

Leveraging Land Value Capture in Transit-Oriented Development

By Sunil Tandon

A proposed transit-oriented development (TOD) project requiring an investment of ₹1000 crore is expected to generate significant spillovers across the local economy. Using standard multipliers, the direct output effect is estimated at ₹1000 crore, with additional indirect impacts of ₹700 crore, induced consumption effects of ₹500 crore, and wider land and agglomeration benefits of ₹1500 crore. Together, the total economic impact of the project is projected to reach approximately ₹3700 crore, or 3.7 times the initial outlay.

The fiscal implications of this activity depend strongly on the tools employed to capture value. Under a baseline scenario, government receipts are limited to conventional tax streams. Applying an 18 percent GST to roughly 60 percent of direct and indirect activity, yields revenues of about ₹185 crore. Labor income, assumed at 30 percent of direct, indirect, and induced activity, contributes a further ₹132 crore through income tax at 25 percent. Corporate profits, taken as 10 percent of the total economic impact and taxed at 25 percent, add about ₹92.5 crore. Property tax, applied at 1 percent annually to the projected ₹1500 crore uplift in land values, generates around ₹15 crore per year, or ₹300 crore over a 20-year horizon. Adding a modest ₹10 crore in impact fees, total public receipts under this “no-LVC” scenario amount to approximately ₹657 crore.

Introducing land value capture (LVC) instruments significantly alters this picture. A betterment levy capturing 20 percent of the one-time property value uplift would immediately yield ₹300 crore. Tax Increment Financing (TIF), applied to 50 percent of the incremental property tax stream over 20 years, could provide an additional ₹150 crore. Land monetization and lease revenues are conservatively estimated at ₹200 crore, while the impact fee of ₹10 crore remains unchanged. Combined with ongoing GST, income, and corporate tax receipts, the total public revenue rises to about ₹1007 crore. Compared with the baseline, this represents an additional ₹350 crore in fiscal capacity directly attributable to LVC tools.

The interpretation is clear: in the absence of active capture mechanisms, the state secures only about 18 percent of the total economic impact. With well-designed LVC instruments, government receipts increase to more than 27 percent of the overall impact—enough to cover

the original capital investment and create a dedicated revenue stream for transit operations and urban improvements. Put simply, value capture transforms private windfalls in land and development into sustainable public finance.

Policy design is critical. Governments should embed LVC strategies at the outset, using zoning and development controls to secure value before approvals are granted. A mixed approach is advisable: betterment levies for discrete uplifts, TIF to underwrite construction financing, and selective land leasing for upfront capital. To protect equity, LVC must be paired with inclusionary zoning and affordable housing provisions, ensuring that rising land values do not displace vulnerable residents. Transparency is equally important: earmarking LVC revenues for transit, housing, and infrastructure builds political legitimacy and citizen trust.

The analysis also highlights sensitivities. Fiscal returns are highly dependent on the magnitude of land value uplift; weaker property markets would yield smaller gains. The balance between one-time instruments such as land sales and recurring streams such as TIF should align with the project's financing needs. Finally, while this model captures the economic and fiscal flows, social impacts—including affordability, congestion, and community acceptance—must be addressed in practice.

In conclusion, a ₹1000 crore TOD can generate over ₹3700 crore in wider economic benefits. With only standard taxes, the state captures less than a fifth of this value. Through carefully designed LVC mechanisms, the public share can rise above one-quarter, creating a virtuous cycle where transit investments are self-financing and socially inclusive. This policy approach not only enhances fiscal sustainability but also ensures that urban growth delivers equitable and lasting benefits.