I hereby give notice that an ordinary meeting of the Auckland Plan Committee will be held on:

Date:	**Thursday, 25 July 2013**
Time:	**12.00noon (or at the conclusion of the Governing Body meeting, whichever is later)**
Meeting Room:	**Reception Lounge Level 2**
Venue:	**Auckland Town Hall 301-305 Queen Street Auckland**

Auckland Plan Committee

OPEN ADDENDUM AGENDA

MEMBERSHIP

Chairperson	Deputy Mayor Penny Hulse	
Deputy Chairperson	Cr George Wood, CNZM	
Councillors	Cr Anae Arthur Anae	Cr Des Morrison
	Cr Cameron Brewer	Cr Richard Northey, ONZM
	Mayor Len Brown, JP	Cr Calum Penrose
	Cr Dr Cathy Casey	Cr Dick Quax
	Cr Sandra Coney, QSO	Cr Noelene Raffills, JP
	Cr Alf Filipaina	Cr Sharon Stewart, QSM
	Cr Hon Chris Fletcher, QSO	Member Glen Tupuhi
	Cr Michael Goudie	Cr Sir John Walker, KNZM, CBE
	Cr Ann Hartley, JP	Cr Wayne Walker
	Cr Mike Lee	Cr Penny Webster
	Member Anahera Morehu	
Independent Maori Statutory Board Alternate	Chairperson IMSB David Taipari	

(Quorum 11 members)

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Democracy Advisor

23 July 2013
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ITEM	TABLE OF CONTENTS	PAGE

Assessment of a value capture rate

File No.: CP2013/17087

Purpose

1. The purpose of this report is to recommend that the council does not proceed with introducing a value capture rate[1] (VCR), at this stage.

Executive Summary

2. Action 16 of the Housing Action Plan stated the council would investigate a VCR which would allow the council to obtain a share of the land value change from rezoning.
3. There are two perspectives on land value changes from rezoning. The owners' perspective is that the increased value of land is part of the private property ownership right. The other view is land value change is mainly a result of collective community action and therefore any increase in value belongs to the community.
4. The potential revenue from a VCR does not compare well with existing development contribution revenue (estimated to range from $6.8 to $9.5 billion) for funding growth or rates revenue (estimated to range from $78 to $100 billion) over the next 30 years. Estimates of revenue from a VCR ranges from $13 million to $1.2 billion over the next 30 years depending on the level of the rate and the size of the land value change.
5. Some other countries have a capital gains tax that applies to all changes in land value. Only a few countries have applied a VCR to rezoned land. Most of these abandoned it because it is hard to assess value change attributable to the rezoning, legal challenges and strong political opposition.
6. New legislation is required before a VCR could be introduced.
7. Officers conclude that the council should not proceed with a VCR because:
   - it is unlikely to increase land supply or accelerate development
   - there is a risk that it could increase house prices as land owners pass on the cost
   - it is administratively difficult to determine the land value change attributable to the rezoning for each property and it is likely to result in legal challenges.

Recommendation/s

That the Auckland Plan Committee:

a) Receives the report.

b) Agrees not to proceed with introducing a value capture rate, at this time.

Discussion

Background

8. The draft Unitary Plan proposed to rezone some land from rural to residential and other uses. The draft Unitary Plan addendum notes that the council is investigating a rate to help fund infrastructure and/or housing, including affordable housing.
   - the opportunity to capture part of the windfall gain that owners get from the council's decision to re-zone land to urban or to rezone land to allow a higher level of development.
9. Land value generally increases as a result of rezoning that allows higher density development. Some local authorities overseas are allowed to obtain a share of the increase in the land value. These types of tools are usually referred to as value capture rate (VCR) or shared land value up-lift (SLVU). Action 16 of the Housing Action Plan stated the council would investigate this type of rate.

[1] The addendum to the draft Unitary Plan referred to these types of rates as shared land value up-lift (SLVU).

10. Land tax theory assumes:
    - markets are perfectly competitive
    - supply of land is fixed
    - all land is the same
    - everyone has perfect information.

    Based on these assumptions, land tax theory predicts the tax/rate is borne by the owner and does not affect price, timing or density of development.

11. However, markets are not perfect and all land and housing is not the same. Land supply and housing prices will respond to a tax/rate depending on market conditions.

Value capture rating: two contrasting views

12. There are contrasting philosophical perspectives on the desirability of imposing a rate to capture some of the value increment from rezoning land. The property owners' perspective is that the increased value of land is part of the private property ownership right and it is a reward for risk. A value capture rate is a tax on unrealised capital gains.

13. The alternative view is that land value increases, including from rezoning, are mainly derived by collective community action and therefore any increase in value other than those created by private efforts belongs to the community.

