

International Conference on Municipal Fiscal Health



LINCOLN INSTITUTE
OF LAND POLICY

*Assessing the monetary relevance of land value
capture: the case for charges for additional
building rights in São Paulo, Brazil*

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Detroit, May 2018

Points/Prospects

1

Need for alternatives to finance urban development



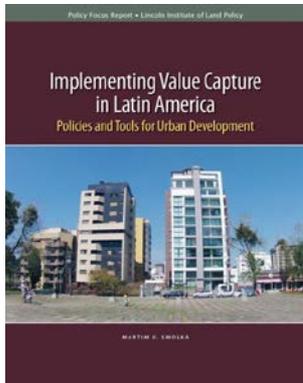
2

Land based tools to finance urban development make sense;



3

Growing successful implementation of such tools.



Sensible to finance urban development with charges on land values



Sustainability
virtuous circle

- Investments appreciate land values



Equity

- Unjustified enrichment - no just cause



Pragmatism

- Source of untied resources

Antecedents/landmarks for OODC

1976

- Solo Criado - cf 'Plafond Legal de Densite'

1980's

- Linkage Operations

SP - \$150 million 1988/1998
15,000 social housings

1990's

- Urban Operations

1988

- Brazilian New Constitution
- Articles 182 and 183

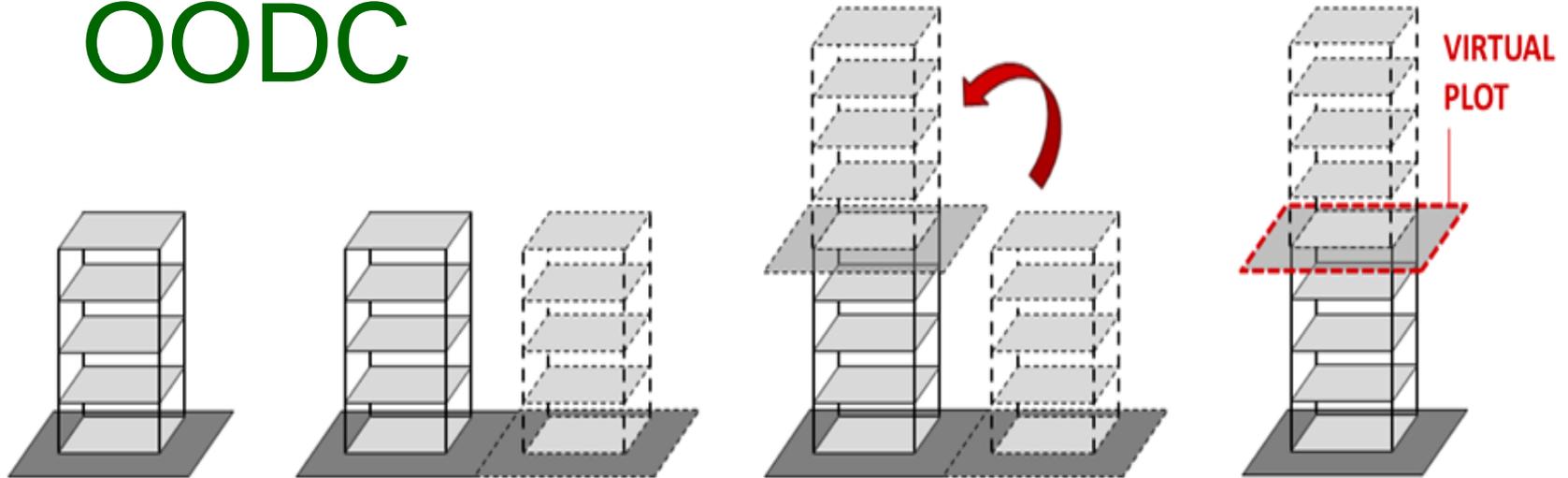
