

Testimony for Bill 2972

My understanding of the “Land Value Capture” system was obtained through studying China’s fast urbanization process in the past 30 years. The idea was promoted strongly by the Lincoln Institute of Land Policy in China, which was originally based on Henry George’s book “*Progress and Poverty*” in 1879 (George, 1879). It believed that land value increments created by regulatory changes, population growth and economic development should belong to the public. China’s urban land is state owned and rural land is collectively owned by the village residents. The national government regulates land conversion and prohibits farmland from entering the land market without first involving state expropriation. The public land ownership in urban China allows this expropriation to be implemented at a large scale in cities. Given the scant resources from higher levels of government, land leasing fees became the main source of local revenue. Although the process was full of contradictions in marginalizing the rural population, this instrument of “land finance” has been the dynamite supporting China’s dramatic urbanization in the past 30 years.

I teach the course “Housing and Urban Development” at Portland State University. In this course, we frequently discuss Portland’s housing challenges, including affordability, urban growth control, and homelessness among others. Both the Oregon state legislature and Portland City have passed a bill allowing residential upzoning, encouraging the construction of affordable “missing middle” housing. How far can the upzoning policies go? We know that uptake by developers to develop multifamily housing on Portland’s majority single family lots is uncertain. It is significantly associated with the nature of the housing market and political resistance from residents. Studies have found that the effect of upzoning in existing single-family residential neighborhoods in Portland tends to be weak and prominent effects could be only in areas where developers can find vacant and underutilized land (Dong, 2021). Under the current system, the property tax annual increase was capped at 3% rather than following its market value. This has led to the assessed value of housing in certain neighborhoods being much lower than its market value, while others’ the opposite. For homeowners who pay less than the market value, new construction would reset the property tax to the city’s average and therefore remove their previous advantage in property tax payment. In reality, the “remodeling” is always preferred over “new construction”.

At minimum, I would strongly encourage extra tax over vacant properties. Therefore vacant and under-utilized sites will become more quickly released to owner-investors who bring land into productive use. The split-rate tax proposed in this bill, separately taxing the land and structure, would more likely to correct the property tax inequalities existing in the city, and encourage infill development as owners realize the tax benefits of building more intensively on underutilized centrally located sites. Therefore, the upzoning policy will more likely achieve its intended goals of encouraging affordable housing construction. It is certainly an effort towards a more equal and just city.

Reference:

George, Henry. 1879. *Progress and poverty; an inquiry into the cause of industrial depressions, and of increase of want with increase of wealth--The remedy*. Author's ed. San Francisco,: W. M. Hinton & co., printers.

Dong, Hongwei. 2021. "Exploring the Impacts of Zoning and Upzoning on Housing Development: A Quasi-experimental Analysis at the Parcel Level." *Journal of Planning Education and Research*:0739456X21990728.