SUBMISSION ON THE COMMONWEALTH DISCUSSION PAPER:
USING VALUE CAPTURE TO HELP DELIVER MAJOR LAND TRANSPORT INFRASTRUCTURE

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Executive Summary

All of society benefits from new infrastructure. Even those far away from a new piece of major transport infrastructure may indirectly benefit, while those living, working or investing in close proximity benefit both directly and indirectly.

It is estimated that congestion costs Australian cities $13 billion per year[1]. Australian cities have developed rapidly beyond the capacity and extent of their existing transport infrastructure, as Governments have fallen behind in delivering required infrastructure, especially in the 1990s and 2000s. This has left existing and new communities feeling aggrieved as a result of new development, as they see the negative impacts on their standard of living. Governments then attempt to play catch-up on infrastructure delivery, which is both costly and untimely for sustainable development.

State and Local Governments lack the revenue from existing sources to finance and fund the large-scale transport infrastructure required, ahead of the new development delivery. Without the forward delivery of infrastructure our cities struggle to maintain standards of liveability and amenity, something Australian cities are/have been renowned for around the world.

So what is to be done? Governments are now looking increasingly to the private sector and new home buyers to assist in funding and financing infrastructure developments. This is not to say that there is not still capacity for traditional government funding of infrastructure via consolidated revenue and borrowing. Indeed, the most predictable and sustainable source of funds for Governments is from private citizens and the private sector via taxation. While Value Capture may provide part of the solution moving forward it will not fully fund new infrastructure, with a cocktail of sources of funding required, including Government borrowing.

Governments are openly mooting the concept of “value capture” as the magic solution to enable the financing and funding of large transport infrastructure projects. However, “value capture” as a concept can mean many things. This stems from a lack of understanding about the history of value capture, and where it has been applied successfully and unsuccessfully, and a contemporary definition of the term.

What is evident from the debate is that there is a great deal of policy uncertainty and revenue opportunism that, together, have the potential to stifle investment viability and undermine new supply of housing and further deepen the affordability crisis.

The property industry has major concerns and misgivings regarding the misuse of Value Capture given the heavy tax burden already applied to new development without Governments directing all of these funds to infrastructure. The industry is justifiably paranoid that Value Capture will be used to apply new and regressive taxes, charges and levies on new home buyers who are already suffering from an affordability crisis driven by undersupply, inefficient and uncertain planning regimes and a taxation and charges regime that account for up to 40% of the cost of a new home.

It is undeniable that new transport infrastructure delivery increases the value of land around it. The beneficiaries of this uplift tend to be private and public sector property owners, existing residents and future new home owners and property investors.

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[1] In 2010 dollars. *Congestion charging for roads: local pressures and international experience*, Grattan Institute, January 2011.

However, unpacking the concept of “value capture” leads to complications. The issue of value and the interaction of time, geography and new developments near a parcel of land make valuation of land, both before and after the building of new infrastructure problematic. Valuing the “windfall” gain, identifying the valuation base data to use, isolating the beneficiaries, and ensuring equity for stakeholders will be difficult.

There are many methods that can be used to capture the value that accrues when new infrastructure is built. The most problematic value capture mechanisms will be those that seek to reappropriate to the Government some of the “windfall” gains that accrue to private land owners, to fund the infrastructure. It is likely that measuring and capturing the “windfall” gain that accrues with new infrastructure will be very difficult in practice, and the UDIA cautions that Governments should look to mechanisms that indirectly capture the value uplift over the longer term and from all beneficiaries, not just new home owners and investors. Further, if governments are looking to capture the “windfall” gains via a direct and upfront mechanism, it should be set out in a City Deal-type contract that ensures the acknowledgement of all contributions and the opportunity for “earn back” or an investment return. Again, these mechanisms should be equitably applied to existing and new land owners on the basis that they will all benefit from the value uplift.

“Direct” value capture occurs where the government takes a percentage or fixed dollar amount of the value uplift of land that would otherwise be a “windfall” for the public and private sector and private citizen landowners.

“Indirect” methods of value capture are those that do not skim a portion of the “windfall” gain, but rather rely on:

- the increase in the tax base that comes from the increase in the value of the land;
- the increase in the value of government land; or
- the reward that comes through private sector risk-taking to build infrastructure.

Again, “indirect” methods should apply to all beneficiaries, not just new homeowners.

There will be many occasions where “value capture” will not work. These include for infrastructure where the beneficiaries cannot be identified or the benefits are spread across a wide geographic area. City-wide special infrastructure levies are more appropriate here and should not be confused with the concept of “value capture”, these are general levies and charges as per Section 94 levies and State Infrastructure Contributions in NSW and the GAIC levy in Victoria.

Not every value capture technique will be applicable for every infrastructure project. Before implementing a value capture mechanism for a project, the government and the private sector will need to match the infrastructure project with the characteristics of the land where the project will be built to design the correct value capture mechanism.

UDIA considers that taxes, charges and levies based only on land use changes should not be included in the definition of “value capture”. Pure planning gain (change of land use without accompanying infrastructure investment) is not “value capture”, but rather it is a “betterment tax”. Planning gain relates to a pure zoning or regulatory change, not a private gain created by a public investment in infrastructure. The important point is that the only time that master planning approval or rezoning should be included in value capture is when it is anchored with infrastructure investment that demonstrably adds value to private land.

Value capture is also not an opportunity for State and Local governments to avoid their responsibilities to provide major trunk and social infrastructure in new and established developments. These should always be funded through general revenue as it is a clear responsibility for Government and these governments will accrue tax revenues from the additional rate base created from this investment. For too many years now, Governments have been transferring its responsibility in this regard to the private sector development industry, which ultimately has contributed greatly to the affordability issues facing our urbanised areas today.

This paper sets out the UDIA's position with regard to value capture, and answers the questions posed by the Commonwealth's discussion paper, *Using Value Capture to Help Deliver Major Land Transport Infrastructure*.

UDIA Position

UDIA has the following policy position on "value capture":

1. UDIA supports the concept of "value capture" where it accelerates Government investment for major land transport infrastructure based on the criteria outlined below.

2. The following principles must be considered in designing a value capture mechanism:
    a. additional value has been generated through Government investment that increases the capacity for uses;
    b. value is captured from all land owners only when and where it is generated;
    c. the proportion of value captured does not diminish the ability for value to be realised;
    d. value cannot be captured after it has already been realised, not retrospectively; and
    e. value is not captured in full "up-front".

3. "Value Capture" is not:
    a. an upfront tax, levy or charge for general infrastructure funding;
    b. pure "planning gain" (betterment tax). "Value Capture" is separate in concept and implementation from new taxes, charges and levies; or
    c. a mechanism to fund major trunk and social infrastructure. This is a clear responsibility for government and should always be funded through general revenue.

4. UDIA's preferred value capture mechanisms are indirect, including:
    a. **Tax Increment Financing** – using future tax receipts growth, from the incremental increase in property values, in a declared area, as a result of increased amenity brought about by new public infrastructure; or
    b. **Government Owned Lands** – where Government has acquired land, or already owns land, that benefits from new infrastructure investment and sells the land that is surplus to that required for the infrastructure for development, at a higher price due to the increased amenity that has or will be delivered. Governments should also use the value of infrastructure they have already built to fund new infrastructure, through asset recycling; or
    c. **Private Infrastructure Delivery Agreements** – where the Government enters transparent development agreements, on government land, with the private sector, in exchange for the developer partially or fully funding and delivering public infrastructure.

5. If the Commonwealth seeks to capture the uplift in value:
    a. this must be done through a mechanism like a transparent City Deal, in order to influence or control land use planning where new major land transport infrastructure is being built;
    b. a rigorous and robust valuation methodology must be developed, in consultation with industry and stakeholders, to ensure that any increases in property prices, unrelated to the infrastructure is netted out; and
    c. any value captured must be offset by any existing State or Regional infrastructure contributions

What is "Value"?

There are many variables that affect the value of a particular site, including distance from services and amenities (e.g. schools, transport, hospitals), distance from job generators (such as CBD's), availability of trunk urban infrastructure (e.g. water, electricity, gas, telecommunications), its aspect, slope, elevation, views, size, shape, soil fertility, whether it is polluted, whether it is subject to air and noise pollution, the passing trade, whether it is affected by traffic congestion and the perceived quality of the neighbourhood. Land values can change where these items are variable (although changes to intrinsic physical characteristics, such as slope, are unlikely), and they may change because of private or public action. For example, the closure of the BHP steel works in Newcastle, NSW, resulted in a reduction in air pollution around the suburb of Mayfield and, thus, increased property values in the area. As the unimproved value of this land grew, the local council received a windfall increase in rates revenue, despite council not providing any increased services or public infrastructure.

