NAIOP
MARYLAND CHAPTERS
THE ASSOCIATION FOR COMMERCIAL REAL ESTATE

February 16, 2026

The Honorable, Guy Guzzone, Chair
Senate Budget and Taxation Committee
Miller Senate Office Building, 3 West
Annapolis, Maryland 21401

Unfavorable: SB 244 – Authority of Counties to Establish Separate Tax Rates for Land and Improvements

Dear Chair, Guzzone, and Committee Members:

The NAIOP Maryland Chapters represent approximately 700 companies involved in all aspects of commercial, industrial, and mixed-use real estate. On behalf of our member companies, I am writing in opposition to SB 244 which would authorize Baltimore City and the counties to convert to a Land Value Tax system. The rationale for our opposition is based on the following:

- Land Value Taxation would represent a major departure from Maryland's current system of uniform property taxation that assesses real estate values based on comparable sales, replacement costs and cash flows replacing it with a "*community valuation"* intended to assess land values based on the potential highest and best use of the land.
- Land Value Tax supporters propose taxing land at 5x the rate of improvements to spur growth. This economic theory behind Land Value Taxation and the expected benefits fundamentally misunderstands the other, more influential factors that determine the value of development land and ultimately the feasibility of development projects.
- The General Assembly already authorized local governments to impose split, special tax rates on vacant and blighted land. SB 244 would extend authority to apply Land Value Taxation to occupied, well maintained properties.
- There is little evidence that Land Value Taxation was a controlling force in Pittsburgh's renaissance or that it would be impactful enough to overcome market and regulatory conditions that influence development decisions in Baltimore.
- The Pittsburgh City Council repealed Land Value Taxation and replaced it with a uniform tax assessment system in 2001 after property tax bills skyrocketed and a public backlash resulted in more than 130,000 tax assessment appeals. There are few other examples to follow in the U.S. as Connecticut, Michigan and Washington D.C. have recently considered and rejected Land Value Taxation.
- The Literature and Pittsburgh contains numerous red flags about the complexity of implementation, the potential for significant tax increases for certain residential, commercial, and industrial land use types, over-assessment of land in low-income areas and other inequitable outcomes signaling that Land Value Taxation is not right for Maryland.

What is Land Value Taxation?

The concept of Land Value Taxation dates back to Henry George's 1880 book *Progress and Poverty* that argued land value is not decided by the landowner but by the community.

A pure Land Value Tax imposes taxes only on the assessed value of the land while a Split-Rate property tax imposes a higher tax rate on the land value and a lower tax rate on buildings and other improvements. In the often cited Pittsburgh example, land was taxed at rate 5.7 times the rate applied to buildings.

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Land Value Taxation also changes the way land value is measured. Typically, assessed value in a Land Value Taxation system is based on its highest and best use. For vacant or underimproved property the assessed value is determined by the land's unrealized maximum development potential assuming that all legal and physical development possibilities can be realized, regardless of current improvements, market, or financial considerations.

Advocates argue that Land Value Taxation encourages owners to develop or sell land rather than leaving it idle or underutilized because landowners pay a higher tax rate and are taxed on the land's full potential value, not just current use.

There are few examples of Land Value Taxation in U.S. cities making it difficult to set expectations based on successful implementation. Some Pennsylvania townships have applied variations, but Connecticut, Michigan and Washington D.C. have recently considered and rejected Land Value Taxation.

The most often cited example, Pittsburgh repealed Land Value Taxation and replaced it with a uniform tax rate and assessment system in 2001 after property tax bills skyrocketed and a public backlash resulted in more than 130,000 tax assessment appeals.

