

# ***The Power of Land Value Taxation to Spur “Missing Middle” Housing***



**Common Ground OR-WA  
ORIGINAL RESEARCH**

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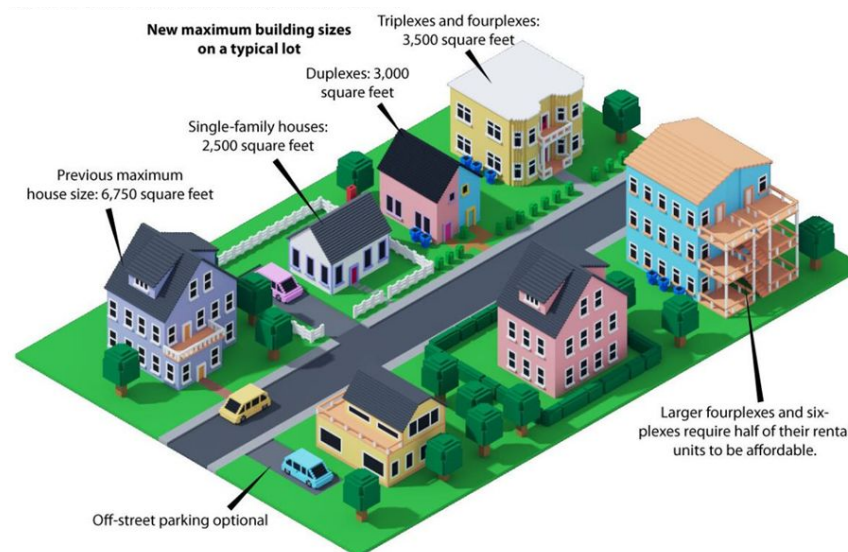
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## Residential Infill Project (RIP)

## Linking land use and taxation policies

## Land Value Taxation (LVT)

Legalizing 2,3 & 4 unit dwellings in single-family zones is a significant step in supporting affordable housing options.



Combining RIP with a land value tax can stimulate production.

Portland's recent amendment to the zoning code

Using the tax system as an incentive tool

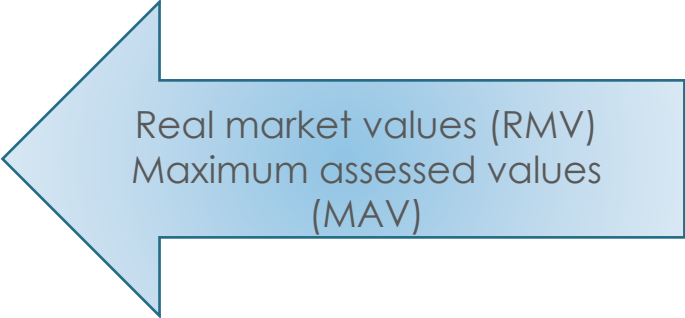
# First, it's necessary to fix Oregon's broken property tax system

The passage of Measures 5 and 50 in 1997 drastically changed the way property taxes were assessed in Oregon.

- Measure 5 Limit: Maximum Allowable Tax = \$15 per thousand of RMV
- Measure 50 Limit: Maximum Annual Growth in MAV = 3%

## **The cumulative effects...**

- continuous revenue shortfalls
- increasing disparity between true market and taxable values
- unequal tax treatment of taxpayers



Real market values (RMV)  
Maximum assessed values  
(MAV)