Zoning and regulations affect the value of sites by reducing the availability of land for particular uses and operation of that use. In this way planning can radically affect the value of land through limiting its' uses.

However, the "value" that is available to be "captured" is complex and, if not well understood and implemented correctly, could result in poorer outcomes than if the infrastructure were financed through traditional means.

Effectively, "value capture" is the concept of the government taking some of the "windfall" gain that accrues to property owners, through an increase in value, as a result of government investment in an area. In principle, UDIA agrees that there should be a way for some of these "windfall" gains to be "captured" by the government to fund major land transport infrastructure

The value of property in Sydney and Melbourne has risen exponentially in recent years because of increased demand and a lagging supply response – very little to do with infrastructure improvements. As demand has risen, excess capacity in infrastructure has been eaten away to the point where investment in new infrastructure is necessary to restore the previous level of amenity.

Where infrastructure is to be built, this may further increase the value of property, but determining the exact effect of the infrastructure as opposed to other factors that increase the value of land is problematic.

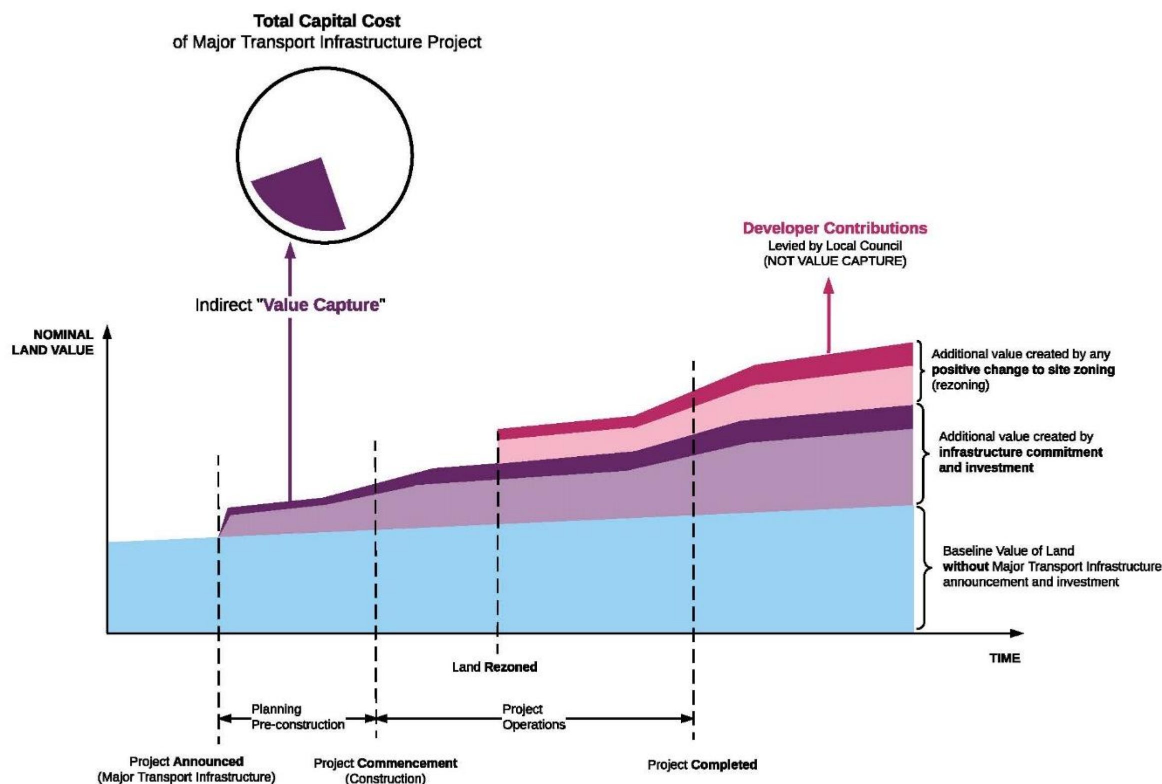
Increases (or decreases) in land price are difficult to calculate, especially as prices tend to become inflated by speculation in anticipation of a scheme. Also, the value of land may increase for reasons that are not due to the scheme: it could be due to private investment (sometimes a new entertainment venue or new supermarket can lift values) and/or because of broad increases in land values across the city as a result of scarcity or population increases. Ultimately, any "value capture" scheme requires the determination of a pre-scheme "base value" which is itself a function of some or all of those items listed above, and which is already likely to be affected by price expectations.

The value capture timeline outlined by Figure 1.1 on page 4 of the Discussion Paper is broadly supported by UDIA. However, it is likely that there is a stage even before the "planning/pre-construction" phase, where speculation about the need for infrastructure in an area, development activity or "conceptual" announcements by public authorities lead to early speculation which may increase vendor price expectations. Depending on the relative elasticity of supply and demand, and on how certain vendors and potential purchasers believe the infrastructure scheme to be

likely/quickly it will be completed or effective, this early speculation may increase the value of the land long-before any formal changes to planning schemes.

UDIA has updated the Value Capture Timeline model to show the earlier impact of land speculation following an announcement and to emphasise the importance of transparency at this time if any value capture mechanism is to be used.

Figure 1 – Value Capture Timeline



Source: *UDIA NSW 2017*

Indeed, much of the value may be speculated away long before planning/pre-construction, the opening of the project or project operation, possibly years before the project opens. For example, property prices in North Sydney and Crows Nest have increased markedly since the announcement of the Sydney Metro project. Prices rose in both areas when the project was announced, even without the route or location of stations being known. If speculation means that the value at the start of construction is equal to the value of the land when the infrastructure is fully operational, there is no value left to "capture". Where the windfall accrues entirely to the first seller, there is no value left to be captured from the subsequent owner. In this situation, any attempt at value capture will merely be a new tax which will negatively impact on housing affordability. The ability of a buyer of the property or developer to pass back to the vendor some or all of the value that will be captured will depend on the relative market power of buyers and sellers in the market.

While it is not envisaged as a tax, value capture mechanisms that seek to reappropriate to the Government some of the "windfall" profit from the increase in land value will work the same way as a tax. In this way, the "incidence" (who the ultimate burden falls upon) of this kind of value capture scheme is likely to be shared between upstream vendors and downstream purchasers. When a value capture mechanism of this type is anticipated, it is likely that a developer will pass some of those costs onto home buyers and will also seek to pay less for the undeveloped land. The relative incidence of the scheme will depend on the market power of the parties. If land owners have a high degree of market power, the amount of "back shifting" may be low and the scheme may fall on the developer (and then new home buyers), which could increase the cost of housing in the area to prices higher than would have existed without the value capture mechanism in place. A value

capture scheme of this sort will also create a “deadweight social loss”, meaning that the economy will produce less housing, and at higher prices, than would be the case if the scheme did not exist. It is for this reason that the UDIA cautions Government strongly, if it seeks to implement a value capture mechanism that reappropriates “windfall” gains.

In its discussion paper for the Queensland Government[2], Ernst and Young suggests that value begins to accrue early, and that a value capture scheme may need to be proclaimed on the declaration of transport corridors or “priority development areas”. This would combat the speculative windfall that would accrue to the land owner on the declaration of a scheme, and would make available some of that windfall to fund the infrastructure being provided. UDIA contends that, without a mechanism like this, value capture cannot work in a fair way.

The risk that is that an impasse develops, whereby the vendor will not accept a lower price (their portion of the value capture being a lower price for their land) and the developer refuses to pay the full value that is to be captured. This may result in an area that would be primed for development failing to develop and lying fallow.

Because “value” and the “value uplift” are hard concepts, both theoretically and practically, UDIA considers that, instead of attempting to directly capture some of the “windfall” profit from land sales, a better and more equitable way to capture value is indirectly.

