

MONETIZING URBAN LAND

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The Context

- Mark Twain said “Buy Land They are not making, No more of it”
- Infrastructure Development Capitalise the land values which is an important instrument for financing city development
- Incremental Value of land as a result of the infrastructure development belongs to the Community and should be tapped accordingly

The Context

- Beneficiaries to pay, users to pay, polluters to pay, congestors to pay and commuters to pay
- Cities, with ample opportunities to monetize urban land, are powerful engines for growth.

The Context

- The need is to organise this growth and revenue sharing to redistribute opportunities between and within the cities
- Cities can no longer be solely dependent on budgetary resources and grants they will have to fend and fund for themselves by using land as a resource

The Problem

- The McKinsey Report – 2010 reveals the following about India's urbanisation by 2030 :
 - As against current urban population of 300 million 590 million people will live in Indian Cities
 - About 70% of new employment will be generated in cities
 - About 91 million urban households will be middle class

The Problem

- There will be 68 cities with a population of one million plus
 - Unprecedented Scale of Urbanisation
 - Increasing density in cities
 - Predominantly Brownfield Urbanisation
 - Preponderance of informal Settlements and Activities
 - In India about 9% of workers hold official jobs (Kundu)
 - Deteriorating level of services
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- India needs to invest \$ 1.2 trillion (53.1 trillion rupees) just in Capital expenditure in cities over the next 20 years
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- Huge requirement of funds need to be integrated with alternative source of funding including land based financing methods

Urban Land

- Land is the base for the super built environment and platform for all human activities
- Estimates show that about 2.5% of total reporting area of the Country is under urban settlements
- Change in urban land use is more and critical which determines the environmental quality

Urban Land

- Hence appropriate land use for effective planning, development and management of land resources assumes greater importance
- Urban land could be classified into four categories :
 - Developed urban land
 - Undeveloped urban land
 - Land within the urbanisable limits – 10-15 years
 - Land beyond the urbanisable limit

Urban Land

- Each category of urban land has its own problems, economic value, potentials of development and as such require different measures to address the issue
- A TCPO study for 407 towns (1983) revealed a greater variation in land use structure of town and cities
- In million plus cities about two third of urban land is reported as developed land
- While in smaller town of 20000 population the developed areas is only about 20-25% of the total urban land

Urban Land

- The availability of developed land shows an inverse relationship with the size of towns and cities
- It is more in larger cities and comparatively less in smaller towns
- As much as 15% of total developed land is reported as vacant land in various size of towns and cities which is a potential resource for unlocking land values
- Master Plans, Zoning Regulations, Building Bye-laws are some of the planning instruments to control and promote urban land use development
- The experience shows that the growth of cities has outpaced the planning and development efforts and consequently haphazard development is taking place thereby leading to sub-optimal use of urban land resource

Urban Land

- Even if there is no Master Plan Urban Development does take place in terms of utilities, services, social infrastructure, roads, etc.
- On the one hand un-developed lands within the city limits are not fully utilised while peripheral agricultural lands are brought within the ambit of urbanisable limits
- In the next 20 years we could save 6.2 million hectares of potential arable land through effective urban land use planning and development

Land as A Resource

- Land must be treated as a resource and land use planning is required to be converted into resource planning rather than being taken merely as a zoning exercise
- Master Plan should not be an exercise just to match land needs to demographic projections
- Land based financing is now becoming an important source of urban infrastructure financing in developing Countries especially where cities are growing rapidly
- Land based financing can generate revenue upfront reducing dependence on debt

Land as A Resource

- Contrary to popular thinking the large Indian Cities can generate 80-85% of the funding from internal sources including land
- For instance Mumbai Metropolitan Regional Development Authority will be generating about one Trillion Rupees over next 5 years for the essential infrastructure by leveraging land sales in Bandra Kurla area and through PPP
- Land use planning alone cannot sort out the urban mess it has to be supported by sound policy for the management of land by considering the land in its correct perspective as a resource.

