Revisiting Land Value Taxation Amidst the Global Housing Crisis

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Introduction

The ratio between the average house price and income is higher now in the UK than at any time since the late 1800s, according to a Schroders (Lamont, 2023) analysis, and the same general trend can be observed around the developed world. According to property insurers Alan Boswell (Pitcher, 2023), median rent for a London one-bedroom flat is more than 50% of London's median take-home income, straining many households' finances. With rent potentially consuming one-half of a person's income over their lifetime, one might wonder: wouldn't a person building homes for their entire career build considerably more than two homes? Why should housing, then, capture half of their income in perpetuity?

The answer is, of course, that the land rights to the plots on which most homes are built represent a significant portion of their value. As urbanization continues and cities become ever-more desirable places to live, demand for homes there (especially along transit routes) increases, but the supply of land is fixed, leading to an increase in the value of land rights. These land rights' owners can capture this increase in value without necessarily engaging in any other productive economic activity on the land, creating a perverse incentive for investors. Given the choice between purchasing one appreciating lot with a depreciating multi-unit structure on it, one vacant lot on which to build such a depreciating structure, or two appreciating vacant lots, this land rights paradigm invites them to purchase the two vacant lots (or lots with run-down structures adding little value, or 'teardowns' that might reduce the purchase price below the land's value) and capture the land appreciation of both without the downside of having to make expensive improvements.

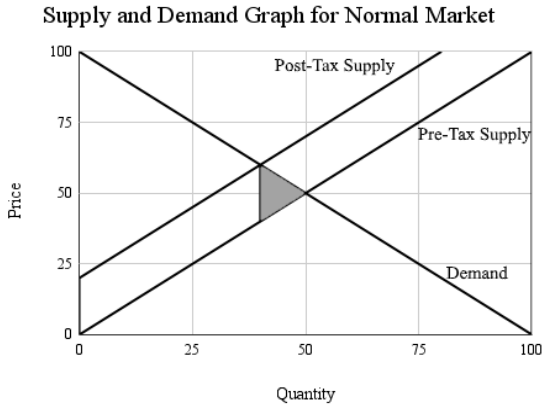
Land's contribution to the affordability crisis is only worsening. According to the UK Office for National Statistics (2018), the aggregate value of land under dwellings increased from £670 billion in 1995 to £4.4 trillion in 2016, representing a 550% increase. The average home price increased from £51,245 to £193,900 over that period, for a mere 278% increase (Cladco, 2025).

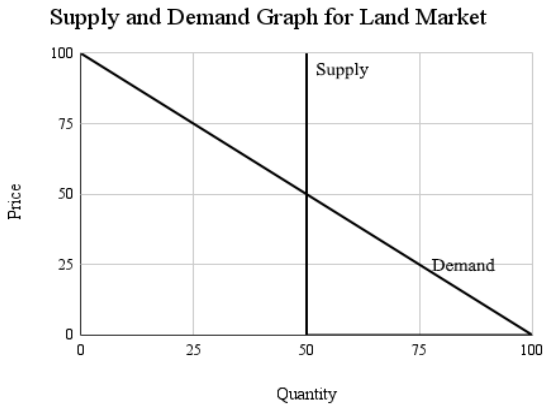
Given the scale of the housing crisis, these are far from idle economic trivia. They are a statement of the problem at hand. This incentive structure, by rewarding landowners' inactivity (vs., e.g., dense housing construction on urban land near public transit infrastructure), tends to reduce the supply of housing available in high-demand areas, leading to higher rents. This also pushes people's homes further away from city centers, extending commutes and leading to environmental, economic, and social inefficiencies. A well-designed system of land rights would aim to reward economically and/or socially productive uses of land rather than disuse. Most of us are so used to the current system that it's difficult to imagine a workable alternative; fortunately, historical thinkers have already proposed one for us. The alternative we will explore is the land value tax (LVT).

LVT

Taxes on the value of land rights have been popular with economists for the entire history of modern economics–Adam Smith (1776/2005) wrote glowingly of them in Wealth of Nations. Economic theory tells us that, unlike taxes on productive economic activities, they create no "deadweight loss" (DWL) to the economy (Foldvary, 2006). In fact, because they tend to correct the perverse incentive in the current system of land rights, collecting them would likely result in a net welfare gain.