There are two broad ways for value to be captured: “direct” value capture and “indirect” value capture. “Direct” value capture occurs where the government takes a percentage or fixed dollar amount of the value uplift of land that would otherwise be a “windfall” for the private sector. “Indirect” methods of value capture are those that do not skim a portion of the “windfall” gain, rather rely on:

- the increase in the tax base that comes from the increase in the value of the land;
- the increase in the value of government land; or
- the reward that comes through private sector risk-taking to build infrastructure.

In indirect value capture, the “value” is the current revenue that the government receives from activity in an area where the infrastructure is to be built. The “value capture” therefore is the uplift in taxes that comes from the realisation of that infrastructure. This would mean that the government would not need to value land before, during and after the infrastructure scheme, but would merely need to make internal accounting adjustments to apportion tax receipts between “normal business” and those that are “infrastructure induced”. The easiest tax to see a difference in would be land tax. Before the infrastructure scheme, land would be valued at X and taxed at a proportion of this. When an infrastructure scheme is complete, the land value increases, and therefore the amount of land tax collected on that land increases. This would also be a fairer method of value capture as new infrastructure is likely to cause a disruption to the local area and result in a short-term dip in land values. This may unfairly burden some land owners if they are forced to contribute to the infrastructure scheme at the same time as their land value falls. The government can securitise the incremental uplift in revenue so that the monies for the infrastructure do not have to be collected before the scheme can be built. In this case, “value” is still captured, and revenue is made available for new infrastructure, just in a different way to reappropriating the “windfall” gains.

In devising a value capture scheme, the government needs to be aware of vendor behaviour, the behaviour of potential purchasers/developers, the timing differences between when the book value of a property increases versus when that value is actually realised through sale of the property and the other factors that determine the value of land. Therefore, it is easier and fairer to look to more indirect ways to capture value to fund new transport infrastructure.

[2] *Alternative infrastructure funding and financing*, Ernst and Young, 2016, p4

What is "Capture"?

The capture of "windfall" gains can take many forms. Most of these are outlined in the discussion paper (pp15-17). However, not all methods outlined in the discussion paper should be considered "value capture" methods – some are user charges and some are pure taxes and charges. This makes developers very nervous, as the rhetoric that value capture will not be a new tax is not matched by the examples given.

Where government investment generates value benefited by a select few, a value capture mechanism may be an appropriate way for some of that value to be captured and re-invested to benefit the wider community. However, as discussed in the previous section, it is very unlikely that a project will only benefit a few.

However, in addressing the concerns and issues with how value capture has previously been sought, the UDIA recommends that the following principles must be considered in designing a value capture mechanism. These include:

a. additional value has been generated through government investment that increases the capacity for uses;
b. value is captured from all land owners only when and where it is generated;
c. the proportion of value captured does not diminish the ability for value to be realised;
d. value cannot be captured after it has already been realised, not retrospectively; and
e. value is not captured in full "up-front"

a. Government Investment

Value capture mechanisms must focus on the value that is generated from increasing the capacity of uses (i.e. increased density, increased commercial activity, etc.) associated with the infrastructure investment, not just the "planning gain" associated with the increased uses that may be available due to rezoning.

Pure planning gain (change of land use without accompanying infrastructure investment) is not a value capture opportunity. Levying pure planning gain is a "betterment tax" and should not be seen as value capture. Planning gain relates to a pure zoning or regulatory change, not a private gain created by a public investment in infrastructure. The important point is that the only time master planning or rezoning should be included in value capture is when it is anchored with Government infrastructure investment that demonstrably adds value to private land.

When rezoning/up-zoning is included in a value capture mechanism it needs to be guaranteed by Government and development yields cannot be wound back in the Development Approval process, without eroding value and market confidence.

b. Value is captured from all land owners only ***when and*** *where* ***it is generated***

If land owners can be shown to be in a nexus of value creation, then all beneficiaries, not just new home owners and investors, should contribute equally.

In the same way that the value of land increases as risk associated with the highest and best use of the land is reduced, the value of land associated with the delivery of capacity-increasing infrastructure investment is increased as the certainty of delivery is increased.

In many cases the increase in value is not actually monetised until the land is purchased after the infrastructure investment or commitment has created the uplift. These realities must be considered when exploring an approach to value capture.

c. Ability to realise value

Increasing the cost of realising the additional capacity generated from the infrastructure investment has an impact on its feasibility. The gap between the redevelopment value of land and the market value of existing uses on the land can vary. Any additional costs for the redevelopment can therefore make it unfeasible for the value uplift of the land to be realised.

As such, any value capture mechanism must consider the amount of value that can reasonably be expected to be captured, without reducing the feasibility of the land's capacity to be realised and thus acting as a real constraint to future supply.

d. Not Retrospectively

Seeking to capture value after it has already been realised is inequitable and increases the cost of new housing and may result in commercially marginal projects at the time of acquisition, becoming unfeasible to develop. As such, any mechanism for value capture must be well known before any potential uplift in value can be realised.

e. Value is not captured in full "up-front"

For most beneficiaries, new infrastructure will increase the book value of their property, but this increase in value will not be realised until the property is sold. For value capture to be effective, it should only apply to realised gains and not to book gains. One of the complicating factors of infrastructure funding is that the major costs are in the construction – long before any of the physical benefits begin to be felt by the community – while the various and diverse landowners that benefit from the infrastructure would, in general, not be in a position to pay any unrealised gains.

Where these sorts of value capture mechanisms are contemplated, they must also be accompanied by financial instruments that bring forward the funding against the book value increase of the land, without a heavy burden to the feasibility and funding models.

Value Capture Mechanisms

The Commonwealth, states and local Governments have been encouraged by the concept of value capture as a way to fund infrastructure without Government investment. In reality, value capture is merely reappropriating the "windfall" gains that would otherwise have accrued to private landowners when land becomes more valuable as a result of new transport infrastructure. It is not a way of conjuring new money out of thin air – the money still has to come from somewhere.

A number of mechanisms have been put forward as value capture. In general, UDIA considers that there are six archetypal value capture mechanisms, each one taking a different approach. Government could conceivably use a cocktail of these mechanisms, as well as direct Government investment, to fund a project. However, while they all identify ways in which funding can be procured from sources rather than Government's existing funds, some would be considered by industry as a new tax on development rather than true value capture.

The mechanisms vary in who contributes and the timing of the contribution[3]. The types of mechanisms are summarised in Table 1.

Table 1: Dimensions of Value Capture Mechanisms

Value Capture Mechanism	Contributor	Timing of Contribution
UDIA Preferred		
Tax increment financing	Property owners	Ongoing (not up-front)
Government owned lands	Developers	One time
Private infrastructure delivery agreements	Developers	One time
Asset recycling	Purchaser of the infrastructure asset	One time
UDIA Not Preferred		
Developer contributions	Developers	One time
Major beneficiary contributions	Property owners	One time
Floor area ratio and floor uplift	Developers	One time

New taxes are not considered to be value capture, and are therefore not considered in this analysis.

<u>Tax Increment Financing (TIF):</u>

TIF is not a tax increase, it is merely the hypothecation (dedication) of revenue to repay a bond. It effectively amortises the cost of infrastructure. The revenue is generated because the base upon which the tax is levied grows as a result of building the infrastructure. Because of this, it is possible for taxes from all three levels of Government to contribute to a TIF.

