

30 NOVEMBER 2018

Land Value Uplift Capture

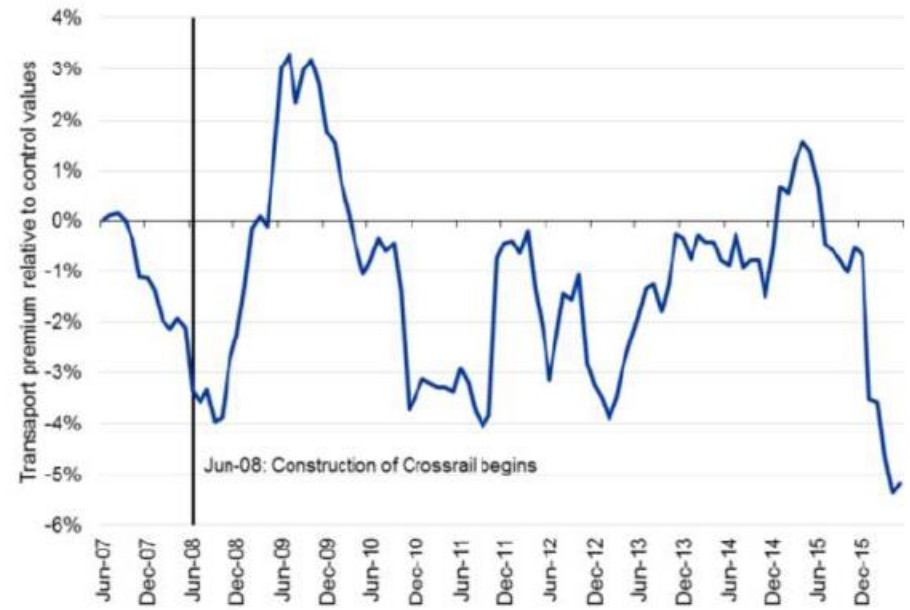
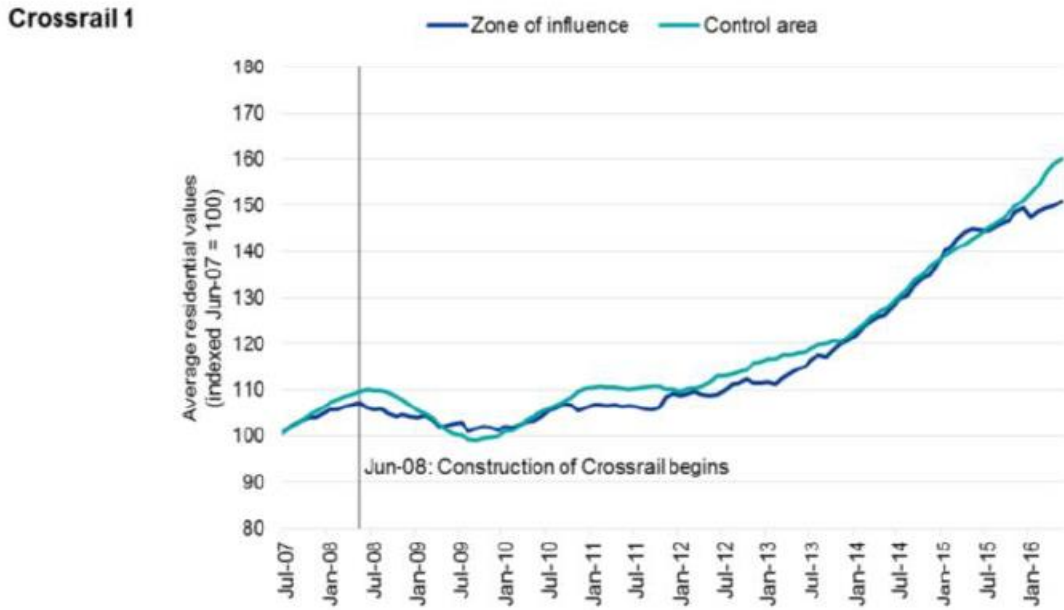
Julian Ware
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Corporate Finance



