REGIONAL DESIGN AND ANTICIPATION EFFECTS: A CASE STUDY ON LAND TRANSACTIONS AND OVERAGE CLAUSES

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REGIONAL DESIGN AND ANTICIPATION EFFECTS

**Overage clauses**

Clauses including deferred financial compensation and conditions to be excercised once the planning design comes into effect

**Anticipation effects**

All changes in prices, landownership titles and (dis)investment decisions related to any intended land use plan issued by a public institution
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Background

- Regional designs fuel expectations and trigger land transactions
- Precise anticipation effects and consequences on the market value of agricultural land are hard to determine
- Apart from land prices, data on contractual arrangements is hard to obtain
- No literature available examining the interplay between regional plans, anticipation and overage
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<th>Objective</th>
<th>Key questions</th>
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<td>Addressing the anticipation of capitalization of regional design in agricultural land value in more detail</td>
<td>How can we understand the value effects of regional designs? How and when can we measure these value effects?</td>
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Land value and Planning
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› Case study whether, how and when a proposed change in zoning leads to land value effects

› Focus on an initial regional plan for the metropolitan area of Eindhoven (pop. 750,000)

› Launch and discussion of a regional design with preliminary intentions for future land conversion and residential real estate development (2003-2005)

› More specific: preliminary intentions for future land conversion to build 3,000 units north of Eindhoven
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Data

› Retrieved from the Dutch Land Registration (Het Kadaster)
› Covering all transactions with agricultural land (2004-2005)
› Detailed information on sales date, sales price, size of parcel, land type, seller and buyer type and name, real estate included (yes/no)
› 45 transactions around the villages Best and Son and Breugel
Land transactions, January 2004 - December 2005
Monthly Median Price per sq.m., January 2004 - December 2005 (N=43)
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Analysis

› Comparable sales approach results in a bimodal distribution reflecting two value components in agricultural land
› Component 1 represents concurrent agricultural value (€ 4.50 per m2)
› Component 2 represents option value (€ 5.20 per m2) for uncertain land use change
› Less visible value hidden in deeds and clauses via conditional overage payments (between € 40 and € 65 per m2)
Discussion

› Presentation of regional plans provoke anticipation effects
› Overage clauses should be part and parcel of theories of land markets
› Overage clauses are not disclosed in standard output reports, at least in The Netherlands
› Unexpectedly high land value due to unobserved overage payments may bring a project out of balance
› Overage payments have implications for appraisal practice. The Dutch Court ruled that overage value has to be taken into account in land appraisal. This point of view defies conventional definitions of asset value as shown in IVS/IFRS standards