TIF should begin by defining the infrastructure to be built, the cost of the infrastructure, the funding sources (that is, identifying the uplift in what taxes will be hypothecated), timelines, goals, objectives and identify the precinct. A bond is then raised. The funds raised by the bond are then used to pay for the infrastructure. The bond is repaid over the life of the bond (typically 20 years) from the

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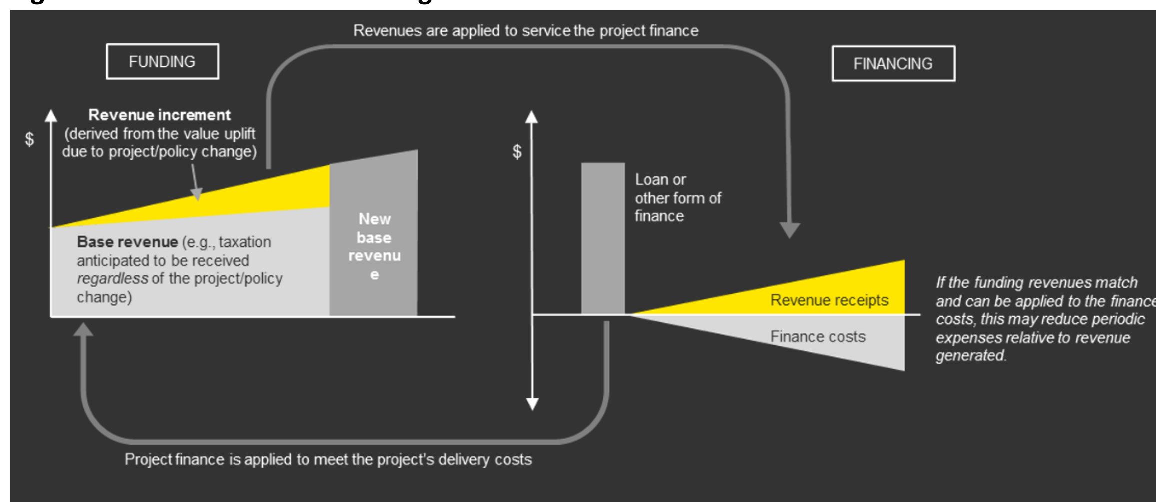
3 *Location Value Capture Opportunities for Urban* Public Transport Finance: *A whitepaper prepared for the Transit Leadership Summit, London*, May 2014, Regional Plan Association

revenue increment – not an increase in the rate of taxes, but an increase in revenue raised because the value of the tax base rises when the new infrastructure is built. Figure 2, below, shows the timeline of how TIF works.

Figure 2 – Tax Increment Financing Model



Source: *EY Value Sharing In Queensland* – Presentation – 21 March 2016

The advantage of a TIF scheme is that it is an indirect method of value capture. As discussed in a previous section, the Government does not need to value land before, during and after the infrastructure scheme, but merely needs to make internal accounting adjustments to apportion tax receipts between "normal business" and those that are "infrastructure induced".

It is a common mechanism in many jurisdictions internationally. In 2001, the City of Atlanta[4] issued a "tax allocation bond" of $67,505,000 to finance a portion of the infrastructure work to be undertaken in connection with the Atlantic Station project (total cost $187,000,000). The bond proceeds were to be used for: site clearing and remediation, utilities, streets and footpaths, parking facilities, construction period interest and costs of issuance. The redevelopment area contained approximately 119 acres (48.2 hectares). The tax revenues were projected based on development of 1,239 residential units and 1,780,000 square feet (165,367.4 square metres) of retail/office space. The estimated incremental increase in tax revenues for the year 2006 (over the 2001 base year) was $8,347,722 which would generate a 1:15 debt service coverage ratio for the year 2006.

<u>Government Owned Lands</u>

This mechanism is applicable when the land is owned by the government, and the infrastructure is built in anticipation of an increase in value of the land, whereby the profit of sale of the land can be allocated towards paying for the infrastructure.

A related concept is that of "asset recycling". Asset recycling can be used when the infrastructure is being built in stages, and each stage can be sold off to fund the next, or, when the introduction of infrastructure creates opportunity for the government to commercialise their land.

MTR Corporation is the majority-owned government transport rail operator in Hong Kong. It uses a "rail plus property" model to fund both the operation of the railways in Hong Kong, but also the capital to build new stations and lines. MTRC receives a land grant from government that gives the company exclusive development rights for the land above and adjacent to its stations. MTRC then capitalises on the real estate potential of its stations. In practice, MTRC purchases development rights from the Hong Kong government at a "before rail" price and sells these rights to a winning bidding developer at an "after rail" price. The difference in land value (the value uplift, or value

[4] http://www.sgrlaw.com/resources/trust_the_leaders/leaders_issues/ttl10/892/, accessed 5 January 2017

capture) can be considerable and covers the cost of the investment. The MTRC also negotiates a share of future property development profits or a joint-venture arrangement with the winning bidder. In this way, the MTRC receives a payment at the start for the land and a payment at the end (including the opportunity of a trailing payment).

The NSW government is building the Sydney Metro with funds from the $20 billion Rebuilding NSW plan. On the Lower North Shore, stations are planned at St Leonards/Crows Nest and Victoria Cross. Compulsory acquisition has been announced for 17 buildings in North Sydney and Crows Nest. The government could supplement the funding from the Rebuilding NSW fund by using value capture on these sites. While the building of the stations has necessitated the demolition of the buildings, when the stations are complete, the government could masterplan the area around the stations, amalgamate sites via its development arm, UrbanGrowth NSW, and then realise the value uplift by selling or leasing the land and the development rights.

Asset recycling, where the government uses sales of its assets to the private sector to fund new infrastructure, is included in this type of value capture mechanism. The benefit, or “value” is that the government de-risks the new infrastructure asset in building it before selling it.

Private Infrastructure Delivery Agreements

This is similar to the Government building the infrastructure and selling/leasing surplus land. In this case, though, it is the private sector that owns or acquires the land and enters into an agreement with Government for them to build the infrastructure in order to open up development opportunities for their land in the future. Governments may make a contribution to the private delivery if it requires additional scope to bring about an additional community benefit.

Australian examples of this include private funding of on- and off-ramps on freeways to open up a new area for development.

At around the turn of the twentieth century in the US, private landholders built inter-urban train lines as loss leaders across the country to open up land for property development. Examples include New York in 1898, Los Angeles in 1910, San Francisco- Oakland in 1910, and Shaker Heights in 1920. The land that was opened up was able to be sold at a profit that was able to cover the cost of the investment and operating costs.

Developer contributions

These are a one-off payment by property developers as a condition of development permission or rezoning. The payments are designed to recoup costs of the infrastructure related to the development.

This mechanism is most relevant in the context of planning changes in land use and development, and when it can be demonstrated that the development will lead to a need for new infrastructure projects in the defined precinct (i.e. the nexus of the contribution and the infrastructure for the defined precinct exists). This mechanism is applicable when rezoning land such as greenfield areas, new transportation precincts and urban renewal initiatives.

State and local governments already have extensive developer contributions that are paid by developers in all states. An additional Commonwealth developer contribution would not be received well and would likely adversely affect housing affordability.

Major beneficiary contributions

These contributions are negotiated from parties who are deemed to benefit the most from the implementation of infrastructure. To successfully operate this mechanism, it is imperative to have an easily understood valuation system in place by which the major beneficiaries of any infrastructure implemented can be clearly identified.

The funding required from the beneficiaries must also be negotiated prior to the project delivery. For example, this can be used when large asset or landowners such as airport operators, shopping centres and commercial precinct owners would clearly benefit from infrastructure.

Major beneficiary contributions mirror state "voluntary" contributions and, if implemented by the Commonwealth, would be an addition to a revenue stream that has already been exploited.

Floor area ratio and floor area uplift mechanism

This mechanism is applicable as a form of value capture when built form controls such as height, floor area ratio (FAR) and bonuses such as a floor area uplift (FAU) mechanisms are put in place for a specific catchment.

In the instance of these built form controls, any proposal to exceed floor area ratio (FAR) or height limits must be accompanied by a demonstrable contribution to public amenity. In this way, the Government has the ability to obtain contributions towards, or even the full cost of, public amenity infrastructure.

One concern with floor area ratio bonuses is the impact it potentially has on the integrity of the planning system. Where an existing planning scheme anticipates a certain maximum height, residents may lose faith in the planning system when the height increases as a result of a floor space bonus. For example, existing residents and property owners in an area may be happy with a planning scheme that anticipates a future building height of 12 storeys. However, where the developer and Government are able to negotiate a floor space bonus so that the height of new buildings is potentially, say, an additional three to eight storeys, existing residents and property owners are likely to see this as a corruption of the planning process that had previously set a maximum building height of 12 storeys.

Despite the criticisms, floor area uplift mechanisms are used by most jurisdictions. The Commonwealth Government should not, therefore, implement this as a means of federal value capture.

Value Capture, Value Sharing

The problems that presently exist in the discussion of "value capture" are because it makes some major assumptions such as:

- the "value that public infrastructure generates for private landowners" can be accurately estimated before the infrastructure is in place
- the "private landowners" who benefit can be known from the beginning
- that the value uplift is directly related to the new infrastructure and therefore the Government's to "recover" in the first place.

While "value capture" is intended to raise additional revenue, this is not through new taxes. Some commentators using the term "value capture" are actually referring to additional infrastructure funding levies and charges. In this sense, it is merely an increase in the tax that government receives from private developers. When used in this sense, any attempt to create additional revenue from these bases would merely result in the imposition of an additional tax, many of which are already levied by state and local government. These are not value capture mechanisms as they are not capturing a percentage of the value added, they are just levies to fund infrastructure. Some clarity and transparency is therefore needed.