EVERY JOURNEY MATTERS

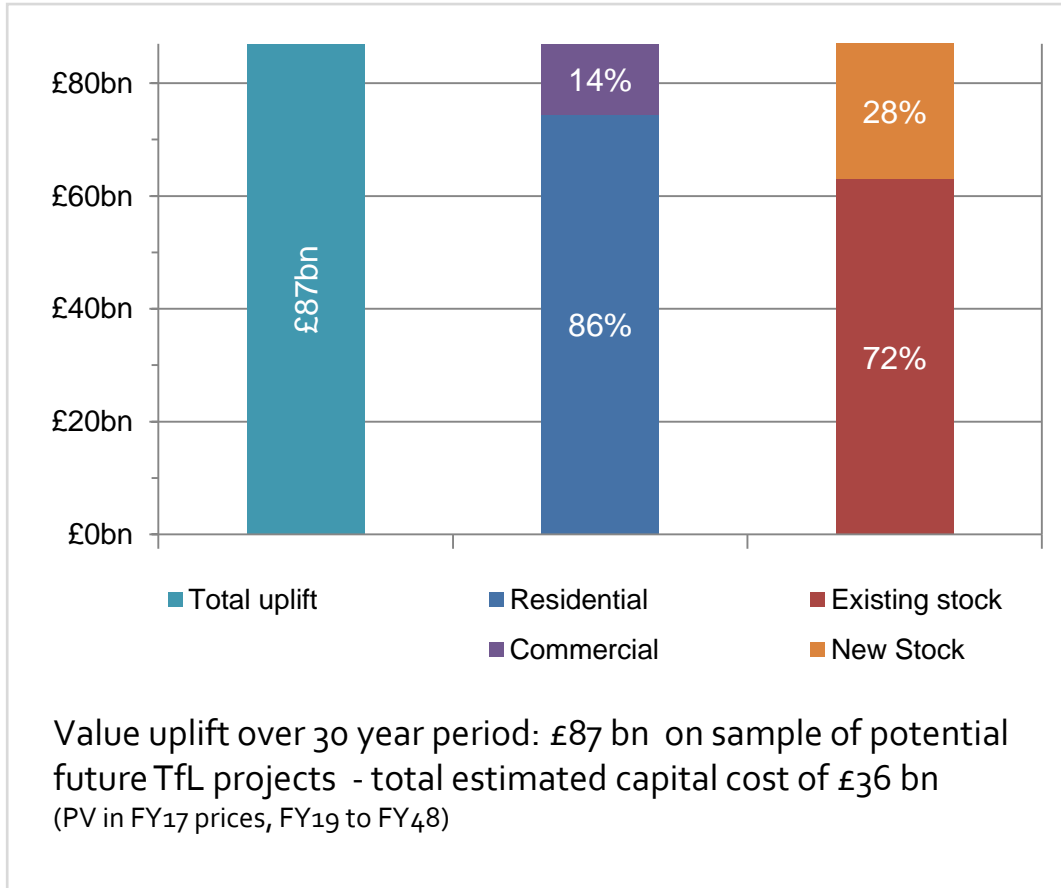
Land Value Uplift

- Users often value public transport and accessibility more than what it costs them (fares)
- Excess value is capitalised into land and property values (land value uplift)



Significant uplift potential

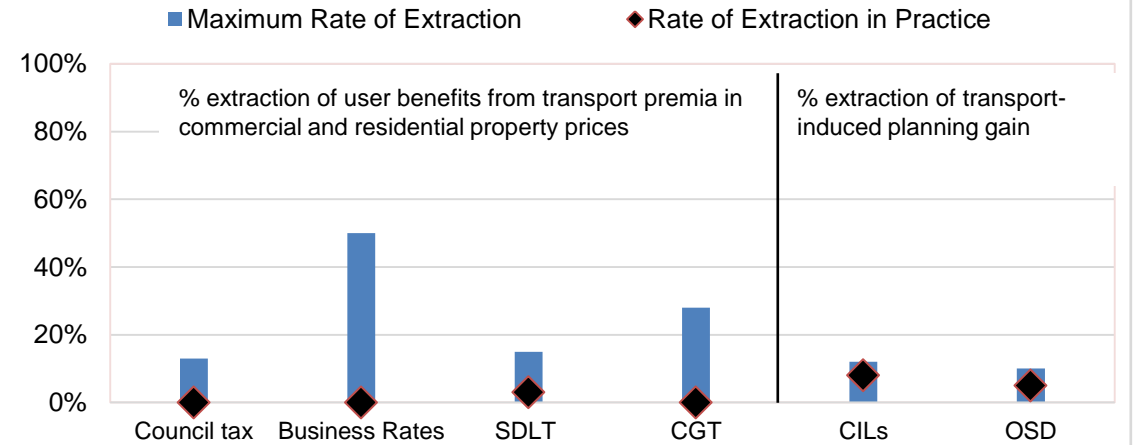
Significant land value uplift potential...



but current measures ineffective...

