Land value capture

India's cities are racing to build metros, expressways, and regional rail systems at unprecedented scale. Yet the financial foundation beneath many of these infrastructure projects often remains fragile. Building a metro costs anywhere between ₹250 and ₹550 crore per km, but fare revenues rarely cover even operating costs. The outcome is predictable — metro systems operate in chronic deficit.

Hong Kong's MTR and Tokyo's private railways achieve surpluses, primarily through real estate and commercial revenues rather than fares, underscoring that public transport systems, by design, cannot pay for themselves solely through ticket income. A new metro station can raise surrounding land prices by 15-30 per cent or more within 12-18 months. Studies from Delhi, Bengaluru and Hyderabad show that land values within 500-800 metres of stations rise sharply, even when ridership is modest.

INFRATALK

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In India, most of this publicly created wealth is captured privately. This asymmetric equation is not merely inefficient; it is unjust!

"Land value capture" (LVC) is based on a simple principle that when public investments increase — or create — land value, a portion of that "unearned increment" must revert to the public. Hong Kong's MTR recovers 20-25 per cent of capital costs through its Rail + Property model. Tokyo's Tsukuba Express financed 63 per cent of its project cost through land readjustment and resale. London's Crossrail project (now known as the Elizabeth Line) raised £4.1 billion via citywide development levies.

India has made attempts. The 2017 Metro Rail Policy, the Value Capture Framework, and the National Transit Oriented Development Policies prescribe LVC. Mumbai charges a 1 per cent metro cess on property transactions; Pune and Ahmedabad levy betterment charges; Hyderabad uses transferable development rights; and several states sell premium FSI/FAR (floor space index / floor area ratio).

However, these efforts can be quite constrained and ineffective. For instance, the City and Industrial Development Corporation of Maharashtra's betterment fee for the Navi Mumbai Airport Influence Notified Area project, slashed its charge from 50 per cent to 0.05 per cent after protests; far too low to meaningfully contribute to infrastructure. Delhi Metro's value capture potential has long been stifled by conservative FAR norms around station areas — far below Hong Kong's 8-10 FAR corridors.

India's challenges include weak implementation, poor inter-agency coordination, and political ambiguity about the nature of issues involved. Many Indian cities still impose restrictive zoning and FAR, parking minimums, and rigid use classifications, thereby choking the potential of transport-oriented development. Without density, land value uplift remains limited, constraining the revenue pool. Evidence from Hyderabad's FSI deregulation shows that high-demand areas with permissive development controls achieved FSI utilisation of 4.8-5, while outer zones stagnated at an average FSI of 1.45.

Fragmented governance, too, is a barrier to LVC application. Metro construction or bus rapid transit operations are handled by special-purpose vehicles, land-use by development authorities, and taxation by municipalities. Delhi Metro's experience illustrates the dysfunction caused by multiple agencies controlling different pieces of the puzzle. Weakness in government capacity is also seen in land valuation systems, which remain unresponsive to market forces. Circle rates often lag market value by 30-50 per cent. When taxes, fees, and levies are tied to artificially low valuations, public revenues decline sharply. LVC requires municipalities that are competent in land valuation, legal structuring, and negotiation.

Political or popular resistance to the idea is a formidable barrier. LVC instruments like betterment levies and premium FAR charges are abhorred by real estate players and property owners alike. Politicians hesitate to impose them because of the misguided apprehension that they are imposing new burdens; they are unable to convey to the public that such charges are transparent demonstrations of how the public can reclaim the value they themselves generated by using public transport infrastructure and services. This messaging is missing, although it is easy to understand.

India needs a clear blueprint for LVC anchored in the "3-I Strategy" that has been propounded in a study by IIM Ahmedabad for The Infravision Foundation. The "Invest-Integrate-Intensify" approach is not theoretical; it is grounded in global best practices and adaptable to Indian realities.

INVEST: Create value before capturing it. Value capture is impossible without value creation — shape high-density, mixed-use, pedestrian-friendly zones around transit.

INTEGRATE: Build a strong metropolitan transport authority. A reengineered unified transport governance framework — or an equivalent institution — must evolve into a statutory, fully empowered authority, on the lines of Transport for London, with clear control over integrated mobility planning, land use, zoning approvals, and development rights.

INTENSIFY: Accelerate station-area redevelopment and PPP models. Scale up joint development around transit systems by promoting commercial complexes above and around stations; leveraging air-rights concessions; expanding retail leasing, advertising, and station-naming rights; and pursuing PPP-based station redevelopment with clear revenue-sharing arrangements.

Similar principles could be applied to other classes of infrastructure projects. For example, in the case of highways, a betterment cess could be levied on every land-sale transaction within a 750-metre parallel ribbon along both sides of a new road. The additional revenue could be shared equally between the concerned state government and a central agency.

LVC is not a fancy frill on urban transportation. It is an imperative for Indian cities that they must address with urgency. Traditional funding sources cannot finance the infrastructure needed for India's demographic shift and economic ambition. Public investments continue to produce private windfalls. Allowing this imbalance to persist is economically irrational and ethically indefensible. LVC corrects the imbalance.

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