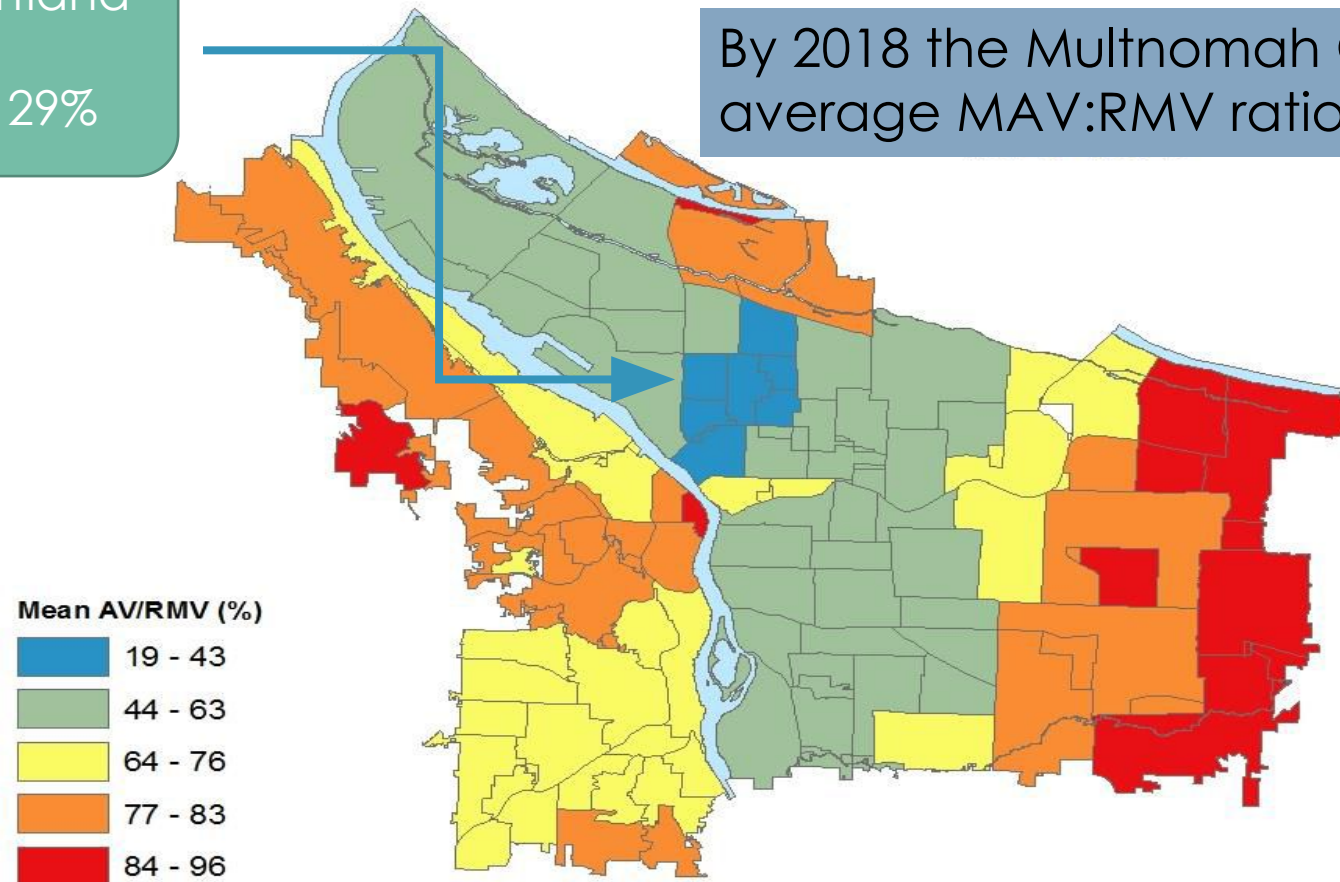


# Taxable Values lag behind Real Market Values in Portland

Inner Northeast Portland

MAV: RMV Ratio: 29%

By 2018 the Multnomah County average MAV:RMV ratio fell to 39%



Prepared by Northwest Economic Research Center



# Study Design:

## **Problem statement, proposition**

### **Simulation model:**

1. Data set: single family parcels in Inner Northeast study area
2. Classify existing development status of parcels
3. Identify prospective parcels for redevelopment
4. Calculate zoned development capacity of parcels
5. Determine existing land and building values

### **Redevelopment Scenarios:**

6. Calculate values on parcels as redeveloped
7. Simulate alternative property tax applications
8. Measure incentive effects – shifting tax burdens

## **Conclusion**

# Problem Statement:

Zoning policies and regulations set possibilities and limits, but do not provide incentives to increase housing supply.

# Proposition:

LVT can provide the economic incentives needed to stimulate development of expanded housing options – ‘missing middle’.



# Housing Construction Trends

Medium density housing commonly appeared in Portland's neighborhoods



2-4 family

71% were built in the pre-WWI and post-WWII periods.

Inner Northeast Portland



Row housing

63% were built in the period 1970-2000

## Single-family infill homes are growing larger

Inner  
Northeast  
Portland



New homes average 2,470 sq. ft.  
internal floor space (2015-18).



Homes built before 2000  
average 1,647 sq. ft.



Portland city policy now discourages demolition of  
single-family homes and replacing them with large,  
luxury single-family dwellings.