- Few taxes on existing stock respond well to increases in land or property values; limitations to capturing value from new development
- Only ~2% of estimated £61.5 bn uplift generated by Crossrail 2 can be captured through over station development (OSD) and Mayoral CIL

Maximum and typical rates of extraction of land value uplift using existing instruments



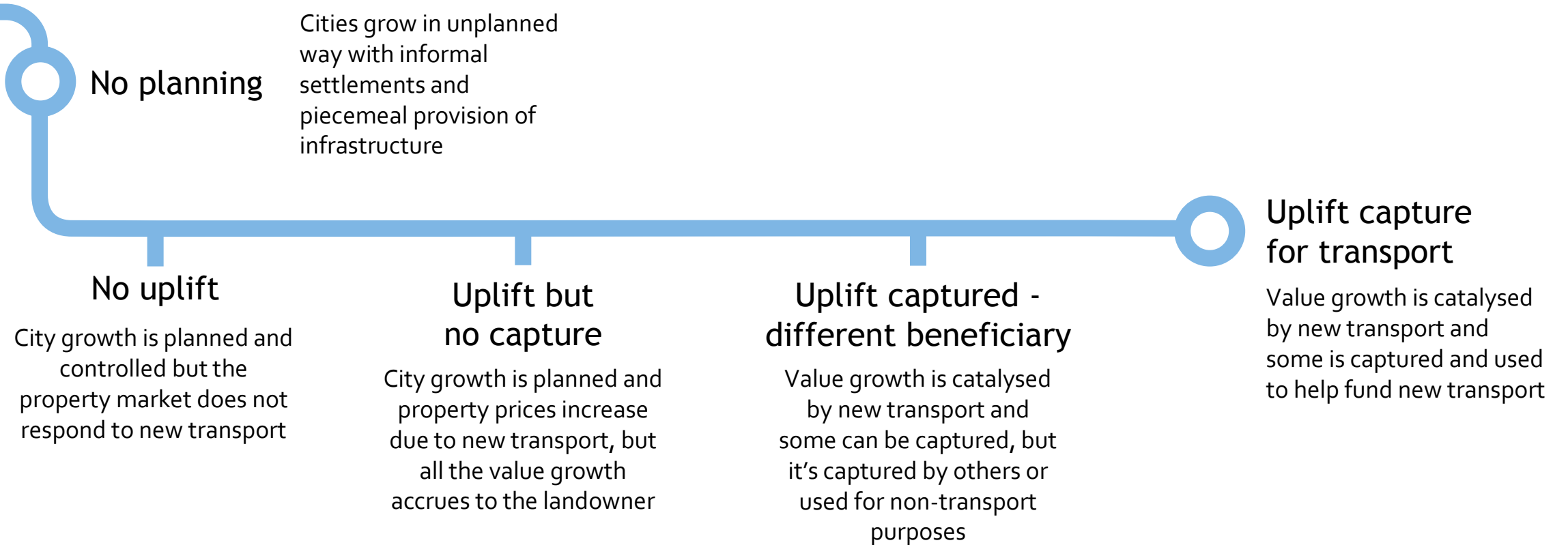
Measures designed to overcome challenges of the past

- Improve land value capture on new & existing stock
 1. Zonal SDLT growth assignment
 2. Business rates revaluation & retention
 3. Transport Premium Charge
- Improve extraction of planning gain from new development
 4. Maintain M-CIL
 5. Continue use of s106
 6. DRAM
 7. CPO enhancement
- Manage property market risks & cash-flow timing mismatches
 8. LVC managed as programme at corporate, not project, level
 9. LVC loan product – increase financeability
- Test the measures in practice
 10. Design, develop, consult then implement

London developments

- Significant work on Development Rights Auction model
- Independent review into funding and finance of Crossrail 2 (£30 billion cost)
- Commons Select Committee study
- Continuing interest

What kind of city approaches are there?