In its discussion paper for the Queensland Government, Ernst and Young suggests that one of the problems with traditional funding of infrastructure via consolidated revenue (and government borrowings) is that "the burden is not shouldered proportionally by those beneficiaries who receive most of the value of the infrastructure, but is essentially shared across the community based on general tax obligations." This is a very narrow view of the benefits that new infrastructure creates across a community, state and nation. While non-users of a new freeway may not directly benefit from it, the indirect benefits may be great. For example, in reducing traffic from local roads, property owners on formerly congested roads may benefit. In a more broad sense, a new freeway may make logistics cheaper, thereby lowering the cost base of the entire economy, benefiting all consumers. It may, therefore, be very difficult to identify all direct and indirect beneficiaries of new infrastructure, and therefore it should not be just direct beneficiaries who pay for it.

A large scale example is the change across the whole of Sydney brought about by the construction of the M7 Motorway. It was impossible to anticipate that virtually all major logistics firms would relocate from the inner-city suburbs such as Alexandria out to places such as Minchinberry in the western suburbs to take advantage of its direct access to Melbourne and Brisbane. The building of the M7 Motorway has meant the freeing up of land in the inner city for uses other than logistics. The value of this land has increased as it has moved from industrial-type uses to residential uses. As a result of the M7 Motorway, windfall gains have accrued to property owners in inner-city suburbs. For a value capture scheme to be equitable, it must ensure that it applies to these value uplifts, as well as to those in the immediate vicinity of the infrastructure. That said, it may be impossible to know how city-transformative infrastructure will change the way land is used and value is perceived across entire cities.

City Deals may be a way to get around the problems associated with direct value capture of "windfall" gains. City Deals have been used in the United Kingdom since 2012. City Deals may be used to acknowledge the land that the private sector brings to an infrastructure scheme, and allow a shared valuation of this land to be seen as a contribution to the project, which will then have a rate of return attached to it. Through a City Deal, land could be seen as equivalent to a monetary contribution to the investment in the infrastructure, with a dividend accruing to the investor along the way. This "earn back" potential – a major feature of City Deals in the UK – would allow value to be shared between all levels of government and the private sector. A mechanism similar to this is the only way UDIA would support any kind of "direct" value capture.

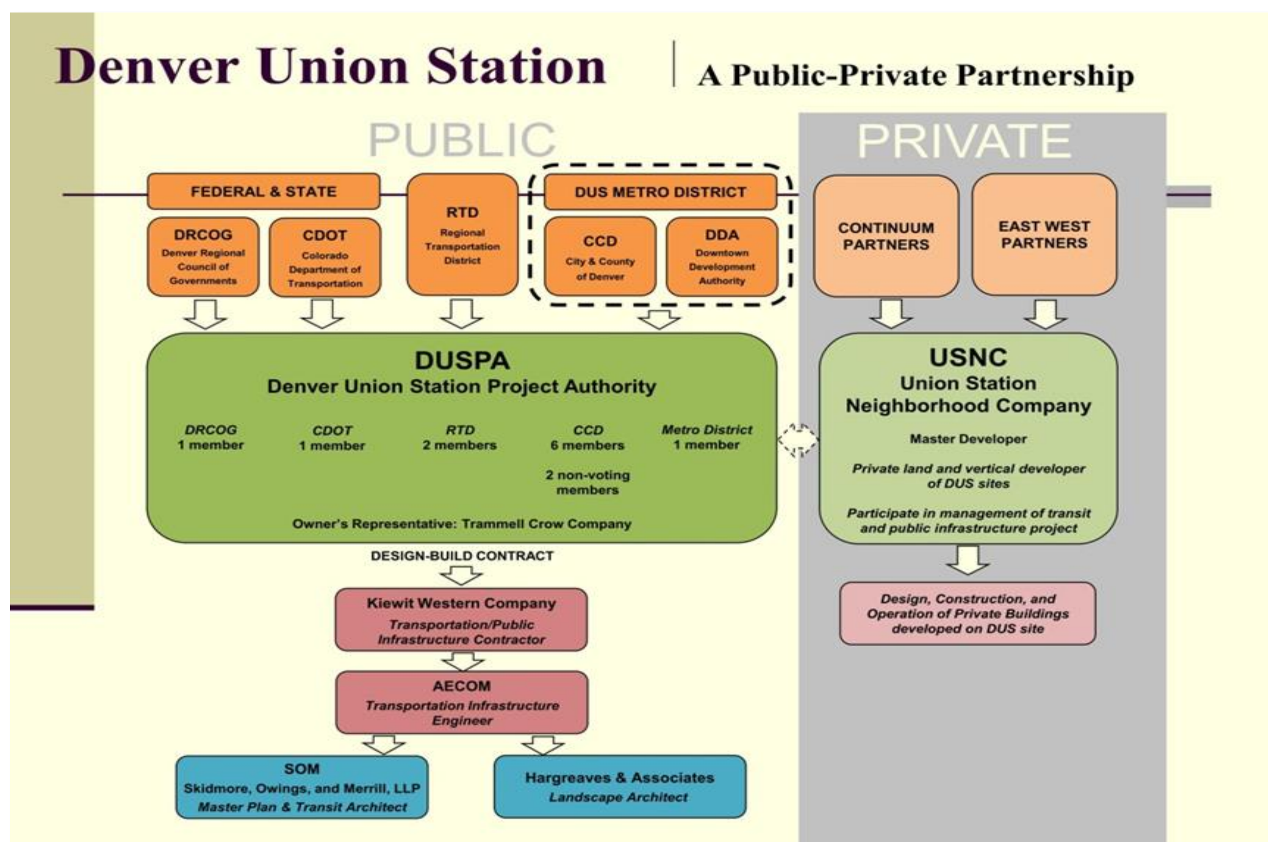
UDIA considers that the Denver Union Station development is a prime example of how best to share value between the private and public sectors. This is a real partnership between government and the private sector. Funding for Denver Union Station comes from federal and state grants, property sales and federal loans. The bulk of the funds were raised from a Transportation Infrastructure Finance and Innovation Act (TIFIA) loan and a $155 million Railroad Rehabilitation and Improvement Financing (RRIF), which are raised as a TIF. The funds raised were as follows:

Source	$ Amount in Millions
TIFIA Federal Loan	$145.6
RRIF Federal Loan	$155.0
Land Sales	$39.5
FasTraks	$41.3
ARRA	$28.2
TIP Funds	$2.5
Colorado Senate Bill 1 Strategic Planning	$17.3
FTA 5309 Fix Guideways Grant	$9.5
Colorado Dept. of Transportation	$45.3
Total	**$484.2**

Source: http://www.metroplanning.org/news/6392/Value-Capture-Case-Studies-Denvers-Historic-Union-Station, accessed 12 January 2017

TIF has effectively financed around 60 per cent of the project, with the rest funded via private and public investments. This project has exceeded its feasibility study estimates across office, retail and commercial floorspace, and is on track to meet its 10-year residential estimates. Denver Union Station presents an ideal model for City Deal-style partnerships that create and share value between the public and private sectors.

