Transformation of Land to Land Lot, Value Gain, Land Speculation, and Opportunities for Sharing Value Increment: An Evaluation of the Turkey Example

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Do you know that by 2050, urban residents will account for 66% of the world's total population (according to UNFPA estimates)? That's 54% now!

“To restore a proper balance between city and rural life is perhaps the greatest task in front of modern man.”

E. F. Schumacher
OUTLINE

1. Introduction
2. Situation Analysis
3. Case Study in Çukurambar
4. Conclusion
INTRODUCTION

Motivation

• The transformation of land to land lot and increasing residential density in the urban periphery place an additional economic burden on local governments.
  ➢ Public Transportation
  ➢ Social & Technical Infrastructure etc.

• But the financial resources of the municipalities are inadequate.
• Cities are growing fast and governance efficiency is declining.

URBAN SPRAWL? OR INCONSISTENT PLANNING POLICIES?
In 1927, approximately 24% of the population lived in cities. By 2015 this number had reached 92%.
The increased urbanization rate brings an increased need for urban areas.
INTRODUCTION

Other Problems?

• Speculation,  
  "premature growth without planning"
• Lack of consistent planning policies,
• Spatial segregation,
• Increased traffic,
• Environmental issues,
• The uncontrolled expansion of urban areas,
• But on the other hand vacant land lots in urban areas…
INTRODUCTION

A model proposal has been discussed towards

• controlling by taxation of urban sprawl process,

• increasing local government revenues,

• reducing revenue loss to a minimum in the Ankara Metropolitan area.

The transfer of the speculative rent increase to the public have been evaluated of Çukurambar Region in Ankara Province.
SITUATION ANALYSIS

Why is it inadequate?

• In Turkey, the value of the property tax base is determined once every four years by valuation commissions &,
• Commissions’ valuation studies are not based on the market conditions and scientific principles.
• *Municipalities are worried about losing votes so they keep the values low...*

Needs to be revised!
The Çukurambar Region in the Çankaya District of Ankara Province was selected as a study area and applications were performed in an area of 60 hectares representing the region.
When the arrangement of land use for nonagricultural purposes in Ankara between 1986 and 2016 is examined, the volume of pressure towards agricultural areas and the low-density development of the city sprawling to the southwest and south axes can be observed.
Owners who possess large and vacant land and keep the land vacant waiting for the opportunity for investment are are also responsible for the urban sprawl...
A case study as made including 86 parcels and 15 of them are empty land lots.
Some plan changes were made in 32 parcels (37%), and 9 of these parcels still bear no construction.

Parcel-scale plan modifications not only cause social injustice in the cities but also make real estate valuation procedures complicated.
Mobility Analysis

• Period of possession was 8 years for housing, 5 years for office and 4 years for land.
• Mobility is of high importance in the local real estate market.
• Housing investments will on average mostly return in 24 years. So, investors have expectations that houses in the region will gain favor and therefore behave speculatively.
CASE STUDY IN ÇUKURAMBAR

Property Tax Values in the Area

• 2016 land tax values of municipality and market purchase-sale costs have been compared for 86 parcels
• The amount of tax levied by the municipality from the land in the study area is US$1 million, whereas the amount that should be levied according to market value is US$3.5 million.
• The municipality loses US$2.5 million in revenue from property taxes in the study area alone.
• It is obvious that prevention of revenue loss would be possible through real estate valuation procedures that comply with market conditions considering the characteristics of the real estate and scientific principles and procedures.
CASE STUDY IN ÇUKURAMBAR

Value Capture?

• The start of the value increase is associated with the relocation of public institutions in Ankara to Eskişehir Road.

• The daytime population in close vicinity to the region has grown.

• The area has become attractive for investors through infrastructure investments facilitating accessibility.
Then, A+ offices were built.

However about 50% of office buildings were left empty due to excess supply.

Afterwards, vacant offices were leased by public institutions.

This is criticized for the fact that public institutions must be accessible & walking distance of the city.
CASE STUDY IN ÇUKURAMBAR
CASE STUDY IN ÇUKURAMBAR

• Parcels in the study area have been divided into two categories, as having construction or not.
• It is projected that value increment deduction will be applied at the proportion of 25% on parcels with construction; as per the lands without constructions, a 40% deduction for lands with less than 5 years possession and 30% deduction for lands with more than 5 years possession will be applied depending on their handover frequency.
• Within the framework of defined proportions, not only property owners but also local governments would be able to benefit from the value increment.
• Taxation of the value increment is applied as explained below:

Land value increment tax = (appraised land value over market value - appraised land value for the basal year in value increment × consumer price index / 100) × value proportion.
CASE STUDY IN ÇUKURAMBAR

• Additional value increment tax would only cause an increase of 5% to 8% in the responsibilities of tax payers and would not incur a heavy economic burden.
• According to the interviews with real estate agencies and property owners, it is conceivable that the suggested taxation policies will reduce the tendency to obtain and hold infertile land with value increment expectations in city centers, and that land acquisition in the city’s immediate vicinity for speculation and unearned income will diminish.
• The construction of the Kızılay-Söğütözü Metro, which started in 2002, was not finished on time and was transferred to the Ministry of Transportation since local government income remained financially incapable. In the event that local governments in the Çukurambar Region could collect the taxes in question as suggested, tax revenue for 2016 corresponds to 89% of the investment value of the Kızılay-Söğütözü Metro.
CONCLUSION

• For a rational land and land lot taxation, a valuation system in parcel scale needs to be developed and experts and institutions must be assigned to the task of valuation.
• Taxation of value increments could be a significant source of income not only for local governments but also for the national economy, and as seen in the research area, it has the potential to generate revenue for financing transportation investment.
• Land value increment tax would be a deterrent for property owners of vacant lands and could contribute to the development of lands in the city center.
• Suggested tax policies would have a reducing effect on infertile land acquisition with value increment expectations and land possession trends.
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