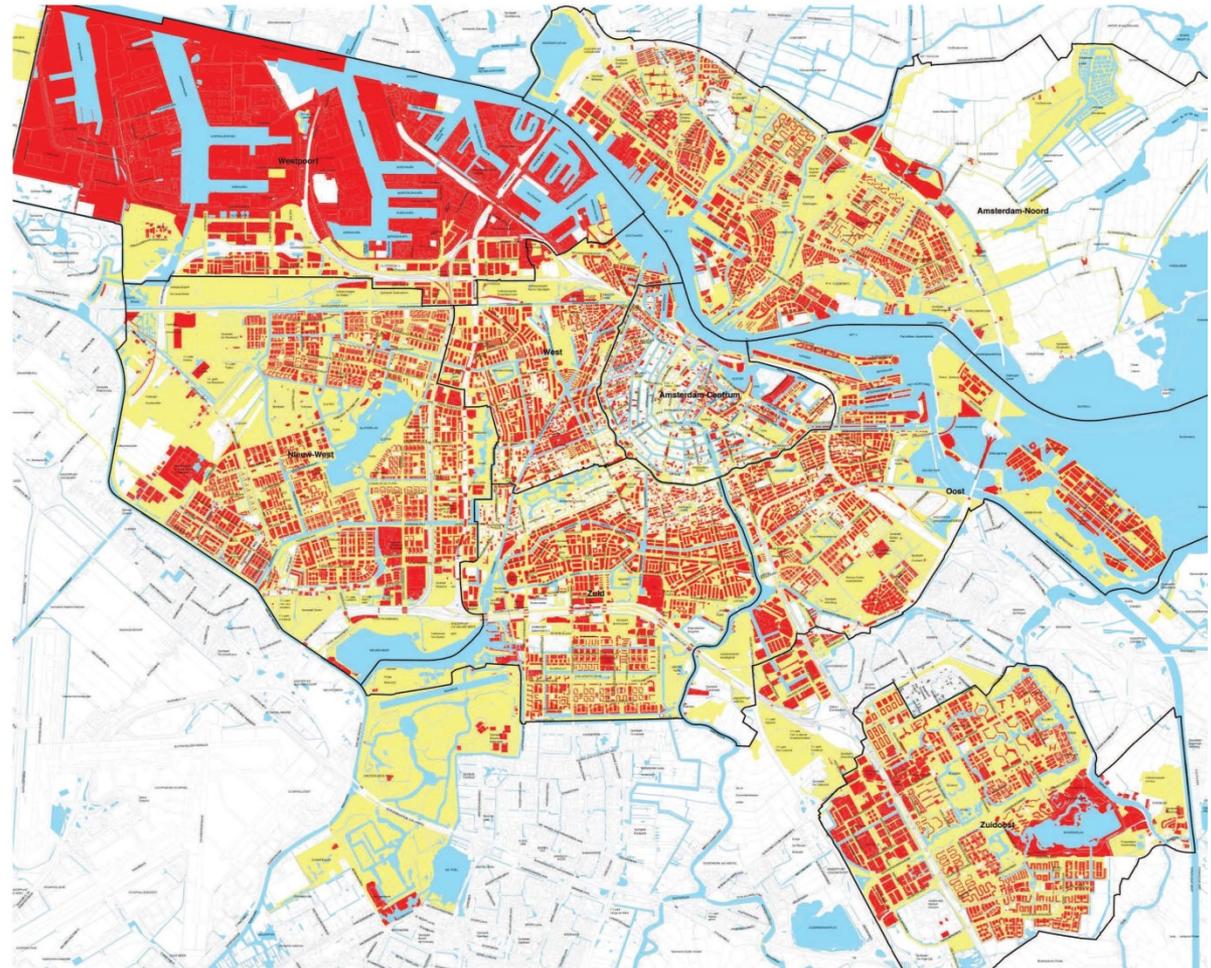


# Land pricing on extension of leases in public leasehold systems

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# Introduction

- The issue of extension of public ground lease
- Background
- Principles
- Alternative solutions
- Evaluation
- Discussion

# The issue of extension of public ground lease

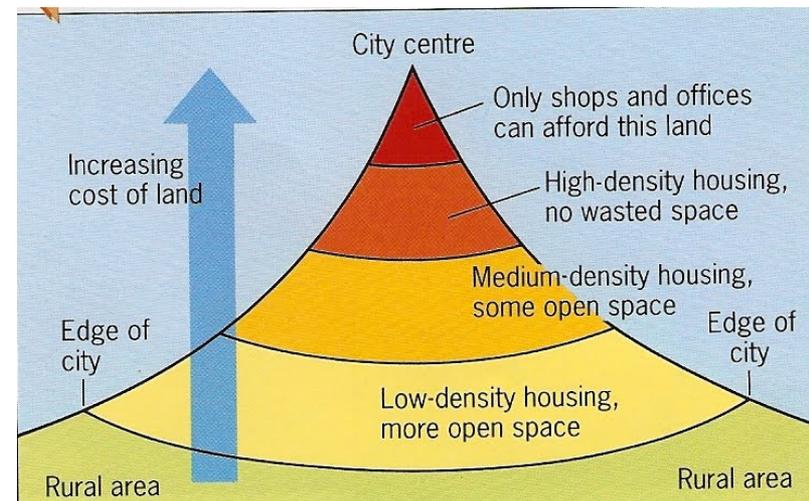
Ground lease	Rent
Right that runs with the land (deed)	Individual right (contract)

