authorities (a township, municipality or county) for supporting private investment mainly for specified urban redevelopment in specified areas. It involves tax mechanisms and capital allowances.
LAND VALUE CAPTURE – TAX INCREMENT FINANCE

Overall process:

• Local legislation issued to enact the creation of a “TIF District”
• Estimation of the land value increase generated by the project
• Local public authority provides loans to the promoters equivalent to this amount (or exempts from increment tax)
• Incremental property tax generated by the project during a specified time period (usually 25 years – same as for the loan) is earmarked to the TIF authority budget over this period
• Afterwards the property tax on the new land value follows again the general rule

• Alternative: private developers exempted from increment tax
LAND VALUE CAPTURE – TAX INCREMENT FINANCE

Thousands of TIF since 1952 over the USA and the world

- **TIF pros:**
  - Not an additional tax on business
  - Flexibility to allow different funding alternatives
  - Limited life cycle, ending at an agreed point in time.

- **TIF cons:**
  - TIF impact against other factors
  - Potential uneven distribution of tax rates between TIF and non-TIF districts

**USA - Chicago example:**

- 130 TIF districts cover 30% of city area
- Arlington Heights, a Chicago suburb, rebuilt its downtown around the commuter rail station:
  - residents x 10 (from 150 to 1500), property assessed value x 7
LAND VALUE CAPTURE – TAX INCREMENT FINANCE

TIF seen as a support mechanism in schemes known as the ‘Transit-Oriented Developments’ (TOD, a component of New Urbanism and Smart Growth)

TOD results when a transit station provides a catalyst for dense urban development which combines various types of land use promoting walking and transit mobility mixed-use, walkable land use patterns (“urban village”)

Examples of TIF applied to TODs:

• grants to the ‘Livable Centres Initiatives’ in Atlanta, the ‘Livable Communities Demonstration Account’ in Minneapolis, St Paul, and the ‘Transportation for Livable Communities Program’ in San Francisco (grants from $75.000 up to $ 2 million for construction activities)

• incentives such as the fee rebate on development application fees in “employer incentives zones” in South East Queensland, and the ‘Smart Growth Fund’ established in San Francisco
Joint Development:

- A public authority, in order to fund its investment in public transport and create a source of revenue to maintain the public transit systems, encourages property development close to stations.
- It is a voluntary legally-binding agreement between the public agency and the private developers, leading either to revenue payment by the private sector to the public sector, or to shared construction costs (internalisation of “air rights”).

Pros:

- No need for appraisal of direct and indirect impacts.

Cons:

- The selling and/or leasing of property often accrue only a small percentage of the total revenue of the mass transit system.
New York - Hudson Yards Project

- Extension of subway line 7
  - More than US$2 billion from the private sector

New York - “One Vanderbilt” Tower

- New York City Council has allowed construction of a 63-story tower in exchange of US$220 million in Grand Central Terminal upgrades (new subway entrances, pedestrian plazza, public hall in the lobby...)

Transfer of Development Rights (“TDRs”)

District Improvement Fund Bonus DIB

Base (As-Of-Right) Development
Numerous examples of successful joint development

Japan - JR East numerous projects in/around Tokyo

France - Disneyland Paris
Concession 1987-2030 for a joint development over 2230ha.
Extension 5km RER Line A and 2 rail stations (RER-High Speed Rail at Marne la Vallée-Chessy: Disney €38Mio over €125Mio)
FINANCING THE CITY RING

Operation 55%

Land sale and sale of public energy companies

METROSELSKABET - GREATER COPENHAGEN
FINANCING THE NORTHERN HARBOR LINE

- PPP: 2%
- Private-owned land contribution: 31%
- Operation: 39%
- Land sale (public): 28%

METROSELSKABET - GREATER COPENHAGEN

Metroselskabet & Hovedstadens Letbane
Fundamental conditions:
- Land ownership
- Political prioritization of land use
- Publicly owned company to carry the debt burden

Model developed over time:
- From public land sale and operations surplus
- To supplements from private land owners and PPP
LAND AND AIR RIGHTS AT METRO STATIONS AS A SOURCE OF REVENUES TO RAIL DEVELOPMENT – RECOMMENDATIONS (1/4)

Overall city:
Develop a trans-institutional short-mid-long term holistic vision of sustainable urban mobility with urban rail as a backbone through:

- a Master plan integrating transport and land use
- a Sustainable Urban Mobility Plan
- a proper coordination between institutional levels building up politic support and dedication from politicians and public officials
RECOMMENDATIONS (2/4)

Urban rail:

• Acknowledge that stations property is a great resource with huge potential and adds high value to both the rail operator company and the city

• Make an overall strategy for life-style businesses a priority from the urban rail perspective

• Integrate stations development from the multidimensional perspective of town development: urban regeneration programs, social, economic and cultural development, cooperation with local authorities

• Consider infill stations opportunities for new urban development
RECOMMENDATIONS (3/4)

Urban rail:
• Set up a financial and regulatory scheme supporting public as well as private investments under which the rail operator can generate a positive operating cash flow and allocate it to carry out its own initiatives in participation with the private sector (joint development)
Rail operator (Rail+Property):

- Support design/upgrade of stations/workshops creating extra spaces in/above/around the stations to make maximum use of site location
- Endow each station (and workshop) with multimodal functions generating (potentially) synergetic effects (to be carefully analysed) for railway business, other transport business and other activities
- Synchronise:
  - multi-functions design
  - construction and property development
- Develop an accompanying marketing strategy for property development and property management
Thank you for your attention

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