

Value Capturing from Real Estate Development to Finance Infrastructure: Choosing the Right Policy Instruments

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ABSTRACT

In order to find solutions for the financial gaps in the funding of infrastructure development, Dutch city planners are increasingly looking for opportunities for value capturing from related real estate development. The argument goes as follows: as a consequence of the investment in new infrastructure, the accessibility of the locations that are linked to this infrastructure improves and the likely result is that, to some extent, property values in this area will increase. For that reason, municipalities negotiate with property developers to finance part of the infrastructure costs.

Since in station area redevelopment projects infrastructure developments are often very strongly related to real estate developments and because in many Dutch towns station areas are currently subject to redevelopment, the issue of value capturing particularly occurs with respect to this type of projects. We have found in recent research that in some of these station area redevelopment projects value capturing has taken place on a voluntary basis (Van der Krabben and Van Bendegem, 2007). At the moment, however, in the Dutch planning system a legal basis for value capturing is absent.

This paper first explores in more detail – based on evidence of various international empirical studies and on some information of recent research in Dutch cities – the relation between infrastructure development and real estate values, answering the question ‘how much value, in principle, can be captured?’ Secondly, the paper investigates possible policy instruments for value capturing. It will be argued that the legal instruments for value capturing that are used in other countries (particularly in the USA) are of limited use in the Dutch context. Instead, the instrument of *urban readjustment* (Hong and Needham, 2007) will be introduced as an alternative policy instrument for value capturing. The line of argument in this paper will be based on *property rights theory*: optimal solutions for value capturing should be based on the reassignment and / or redelineation of existing property rights, in such a way that the positive external effects of infrastructure development (increasing property values) should somehow or other be internalized. The paper shows that the instrument of urban readjustment may offer good opportunities to redefine property rights over land and property in those station area redevelopment projects in an acceptable way.

Key words: real estate development, value capturing, urban readjustment

Sources

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