Contact

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What is land value capture?

- A set of mechanisms used to capture some proportion of the increase in transport-induced land values that arise in the catchment areas of such projects
 - Needs a definition of the “zone of influence”
 - Needs a way of isolating the effect of transport on land and property values
 - Needs an extraction or capture mechanism
- Isolating the effect of transport on property values
 - Hedonic pricing
 - Controlled experiments
- Why does it occur?
 - User benefit capitalisation occurs because users compete for property near tube stations
 - Planning gain results from changes to planning policy (e.g. change of land use or density)
- LVC is not the same thing as tax increment financing (TIF)

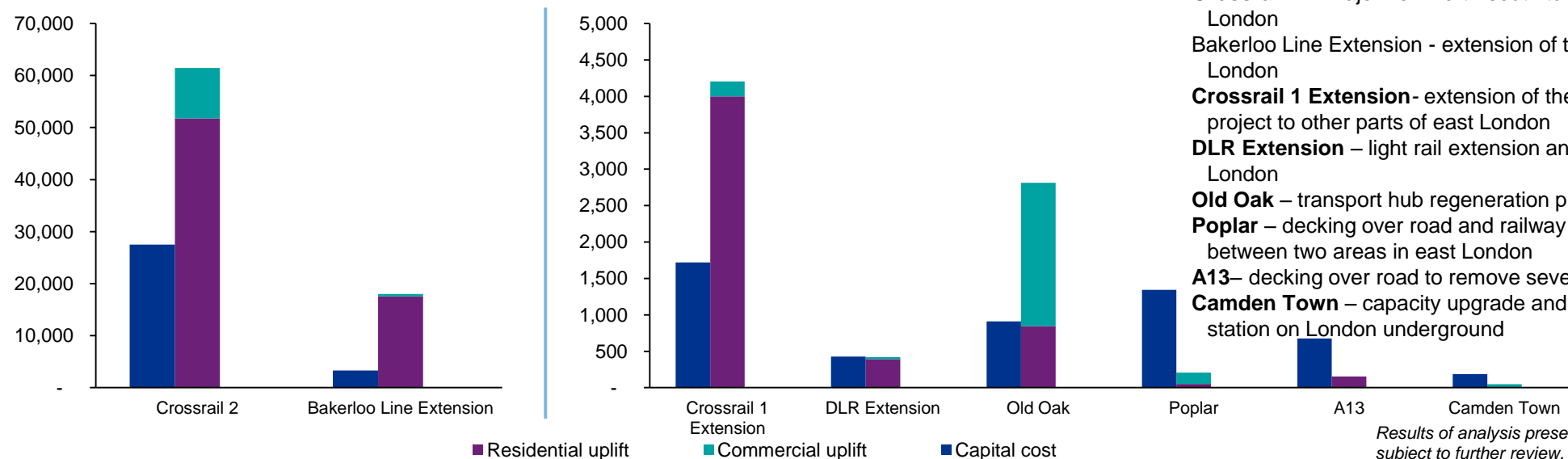


Significant uplift potential from potential future TfL projects

Approximately £87 billion of value uplift on sample of projects

- KPMG/Savills estimate total value uplift over 30 year period from FY19 to FY48 of £87.3 billion (PV in FY17 prices) on a sample of potential future TfL projects (compared to total estimated capital cost of £36 billion (NPC, FY17 price))
 - £74.8 billion from residential properties, £12.5 billion from commercial; £63.3 billion from existing stock, £24.0 billion from new stock

Comparing total uplift (FY2019 to FY2048) with capital cost (£m, PV in FY2017 prices)



Crossrail 2 – major new north-south tunnel through central London
Bakerloo Line Extension - extension of tube network in south London
Crossrail 1 Extension- extension of the current Crossrail 1 project to other parts of east London
DLR Extension – light rail extension and river crossing in east London
Old Oak – transport hub regeneration project in west London
Poplar – decking over road and railway to remove severance between two areas in east London
A13– decking over road to remove severance in east London
Camden Town – capacity upgrade and redevelopment of major station on London underground

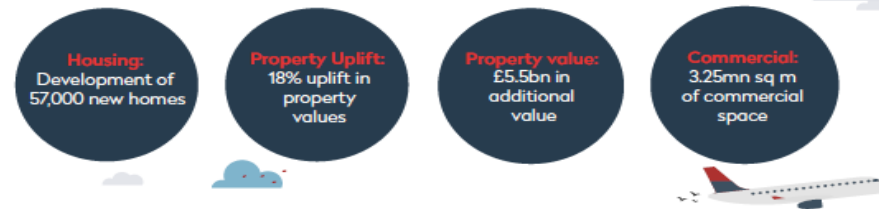
Results of analysis presented are preliminary and subject to further review, and should not be relied upon.



