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Summary of Land Value Capture

The myth that individuals, businesses and landowners are making a fortune from compulsory purchase is one that needs nipping in the bud immediately.

I gave evidence to the Housing, Communities and Local Government Committee on Land Value Capture recently as MPs are looking to find a way to enable councils to capture the uplift in land value that planning decisions and infrastructure projects often stimulate.

Egged on by groups such as Shelter, the Centre for Progressive Capitalism and Civitas, the committee is considering the option of altering the compulsory purchase compensation rules to remove payment of compensation at market value to a valuation based on existing use value. The assumption being that it is landowners subject to compulsory purchase who are the principle beneficiaries of value improvements created by public authority development proposals and/or the provision of publicly funded infrastructure.

To believe this is to misunderstand the way the rules work as the changes being proposed would create a system that is unfair on those who need to be compensated when their property or land is compulsory purchased to make way for development or infrastructure projects.

The basic premise of the lobbyists' argument is that individuals shouldn't 'benefit' through compulsory purchase from the increase in value when a major infrastructure scheme is announced. For example, if you were to buy land in a place where you think Crossrail 2 might go, then there is the potential for the value in the land to go up and, therefore, there is a suggestion of people speculating which in turn pushes land prices up.

They argue, that the authorities should benefit from that, not the land or property owner and if compulsory purchase compensation value was paid at existing use value this would stop the speculators.

But what the representations fail to recognise is that, actually, those who receive compensation in this way are not securing windfall payments but are sometimes left in a situation where they can still be out of pocket – even if they have, by the letter of the law, been compensated fairly.

The committee are keen to understand International examples and now intend to travel to the Netherlands to look at their system. They would, however, be as well to look at the Canadian system before making any judgment, which actually recognises that a displaced company may have to pay additional costs (rent, property price) when they move and should be compensated in full for that too.

Here in the UK, we don't go that far. You receive the value of the property and some uplift for any hope value which the market would be prepared to pay but otherwise you simply receive your relocation costs. If you move into a new property – which has also seen an increase in value due to the infrastructure project that has displaced you – you could end up paying more than you were compensated for.

The argument is that if you are having to pay more you are getting a better property or some other value than you were before. Let's not pretend, however, that compulsory acquisition provides some sort of opportunity to make a financial killing.

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The myth that lots of businesses and individuals got rich through the compulsory purchase proceeds of the Olympic Village is exactly that – a myth.

In many cases, those companies that wanted to stay close by were left in exactly the situation I set out above – where the property prices had risen because of the overall rise in values in the area and they were left having to pay the additional purchase prices and rent.

Everyone on the board at the Compulsory Purchase Association works in this sector day-to-day and we represent both the authorities exercising compulsory purchase powers and the land and property owners affected, so we see this very much in a balanced way, where we recognise authorities need to acquire land to enable development but also to see property owners fairly compensated.

We do understand the pressing desire to secure more value for authorities on development and the need to speed up the process as we continue to play catch-up on housebuilding potentially through the development of more new towns and garden villages.

But changing the rules around compulsory purchase compensation– based on misconceptions and a misguided opinions on the way the system actually works – would actually lead to more hold-ups as it would create a two-tier system for those who are compulsory purchased and those who do private deals and therefore greater resistance to compulsory purchase.

So the message is clear: by all means, look at the system of Land Value Capture – but make sure you listen to those who are practising in this area on a daily basis before you make any major changes.

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