# Simulation model:



Inner  
Northeast  
Portland

7,962 single-family parcels

2017-18 assessments

Mean MAV= \$151,293

Mean RMV = \$518,808



## Step 1: Classify existing parcel development status

Fully developed: 7,748  
Underutilized: 145  
Vacant: 182

**Vacant & Underutilized**

### Threshold criteria

- Low floor area ratio (FAR)
- High land-to-total valuation ratio (LTV)

## Step 2: Calculate zoned development capacity

### RIP zoning amendment

- Limits up-zoning for missing middle buildings to R5 & R2.5 zones
- Increases minimum lot size to qualify
- Increases allowable FARs on qualifying parcels

### *Model assumption:*

*Redevelopment will occur only on vacant & underutilized parcels*

- 201 parcels qualify for duplex conversions
- 164 parcels qualify for triplex & 4-plex conversions

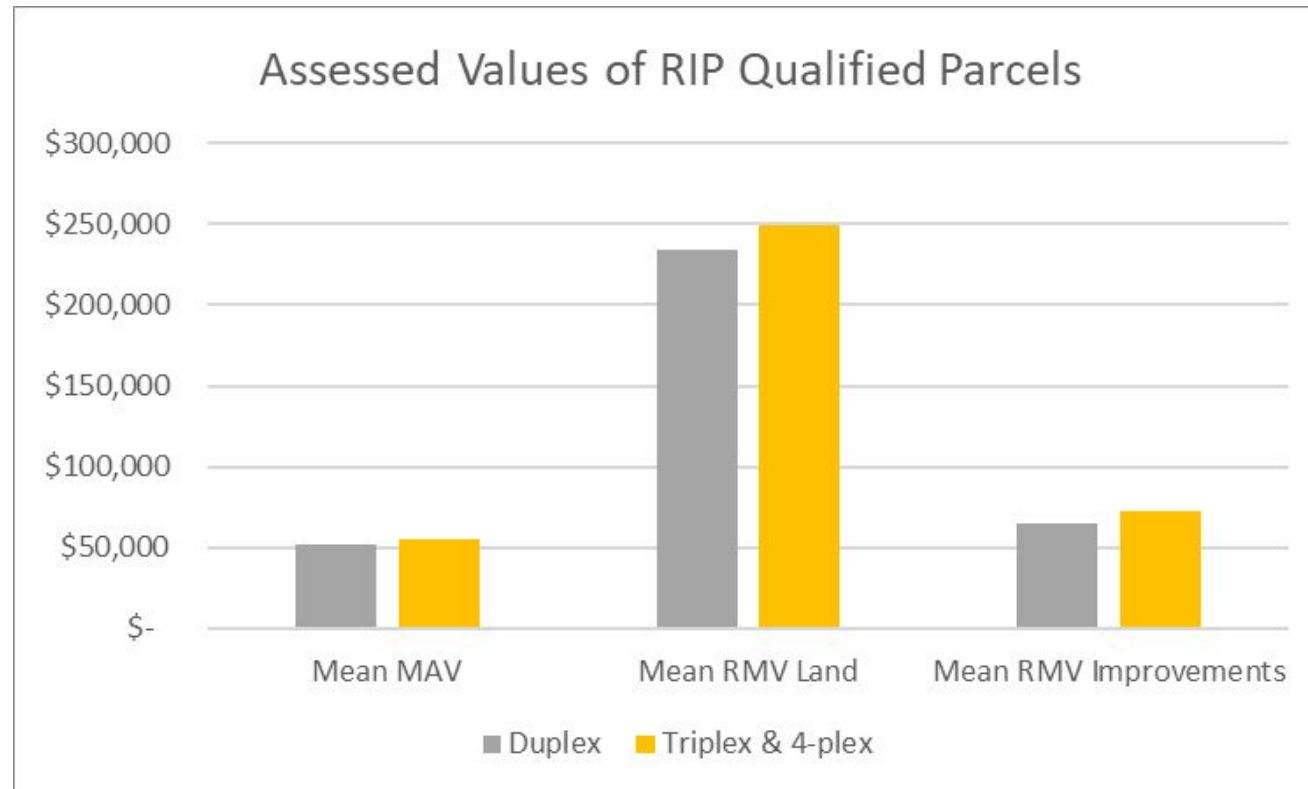
### Mean RIP Zoned Development Capacity by Expanded Housing Option

Vacant & Underutilized Parcels qualifying under RIP	Parcel Count	Mean Lot Area	Mean Bldg area	Existing FAR	Maximum FAR	Maximum Bldg area	Balance of Capacity	Percent Unused Capacity
Duplex	201	4,525	518	0.11	0.72	3,270	2,751	84%
Triplex & Fourplex	164	5,030	578	0.11	0.82	4,106	3,527	86%

## Step 3: Calculate assessed values of RIP qualified parcels

vacant & underutilized

Parcels qualifying for redevelopment under RIP	Mean MAV	Mean RMV Land	Mean RMV Improvements	LTV Ratio
Duplex	\$ 51,825	\$ 234,115	\$ 64,631	0.78
Triplex & 4-plex	\$ 54,778	\$ 248,884	\$ 71,973	0.78



# Redevelopment Scenario:

Employ a *development proforma* simulating a reconstruction project.