<u>Pittsburgh's Renaissance and Land Value Taxation</u>

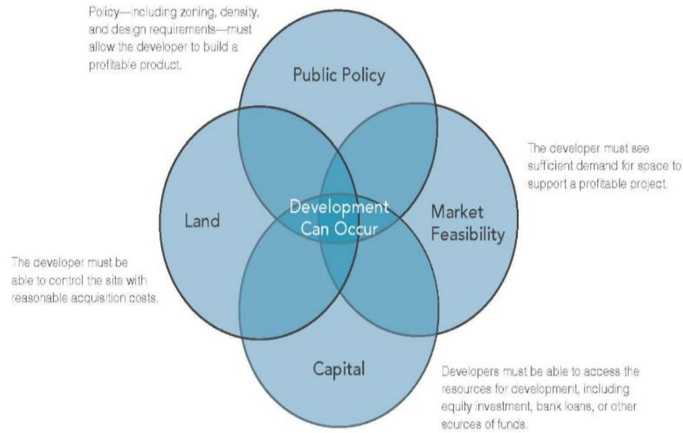
The most notable application of Land Value Taxation was in Pittsburgh Pennsylvania where a citywide split-rate tax was adopted in 1913 in an attempt to break up the vast land holdings of industrialists Andrew Carnegie and Henry Clay Frick. In 1979, as the steel crisis deepened and the city's industrial base collapsed, Pittsburgh raised the land tax to 12.55%, more than five times the value of structures, which were taxed at 2.475%.

Advocates point to Pittsburgh as evidence that Land Value Taxation can work, but the benefits from Land Value Taxation in Pittsburgh are hard to isolate. Implementation of Land Value Taxation in Pittsburgh coincided with major economic development initiatives, capital projects and increased demand for commercial and residential construction driven by the transformation of the regional economy from steel and manufacturing to education, banking, technology, and healthcare.

Between 1979 and 1983 Pittsburgh lost more than 100,000 steel related jobs as mills closed. By the late 1980s the regional economy pivoted away from industrial and manufacturing toward education, banking, technology, and healthcare. The city implemented an economic development strategy which included improved suburban access via the Fort Pitt Bridge Tunnel, completion of light rail, and a downtown convention center. Carnegie Mellon became a national leader in robotics, and the University of Pittsburgh expanded biomedical research. The Allegheny Conference on Community Development attracted corporate headquarters from Westinghouse, Alcoa, USX, and PPG industries. Federal research dollars spurred tech spinoffs from Carnegie Mellon and University of Pittsburgh. As the share of manufacturing dropped, and the service sector expanded, demand for new office space and downtown housing was generated. But even with these dramatic shifts in Pittsburgh's economy, population continued to decline from about 423,938 in 1980 to approximately 334,563 in 2000.

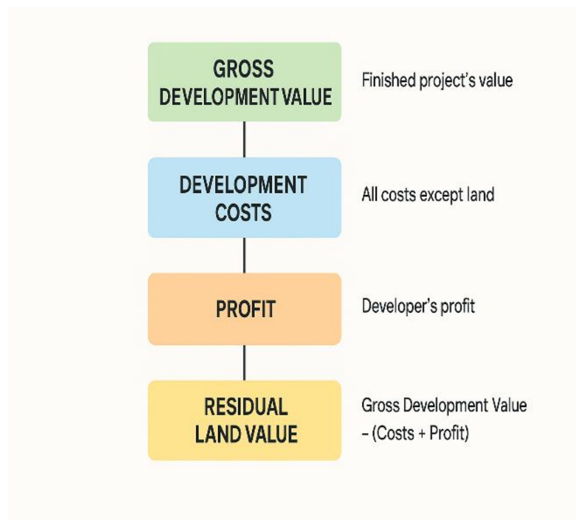
In 2001 property tax reassessments resulted in massive tax hikes: land values rose 81%, while buildings increased by 43%. The public loss of confidence in the assessment process resulted in 130,000 tax assessment appeals. By way of comparison the Maryland Property Tax Assessment Appeals Board received just over 7,600 appeals in 2022. The resulting reassessment crisis transformed the land value tax from an academic policy innovation into a political flashpoint—ultimately leading to its repeal. Faced with a public tax backlash, the Pittsburgh City Council repealed the Land Value Taxation, replacing it with a uniform property assessment and taxation system.

Land Value Taxation Underestimates Other Factors Affecting Land Value and Development Feasibility



Advocates argue Land Value Taxation is potentially better able to encourage economic development than uniform tax rates because higher land taxes pressure or incentivize property owners to enter the market and develop land more intensely rather than hold it for future use. We believe these theories underweight other factors that determine development feasibility and the value of commercial real estate, setting unrealistic expectations for policy results.

Commercial real estate is valued based on the return on investment after factoring the cost of capital, rental income, operating costs and regulatory considerations like development fees, zoning and required infrastructure upgrades. Land Value Taxation typically values land based on its highest and best use assuming all legal and physical development possibilities can be achieved, regardless of current improvements.