Taxing a normal good or service creates a DWL to society by reducing the quantity of mutually beneficial trades of that product, and thereby the quantity supplied and consumed. As many of these trades produce surplus value to the consumer, producer, or both, that they cease to happen under the tax is an outright loss of social welfare. However, taxing something with a fixed quantity of supply–such as land–creates no such decrease in welfare. In the first chart below, the shaded triangle to the left of the original equilibrium point represents the DWL–the surplus value created by each transaction that would only have occurred absent the tax. In the second chart below, for the land market, a tax produces no such loss, as the supply of land is fixed and cannot be altered by taxation. Taxing land therefore creates no deadweight loss because its fixed supply permits no change in quantity supplied.





The purchase price of a lot tracks the net present value (NPV) of future profits that could be collected from owning it in perpetuity–the value of future rents minus costs of ownership (Gallin, 2008). Taxing land based on this value would increase ownership costs for empty lots, and therefore reduce their price. (The purchase price of lots taxed at their full yearly rent would fall to zero, as there would be no net present value in owning them; the purchase price of those taxed for half their rents would fall to about half their current values, etc.) Under this system, owners would no longer have an incentive to sit on land waiting for appreciation; owning land not in good use would become a burden. At high enough land value tax rates, only someone wanting to make good use of land would want to own it and pay the associated tax, boosting the land available for development.

This also means that less financing would be required to purchase land to build on, start businesses, etc.; because the taxed proportion of land values would be paid as periodic taxes rather than upfront, smaller loans would be required than under the current system, which would tend to reduce inefficiencies resulting from social inequities in access to capital.

Assuming governments implementing this policy do not intend to increase spending by the amount of the tax revenue, they can offset this new revenue by decreasing relatively inefficient existing taxes. Certainly, LVT poses an attractive alternative to council tax in the UK. Council taxes are regressive and distortionary, taking a greater proportion of income from those least able to pay and a smaller proportion from those most able (Institute for Fiscal Studies, 2020). (Even harsher conditions exist in the commercial property space–business rates are set based on the rental value of the entire property, further disincentivizing development; property owners that improve the buildings on their lots increase their rental value, and thereby increase the taxes they would pay. LVT's assessed value for a lot does not consider its current use, taking into account potential better uses, and incentivizing improvements.) There's every reason to believe that such taxes are more detrimental to economic growth than alternatives, and certainly more so than the LVT. Switching would produce efficiency gains on both ends: those won by collecting the LVT, and those resulting from the removal of the prior, harmful tax.

Funding local governments with LVT rather than council tax would also incentivize them to make investments that raise property values. Under the current system, residential plots near parks or public transit options enjoy increased value and rents, but these rents are captured by landowners (Gupta et al., 2022). Under a high rate of LVT, the increased property value would flow back into government funding, allowing for a virtuous cycle of additional infrastructure improvements. This could increase transit efficiency in cities even further than the additional housing development LVT incentivizes. Such a government's incentive to raise property values would also disincentivize overly strict development plans or zoning laws; unnecessarily limiting how many homes or storeys can be built on plots limits their value by preventing them from being put to their best possible use.

Current Implementations and Efforts

The state of Pennsylvania in the United States has long allowed for "split-rate" property taxes, in which jurisdictions charge different tax rates on land and improvements (i.e., buildings). This allows for cities to choose to tax land values at a higher rate than improvements, essentially implementing a land value tax, which is currently prohibited by a number of other US states. It allows for an intriguing comparison between localities that choose to do so and those that do not–a number of researchers have found positive results in line with theory for localities that do, including higher levels of construction (Plassman & Tideman, 2000), more housing, and denser development (Banzhaf & Lavery, 2010). New

York State's legislature has introduced a bill to allow for an LVT pilot program for up to 5 New York localities (New York State Senate, 2025).

Obstacles to Implementation

The biggest difficulties in implementing land value tax are political rather than technical or economic. The technical obstacle most commonly proposed for LVT is the accurate assessment of the value of the land; however, this can scarcely be harder than the current system of "estimating what the property value would have been in 1991" for UK Council Tax. A number of workable valuation options exist. For freehold properties currently leased, the NPV of the lease would suffice; for recently sold lots, the sale price is a good indication of market value; for lots that have not sold recently, comparison to similar lots nearby can be made, as is frequently done in appraisals.

The greater difficulty of implementing the policy comes from political considerations. People owning a lot of valuable, underutilized land in major cities would stand to lose from this policy and would likely oppose it. These landowners are disproportionately wealthy and therefore also tend to have outsized political influence.