This projects the total redevelopment **value** broken out by land and improvements and the maximum **building area** based on the maximum FAR for the average parcel.

## Redeveloped Parcels

### Mean Projected Values

Redeveloped Parcels qualifying under RIP	Parcel Count	Mean Lot Area	Mean Bldg area	Mean Land Value	Mean Building Value	Mean Total Value	LTV Ratio
Duplex	201	4,525	3,270	234,115	699,813	933,928	0.25
Triplex & Fourplex	164	5,030	4,106	248,884	925,285	1,174,169	0.21

FAR  
.72  
.82  
X  
lot

Land  
value  
remain  
s same

Unit  
demo +  
const.  
costs x  
bldg area

## Property tax rates: Four tax regimes

### Calculated revenue neutral county tax rates\*

MAV	Tax Rate: \$25.01
RMV	Tax Rate: \$10.25
60% LVT	Land Rate: \$13.32 Improvement Rate: \$8.88
90% LVT	Land Rate: \$23.00 Improvement Rate: \$2.56

#### MAV:RMV ratios, INE community

<u>Development Status Category</u>	<u>MAV:RMV Ratio</u>
Fully Developed	0.29
Vacant & Underutilized	0.15

The RMV rate is lower than the MAV rate because market rate assessments are higher. The tax rate must be lowered to achieve revenue neutrality.

LVT rates are based on RMV assessments, as it is important that in order to achieve the desired incentive effects assessments must be up-to-date and accurate, reflecting true market values.

\* Mill rate: \$ per \$1000 AV

# Simulated tax applications

Comparisons are made across the different tax regimes: tax levies using MAVs, RMVs, a 60% LVT, and a 90% LVT.

## COMPARATIVE TAX LEVIES BY PARCEL DEVELOPMENT STATUS

Parcels qualifying for redevelopment under RIP - Duplex	No. parcels	MAV Tax	RMV Tax	60% LVT	90% LVT
Vacant & Underutilized	201	\$ 1,296	\$ 3,062	\$ 3,692	\$ 5,550
Redeveloped	201	\$ 4,038	\$ 9,573	\$ 9,333	\$ 7,176

## COMPARATIVE TAX SHIFT RATES

MAV to RMV	RMV to 60% LVT	RMV to 90% LVT
136%	21%	81%
137%	-3%	-25%

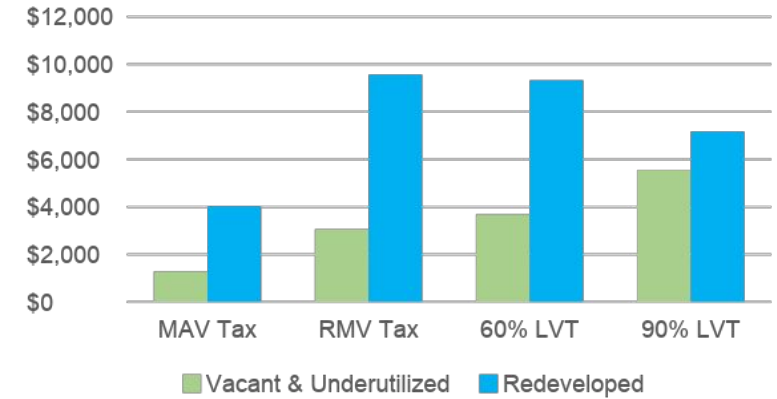
Changing from the current tax system based on MAV assessments to an equal rate tax on RMV assessments and on to the LVT regimes, tax levies become progressively higher on vacant & underutilized parcels...

and lower on the same parcels in their redeveloped status.