Land as A Resource

- Existing Town Planning practices largely aim at controlling the land use pattern rather than optimizing the land use in terms of economic returns, employment generation and raising additional resources for city development
- Similarly, under Zoning land is not used as an important economic instrument for furtherance of development
- Once the land is viewed as economic resource the planners outlook will change in terms of determination of location of economic activities

Land as A Resource

- Since Third Five Year Plan Urban Land Policy has emphasised on Controlling land value by resorting to large scale acquisition of land by public Authorities
- However this exercise turned mainly into in real estate development rather than treating land holistically as a resource and planning its optimum utilisation
- In the changed scenario – bulk acquisition is becoming difficult proposition
- Third Five Year Plan also suggested mopping up of unearned value as a measure to combat speculation and also as a measure to achieve social and economic equity
- Indian land market is restrictive and does not easily allow recycling of land under different use

Land as A Resource

- In such cases where recycling of land is restricted – City is wasting valuable resources
- Rising prices of urban land marginalise a large segment of the population out of land market – the offshoots of such situation is encroachment on public land by the poor and mushrooming of unauthorised colonies by the middle class
- Urban land policy envisages supply of serviced land for various purpose in adequate quantity at the right time and at an affordable price

Current Practices in Land Based Financing

- Experiences show that multiple projects of utilities and network infrastructure have greatly impacted the land values in the respective localities – (Construction of Metro and Flyovers etc.)
- If land value exceeds project investment costs it should not be difficult to raise the capital for building infrastructure

Current Practices in Land Based Financing

- Public Agencies (ULBs, Development Authorities, Parastatals) generally capture incremental land values in the following manner :-
 - **Monetizing urban land assets**
 - Auction of public land,
 - Unlock wasteful land,
 - Vacant lands,
 - Developed sites,
 - Redevelopment of obsolete areas,
 - Efficient and economic use of incompatible land uses,
 - Transfer of land for infrastructure development,
 - PPP in urban infrastructure development,
 - Contribution of public land in joint venture development (Airports, Highways etc)
 - **Development and Regularization charges**
 - Development charges,
 - Building Permission Fee,
 - Development Impact Exaction
 - Betterment levy ,
 - Regularization charges for unauthorized development

Current Practices in Land Based Financing

- **Saleable and Transferable Rights**

- Saleable FAR,
- Transferable FAR,
- Accommodation reservation

- **Incentive Zoning**

- Land use and density authorisation leveraged for mobilising resources
- Use of FSI as a resource for widening of roads ,
- Additional built up area over and above permitted by Zoning/Building Regulations,
- Land surrendered horizontally could be compensated by additional construction vertically based on permissible FSI,
- Additional FSI

- **Value addition tax**

- Enhance Property tax,
- Vacant Land tax,
- Land use conversion charges,
- Leasehold to freehold charges,
- Registration of properties,
- Advertisement charges,
- Parking Charges for Mixed land use streets

Current Practices in Land Based Financing

- **Beneficiaries and user charges**
 - User charges for utility services,
 - Congestion charges,
 - Prime parking fee,
 - Valorization charges for street improvement, sewer extension etc.
- **Development Rights**
 - Development of commercial space in lieu of housing for weaker sections
 - Development of parking area in the basement by giving significant rebate in Property tax.
 - Using Air Rights in case of Rail and transit stations
- **Development Contribution**
 - Contribution by developers and users for particular amenities and services
 - External Development Charges
 - Town Planning and Land Pooling Schemes
- **Special Assessment Districts**
 - Area linked development schemes
 - Cost of upgrading services charged from local beneficiaries

Issues

- Rational Computation of various development charges, betterment levy, Impact fee etc.
- In volatile market situation risk is involved in land based financing
- Lack of transparency and accountability
- Exaction of Development fee may harm local economy and distort the real estate market
- Distortion in land market may have adverse impact on urban fabric
- Land being costly – there is always pressure of developers to force through changes in use – FAR – Density so as to maximise their benefits

Issues

- Unhealthy Competition between the private and public sector
- Increasing Saleable Area in layout by Compromising planning standards and Norms
- Time lag between land acquisition and development
- Cumbersome procedure for recycling of land from obsolete industrial activities to other urban areas

Way Forward

- Amendment in Town Planning, Development Authority & Municipal Acts for incorporating the relevant provision for Impact fee, charging incremental value of land, sale of additional FSI etc.
- Modify relevant laws restricting recycling of land – particularly to make available land under obsolete use for viable re-development through introduction of new activities like social housing
- Make provision in relevant Acts to effectuate the involvement of private, cooperative and corporate sector in land assembly, development, disposal and construction of housing

Way Forward

- Lands which are locked into uneconomic use or are obsolete need to be identified for re-cycling
- Constant monitoring of land use plan is necessary to weed out inefficiencies to improve supply of land
- Inefficient use of Government lands should be reviewed immediately to make it economically viable and efficient

Way Forward

- Incompatible uses being either wasteful or high social cost need to be phased out
- The Compatible use which may not be efficient or the activity may be of the low order of efficiency need to be identified for efficient use

Way Forward

- Instead of conforming and non-conforming land uses as shown in Master Plan it should be replaced by Compatible, incompatible and inefficient use from resource point of view
- Development of Land Information System for proper land records and management

THANK YOU