



## Exposing Fallacies about the Land Value Tax

**Assumption: LVT will increase taxes.**

**Reality:** It is a political certainty that lawmakers would include a requirement that any change to the property tax system would be revenue neutral. Yes, splitting the tax rate into a high rate on land will result in higher taxes for some landowners, especially those holding onto vacant or underutilized sites, but these will be offset by a lower tax rate on improvements, especially benefiting owners of higher density developments.

**Assumption: Increasing property taxes on some properties disincentivizes real estate investment, ultimately shrinking community growth.**

**Reality:** “Disincentivizes” is what describes the current equal rate system, which taxes improvements disproportionately. Typically, on most developed properties the bulk of the assessment is in the building. The LVT has the opposite effect: it incentivizes building investment because the low rate on improvements results in a lower tax levy compared to the current tax system.

**Assumption: Measure 5 and Measure 50 were put in place by voters to rein in increased property taxes and give relief to those least able to pay the taxes.**

**Reality:** It is a well-established finding that Measure 50 is the cause of the current tax system’s inequities. Measure 50 in particular is the worst choice made as a response to the 1993 Oregon tax revolt. According to organizations such as the Institute on Taxation and Economic Policy, assessment caps are among the least fair and least effective tax strategies available. This move to limit assessments has introduced inequities into the system due to the widening gap between maximum assessed value (MAV) and real market value (RMV).

**Assumption: Adoption of a Land Value Tax should not move forward because it could decrease the likelihood that affordable housing is produced.**

**Response:** The truth about LVT is exactly the opposite. A heavy tax on land values will place a damper on land price inflation, the biggest contributor to escalating home prices. Over time a heavy tax on land will help make available sites more affordable. Economists agree that an increase in land rates becomes capitalized into a lower selling price; acquiring property subject to LVT becomes less expensive.

**Assumption: Adoption of LVT could decrease the likelihood that affordable housing is produced where we need it most, inside our urban centers.**

**Response:** The likelihood of affordable housing production actually increases in urban centers. Urban land values are higher in business & cultural centers and peak in central business districts.

The tax on improvements, being much lower than the current tax, rewards owners who invest in high density housing. When zoned for higher density uses, this combination produces the incentive to build multifamily structures, which on a per square foot basis are a more cost effective form than single family housing. Conversely, a high tax on underutilized land is elevated in central locations, inducing owners to redevelop into high intensity uses.

**Assumption: A land value tax is a tax based solely on the value of unimproved land, without consideration of any buildings or other structures erected upon it.**

**Response:** A land value tax adopted anywhere in the US will take the form of a split rate, a higher rate on land and a lower rate on improvements. There is no instance of a 100 percent land tax – based solely on the value of land. Splitting the total rate and placing the lower portion on improvements gives a benefit to owners who invest in property improvements.

**Assumption: Because of Oregon’s urban growth management system, there is a limited amount of buildable land available for residential development. The constraint on our buildable land supply has drastically increased the price of land inside our urban growth boundaries.**

**Response:** Several academic studies have shown that Portland Metro’s urban growth boundary has a negligible effect on land prices inside the boundary. The UGB doesn’t need to be expanded to accommodate more housing units. According to the *City of Portland 2045 Housing Needs Analysis proposed draft, August 2023, Bureau of Planning & Sustainability*, Portland has more than enough zoned development capacity to accommodate projected household growth. Under current zoning, the city has the capacity to build 236,977 housing units – about twice the forecasted need by 2045.

We do need to address land supply. The problem, however, is that the buildable land is already there, but much of it is locked up in landholdings. This constrains the accessible land supply and raises land prices. The key is to free up the existing supply of usable land within UGBs to make it available for development. Using incentive taxation to loosen the land supply market will speed up property sales.

Experience shows that when rural lands are designated for urban expansion, a rush to buy land ensues, land values escalate rapidly, creating a windfall for land holders. In any case developers will build to the maximum price point the market will bear regardless of their costs – land, labor, materials, regulations, and fees.

**Conclusion:** Land value taxes would:

- speed up development
- lead to more compact land uses and affordable housing types
- reduce land speculation

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*Based on Common Ground OR-WA’s 26 January 2024 Response to Testimony submitted to the Oregon governor’s Housing Production Advisory Council on November 17, 2023.*