Land value and public benefit

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The field of urban studies brings together insights from many disciplines to focus on the development, political economy, and consequences of dense human settlements. Geographers have examined the ways in which spatial relations structure society (Soja 2010) and the "spatial fix" enables labor exploitation and profitability (Harvey 2001). Central to urban studies has been the examination of the distribution of benefits resulting from property markets. Urban scholars have analyzed the significance of different forms of land ownership in shaping the built environment and the ways in which locational advantage has reinforced social inequality. These investigations have focused on the interactions between governments and developers, the formation of public-private partnerships for construction of megaprojects, and the influence of land prices on housing costs. In the period of financial globalization that began in the 1970s, scholars have directed attention to transnational capital flows into real estate ventures, which have taken on a more prominent role in producing uneven development within and among nations (Shatkin 2016).

In 1879 Henry George published his influential study of the effect of land rents on human development. He argued: "The wide-spreading social evils which everywhere oppress men amid an advancing civilization spring from a great primary wrong—the appropriation, as the exclusive property of some men, of the land on which and from which all must live." Essentially his thesis was that control of a particular space—i.e. the ownership of property—allowed its possessor to reap unearned gains from development in the area around it. In other words, the owner of a property received value from the efforts of the collectivity to whom the increase in value should rightly accrue.

The ability to achieve large profits through investment in property derives from its potential to produce rents—that is, unearned gains beyond a simple return on investment through possessing a monopoly over a particularly advantageous location. Factors external to a property that increase its price include:

- Surrounding private development that adds to the prestige and desirability of a location.
- Changes in fashion. Thus, old warehouses or manufacturing spaces appeal to information technology firms, even while they were previously abandoned by their original owners. Corporate consumers and residents who once opted for single-use city districts now are attracted by mixed-use areas and structures.
- Proximity to employment centers or attractive architecture in poor neighborhoods that produce a "rent gap." Smith's (1979) theory of gentrification and the rent gap (1979) explains how rapid entry of capital can transform an area virtually overnight, displacing the original residents.
- Upper-class occupancy of a neighborhood causing increases in its desirability separate from the quality of the physical environment. Scarcity of such desirable locations raises the price of property (Harvey 1974).
- Economic restructuring producing shifts in demand for different types of spatial configurations. Foreseeing new desires for small, centrally located residences or disused waterfronts rather than large suburban estates has recently proved immensely profitable.
- Public investment in infrastructure and amenities that makes previously inaccessible areas valuable.
- Subsidies to developers that bring down their costs. These subsidies become capitalized into land prices.

Government investment is a significant driver of increases in property values; private capture of these increases represents a contribution by taxpayers to landowners. Research in urban politics and sociology has pointed to the role of "growth machines" (Logan and Molotch 1987) in promoting public investment in megaprojects, with private developers reaping the benefits. Critical examination of rent (i.e. Henry George's unearned increment) indicates how speculative gains arise from the creation of scarcity by property interests (Harvey 1974). Anne Haila (2016) describes the various forms of rent and then uses Singapore as an example of how the state can forestall private manipulation of land prices: "In Singapore, the conditions of land leases and premiums keep control in the hands of government and prevent land speculation" (ibid., 222).

For those concerned with urban policy and planning, discussions of land speculation, rent, the right to the city (Lefebvre 2003), and urban justice (Fainstein 2010) lead to questions of how to develop land so as to produce more equitable outcomes than occur under neoliberal, market determinations of land prices. The issue is particularly acute in relation to housing, where the purchase of living space, whether through tenancy or ownership, becomes unaffordable for lower-income households when rents are not regulated.

Assessing the contribution to the cost of housing of land versus structures presents analytic difficulties. Nevertheless, the two elements are separable, as becomes obvious when comparing the price of similar homes in different locations. Restraints on land speculation can dramatically reduce housing costs. If the public sector retains land ownership, the potential for production of affordable housing exists on a large scale. The cases of Amsterdam (Fainstein 2010) and Singapore (Haila 2016) illustrate how government can reduce the price of a home through preventing rent-seeking by private entities. Although In Amsterdam neo-liberalization has reduced the state's role in housing production and produced gentrification (Uitermark 2009), Singapore, despite being a global financial center and welcoming to multinational companies, continues to use public construction on state-owned land as the basis for housing over 80 percent of its citizens. Occupants purchase their apartments at subsidized prices as condominiums and can resell them privately, but the government constructs new units in sufficient amounts to prevent large gains to individual owners. Only a relatively small number of individual families,[1] not landlords or speculative developers, receive these returns.

Haila (2016, 74–75) describes the process by which the Singapore government acquired almost all the land within the island at a price level that excludes the amount attributable to public infrastructural investment. She (ibid., 75) refers to Lee Kuan Yew's enunciation of the principle that "no private land-owner should benefit from development at public expense." The result of this policy is the stifling of speculation in land. She (ibid., 78) comments that the separation of ownership from use of land "allowed land to be used for economic growth and the welfare of citizens." Thus, despite a high level of income inequality, almost all Singaporeans[2] have access to decent housing in areas well-served by transit and other amenities. Meticulous state planning has resulted in new developments that all encompass large "hawkers' centers" and "wet markets," where inexpensive food, both cooked and uncooked, is available, as well as community centers, schools, libraries, and cinemas. Despite high population density, green space is ample and accessible.

1 Among the restrictions on eligibility to buy a public-housing unit, whether newly constructed or resold, is the requirement that the purchaser "must form a family nucleus" (HDB 2009, 9).

2 Singapore's large non-citizen population is excluded from these benefits.

Other Methods of Retaining Increases in Value for the Public

Public land ownership potentially offers the most efficient way to prevent private owners' rent-seeking behavior. Politically, however, enacting it in countries where private ownership is entrenched may not be possible. Other methods do exist to at least limit speculation, including requirements for a public share in the profits from development and community land trusts (CLTs). In a CLT a community organization owns and manages the land, while residents sign long-term lease agreements giving them ownership rights, either as individuals or cooperatives, over their housing units (DeFilippis 2004). A non-profit organization rather than the government owns the land, and there are strict limits on resale gains from resale. CLTs thus attain the same objectives as public land ownership, in that they restrict speculation and help insure the availability of affordable housing. Their limited scope and nongovernmental status, however, prevent them from achieving the planning outcomes created in Amsterdam and Singapore. On the other hand, as private land holders they are protected from the political swings operating in the UK and Amsterdam that resulted in losses to the pool of affordable housing.

A property tax is the most commonly used method by which the public sector can capture some of the gain resulting from scarcity of desirable land. Its impact on equity is a matter of considerable debate, however, as residential owner-occupiers only receive the benefit of increases in value at the time of sale or in the form of loans based on using property as collateral. Rises in unrealized property values can inflict a burden on householders whose incomes have not risen commensurately. Applied to developers of major projects like suburban subdivisions or urban megaprojects, both a tax on assessed value of the property and a transaction tax on sales limit speculative gains. Often, though, this dampening effect is vitiated in public-private partnerships, when a governmental authority offers developers tax relief in order to attract investment.

Conclusion

Analysis of the source of rents and the ways in which the public sector has the capacity to reserve increases in land values for itself rather than private speculators offer methods of understanding both barriers to creating equitable cities and approaches to achieving greater justice. In many places private profit from "investment" in land is taken for granted as the way things must be in capitalist economies. The examples of Amsterdam and Singapore show that other possibilities exist.

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