2001

- The 'City Statute' - land development act
- Selling of Building Rights - OODC

2014

- Universal basic FAR 1.0
- Maximum FAR 4.0

OODC



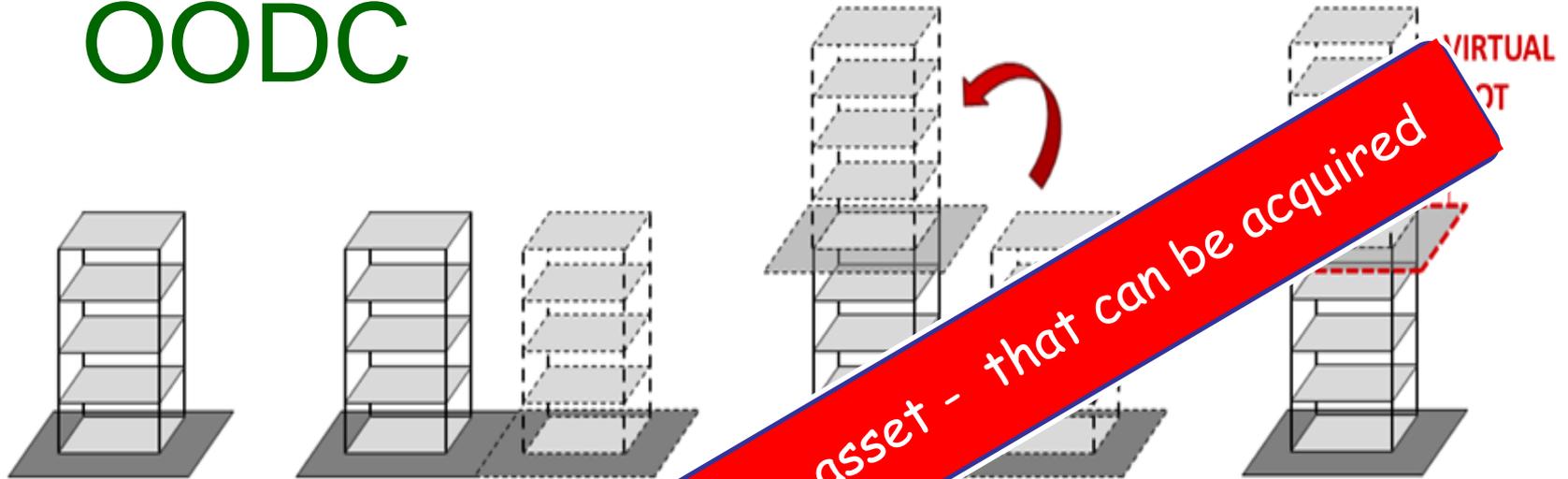
Air rights above the basic FAR - considered a public asset;

The city can concede (against payment or not);

Urbanistic purposes, according to urban development guidelines.

Not a tribute or a fee

OODC



- Air rights above the basic FAD are considered public asset;
- The city can acquire them (with or without payment or not);
- Use them for public purposes, according to urban development guidelines.
- Not a tribute or a fee

Charge for building rights



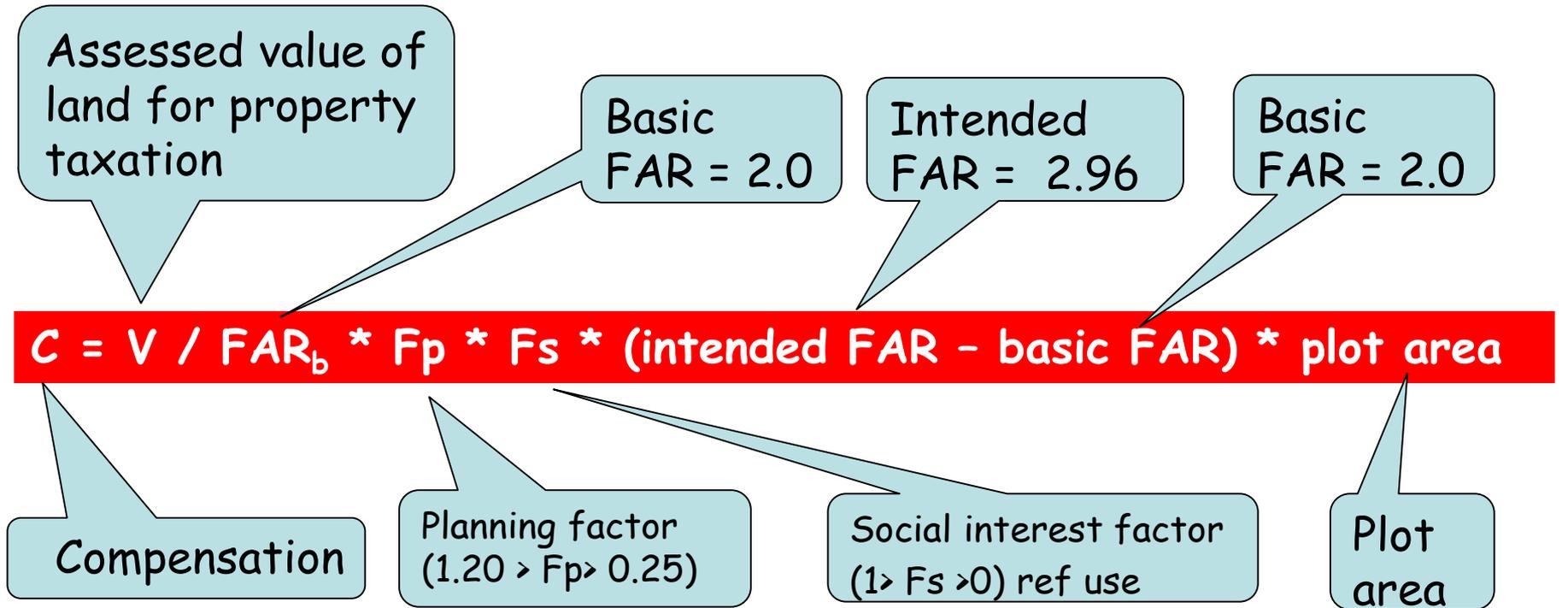
In Curitiba, Brazil, the taller building on the left graphically illustrates the area above the basic FAR of about six stories for which building rights were charged. The taller building on the right also paid for additional building rights, but did not dramatize that fact in its design. © Gislene Pereira

Note:

The City of São Paulo recently reduced all basic FAR to = 1!

