

Incentivizing Local Zoning Reforms with Land Value Taxation

Summary

By: Tom Gihring

Portland's recent amendment to the zoning code allowing two to four units on single-family lots is a significant step, potentially increasing the supply and affordability of housing. But the new rules do not provide economic incentives to make the policy effective for increasing production of "missing middle housing". There is a growing realization that using the tax system as an incentive tool can be an effective market-driven means to increase housing production.

The purpose of this working paper is to test the proposition that incentive effects of a land value tax will encourage owners of underutilized single-family parcels to redevelop their properties to small scale multifamily housing. Using parcel-level data from Portland's Inner Northeast neighborhood, we first calculate zoned development capacity on existing vacant & underutilized parcels using the parameters contained in the amended zoning code limiting the zones that qualify and increasing allowable site densities and minimum lot sizes to accommodate duplex, triplex, and fourplex buildings. We then calculate assessed land & building values on qualifying parcels in both their underutilized and hypothetically redeveloped status.

Simulating the application of property taxes, a redevelopment scenario compares the tax levies on existing underutilized sites with the same sites redeveloped. Comparisons are made across three different tax regimes: MAVs, RMVs, and a split-rate tax: 90% on land assessments. Changing from the current system based on MAV taxable assessments to an equal rate tax on RMV assessments, and on to the LVT system, tax levies become progressively higher on vacant & underutilized parcels. The converse effect is the lowering of tax levies when the same parcels are redeveloped. Converting underdeveloped sites to duplexes yields an overall average annual tax benefit of \$4,885; converting to a triplex or 4-plex building yields \$6,562 in savings. The marginal benefit of choosing a higher density option over a single-family rebuild is in the range of two to four thousand dollars. Basically, the LVT shifts tax burden off more efficiently utilized sites onto less efficiently used sites.