

Plan for redistributing profits from development in the USA

(value capture)

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1 Redistribution of profits from development in Japan

The cost sharing principle for large-scale facilities such as public transport-related social capital assumes that there are user costs, indirect beneficiary costs, and public costs. In Japan, the establishment of public transport-related social capital is centered around user costs. However, in recent years, the user principle for public transport-related social capital has been indicated to have reached its cost burden limit due to increasing facility equipment costs, size of external effects, and longer periods for achieving return on investment, etc. Here, external effects refers to two directions. Namely, negative external effects and positive external effects. Negative external effects typically refers to pollution issues such as air pollution and noise pollution. In contrast, positive external effects refers to the development benefits that accompany the establishment of public transport-related social capital. Users are not the only parties who benefit from public transport-related social capital. For example, when railroads are built, the people who live in the vicinity of train stations and people who own land near train stations receive benefits from them even if they do not actually use the railroad. In other words, they become indirect beneficiaries. These benefits are produced by the railroad as it reduces travel time to the inner city. If railroad construction results in the land around the train station coming into use, then this will naturally increase the value of the land. This would be a financial benefit for the residents living around the railroad station and land owners. If these people were to sell this land, they would be able to obtain a surprising level of benefit. These benefits resulting from the construction of the railroad are manifested in different forms, but are inherently derived from the railroad. Here, this invites the question of whether

this benefit can be incorporated into the construction capital associated with the railroad 1). This ideology is referred to as “Redistribution of profits from development”.

This could also be seen as valid from the standpoint of fairness. This is because these benefits are not benefits derived based on the results of economic activities performed by the individuals themselves, but rather are a “windfall benefit” acquired through the economic activities of others. These benefits are redistributed in any given form of social structure associated with public transport-related social capital, which is thought to allow for the achievement of appropriate income distribution (in contrast, it has also been indicated that rises in land value result in higher property taxes, and consequently result in disadvantages to the owners if they do not sell their land) 2).

Discussions around fairness have been ongoing, which has created a need to provide a clear explanation for the basis of discussions on the redistribution of development profits to public constituents 3). In a narrow sense of the term, the “development profits” that are generated from development are used as a land appreciation value derived from public investment. In a broad sense of the term, the “development profits” are used as land appreciation value derived from land development, which is a broad concept that also includes personal investment. There are differences of opinion over whether to consider a basis derived from land appreciation value in the narrow or broad sense of the term. Based on the “capitalization hypothesis”, “all of the benefits from the establishment of social capital under four conditions, namely resident homogeneity, regional openness, small regions, and market completeness, will ultimately be returned to the land rent

and land value” (in contrast, it is difficult to meet all of these conditions, therefore the fact that all of the benefits will not be returned to the land also needs to be taken into consideration). There is also interesting research which outlines five types of development profits (①“internal development profits” derived from personal development ②“personal external benefits” to the vicinity derived from external economic effects ③“public external benefits”, which are external economic effects attributable to public works projects ④“agglomeration economy benefits” that comprise synergistic benefits as opposed to individual benefits ⑤“planning control benefits” derived from land value fluctuation caused by changes in planning control), and while ②③④⑤ would be applicable when looking only at the “unearned income (=windfall benefits)” from a broad perspective, only ③ would apply when considering the problems associated with this 4).

Clear examples of these in Japan include the Yurikamome maritime sub-city center development which used the operating cost recovery through increased land property value as the development profit redistribution plan, the Shibuya station re-development which used internal funding sourced from real estate-related business income as the development profit redistribution plan, and preservation or restoration projects relating to Toranomon Hills and the Red Brick Tokyo Station Building which used the development profit redistribution plan of selling the surplus surface are to local real estate developers 5). Additionally, “the Act on Special Measures concerning Comprehensive Advancement of Housing Development and Railway Construction in Metropolitan Areas” was established as a government policy for building the New Joban Line (Tsukuba Express), and it also aims to re-distribute development profits 1).

Plans for redistributing of profits from development (referred to hereinafter as “value capture”. Strictly translated, this refers to “income generation”, but this generated income will be “re-distributed” to infrastructure investment, so development profit re-distribution is used synonymously with value capture.) have also gained attention in the USA in recent years. Here, the views of the FTA and APTA in relation to public transit policies will be

introduced.

2 Views of the FTA (Federal Transit Administration) 6)

While there are examples of value capture being performed in Japan through the establishment of federal laws, such as with the New Joban Lines as mentioned in 1 above, in the US however, the primary development actors which have used value capture when modifying or building new public transit are regional municipalities that are state level or lower. The FTA also specifically stated its stance as follows:

“Almost all value capture strategies are issues faced by local governments. States establish legal and regulatory frameworks for revenue and fund raising strategies, and cities and counties the right to collect income and taxes, and the right to use land in commercial districts and for zoning purposes. The land owners decide how their land will be used. Transport agencies must work together with municipalities in the same manner as other land owners to establish value capture strategies to establish fees that may impact development, tax revenue, and property taxes. The federal government holds no legal rights to control the use of regional land. Transport agencies are able to realize opportunities for value capture strategies, particularly in cases when they own land that is acquired through federal government funding, and the FTA plays a direct role in these cases only.

