

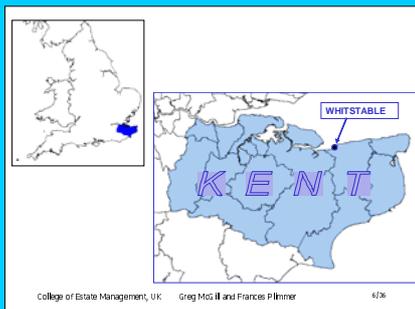
# Land Value Taxation: an investigation into practical planning and valuation problems

Greg McGill and Frances Plimmer  
The College of Estate Management, UK

## Background

- Need for more information on effects of LVT in UK
- Valuation exercises undertaken in 1963 and 1973 (Whitstable Study)
- Last year we reported on research to update Whitstable Study
- Current concern: effects of town planning on land values.

## Location of Whitstable



## Why town planning is important

- Town planning regulates use and development of land (in public interest)
- Town planning is important influence on land values
- Under LVT, town planning would influence liability to tax
- Effect of town planning on land values not sufficiently known.

## Our investigation into town planning

- To identify how planning system works
- Investigate where and how uncertainty arises
- Identify the consequences for valuing land
- Devise a methodology for calculating land values taking planning matters into account
- Test the methodology.

## How the planning system works Basic principle

- Public authority (in UK the Local Planning Authority – LPA) formulates policy for use and development of land
- Same authority applies regulatory mechanism (eg grant of planning permission) to control development in accordance with adopted policy.

## How planning system works

### Basic difficulty

- Policy not always clear
- LPA not bound by policy
- External factors can influence decisions
- Uncertainty of outcome
- Can be difficult to assess potential for development and hence value.

## Legal requirements for town planning

- Planning permission (from LPA) required for development
- Decisions on all applications legally based on only two matters
  - The development plan
  - Other material planning considerations
- Of these two matters the development plan is first consideration.

## Importance of the development plan

“Where, in making any determination under the planning Acts, regard is to be had to the development plan, the determination shall be made in accordance with the plan unless material considerations indicate otherwise.”  
(Section 54A Town and country Planning Act 1990).

## What the development plan does

- Sets out policies of LPA for use and development of land taking physical, social, economic and cultural matters into account
- It does this in two main ways:
  - It allocates land for development
  - It contains written policies for guiding decisions on development.

## Extract from development plan for Whitstable



## Policies in development plan for Whitstable

- 69 policies apply to whole of LPA area (covering Canterbury, Herne Bay, Whitstable and rural areas)
- 13 policies specific to Whitstable.

### Example: housing policies for whole district

- D53 Overall provision for plan period
- D54 This provision to be at sites allocated on map
- D55 Part of housing provision to be 'affordable housing'
- D55 Changes of use to residential considered against criteria
- D56 Criteria for converting to smaller residential units.

### Example: housing policies specific to Whitstable

- W8 Identifies 22 specific sites for housing
- W9 Sets out planning principles for comprehensive development at one large site
- W10 Conversion of houses to apartments (flats) restricted at 27 named streets in Whitstable.

### Other planning considerations

- Three broad areas
  1. Other planning policies
    1. By central government
    2. By LPA
  2. The development itself
  3. The environment.

### The difficulty for assessing land values

- The development plan cannot cover all matters
- Other material considerations need to be considered but are not defined
- LPA legally allowed reasonable discretion on weighting between factors
- Discretion creates difficulty for assessment.

### The consequences that arise

- The presence of hope value
- How to ascertain an appropriate land value.

### Hope value

#### Definition

“an increase in the value of land produced by the belief that there is a chance that the demand for that land will change significantly; for example where there is a prospect that planning or zoning approval will be granted for a change to a more valuable use.....”

## Hope value

Definition continued:

“Hope value may be quantified as the price paid for land in excess of the existing use value when a purchaser considers that there is a chance of obtaining consent to carry out an alternative and more valuable form of development” (Abbot, 2000).

## What to do with hope value

- Principles of taxation – tax should be:
  - In proportion
  - Certain
  - Easy and cheap to collect
  - Fair
- In accordance with above tax must be based on fact not what ‘might be’
- Hope value therefore to be ignored.

## Assessing appropriate value

- Purchasers pay for potential benefits
- Alternatives are to base tax on:
  - Existing use
  - Potential use
- Tax based on existing use defeats purpose of LVT
- Question of what is potential use.

## Highest and best use

- Most efficient and most effective use of land
- Potential use must be publicly acceptable
- It must ignore hope value
- Determined by demand and town planning.

## Assessing effects of town planning

Requires examination of:

1. Development plan for Whitstable
2. Extent decisions on planning applications vary from development plan
3. Extent other material considerations influence decisions.

## Proposed methodology

- Examine development plan
  - Allocations to form basis of value
  - Elsewhere initial presumption will be value in existing use
- Examine committee decisions contrary to plan
  - Apply where necessary
- Examine other planning documents
  - Initial presumptions checked against these and adjusted as deemed appropriate.

## Application of planning to site values

- Site values calculated from sale price and interpolation
- Value calculated at £ per sq. metre of land
- Percentage adjustments made to unit price at sites to reflect local planning situation
- Adjustment applied to unit price to obtain land value.

## Reflect on the methodology

- Assess appropriateness of adjustments
- Assess appropriateness of approach
- Identify and explain difficulties encountered
- Draw conclusions on method used.