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A Land Value Tax for Wales? Valuation methodologies

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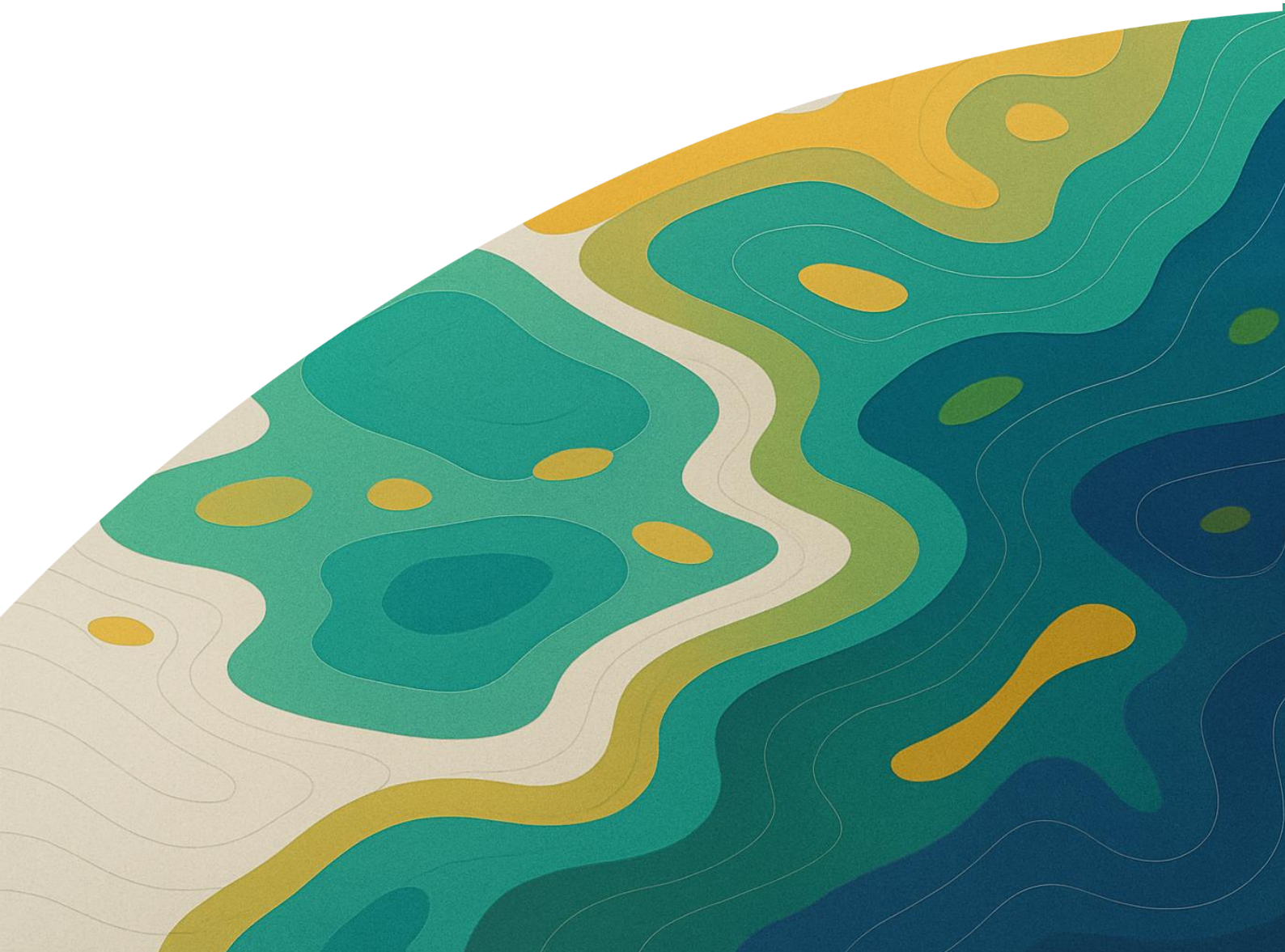

Executive Summary

This report examines how unimproved land value could be estimated in Wales to inform consideration of a Land Value Tax (LVT). It was completed during a UKRI Policy Fellowship and is a companion to a longer working paper, *Claims and contexts*, which examined the theoretical foundations of LVT and assessed the empirical evidence. That paper concluded that the theoretical benefits attributed to LVT are highly contingent in practice. How unimproved land is valued emerged as a key practical factor.

Unimproved land value refers to the value of the land itself, excluding buildings, structures, and other improvements. Essentially, it reflects the value that would remain even if nothing had been built on the site. In theory, unimproved land value reflects the advantages a location offers (such as proximity to jobs, services, infrastructure, and amenities), as well as wider socio-economic conditions.

In practice, however, **unimproved land value is rarely observed directly** because there is little land in the UK that is truly 'unimproved' and land and buildings are commonly sold together at a single price. Estimating value therefore **requires some form of analytical separation or administrative rule**. In addition, both markets and data vary across residential, commercial, and agricultural markets and between rural and urban areas. Different valuation methods can therefore produce different answers for the same site, and the 'true' land value can never be known with certainty. This report draws from two desk reviews undertaken during the Fellowship:

- A review of empirical research on LVT, which considered how researchers construct land values when official estimates are unavailable. This review was reported in detail in the *Claims and contexts* paper.
- Desk research scoping international property taxes with a land component in jurisdictions relevant to Wales, which identified how land is valued in practice.

Both reviews demonstrate that there is **no single optimal valuation method for Wales to adopt**. Instead, approaches differ according to their purpose, the data available, administrative feasibility, and policy goals. An approach that performs well for one purpose or context may not necessarily work in and for Wales. Testing different approaches in a Welsh context is therefore essential.

The key contribution of this report is to identify **five groups of land valuation methodologies suitable for testing in Wales**. These groups were selected because they:

- Represent different ways of constructing land value
- Reflect varying trade-offs between approximating market value and achieving administrative feasibility
- Differ in data requirements
- Span a spectrum from low-cost rule-based systems to modelling using advanced data science techniques
- Allow for structured comparison under real-world conditions in Wales.

The five methodology groups are:

1. **Market-based statistical methods** that estimate land value from transaction data. These align closely with a market value logic, but depend on rich, high-quality datasets and may struggle in thin markets.
2. **Algorithmic and machine-learning approaches** that use large, linked datasets and advanced data science techniques to predict land values at scale. These can capture complex interactions between the factors that contribute to value but are data intensive and may raise transparency issues.
3. **Formula-based approaches** that use explicit rule-based systems (such as a value per square metre) to construct administrative values. These are simple, transparent, and stable, but less sensitive to nuanced differences or market change.
4. **Conventional valuation approaches** that utilise professional practice and standards. These are well-established but require adaptation because the UK valuation profession does not regularly separate the value of land from improvements.
5. **Innovative and experimental approaches** not otherwise described, such as self-assessment, participatory valuation, or multi-criteria decision tools. These may provide alternative pathways but are less tested at scale.

Choosing between these approaches is not a purely technical matter. For Wales, the overarching policy question is not *whether* land value can be estimated, but *which* approach (or combination of approaches) would be sufficiently robust, transparent, feasible, scalable, and aligned with Welsh policy objectives in practice.

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