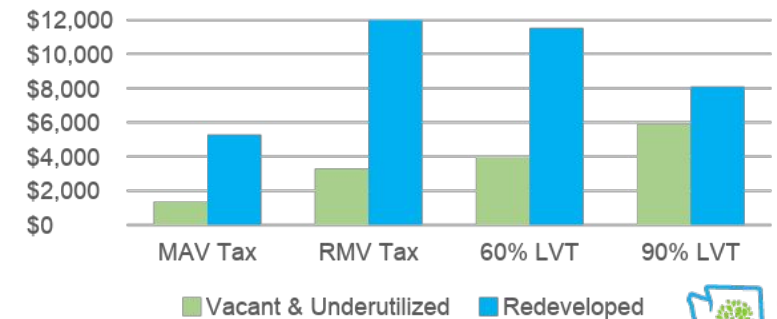
Parcels qualifying for redevelopment under RIP - Triplex & Fourplex	No. parcels	MAV Tax	RMV Tax	60% LVT	90% LVT
Vacant & Underutilized	164	\$ 1,370	\$ 3,289	\$ 3,954	\$ 5,909
Redeveloped	164	\$ 5,278	\$ 12,035	\$ 11,531	\$ 8,093

MAV to RMV	RMV to 60% LVT	RMV to 90% LVT
140%	20%	80%
128%	-4%	-33%

Tax Shift: Parcels Zoned for Duplex - RIP



Tax Shift: Parcels Zoned for 3-4 Plex - RIP



# Incentive effects



Tax shift: RMV to 90% LVT

Parcel qualified for:	\$ more	\$ less
	Parcel remaining Vacant & Underutilized	Parcel Redeveloped
Duplex	\$ 2,488	\$ (2,397)
Triplex-Fourplex	\$ 2,620	\$ (3,942)



LVT shifts tax burden off more efficiently utilized sites onto less efficiently used sites.

# The Single-family option

RIP zoning amendment

Portland City is now placing restrictions  
new single-family construction

- Limited to R5 & R2.5 zones
- Maximum building size: 2,500 sq. ft.

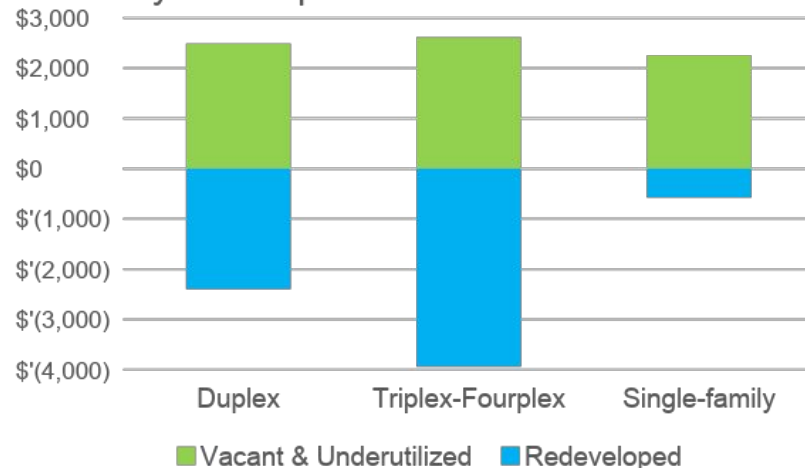
## COMPARATIVE TAX LEVIES BY PARCEL DEVELOPMENT STATUS

Parcels qualifying for redevelopment under RIP - Single-family	No. parcels	(1) MAV Tax	(2) RMV Tax	(3) 60% LVT	(4) 90% LVT
Vacant & Underutilized	234	\$ 1,161	\$ 2,738	\$ 3,309	\$ 4,996
Redeveloped	234	\$ 4,025	\$ 6,517	\$ 6,583	\$ 5,940

## COMPARATIVE TAX SHIFT RATES

MAV to RMV	RMV to 60% LVT	RMV to 90% LVT
136%	21%	82%
62%	1%	-9%

Comparisons in Tax Shift: RMV to 90% LVT  
by Development Status



The marginal benefit for converting to a duplex or 3-4 plex is greater than a single-family conversion.

Tax shift: RMV to 90% LVT

RIP Housing Options	Parcel Remaining Vacant & Underutilized	Parcel Redeveloped
Duplex	\$ 2,488	\$ (2,397)
Triplex-Fourplex	\$ 2,620	\$ (3,942)
Single-family	\$ 2,258	\$ (577)

# Conclusion

**The evidence shown in these scenarios is conclusive:  
the land value tax does have the desired incentive  
effects that proponents claim.**

The City of Portland has taken a step toward expanding the supply of affordable housing by adopting the Residential Infill Project and subsequent zoning code amendments.

It is now time to take the next step –  
to make our land use regulations work in collaboration  
with incentive property taxation.

Tax less what is in the public interest

Tax more what is not desirable