



How the Land Value Tax Can Boost Housing Production

Identifying Urban Land Available for Housing

It is possible to measure the extent of vacant and underutilized land within an urban area that could potentially be redeveloped into higher density housing. Paired with the jurisdiction's existing zoning, we can also estimate the number of housing units that could be built if these underutilized sites were brought into productive use.

For purposes of illustration, we at Common Ground OR-WA have been using a parcel-level data set generated from a 2018 study by the [Northwest Economic Research Center](#) to simulate the effect of a land value tax on incentivizing land owners to release sites for redevelopment. The first step is to identify those parcels most likely to be redeveloped under an up-zoning scenario.

Using valuation and site utilization measures, three categories can be identified, (1) fully developed – parcels with a high improvement-to-land assessment ratio, and a high ratio of building floor space to lot area (FAR); (2) underutilized – parcels falling below these two thresholds; (3) vacant parcels. The last two categories are combined.

First we eliminate parcels from the database that are fully developed and do not meet the minimum lot size threshold for conversion to permitted higher density housing types. Next, we compute the zoned development capacity on each qualified residential zoned parcel, measured in floor area. We can then estimate the total floor area for each housing type. Dividing total floor area by the mean building area for each type, we arrive at an estimated total number of units on redeveloped vacant & underutilized parcels, as well as each redeveloped parcel's land and building values.

Incentivizing the Development of Available Sites

Re-zoning of redevelopable land for higher density development is the most expedient regulatory mechanism available. But experience has shown that desired development will not occur simply because of its classification as an allowable use. Financial inducements are needed to prompt timely development.

Using the property tax system as an incentive tool can be an effective market-driven approach to increase housing production. At Common Ground OR-WA, we advance the LVT approach through advocacy and simulation studies. Changing Oregon's limited assessment and equal rate system adopted as a result of Measures 5 and 50 to a split-rate tax based on true market assessments will reveal the resultant tax shift on all properties in the parcel database. Under LVT the tax rate on land is high and the building rate low.

Vacant and underutilized parcels have a high land-to-building value ratio, hence, the land-based tax shifts tax burden from more efficiently utilized sites onto less efficiently used sites. Because this is an annual tax levy it would not take long for owners to realize the tax penalty for leaving their lots

vacant or underutilized, as well as the reward for investing in new buildings. The high ratio of building-to-land assessments on higher density redeveloped sites will result in negative tax shifts compared to the current tax system which in effect penalizes new building investment with higher tax levies.

Thus we see the incentive power of LVT. Our simulation studies show the land value tax will boost the rate of housing production, help eliminate land speculation, and dampen housing price inflation, making housing more affordable.

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