Figure 3 – Denver Union Station Value Sharing

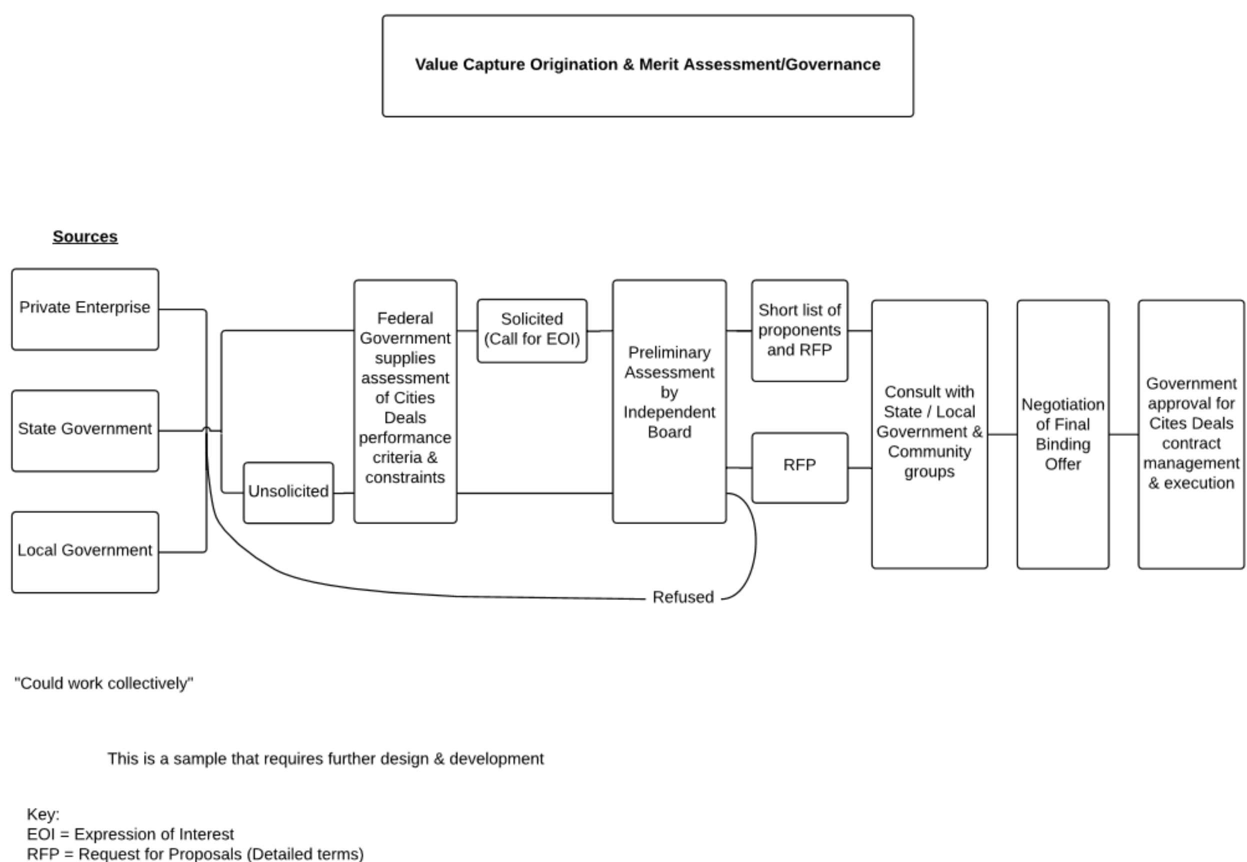


Source: AECOM – Presentation to UDIA, 25 May 2016

Valuing property before and after new infrastructure is built is very difficult for Government to determine, and will be very difficult in practice for those affected to accept. For this reason, UDIA cautions against value capture mechanisms that seek to directly reappropriate some of the "windfall gains" of the private sector to fund new infrastructure. Therefore, Governments should look to mechanisms that indirectly capture the value uplift. However, where Governments are looking to capture the "windfall" gains via a direct mechanism, it should be set out in a City Deal-type contract that ensures the acknowledgement of all contributions and the opportunity for "earn back" or an investment return.

The South Australian Government has recently constructed a scheme establishment process for infrastructure frameworks which is a helpful guide for how States should approach it. Below is UDIA's proposed Value Capture Origination and City Deal governance chart which shows the suggested pathways for the creation of a City Deal.

Figure 4 – UDIA's Value Capture Origination and Merit Assessment/Governance Guide for City Deals



It is likely that there will be unique elements in every infrastructure project. Value capture will not work in all circumstances, particularly where the beneficiaries cannot be identified or the benefits are spread across a wide geographic area. Indeed, UDIA refutes the inclusion of new taxes, charges, and levies based only on land use changes, in the definition of "value capture". City-wide special infrastructure levies are more appropriate here and should not be confused with the concept of "value capture". In addition, not every value capture technique will be applicable for every infrastructure project. Before implementing a value capture mechanism for a project, the Government will need to match the infrastructure project with the characteristics of the land where the project will be built to design the correct funding mechanism, including the correct value capture mechanism.

While Value Capture may provide part of the solution moving forward, it will not fully fund new infrastructure, with a cocktail of sources of funding required, including Government borrowing. What is evident from the debate is that there is a great deal of policy uncertainty and revenue opportunism that,

together, have the potential to stifle investment viability and undermine new supply of housing and further deepen the affordability crisis.

The property industry has major concerns and misgivings regarding the misuse of Value Capture given the heavy tax burden already applied to new development without Governments directing all of these funds to infrastructure. The industry is justifiably paranoid that Value Capture will be used to apply new and regressive taxes, charges and levies on new home buyers who are already suffering from an affordability crisis driven by undersupply, inefficient and uncertain planning regimes and taxes and charges that account for up to 40% of the cost of a new home and primarily borne by the first purchaser of a new home.

Value capture is also not an opportunity for state and local Governments to avoid their responsibilities to provide major trunk and social infrastructure in new and established developments. These should always be funded through general revenue as it is a clear responsibility for government.

Response to Discussion Paper Questions

1. What factors would cause beneficiaries, in particular property owners, to see a value capture charge as 'just another tax?' How can these factors be overcome?

Wherever the government is appropriating value from the private sector, it will be seen as a "tax". Where "windfall" gains are to be appropriated to government, the key to property owner acceptance will be that they recognise and unambiguously understand, that what is being paid for benefits them more than they contribute.

The discussion paper recognises that value capture can work best when it funds only a portion of the investment in new infrastructure. If this is the case and if the business case is easily understood and clear that there is a positive rate of return for contributors, property owners are more likely to be supportive, particularly if it is wrapped up in a City Deal-type of arrangement.

Where the government sells land or development rights and effectively captures value directly, there would be no reason for property owners to view this as a tax.

Where the incremental value of tax receipts is captured for the infrastructure project, property owners are unlikely to see this as a new tax, although the *dollar amount* of tax they pay may be higher due to the higher value of the land (not because of a change to the tax rate) in the case of, for example, land tax.

State governments may have constitutional problems if value capture is regarded by the High Court as an "excise". For a tax not to be an excise, there needs to be a clear nexus between the charge levied against an entity/individual and the benefit received by the entity/individual.

Any value capture charge should be collected in a timely manner and there must be an actual property value uplift. There are likely to be major issues where there is a significant delay in the provision of the infrastructure, despite a tax being charged, and there being little to no property uplift and/or poorly defined areas of benefit.

2. Are there examples of mechanisms currently being used in Australia or internationally which provide a clear nexus between payments and the benefits provided by the infrastructure?
3. Which mechanisms are currently being used which have weak links between payments and benefits?
4. In providing funding to projects, should the Commonwealth set a condition that any contributions levied by state or local government on surrounding landowners are dedicated to the project?

The South Australian State Government Infrastructure Schemes developed in conjunction with the UDIA in SA provide a clear nexus. NSW Section 94 levies provide a clear nexus, but these levies are for very small value infrastructure, rather than large value transport or 'city wide' infrastructure.

The nexus with the Growth Areas Infrastructure Contribution in Victoria is vague, as is the NSW government's State Infrastructure Charge, as there is a large time lag between the collection of these levies and the commitment and/or building of the infrastructure that they fund.

UDIA considers that, in providing funding to projects, the Commonwealth should set a condition that any contributions levied by state or local government on surrounding landowners are dedicated to the project.

5. How can governments accurately estimate the incremental value uplift generated by infrastructure projects as compared to uplift due to ordinary market growth?
6. When identifying beneficiaries, how should governments determine the geographical boundaries around new infrastructure assets? Should governments focus on all properties directly around the new assets, within the wider region or at a city-level?

The government needs to very carefully consider property values before, during and after the infrastructure is mooted, announced and built. Any appropriation of "windfall" gains needs to be fair and equitable and not take the full value of the uplift (as some of the uplift may be due to factors other than those caused by the new infrastructure).

It will be difficult to determine where the benefit footprint for new infrastructure applies. Beneficiaries are not just those in the immediate vicinity, nor just the users of the new infrastructure. As discussed earlier, value may accrue to parts of a city that are totally unexpected (as in the case of inner-city Sydney with the building of the M7 Motorway and subsequent movement of logistics companies out of the city and onto the M7).

The government should be very careful to ensure that value capture is not be purely borne by new home buyers (as an additional tax on development) and is consistently applied as appropriate to existing land owners.

