CHINA

SHANGHAI — SALE OF PUBLIC LAND OR ASSIMILATED

LAND VALUE CAPTURE

Land lease used to finance urban development

DESCRIPTION

Publicly owned urban land or collectively owned agricultural land is sold at market prices for real estate development after market value has been increased by infrastructure and zoning change, and its proceeds are used to finance infrastructure expenditures, either directly, or as a collateral for debt financing

LEVEL OF GOVERNMENT OR ACTOR INITIATOR

Province/Municipality of Shanghai

INSTITUTIONAL AND REGULATORY FRAMEWORK

Provinces and Municipalities were granted large competences in terms of urban infrastructure and utilities in the 1980s, in a context of rapid urban growth, without the corresponding finance. To compensate for this gap, they were allowed to sell land use rights, with the revenue initially shared with the central government, then totally caught by local governments. Collective (agricultural) land may only be sold to local governments, at minimum prices far below market prices, and there is no or almost no autonomy on fiscal revenues (types of taxes, bases, rates, etc.), and no possibility of contracting debts directly (but debt is allowed to public companies). Municipality may back the loan through a "letter of comfort" guaranteeing they would take the necessary measures to ensure repayment. Even though revenue from land use rights is not directed to any specific use, it is mainly used to finance infrastructure investments.

TRACK RECORD OF THE USE OF THIS INSTRUMENT

Initially sold at negotiated prices paving the way for corruption, land use rights have been increasingly auctioned since 2002. Land could be bought far beyond planned development, but abuses led to regulation requiring land purchase for projects that didn't materialize. Land value was initially used as a collateral for loans, based on future expected value, but regulation in 2003 restricted appraisal to the land current value. Compensation rights have been progressively increasing over time under popular pressure. After a period of extensive use, it is losing pace under the combined influence of lower economic and urban growth (lower needs and lower price increase), higher compensations (reducing the margins) and increased scarcity of land (most readily available land has already been used, and there is a pressure to preserve agricultural land).

EVOLUTIONS AND OUTCOMES

Rapid urban growth allowed Shanghai Municipality to finance most of its infrastructure through this tool (45% directly). Pudong-area land sale generated an estimated net profit of 90 billion USD for Shanghai municipality, and more than 120.000 people had to be resettled. Several estimates find that 60 to 70% of infrastructure in China from the 1990s were financed through land sales.

STAKEHOLDERS INVOLVED

The Municipality has a strong incentive to maximize land value in order to maximize revenue. Real estate developers, whether public or private, have also an interest in large-scale land provision. Public companies, specialized in real estate or not, have entered the market (51% of land sales in Shanghai in 2010 (up from 0% in 2003) were bought by State-Owned Entreprises (SOE), that paid higher prices than private sector (maybe thanks to better financing conditions, leading to governmentt forbidding SOE to enter land market in 2011, except for 4 specialized ones). Homeowners also have an interest in rising prices, and tenants / immigrants / young people are the principal victims of this phenomenon. People being expelled, whether agricultors or urban dwellers, have a positioning depending on what they get in exchange. For the central government, it is a good way to finance urban infrastructure without putting pressure on the national budget. Genrally, this put great competing pressure on value capture sharing between users / owners / Municipality / developers.

PUBLIC MANAGEMENT AND ACCOUNTABILITY

Assets are held through Municipal Urban Development and Investment Corporations (UDIC), which don't have any public disclosure of accounts. Initially, levels of accountability were low, but they increased progressively through regulation regarding compensation and generalization of competitive auction.

ANALYSIS AND ASSESSMENT OF THE TOOL

- This tool allowed the provision of infrastructure for the city, but it also led to maximizing financial returns, yet not necessarily social benefits (lack of social housing for instance) and to some extent led to exagerated construction works with speculative prospects, using the expropriation power and easy and cheap lending.
- This context led to many abuses and corruption from Municipality officials and developers, and socially unfair land control (compensation issue). This tool is also risky as borrowing relies on expectation from a volatile real estate and land market.
- Finally, this source of infrastructure financing is getting to an end, as readily available and cheap land is getting scarce and land from redevelopment is now much more expensive.
- **Key factors for success**: Possibility to contract debt from public (or mainly public) companies (with land as collateral).

Sources : Lorrain (2011), Peterson (2013)