

**Testimony to the Oregon House Revenue Committee
on behalf of HB 2972: Authorizing a study of LVT**

**Thomas Gihring, Common Ground, Oregon-Washington
22 March 2021**

The annual Oregon Housing Economic Summit (January 14) concluded that annual housing construction in Oregon needs to increase by over one-third over the next 20 years. No clear consensus emerged from the summit about how to close the gap. The Oregon Office of Economic Analysis maintains that state policies such as requiring missing middle housing in single-family neighborhoods will boost supply, but not enough. Neither is there agreement among policymakers that expanding urban growth boundaries will help. (Independent studies have shown no appreciable upward pressure on urban land prices due to UGBs.) The current land use planning system is not designed to address housing affordability. It's up to the 2021 legislature to tackle the problem – preferably through economic incentives.

The latest study by the Northwest Economic Research Center concludes based on model simulations that a Land Value Tax would provide a more equitable tax structure, incent building upgrading and development of underutilized properties, and discourage holding land for speculative purposes. Land price inflation in recent years has been on average 2.5 times the consumer price index. The supply and price of developable land is the major constraint on the ability of homebuilders to produce new homes. There is a consensus among expert economists that LVT would create an incentive to boost the supply of houses.

Fifteen Pennsylvania cities have moved towards down-taxing capital improvements and up-taxing land values. Research has verified economic and social benefits of this conversion to LVT: (1) Land prices are deflated and speculation curtailed, putting more sites on the market. (2) Construction and rehabilitation increase, adding to housing supply and stabilizing rents. (3) Revenues produced are equal or greater than under the conventional single rate property tax, but taxes are reduced for average homeowners. The number of new construction permits has dramatically increased in these cities compared to those without the land tax.

No amount of government coercion through land use regulations or zoning policies will result in property owners doing what is not in their economic interest. The housing crisis will only ease when local governments take a larger share of its revenue from economic rent and a smaller share from capital investment in structures. A graduated 2-rate LVT helps housing prices become more widely affordable, and still is shown to leave an amount of accumulated equity in the hands of the homeowner.

The Legislative Revenue Office's study of LVT proposed in this bill will be able to test and validate these conclusions on a state-wide basis, moving Oregon towards permanent property tax reform.