(US\$130 million in 2013)

Calculating: Charge on Building Rights



$C \text{ (US\$ 5.7 Million)} = 3,334,60 / 2.0 * 1.1 * 1.0 (2.96 - 2.0) * 3,237.01$

OODC case



US\$837,468 OODC
residential development
Source: gafisa.com.br

	Attribute	Value
1	Plot size	2,000 m ²
2	Basic FAR	1.0
3	Max FAR	2.0
4	Virtual plot \$	\$598.19/m ²
5	Planning factor	.7
6	Social Interest factor	1.0
7	Compensation	\$837,468.00
8	Compensation/m ²	\$419.- /m ²
9	Proxy Mrkt \$ plot	\$4.45 million
10	Plot Mrkt \$/m ²	\$2,225.-/m ²

Compare rows: 4, 8 and 10

Potential Revenues from OODC

Since 2002
Over 2,514 projects OODC
US\$1 billion in public revenues

\$130 million
Max in 2013

Basic FAR only since 2014

Virtual plot \$ ~ 30% mrkt value

Discounting factors - $>.25$

Exemptions for Social Housing Buildings

Non-computable area ~59%!

Adiron's rule (1979-2017) + FAR 1 for occupancy rates at 25%.

~\$1 Billion
per year!

Cross-subsidy?

- Building 4,000 m² land plot.
- Acquiring additional 6,000 m² of building rights for \$6 millions
 - The 30 additional high income apartments (about 120 sqm) units at \$200k/unit would fund 200 social (low-income) housing units at \$30k/unit



$$30 = 200$$



What are CEPACs?

Certificates of Additional Development Potential

A bond issued by the Municipality - yet not implying in public debt - ref. legal issues

Sold by electronic auction in the São Paulo Stock Exchange Market and controlled by CVM (=SEC)

Created in 1995, sanctioned by the 'City Statute' (Brazilian Land Development Act) of 2001

CEPACs Overview

Urban Operations

- Large Scale (~ 500Has) Rezoning: land use & densities

Value

- CEPAC => 1 m² (>.8m², <1.2m²)

Auctions

- \$550/m² (2004) to \$2,100/m² (2010)

Revenues

- Over \$2,7 Billions from 2004/2014
- Faria Lima and Agua Espraiada UOs (currently 14!)

Investments

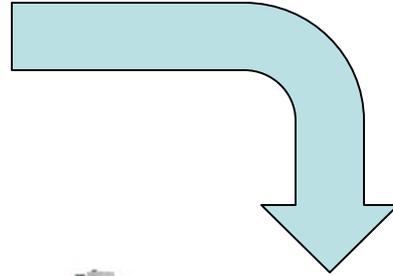
- \$150 millions new metro line,
- Bridge \$100 millions, HIS \$57Millions

Other places - Rio, Curitiba etc

Notable cases: CEPACs in S. Paulo



Additional FARs licensed
against CEPACs auctioned
in the market



Jardim Edith slum
occupants resettled in
new building in the same
area funded by CEPACs



From : Paulo Sandroni "Certificados de Potencial Adicional de Construcción (CEPAC) en la financiación de grandes proyectos de desarrollo urbano: El caso de São Paulo" Presentación in the Forum on Notable tools of Urban Policy - Quito May 2013.

CEPAC case

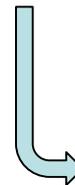
Former Bicycle factory converted to a mixed use development - 2014



US\$120 million CEPAC mixed-use development.
Source: orealizacoes.com.br

	Attribute	Value
1	Plot size	80,000 m ²
2	Acquisition \$	\$145 million
3	CEPACs acquired	246,076
4	Auctioned bid	\$120 million
5	FAR additional	3
6	2/1	\$1,812.50/m ²
7	4/3	\$487.65/m ²

Compare rows: 6 and 7



- Non-computable areas
 - garages, balconies, playgrounds, etc.
- Auctioning conditions
 - no higher bids to compete with
- other externalities
 - e.g., a planned transit station.

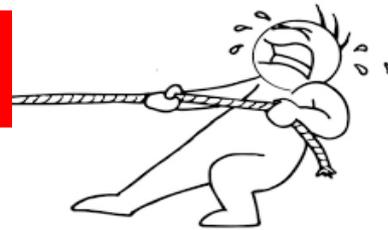
Evaluation



Still short of potential - yet relevant if compared to enhancement of local investment capacity.

Resistance - the 4 I's

- **Ideology** - public interference
- **Interests** - developers \neq landowners \Rightarrow transition rules
- **Ignorance** - inflationary? Acquired rights? **Myths!**
- ... & **Inertia!**



Contentious themes



Thank you

Questions?

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