There's also a messaging difficulty inherent in any discussion of implementing a land value tax; average homeowners hearing it, perhaps rightly, often fear that their ability to remain in their homes would be threatened by a tax on the land. Any implementation of the policy should take this into account–insofar as the policy is enacted as a revenue-neutral replacement for worse taxes, like council tax, policymakers would be wise to set rates in such a way that they do not increase the tax burden for the vast majority of homeowners' primary residences. This should be doable; the LVT would tend to increase the tax burden of people using valuable land for inefficient purposes, which, if revenue-neutral, would decrease the burden for everyone else. Nevertheless, if someone owned a small, modest single-family home on a large lot in the middle of Central London, the tax would increase their tax bill significantly. As the current system already strongly disincentivizes it, this condition tends not to hold anyway, but council tax currently allows for reductions for some pensioners (particularly on low incomes), and legislators concerned about such impacts could implement similar programs under a land value tax. I would advise they do so only carefully, though–some of LVT's efficiency gains result from the fact that a single-family home on a large lot in the middle of Central London is a socially inefficient use of that land.

There is fairness to consider, too, for those who have been playing by the rules of the current system. The present paradigm has incentivized people to purchase real estate as an investment. The sudden implementation of a high land value tax rate would wipe out the value of these investments. Take the case of a person who has purchased an expensive vacant lot in Central London just prior to

the implementation of a "full LVT"–one that taxes lots for 100% of the unimproved rent each year (perhaps about 5% of the purchase price on average). This person's lot would now be worth nothing. Because it feels inherently unfair for such people to bear the full cost of society's transition to a superior system of land rights, lawmakers should consider implementing LVT gradually. For example, even if that maximum 5% tax were the goal, increasing the rate by .25% a year for 20 years would prevent the sudden and total collapse of properties' values, allowing for purchasers to retain some benefits of holding property rights to the lot in the near-term. It would also allow those who were not intending to do anything with the land but hold it as an investment to sell it to someone who did wish to use it, though likely at a modestly lower price than they would have otherwise.

Further Considerations

That said, taxing the full rent of land is unlikely to be necessary or desirable. Even many ardent advocates of the LVT suggest targeting only 80% of the rental value of land, as a conservative buffer against overly high appraisals of plots' value. That would represent a tax rate of nearer 4% of total land values (Foldvary, 2006).

A full, 5% LVT would also raise much more revenue than does council tax, making it an unnecessarily high target if replacing council tax is the goal. The Greater London Authority (2016) estimated that 57,000 hectares in London were in residential use in 2016, with average values of £15.7 million per hectare. Even at these decade-old values, a 5% tax would yield £44.75 billion. This is greater than the total Council Tax receipts for all of England in 2024-2025–for which the Ministry of Housing, Communities, and Local Government (2025) reported receipts of £41.24 billion.

The Office for Budget Responsibility (2025) estimates that Council Tax revenue for the entire United Kingdom in the 2025-2026 tax year will be £50.2 billion. In 2022, the Office for National Statistics reported that land underlying dwellings was worth 5.9 trillion dollars in the United Kingdom in 2021, and the MHCLG (2025) reported total Council Tax receipts of £34.6 billion in 2021-2022, meaning that to collect enough revenue to replace the full Council Tax receipts, an LVT would need to tax only .59% of land's purchase value. Even if land has not appreciated since 2022, it would need to be taxed at only .85% to collect this year's anticipated revenue. If policymakers wish to enjoy the additional incentive benefits that come with having an even higher LVT rate, nearer the full rent of land, they can use any additional revenues (beyond those necessary to replace the Council Tax) to replace other distortionary taxes, reduce debt, or make infrastructure improvements. Should they so wish, they would be well-advised to ensure they are minimizing the impact on average homeowners, to avoid political backlash. A modest tax credit for the land beneath primary homes, perhaps phased out over time, is one possible option.

Policymakers hoping to implement an LVT would also be wise to pair it with an attempt to liberalize urban planning, zoning laws, or the local equivalent. Overly circumscribing the kinds of development that are allowed on a given lot limits its value. This wouldn't just reduce LVT revenues; unnecessarily limiting the number of homes on a lot would blunt the policy's potential salutary effect on housing supply.

Conclusion

Policymakers in the UK (and indeed, globally) should move to increase over time the proportion of taxes falling on land values, both in order to help address the housing affordability crisis and to rationalize the tax system overall. Options exist to mitigate any politically undesirable consequences that might result, and the long-run results are likely to be well worth it. In particular, I recommend that the UK move to replace Council Tax and business rates with land value taxation, gradually phasing in the change over a few decades, to avoid immediate windfall losses for affected landowners while unleashing development. As we have seen, this can be accomplished at quite low land value tax rates, would better incentivize adequate housing construction and development, and would incentivize government investment in infrastructure and less restrictive urban planning.

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