Impact of Crossrail - GVA study

- A study by GVA published their findings and forecasts on the impacts within 1km of a Crossrail station.
- They found that their original 2012 predictions had been surpassed and have suggested that there are still opportunities linked to Crossrail that have not yet been realised.

2012 Predictions



By 2021 we forecast the following impacts:



By 2026 we expect:



GVA Crossrail Property Impact & Regeneration Study, January 2018



in additional residential property value by 2026



rise in values in central London by 2026



of office rental value, an average value increase of 14%

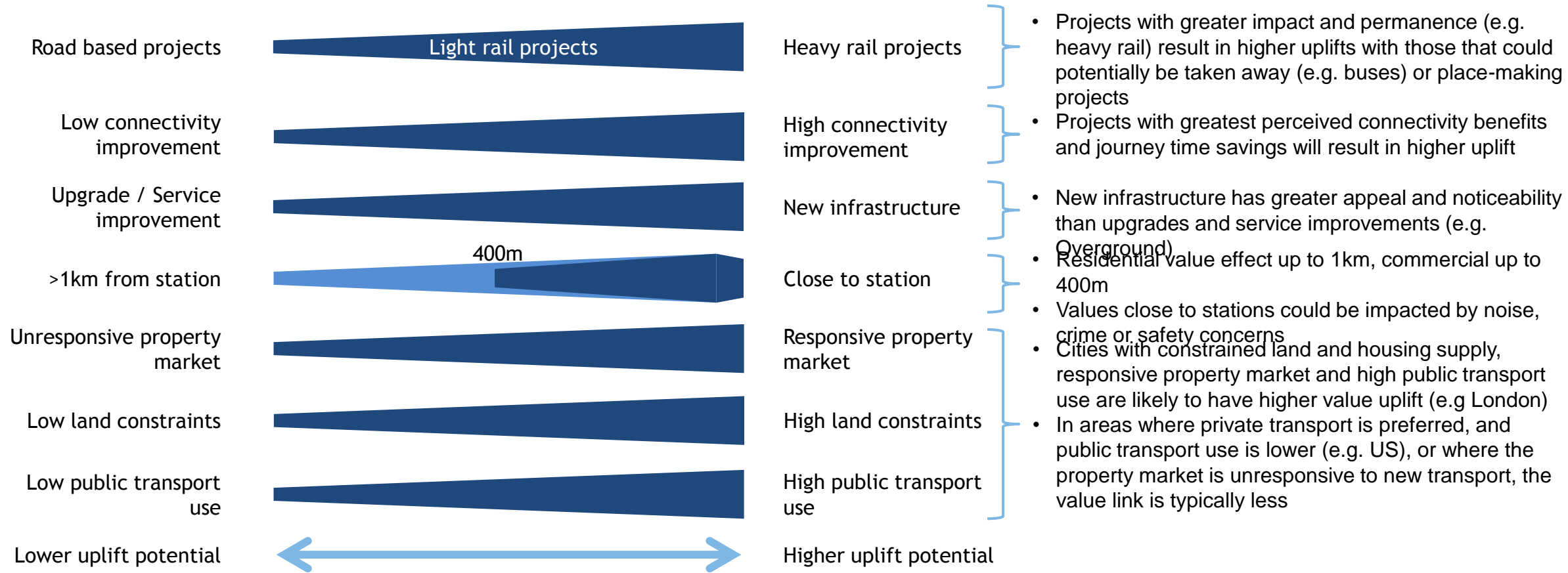


Core office markets have experienced growth 26% higher than predicted

GVA Crossrail Property Impact & Regeneration Study, January 2018



What factors lead to greatest uplift in values?



Higher value uplift is more likely in dense cities with high public transport use, and for new rail-based projects, which tend to generate the biggest consumer surplus