This is why UDIA advocates for the use of indirect value capture mechanisms, rather than ones that directly reappropriate "windfall" gains to the government to fund the infrastructure.

7. How can governments design processes which cause beneficiaries to reveal their willingness to pay?
8. Could we adopt an approach in Australia of holding popular votes in relation to large infrastructure projects and their funding mechanism?
9. Who would be best placed to organise such votes? Local councils? Transport authorities? Others?
10. Would the Commonwealth be justified in linking funding to evidence of popular support and willingness to pay?
11. Are there examples of other successful approaches to seeking community acceptance for value capture mechanisms?
12. Should there be different approaches to obtaining proof for different beneficiaries?

Willingness to pay is the maximum amount an individual is willing to sacrifice to procure a good or avoid something undesirable. Different buyers and sellers will have different willingness to pay, enabling a market to be segmented. In designing processes to reveal and capture the willingness to pay, governments should be careful that they are not over-charging some and under-charging others – charging an amount that is equal to the average willingness to pay, for example, is likely to hurt some who are unwilling or unable to pay this amount. A charge below an individual's willingness to pay creates a "consumer surplus"; a charge above the seller's "willingness to receive" creates a "producer surplus".

The easiest way to reveal a willingness to pay is through "revealed preferences", however, this is unlikely to be shown until well into the operation of a piece of infrastructure.

There are well-understood means of surveying beneficiaries to ascertain the willingness to pay.

However, estimates of willingness to pay are only required for value capture mechanisms that directly seek to appropriate the "windfall" gain. Where incremental tax increases are securitised and used as contributions to the project, no assessment of willingness to pay is required, except if user charges are to be levied in addition.

Infrastructure Australia and various state infrastructure bodies have been established with a view to remove politics from infrastructure questions. The theory behind these bodies is that infrastructure projects are so large and complex that voters are unlikely to be able to value them, nor rank them in order of priority. Experts are therefore required to make these decisions. Governments are then elected to carry out policy. Governments that do not accede to the will of the people are likely to be voted out. UDIA therefore questions why a popular vote would be necessary to determine which large infrastructure projects should proceed and the mechanism used to fund them.

13. Are there examples where re-zoning, integrated planning and value capture funding have been well implemented? Are there examples of missed opportunities?
14. Should the Australian Government place stronger conditions on Commonwealth funding to drive more efficient use of re-zoning and integrated planning? For example, should the Commonwealth tie funding for new passenger rail projects to a requirement for re-zoning around station locations?

Hong Kong's MTRC is a prime example of where integrated planning and value capture funding have been well implemented. A transport authority requires legislative power to deal in property and would need to work hand-in-hand with planning authorities for this to be effective.

The Commonwealth Government should place stronger conditions on its funding to drive more efficient use of re-zoning and integrated planning. Any "planning gain" obtained from rezoning's around new infrastructure should be dedicated to the project.

15. What is a realistic expectation for the funding contribution of value capture in the Australian context?
16. How can governments best determine the fair proportion of the value uplift generated by a transport investment to capture?
17. To what extent can infrastructure-driven value uplift be expected in less densely populated areas?

It is unrealistic to expect value capture to fund all of a project. Indeed, it is likely that value capture will fund between around 10 per cent (14 per cent of the Dulles Metrorail Silver Line Expansion was funded via value capture[5]) and 60 per cent (as in the case of Denver union Station). That said, in Private Sector Delivery Agreements, it is likely that the majority of the infrastructure would be funded by the private sector, although all of the value uplift associated will also accrue to the private land owner.

UDIA considers that major trunk and social infrastructure in new and established developments should always be funded through general revenue. This is a clear responsibility for government.

The funding contribution and what constitutes a fair proportion of the value uplift will differ from project to project. Some projects are likely to have broader non-property related benefits, while others might have largely property related benefits. Private landowners should not have to fund the "community good" component of the proposed project.

It is likely that the value uplift from a piece of new transport infrastructure will vary from location to location. Therefore, where possible, the government should avoid value capture mechanisms that require the direct valuation of land. This would then avoid the problems associated with fairness and equity in valuations.

18. At what point should value be captured from property value uplift? What practical ways exist to recover this value from property owners to coincide with the realisation of the benefit of property value uplift?
19. How can Commonwealth financing support for major projects, such as loans or guarantees, be best structured to encourage wider use of value capture funding streams?
20. How else could the Australian Government leverage its role as a financier of infrastructure to support the wider uptake of value capture in Australia?

As has been discussed earlier in this submission, UDIA considers that the best approach to value capture is indirect. For example, an ad valorem property charge would mean that the revenue is only collected if there is an uplift. To underpin value capture, a broader tax base should be considered. For example,

5 *Location Value Capture Opportunities for Urban Public Transport Finance: A whitepaper prepared for the Transit Leadership Summit, London*, May 2014, Regional Plan Association

replacing stamp duty with a universal land tax with appropriate rebating for at-risk members of the community (e.g. pensioners).

21. How can we design market processes to attract those who would benefit from an infrastructure project, and to arrive at a fair contribution from them?
22. How can the Australian Government best encourage the private sector to come forward with proposals for value capture funded projects? What are the benefits and risks of doing so?
23. What are the most efficient roles for government, the private sector and the community in open infrastructure investment markets?

The government can extract the full value from the uplift in value of land where it owns land that is either surplus to that required for the infrastructure, is adjacent to the new infrastructure or benefits from the new infrastructure.

The government can use land it already owns (via acquisition for infrastructure delivery) or acquires to consolidate fragmented lands into one parcel. Where it acquires land, the government would be paying less for each fragmented parcel than the site is worth as an amalgamated, master planned and infrastructure planned site. This is the first uplift that the government gains from purchasing the land. The government then uses this revalued parcel of land to borrow against to finance the infrastructure. Once the infrastructure is built, the government masterplans the entire site to ensure the new infrastructure is fully utilised and the land and development rights are able to be sold for its highest and best use. The government then sells the surplus land for a profit, which is the second uplift that the government gains. All profits from the land are, in this sense, “captured”. This money is then used to pay back the borrowings that were used to acquire the original lands and build the infrastructure. Any surplus profits can be allocated to a future infrastructure fund for future infrastructure projects. This is a similar concept to that used by MTRC in Hong Kong.

Similarly, the private sector and the government can enter into an agreement for the private sector to build the infrastructure in exchange for the development rights to the land post-construction.

24. What are the major gaps between value capture assessment and implementation methodologies across Australia?
25. How can the Australian Government better facilitate the development of best practice in value capture across Australia?
26. Is there scope for the Australian Government to offer a loan or guarantee secured over an incremental tax revenue stream for value capture?
27. How can the risk associated with value capture mechanisms – financial, economic and legal – be best allocated between the Australian Government, the state, territory and local government, and the private sector?

As has been discussed earlier in this submission, UDIA considers that the best approach to value capture is indirect mechanisms. This would lower the financial, economic and legal risk to government and the private sector.

28. Are funding conditions or incentive payments the most effective and efficient mechanism to drive wider use of value capture?
29. Do they place additional regulatory burdens on project proponents? If so, how could these be managed?

The Commonwealth government has had a major foray into cities policy in 2016 with the launch of the Smart Cities Plan. This can influence the development of cities. The Commonwealth also has the ability, through the Smart Cities Plan, to use competition payments to the states and territories on progress of

planning reform and housing delivery, as well as the delivery of other planning outcomes, like bringing jobs (or access to them) closer to housing and the concept of the "30-minute city".

30. How can governments encourage market-led proposals? Are there other models of market-led value capture?
31. How can governments ensure that proposals improve integrated planning outcomes?

The first condition to encourage market-led proposals is to let the market know that the government is willing to consider these kinds of projects. Without the unsolicited infrastructure projects policy of the NSW government, the NorthConnex project would not have begun.

As mentioned above, value capture is not a new concept. Most of the inter-urban train lines in the United States were built by private landholders. This then opened up land for development along the routes and other branch lines. A return to this sort of concept, with an overlay that planning outcomes also need to be achieved, would encourage market-led proposals. However, if the private sector proposes to fund and build a piece of transport infrastructure, it is important that any "scope creep" required as a "community benefit" is funded by the government rather than the proponent.