At a glance, the FTA appears to hold a negative stance towards value capture, however, this is not the case. Instead, the FTA’s understanding is that “value capture is a tool to maximize the benefits of both the public sector and the private sector”, and the FTA has stated that there is a need to establish the following conditions to maximize the development benefits.

- ①. Provide convenient, highly-reliable transport services with good connections with other modes
- ②. Use land that is centered around transport services (schools, residences, commercial facilities, and employment at these commercial facilities which will gain access to these transport services)
- ③. Strong political and stakeholder support to use land for transit purposes.

- ④. Appropriate re-zoning
- ⑤. Sound regional economy and national economy to allow for development to take place

There also appear to be research reports which state that establishing these conditions will result in an increase in property value in the development area by 30-40% and by up to 150% under ideal conditions.

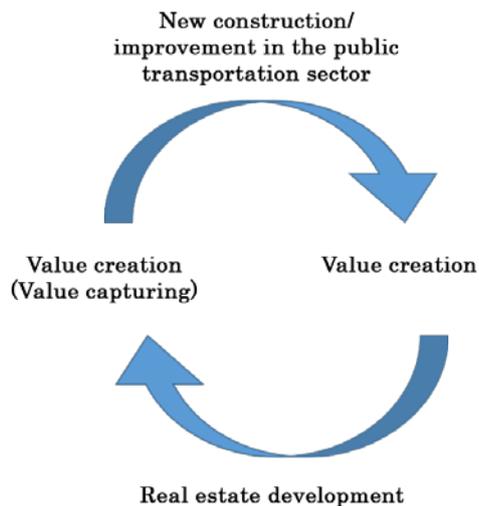


FIGURE taken from the FTA homepage
(translated by the authors)

3. Views of APTA

APTA (American Public Transportation Association)⁷⁾, which is an organization that has more than 1,500 employees and represents American businesses and organizations relating to public transport, has stated the usefulness of value capture as follows:

“In recent years, there has been an increase in residential demand in urban areas. Residential areas in cities have become safer and more attractive than ever before. Property values are rising in regions where public transport can be accessed within walking distance. If some of the higher property values are geared toward improving public transport, then it will be possible to achieve the innovative fundraising method referred to as value capture. Additionally, property values will increase if high-quality public transport is positioned in nearby locations. Based on a recent study conducted by APTA, it was found that properties close to public transport were more financially stable than properties that were located further away, even during periods of recession. Regions close to public

transport were stated to have a 41.6% higher property value compared with the rest of the overall region. Based on a study performed by public transport organizations and planning divisions, property values were confirmed to have increased when they were positioned closer to public transport. There are more opportunities to earn income from properties located around public transport, and the income from locations that can access public transport is more stable than income generated from general property taxes. By using value capture methods, it will be possible to collect revenue specific regions and then use this revenue to develop these revenue-generating regions. Value capture methods are being used in various projects ranging from improvement of neighboring streets surrounding the target location to new public transport infrastructure” 8).

In other words, APTA is aware that fundraising that uses value capture is extremely effective when building public facilities or public transport infrastructure in the USA, and there are also many examples where this has actually been put into practice.

APTA appears to promote the wide-spread adoption of value capture by distributing case studies.

4. Future studies

Fundraising that uses value capture methods is also useful in the USA, and there are several examples where it has been applied. In contrast, it seems that the stakeholders (e.g., state governments, municipalities, land-owners, and residents, etc.) determine whether value capture is applied, and the federal government in like manner requires close cooperation from the planning stage onwards. Places such as Kansas City allow residents to vote at the development planning stage, and development will only begin after receiving consent from residents 4).

When talking about value capture, there are many different methods that can be used. For example, “operating cost recovery through increased land property value” and “internal funding sourced from real estate-related business income” as mentioned in 1. above.

In the USA as well as in Japan, value capture methods are being systematically compiled by research institutions and universities. The next report will conduct a study on

value capture methods.

- 1) Hirotaka Yamauchi [2000], “Burden of cost and the nature of transportation social capital” [Special edition: Creating social capital for emerging nations in the 21st century]
- 2) Hitoshi Oguma, “Methods for bearing costs and re-distributing development profits in the establishment of public transport-related social capital”
- 3) Mitsuhiro Takeuchi, “Fairness of development profits”
- 4) Michiaki Yakushige [2015], “Plan to re-distribute development profits that accompany land development - Including strategies to lead towards optimal social development-”
- 5) Japan International Cooperation Agency (JICA) [2017], “Study relating to development that ties railroad establishment with city and regional development”
- 6) FTA HP, “Value Capture”, <https://www.transit.dot.gov/valuecapture> (2019/0313 access)
- 7) APTA HP, “REIMAGINE MOBILITY – THE POWER AND PROMISE OF PUBLIC TRANSPORTATION”, https://www.apta.com/about/Documents/APTA_Annual%20Report%202018_Revised%209.28.18.pdf (2019/0313 access)
- 8) APTA HP, “Value Capture for Public Transportation Projects, Policy Development and Research”, <https://www.apta.com/resources/reportsandpublications/Documents/APTA-Value-Capture-2015.pdf> (2019/0313 access)