

The Future of National Land Leaseholds Systems:

Israel and China as the unlikely “Secret Twins”

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Private land – public land

In **most** Western countries, the dominant type of land tenure is **PRIVATE**.
Both in urban areas and (even more) in rural/ farming areas.
Centuries-old tradition.

Private leaseholds - longterm rental contracts - are sometimes used ad hoc, voluntarily by private actors.

UK is an exception in that most of its multi-family housing is in longterm leaseholds. But this is a substitute for condominium tenure, not for public ownership.

Here we discuss **PUBLIC LEASEHOLDS**

Public leaseholds: Theoretical rationale

Scholars of property rights often regard public leasehold systems as a solution for many urban problems:

- ***Control of development; timing – so as to coordinate phasing of population and public service thresholds***
- ***Value capture (of the “unearned increment”);***
- ***Promote public goals (affordable housing; environmental protection***

Must distinguish between government levels:

- **National versus municipal . SCALE MATTER**

Although some Western countries did consider introduction of broad leasehold systems, none were adopted on a national large scale

Municipal-level partial leasehold systems do exist in a few countries. Discussed later.



But public leaseholds systems are less popular today Why? :because

- **Alternative regulatory tools have been developed to achieve similar results through regulation or taxation of private land**
- **Over time, land leasing tends to be less effective in capturing the value of land for the public pocket (Chinese example of private re-sale of housing units etc.)**
- **Over time, land leasing can create social distortions due to immobility of land tenure compared with social mobility (e.g.: privilege for those who got the lease when it was inexpensive, but became well-off later; problem with circulating affordable housing units)**
- **Distortion in economic efficiency of use of land and buildings**
- **Public criticism that government is using the land to enhance its income (conflict of interests)**
- **Collapse of the Communist government regimes along with the world's major leasehold systems. Ideological criticism.**

Examples of *national* land ownership

- Usually limited to: Uninhabited, distant zones, military bases, forest land, seashores, parks, roads, rail, powerplants, airports, ports. Water infrastructure (some are being privatized)
- National land ownership in Western countries: occasional spot cases (e.g. former army camp later converted to urban). Very rare in urbanized or farmland areas.
- Former Communist countries such as Poland: land was officially “communalized” but actually was nationally controlled.
- Today, control of such land is really at municipal level. Most land there has been privatized, but permanent leaseholds (usufruct) do remain in some city centers, due to specific historical and geopolitical reasons. (restrain foreign buyers etc.)

Public leaseholds on the municipal-level in OECD countries

None represent an entire system

LAND BANKING – municipalities buy open land many years in advance of development. (the Dutch call this “active land policy”)

- **either put in infrastructure and lease the land**
- **Or sell the land to developers**

examples

- **Past and current land banking and leaseholds in Helsinki, Finland**
- **Past land banking in Amsterdam Netherlands and other cities (but in recent decades, land banking is often sold to developers, not leased)**
- **Stockholm: Current debate about conflict of interest between the City as commercial landlord and the City’s public goals**
- **Site-specific leasehold: Reclaimed river land in Manhattan – Battery Park City**



Rare examples of **national** land ownership of **urban or farmland**

Rare exceptions :

-**Canberra as the capital city in Australia**



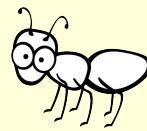
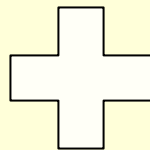
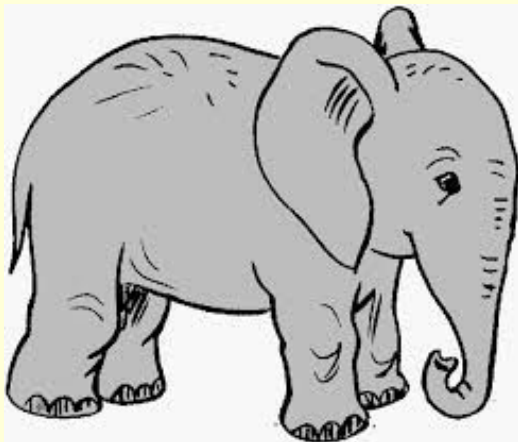
- National land and leaseholds in newest Dutch polder (reclaimed land from the sea) – farming. Currently being gradually privatized**
- Israel is the only OECD country with dominant national land ownership in both urban and rural land (Singapore is not an OECD member)**

Israel and China: strange twins

Israel is China's only **"twin"** sister among OECD countries in terms of land policy

Joke: Israel is a tiny country, only 21,000 sq. km. China is huge... So maybe these twins were born from an elephant who married an ant...

Israel: area - 21000 sq. km. China – 9.6 M sq. km²



National land and leaseholds in Israel

Five land policy aspects (almost) shared with China!!