One of the main struggles that planning and transport authorities have is in deciding whether planning outcomes should influence transport outcomes, or if transport should be the prime motivator in determining planning outcomes. UDIA considers that planning outcomes should be the prime consideration, and that transport should then be integrated with the planning outcomes that are desired. An example of this is the Newcastle Light Rail. While it may have been the best transport option to use the existing heaving rail corridor, the best corridor to use to activate the city was to have the light rail go down Hunter Street. The Commonwealth should provide their contribution on the basis that the infrastructure is being used to fulfil the best planning outcomes.

About The UDIA

The Urban Development Institute of Australia (UDIA) is the peak industry body representing the property development industry throughout Australia, acting on behalf of over 2,000 members across the country, from a variety of fields and professions in the development industry. Established at a state level in 1963, the Institute evolved to become a national body with a number of state-based divisions in 1970.

All UDIA State Divisions have developed comprehensive strategies to represent the urban development industry at the state level, address the economic conditions and market dynamics facing the industry and tackle current issues that are of interest to members.

What we do

We aim to secure the economic prosperity and future of the development industry in Australia as we recognise that national prosperity is dependent on the success of housing our communities and building and rebuilding cities for future generations.

UDIA aims to:

- Promote the achievement of high standards of urban development;
- Promote respect for the inherited and natural environment while creating quality, dynamic, built environments;
- Ensure the skills that make up the membership of the Institute will be applied to principles of good planning, efficient land utilisation and sustainability of resources for future generations;
- Deliver a broad range of ongoing education and research programs to support and assist the industry and for the benefit of others associated with the urban development industry; and
- Promote a greater understanding in the community of the role and the achievements of the industry.

Membership

UDIA members cover a wide range of specialist and industry fields, including developers; valuers; planners; surveyors; engineers; architects; marketers; researchers; project managers; landscape architects; community consultants; environmental consultants; lawyers; sales and marketing professionals; financial institutions; state and local government authorities; product suppliers; and students.

Fulfilling our role

With an expanding population, ageing housing stock and ever-changing demography, there is an ongoing need in Australia for the provision of residential, commercial, retail and industrial property in existing and new centres.

UDIA's primary role is to ascertain impediments to the efficient and effective operation of the industry as a whole, and to assist in the rectification of those problems. Concurrently the industry strives to deliver outstanding products to consumers, and UDIA assists in the achievement of this objective by providing a comprehensive range of member benefits including education programs, information dissemination, and the holding of awards programs at a state and national level.

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APPENDIX A: Evaluation of different forms of Value Capture

Value Capture Method	Evaluation
Tax increment financing (TIF)	*Government investment:* Funding is based on projected increases in taxation that would be collected due to the investment in infrastructure. *Value is captured when and where it is generated:* Utilises increases in tax receipts due to the increase in the value of property and other economic activities. *Ability to realise value:* Unlikely to decrease the feasibility of potential development opportunities as it does not include any additional costs typically associated with developing land. *Retrospectivity:* Funding is based on tax modelling. Value is captured through existing tax structure once the value of the land increases and the infrastructure creates additional market activity. *Value Not Captured Up-Front:* There is no concern with value being captured up-front with tax increment financing. ***Verdict:*** **Considered to be a highly effective form of value capture.**

Value Capture Method	Evaluation
Government Owned Lands	*Government investment:* Government investment creates the ability for government to develop excess public land, sell air rights above infrastructure, and sell or lease space/ land. *Value is captured when and where it is generated:* Value is captured on already government owned land allowing the full value of the infrastructure investment to be captured when and where it is generated. *Ability to realise value:* Full value of the land or space is realised through sale of development rights, air rights and or the sale or lease of space/ land. A potential buyer would not buy property development rights at a value which makes it unfeasible to develop. *Retrospectivity:* Applies at and after value has been created. *Value Not Captured Up-Front:* Even though it is likely that these rights would be purchased up-front, it is likely to be seen more as part of a land purchase than an up-front levy. ***Verdict:*** **This approach to value capture is the most effective way to capture value of an investment as the full value uplift from an infrastructure project is realised on the government owned land.**

Value Capture Method	Evaluation
Private infrastructure delivery agreements	*Government investment:* Agreement with government for the private sector to deliver infrastructure. *Value is captured when and where it is generated:* Value is created by the private sector. The public benefits ("captures value") through the private sector paying for the infrastructure that can then be used by the community at large. *Ability to realise value:* The full value of the land or space is realised through opening up land for development for the private proponent. *Retrospectivity:* Applies at and after value has been created. *Value Not Captured Up-Front:* The value is embodied in the combined value of the land and the new infrastructure. ***Verdict:* This approach to value capture is rare in Australia, but has been used all over the world to fund new transport infrastructure. If taken up more widely, it would be a very effective way to fund new transport infrastructure as the government and community capture the benefit of it without contributing.**

Value Capture Method	Evaluation
Developer Contributions / Development Charges	*Government investment:* In the majority of cases, developer contributions pay for a significant proportion of local infrastructure to provide a basic level of amenity and services for the development and its occupants. Generally, the scope and timing of government infrastructure investment is not clear. *Value is captured when and where it is generated:* Passing back infrastructure charges onto the vendor is unlikely in many cases due to the relative market power of land owners/vendors and purchasers/developers. *Ability to realise value:* Local infrastructure contributions generally apply a standard rate to the developable area of land, thereby increasing the likelihood of its feasibility. The only instance that development would not be feasible is where the costs associated with developing specific areas are considerably high and the market value of land is low. *Retrospectivity:* In most instances, infrastructure charges are known. *Value Not Captured Up-Front:* Most developer contributions/charges/levies are charged up-front or early in the development process. ***Verdict:*** **Development charges are not an appropriate tool for capturing a proportion of value uplift. Furthermore, due to its impact on housing prices, its fairness and equity are also questioned.**

Value Capture Method	Evaluation
Major beneficiary contributions	*<u>Government investment:</u>* Investment in the value uplifting infrastructure is underpinned by the negotiation of funding from major beneficiaries. *<u>Value is captured when and where it is generated:</u>* Major beneficiaries would unlikely negotiate a funding agreement that would allow value to be captured, when and where it is created. *<u>Ability to realise value:</u>* Major beneficiaries are unlikely to negotiate an agreement that would make it unfeasible to realise value. *<u>Retrospectivity:</u>* Contributions would be negotiated prior to commitment for the investment in infrastructure. *<u>Value Not Captured Up-Front:</u>* For these to work as funding mechanisms, the value needs to be captured up-front. A securitisation method would be needed to ensure that the prospective revenues can be used to fund the infrastructure so that the contribution can be paid at a later time in the development cycle. ***<u>Verdict:</u>* If entering an agreement for major beneficiary contributions is voluntary, this approach could be an effective tool for capturing value.**

Value Capture Method	Evaluation
Floor area uplift	*Government investment:* Often applied as a mechanism to allow for additional floor area in exchange for a commensurate public benefit. Could be applied as a mechanism in and around land where an infrastructure investment and planning changes increase the capacity for development on the site. However, as described above, floor area ratio bonuses can have a detrimental impact on the integrity of the planning system. Where a scheme anticipates a certain maximum height, residents may lose faith in the planning system when the height increases as a result of a floor space bonus. *Value is captured when and where it is generated:* In the cases where the opportunity for additional floor area has been created due to infrastructure investment, a floor area uplift mechanism is an approach that allows for the full capacity of the land to be realised in exchange for public benefits. As there are costs associated with providing public benefits, a floor area uplift mechanism must be considered in terms of the monetary value that is being captured to ensure any additional value capture mechanisms do not result in an excessive amount of the value uplift being captured. However, as the value isn't captured until the land is developed it is likely that the costs associated with providing public benefit would operate in the same way that costs associated with developer charges operate as the vendors become savvy to the development potential of the site. *Ability to realise value:* Generally, floor area uplift is a charge on the proportion of additional value. If this is not excessive, it would not affect feasibility. *Retrospectivity:* Floor area uplift mechanisms are likely to be known well before commitments are made for the land to which it applies. *Value Not Captured Up-Front:* This is likely to be implemented as part of the development consent process, and therefore most likely to be an up-front levy, or sometime early in the development process. ***Verdict:*** **A floor area uplift mechanism is a very complex tool for delivering additional public value. Due to its complexity and the danger in passing on the costs to new home buyers, this mechanism is not considered an appropriate tool for capturing value. Unless implemented in a totally open and transparent way, [it also has the potential undermine the integrity of the planning system.**