When is a Land Market not a Land Market?

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Why does the question matter?

Economically, there is a link between countries with the lowest gross national income and defective land markets.
Formal Land Markets

- Trade in land rights;
- Anticipate security of tenure;
- Require formal processes and structures;
- Result in economic, social and environmental benefits.

Land Markets require:

- Legal framework and land policy;
- Integrated institutional framework;
- Freedom from corruption;
- Land registration and cadastral systems;
- Equality of rights of access to land and information;
- Public and private partnerships; and
- Adequate resources.
How to markets develop?

- Progressively;
- Geographically;
- Sectorally;
- When is the tipping point?

Disadvantages of Informal Land Markets

- “Dead Capital”;
- Insecurity of occupation;
- Barrier to inward investment;
- Barrier to economic generation;
- Inefficient use of land (not based on “value”); and
- True economic, social and environmental cost of land is obscured.
Advantages of a formal land market

- Incentive for investment;
- Title security;
- Clarification of user rights;
- Improved valuation of real estate;
- Better land administration;
- Encouragement of better citizenship.

According to Dale at al., 2011

- Encourages entrepreneurship and commitment;
- Reduces dependency on State;
- Increased citizen involvement in social and democratic process;
- Better citizenship.
Why Property Taxation?

• “An efficient and open land market will allow the possibility for fiscal policy to be implemented …”
• Demonstrable;
• Clear linkage with market value;
• Clear linkage with planning policy;
• One of several characteristics of active land markets.

Implication …

• Land markets provide evidence of sales transactions which can be used as a tax base;
• Ad valorem tax bases are “fair” and comprehensible;
• No land market, no ad valorem tax base.
• Careful, there are jurisdictions with a land market, but no ad valorem tax base.
Development of a land tax

• Simple, formulaic start e.g. area basis;
• Develops in complexity;
• Incorporates evidence of locational value;
• *Ad valorem* tax base.

Prerequisites – land administration e.g.

• Land tenure records, Cadastre etc.;
• Planning policy;
• Healthy, active and transparency land market;
• Records of sales;
• Support systems e.g. mass appraisal techniques;
• Linkages between databases.
Virtuous circle – Property tax influence:

- Landownership patterns;
- Development patterns;
- Planning policy;
- Land prices; and
- Efficient economic, social and environmental uses of land.

Conclusions

- Value-based land tax is characteristic of a healthy land market;
- Land administration systems are required to support tax;
- Reliable data gathering systems;
- Land markets and land taxation are part of land administration systems and of the democratisation of local government.
When is a land market not a land market?

- Tricky!
- Probably there is no “tipping point”;
- Various complexities of land markets;
- Is one characteristic sufficient?
- Need a more specific definition of “land market”?
- Research is on-going.