Ground lease	Ownership
Limited property right	Most comprehensive property right

Public Ground lease systems (developed based on ideas of Henry George, 1879)

- to capture land value increases
- to safeguard public interests



# Capturing land values

- Based on idea (inspired by George, 1879):
  - property value = locational value + improvement value
  - Improvements of a land parcel have no impact on locational value of this parcel
  - Locational value is based on a gift from nature and external effects
  - Landowners should not be entitled to this unearned increment, but this should go to the public
- Essential for this aim is that lease is set to higher values to capture this unearned increment
- Many public ground lease systems fail to capture this unearned increment (Canberra, Israel have virtually abolished it)
- There is insufficient public support.

# Public ground lease and tax

- Tax is unpopular
- Authorities do not set highest taxes legally feasible
- Lower tax or lower lease, results in higher value of land for holders of right
- If these holders are also living in the city they are consumer-voters (Tiebout, 1956).
  - High public services for low costs
  - Prefer low rent or tax over more service
  - Prefer that others pay
  - Vote for councils
- Public ground lease system.
  - A large share of the population hold ground lease rights
  - Prices not set in the same way as between two private parties

# Principles

1. The system acknowledges the residual nature of land
2. It takes private law limitations to land use to safeguard public interests into account and impact must not go beyond these interests
3. Improvements have no impact on land value
4. Location values must be captured
5. There must be a mechanism that secures resident leaseholders from gentrification caused by excessive lease adjustments

# The system acknowledges the residual nature of land

Valuation of ground lease

$$V - V_s = V_{ro} + V_{gl}$$

V Value of property in highest and best use

V<sub>s</sub> synergistic value

V<sub>ro</sub> value of residual ownership

V<sub>gl</sub> Value of ground lease

(based on Van Arnhem et al., 2013)

# It takes private law limitations to land use to safeguard public interests into account

- This means that the synergistic value is based on the way that the ground lease system is being set-up.
  - For example in a lease system in which at the end of the lease land plus improvements go back to the owner. Property values will not reach highest and best use as holders of lease will not invest the closer to the end of the lease
  - If the owner restricts land use by prohibiting certain uses this will not reach highest and best use.
- (Value of highest and best use is based on public power limitations on land, synergistic value adds to this limitations based on ground lease deed)
- Impact must not go beyond this interests: high synergistic value means no highest and best use of the land

# Improvements have no impact on land value

- Choices of the holder of leasehold right have no impact on rent to be paid
- To prevent distortion of property markets

# Locational values must be captured

- The original idea of many public ground lease systems (based on George)

# Securing resident leaseholders from gentrification

- This relates to issue of political support in a public ground lease system
- It may also relate to a wider concept if improvements as suggested by Becher (2014) a legitimate security of improvements
  - “entitle people to government protection for many different kinds of value that they have invested, including but not limited to financial value” (2014, 256).
- So, if you have lived for 30 years in a rundown urban neighbourhood, that is now gentrifying, you are entitled to the fruits of your ‘investment’ of living 30 years in this neighbourhood
- Part of the locational value of the neighbourhood is produced by its inhabitants

# Case Amsterdam

- Public grounds lease since 1896
- From 1915 housing is provided through enduring ground lease
  - Periods of 75-50 years
  - New general conditions in new period
  - New lease is set in new period often first proposal municipality and always possibility that committee of experts set rent.
  - Committee: City and leaseholder each appoint one member, both members appoint a third one.
  - Lease in new period is often a lot higher than in previous period.
  - Experts set price mostly lower than proposal city.
  - Political pressure to change system
  - Different alternatives have been proposed

# Alternative solutions

- .
- The **traditional** enduring public leaseholdsystem in Amsterdam, which involves the setting of a new lease after 50 years
- Renewal for free. Other means of taxation are necessary, such as, a single tier **property tax**
- An earlier proposal to change the system, based on setting a new lease at each **transaction** (in a way that is transparent)
- The proposed system in Amsterdam of **perpetual** lease hold rights, which involves payment of extra lease payments if new development takes phase.

# Evaluation

	Residual nature	Synergistic value	Improvements	Capturing	Gentrification
Traditional	Reference				
Tax	--		-	--	++
Perpetual	-	-	-	-	+
Transaction	+	?	+	+	++

# Discussion

- Public ground lease systems move away from George's principles
- Capturing locational values has issues of public support in a context of residents as lessees
  - Capturing locational values that are already enjoyed by resident voters create issues
- Many leasehold systems turn away from original ideas to capture locational values
  - Development into counterpart: improvements by lessees result in higher rent, higher locational values not.
- Alternative transaction based system
  - Transparency, locational values, real rent
  - Take lessons form rent control into account
- Is there still a future for public ground lease systems?