The approach to valuation in Land Value Taxation is at odds with real estate fianance practice where the value of land and the feasibility of a development project is often determined by the results of a Residual Land Value Analysis. Residual land value is a measure of what a developer would be able to pay for the land, given a set of assumptions about capital, construction and operating costs and project revenue.

A higher residual land value means that a proposed development project is likely to be more feasible. As unavoidable costs increase or revenues decrease, the residual land value decreases. A negative residual land value — where the land is worth less than $0 — indicates that a proposed development project is not feasible.

Residual land value represents the real-time development value of land. While Land Value Taxation assesses land value based on a future highest and best use that may or may not be attainable. Higher rates of taxation on the land will not necessarily change the factors that determine development feasibility.

History Shows Wide Variations Between Assessed Values and Sales Prices

Under Pittsburgh's Land Value Taxation system, wide variations between assessed values and observed sales prices were common. Erratic assessments created distrust in the system because homeowners with comparable homes paid vastly different property taxes.

Properties in low-income neighborhoods were more frequently over-assessed. Land value represents a higher percentage of the total property value of many low-priced properties because the improvements are smaller or older. In these cases, over-assessment of the land value unfairly increased the property tax burden of low-income homeowners who paid taxes based on assessed values that were not supported by market conditions.

This points out how difficult it can be to accurately assess land value, especially where sales of vacant land are rare and market conditions are weak. The premium that Land Value Taxation puts on assessing taxes based on the highest and best use puts more upward pressure on land assessments compared to a uniform approach based on comparable sales or current cash flows.

Developing estimates of value for a Land Value Taxation system would require parcel level analysis of development limitations and assumptions about development potential that would need to be accurate enough to withstand appeals and frequently updated. From our point of view, this is not a realistic expectation.

Land Value Taxation Would Trigger Unsustainable Tax Increases in Some Neighborhoods and Land Uses

Taxing land at significantly higher rates than the value of buildings is designed to put financial pressure on owners of vacant lots but will also pressure existing uses where the land value represents a substantial percentage of total property value. It will also likely increase taxes in commercial districts and residential neighborhoods where current land values are high.

For example, Land Value Taxation theory might suggest the highest and best use of waterfront property is high rise condominiums. This approach is at odds with Baltimore's efforts to maintain the port dependent land uses, warehouse and logistics facilities near the harbor that are vital to the state and regional economy. A study of tax impacts conducted in support of the failed Detroit Land Value Taxation proposal, forecasted that real estate taxes on Engineering / R&D uses would increase by 24.6%, Warehouse 28%, Logistics 29.3%, Low Rise Office 74.6% Marine 84.5%, Railroad by 85.9%, and Materials Storage by 186.2%.

The literature and Pittsburgh's experience suggest that residential neighborhoods with high land values could experience significant increases in real estate taxes under multiple scenarios. The table below applies three scenarios to an existing single-family house in North Baltimore. The table summarizes the results of three proposed Land Value Taxation scenarios that could increase real estate taxes for the subject property by 60% to 186%.

Real City House Tax Scenarios	Assessed Value	Current Uniform Tax, Land and Improvements Taxed at 2.24%	Advocates' 9.1% Land Tax, Improvement Tax 0%	Split Rate 7.1% Land Tax, Improvement Tax 2.24%	Pittsburgh 5.7x (12.7%) Land Tax, Improvement Tax 2.24%
Land Value	**$202,500**	**$4,536**	**$18,427**	**$14,377**	**$25,171**
Improvement Value	**$291,600**	**$6,531**	**$0**	**$6,531**	**$6,531**
Total Valuation / Tax	**$494,100**	**$11,067**	**$18,427**	**$20,908**	**$31,702**

Sharp increases in real estate taxes in residential areas would certainly cause a meaningful number of high-income households to move out of the city. This raises concerns on multiple levels including putting further downward pressure on Baltimore's income tax revenues which are already much lower than other large jurisdictions.

Sincerely,

T.M. Ballt

Tom Ballentine, Vice President for Policy
NAIOP – Maryland Chapters, *The Association for Commercial Real Estate*

cc: Senate Budget and Taxation Committee Members
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