Consideration

Impact of rezoning on land value

14. A review of the value changes from 22 historic plan changes covering 115.2 million square metres (m^2) was undertaken to establish the net impact on land values of rezoning. The plans became operative from December 2005 to May 2013. The period between the plan change being proposed and the operative date ranged from one to 14 years.

15. The land value changes attributable to rezoning ranged from minus 3.7% to 252%. The land value increase was $355.6 million or $3.09 per m^2 (12.3% weighted average increase). The numerical average was $10.81 per m^2 (43%).

16. An indicative upper limit of $26.35 per m^2 (134%) was established by comparing the land value between the possible plan change areas in the draft Unitary Plan to the land values of properties in the closest urban area provides an alternative way of estimating the potential change in land value from rezoning.

17. Given land characteristics are not uniform across Auckland, it is not possible to extrapolate these increases to the land being presently considered for rezoning. However, they do provide a perspective on the order of magnitude of the value increase likely to arise from rezoning.

Value capture rate

18. The potential revenue from a VCR is relatively low compared to existing funding tools such as rates or development contributions (DC). Over the next 30 years estimated rates revenue and DC revenue would range from $78 to $100 billion and from $6.8 to $9.5 billion respectively.

19. The table below outlines the potential revenue from different levels of VCR and land value change on 90 million m2 of rezoned land over the next 30 years.

Land value change	Estimated net land value increase	Projected revenue for 5% VCR	Projected revenue for 10% VCR	Projected revenue for 30% VCR	Projected revenue for 60% VCR
Low value change: $3.09 per sq m	$250m	$13m	$25m	$75m	$150
Medium value change: $10.81 per sq m	$876m	$44m	$88m	$263m	$525m
High value change: $26.35 per sq m	$2,134m	$107m	$213m	$640m	$1,280m

The impact of rating rezoned lands on the housing market

20. Research does not provide a clear indication as to how house and land prices would respond to a VCR. Research suggests land owners could pass on all or most of the cost of a VCR if the market is buoyant or there is an under supply. In a weak market with over supply, indications are owners would only be able to pass on some of the cost.

Overseas experience

21. Many other countries have a capital gains tax that applies to all changes in land value. Only a few have applied a VCR solely on the impact of rezoning. These countries used the revenue for a variety of purposes including; general expenditure, infrastructure and affordable housing. Most have now abandoned VCRs because of implementation issues such as determining the value change from rezoning, legal challenges and strong political opposition. Colombia is the only country that continues with a VCR despite the implementation issues, high administration costs and legal challenges. Some countries use this tool instead of DCs.

Evaluation of value capture rate

22. A VCR is unlikely to encourage owners to develop land sooner. In other countries many land owners delayed development, or sale, (where the VCRs were payable at that time) in the hope that the VCR would be removed. Most other countries have abandoned a VCR for rezoned land.

23. It is likely that land owners would seek to pass on the cost of a VCR, although the level of the pass on would depend on market conditions.

24. It would be difficult to identify the land value change due to rezoning. The land value change would need to be calculated for each property. It is likely that these valuations would be subject to legal challenge as happened in other countries.

25. Officers note that new legislation would be required before a VCR could be introduced and the potential revenue from a VCR is much lower than that from DCs and rates.

26. Officers conclude that the council should not proceed with a VCR because:
    - it is unlikely to increase land supply or accelerate development
    - there is a risk that it could increase house prices as land owners pass on the cost
    - it is administratively difficult to determine the land value change attributable to the rezoning for each property and it is likely to result in legal challenges.

Local Board Views

27. Local Boards had an opportunity to comment on the draft Unitary. Analysis of the Unitary Plan submissions has not been completed at the time of writing this report.

Maori Impact Statement

28. The council does not hold information on the ethnicity of ratepayers so is not able to identify the exact impact of the on Māori. However, the recommendations in this report will have a similar impact on Māori owners of general land as it will for other ratepayers.

Consultation

29. The draft Unitary Plan that was publicly consulted included an addendum that the council was considering whether to introduce a VCR. Preliminary analysis of the submissions indicate submitters were generally against the council introducing this type of rate.

Significance of Decision

30. Deciding not to proceed with introducing a VCR is not a significant decision. However, if the Auckland Plan Committee decided to introduce some or all of these rates, then it would be significant and it would need to be consulted as part special consultative procedure process.

Financial and Resourcing Implications

31. The recommendations in this report do not have any financial and resourcing implications.

Implementation Issues

32. There are no implementation issues associated with these recommendations.

Attachments

There are no attachments for this report.

Signatories

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Authorisers	Matthew Walker - Manager Financial Plan Policy and Budgeting Andrew McKenzie - Chief Finance Officer Roger Blakeley - Chief Planning Officer