1. **National land ownership** – 92% but also a bit of private land. Unlike China, there was never an ideological act of full nationalization
2. Almost all agricultural land is in farmed by **collective communities**
SO – different land policy in urban versus rural areas (but the land there is also *nationally owned, not communally owned*)
3. National land is **released by public TENDERS** (not auctions) but – the income goes to the state, NOT local governments
4. Almost all urban Israelis live in **condominium apartments** – like China
5. Israel must preserve farmland, like China, so very dense urban development

Co-learning between the twin sisters

So, Israel is like China in key aspects of land and urban policies and perhaps should learn from each other (despite the differences in scale)

BUT unlike China, Israel happens to present a rare “natural experiment” in the advantages and disadvantages of a public leaseholds system:

Because Israel has some private land, especially in cities, which is sometimes located in similar neighborhoods built on national land. Public leasehold properties become part of the same market as private properties.

Recent study (Alterman, Salinger, Kenett) develops an econometric model try and unlock **THE LIKELY IMPACT OF NATIONAL LAND OWNERSHIP ON HOUSING PRICES**. Probably, the monopoly and the tender system cause a generally higher price platform for the entire housing market (also the private)

BUT in RURAL areas, the Israeli land policies should learn from China. (DECIDE WHETHER TO EXPLAIN HERE OR LEAVE TO DISCUSSION)

ISRAEL'S URBAN NATIONAL LAND POLICY

Israeli cities – recent modes of construction



Like in china, most people live in condominiums



Thirteen dimensions for comparing public leasehold systems

In URBAN leaseholds in Israel – a process of “crawling privatization”. How similar to China?

1. Applicability to land alone or also fixtures: Does the law enable their separation? (china – yes; Israel – no)
2. What linkage is there with regulatory land use planning? Does the lease itself encompass such restrictions? (in both countries: no)
3. Period: What is the *initial* life period of the lease? (China – 70 years; Israel – 49 years)
4. Mode of payment: Periodically or up-front (discounted to present value) or a mix of both?

Dimensions – cont.

5. Is the price real or “administrative” (determined by government; or subsidized)
6. **Development rights:** If the land is reclassified for higher development, what are the rights of landholders? Who can initiate an amendment to the plan? Additional Payment?
7. **Transfer rights:** Does the lessee have to obtain administrative permission to sell? Are there restrictions on transfer?
8. **Market rights:** If the property value rises, Does the lessee have to share all or part of the increment with the state, simply because the land is nationally owned?

Dimensions — cont.

9. May the land be mortgaged easily?

10. Do taxes apply to public leaseholds the same as to private property?

11. Extension: Are there extension or renewal rights? Or are these discretionary? For how long?

12. Must the leaseholder pay for extension? How is it calculated?

13. Termination: may government refuse extension (end the lease), such as for urban renewal? Is there a right for compensation?

What happened to urban leaseholds in Israel?

In Israel, “**crawling privatization**” was led by two considerations:

- High administrative costs in managing hundreds of thousand leasehold contracts
- Reduce the “friction” with the citizens.

Two “tests” for the public expectations:

- The “banks test”: Will a bank give a loan to a leaseholder in a condominium apartment building? What if the lease has only 10-20 years more before expiration?
- The “market prices” test: Comparison of the value of apartment in public leasehold with similar apartment on private land

Finally led to decision of unilateral, full privatization of almost all already built-up urban land – with NO additional payment. Currently in progress

Land not previously developed is NOT being privatized. Still goes by tender, but once occupied, residents get full private ownership

So, what benefits are left to national land ownership?

National land ownership may still have some *symbolic* public value. Belongs to all. In China – symbol is maintained in urban land but not in rural land. In Israel – in rural land, not urban

Initial allocation of land is at the initiative of government. Retains **planning and timing controls**

On first allocation (bids/ tenders, auctions), the **land value capture: the increment goes to the public pocket** (in CHINA - except in “small property rights”).

However, can value capture continue upon renewals? Charge for the value of the lease once more? **PROBABLY NOT!** The Israeli example of “crawling privatization”

IS CHINA AT THIS STAGE NOW, when leasehold contracts will soon be expiring?

Anticipating the future of China's leaseholds upon renewal

The major variable: *scale*. As in Israel. An economic/Political rather than legal factor.

Both in Israel and in China, most of the (urban) voters/ citizens hold public leaseholds.

Politicians will avoid massive friction for renewal of leases once many start to expire.

Charging just a small fee will generate high administrative costs

Recent awareness in China (but not yet in Israel) that housing prices are too high. Perhaps will address the role of national monopoly ?

My guess:

Leaseholds will be automatically renewed (with no or minimal charge). Will not hazard to guess about full privatization

Thanks

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