



WHAT WOULD A LAND VALUE TAX DO FOR PRINCETON, NJ?

A summary of the on-the-ground effects of a Land Value Tax Shift in Princeton, NJ



A LAND VALUE TAX SHIFT FOR PRINCETON NJ

Purpose:

This document analyzes the prospects for changing the property taxes collected by the Municipality of Princeton into a land value tax (LVT).

What is an LVT shift?

Princeton, NJ currently collects property taxes using a traditional property tax, which charges a single tax rate to the combined value of both land and buildings for all taxable properties within the township. In 2024 this rate was \$0.578 per \$100 of total property value. Here, we consider a tax shift whereby the tax rate on building values is reduced and offset by an increase in the tax rate on land, leaving overall revenues unchanged. For the rest of this report, we refer to this as an LVT shift.

What benefits does an LVT shift have?

As the conventional wisdom goes tax something, you get less of it. Taxes on income penalize productive work; corporate taxes reduce investment and innovation; sales taxes raise prices and cause employment to shift out to neighboring areas; and taxes on buildings discourage construction. However, there is one exception: taxes on land.

Because the amount of land in each location is physically fixed (land cannot be moved to avoid a tax), taxes on land do not distort economic activity or discourage growth. LVT has many desirable features. Shifting the tax base onto land can boost housing construction and maintenance, stimulate entrepreneurship, and raise overall property values. Property taxes in general, and LVT in particular, are significantly better for economic growth, income and consumption than are corporate and personal income taxes. LVT can reduce per capita energy use and carbon emissions, and incentivize efficient local governance. Crucially, LVT does not get passed on to tenants in the form of higher rents, but rather can reduce inequality by directly capturing the economic rents of land and its location.

Best of all, LVT can help policymakers to shift the tax base onto land rents while creating a tax environment that rewards Princeton property owners who invest in maintaining, renovating and redeveloping their properties. It is for these reasons that land value taxes are supported by a wide range of thinkers, economists and policy institutions, including Adam Smith and Princeton's own Albert Einstein.

Notes on the Analysis

Currently, the Princeton assessor splits property values very close to 50-50 between land and buildings, meaning that half of all tax revenues derive from land.



We analyze a LVT shift that would increase this proportion such that 75% of tax revenues are generated from land, with the remaining 25% deriving from buildings.

This could be achieved by splitting the municipal property tax rate in two and charging \$0.860 per \$100 of land value and \$0.291 per \$100 of building value (as compared to \$0.578 presently). To estimate the impact of such a policy on the tax bill of households in Princeton, we obtained spatial data from Regrid, which includes building, land, valuation and legal information on 8,836 parcels within the boundaries of Princeton township.¹ Of these, 7,950 parcels are taxable (non-exempt) and comprise \$7.059 billions of assessed value, sufficiently close to the 7,991 parcels and \$7.134 billion reported in the 2024 budget.

We therefore consider this data to be sufficiently accurate for the purposes of a preliminary analysis of the effects of an LVT shift. Our analysis uses the assessed building and land values to calculate the 2024 tax bill for every property in Princeton and then compare this to what the tax bill would have been under the proposed LVT shift

Results

The tables below present the impacts of the proposed LVT on different property types. Residential properties make up the majority of parcels in Princeton and currently pay an average of \$4,900 in municipal taxes (these figures exclude property tax payments to school districts or to Mercer County). Under the proposed LVT, the average tax bill for residential properties increases to \$4,940, an increase of only \$40 or 1%.

Because of their productive use of land, apartments tend to enjoy a tax cut from just under \$16,000 at present to \$12,740 under the proposed LVT, savings of \$3,200 per year or a 20% reduction. As expected, vacant land experiences a tax hike of close to 50% under the proposed LVT, an increase of \$560 over and above the current average of \$1,150. Commercial buildings also tend to enjoy a tax cut of around \$700, or 6%.

Table 1: Average impacts of proposed LVT on property tax bills

| | Vacant Land | Farm | Residential | Apartments | Commercial |
|--------------------------|-------------|-------|-------------|------------|------------|
| Average Current Tax Bill | \$1,150 | \$60 | \$4,900 | \$15,950 | \$12,690 |
| Average LVT Tax Bill | \$1,710 | \$80 | \$4,940 | \$12,740 | \$11,980 |
| \$ Change | +\$560 | +\$30 | +\$40 | -\$3,210 | -\$700 |
| % Change | +49% | +49% | +1% | -20% | -6% |

¹While Mercer County publishes a downloadable assessment roll [here](#), it is formatted in such a way that makes it very difficult to isolate property valuations. Princeton township appears not to publish assessment rolls on its website.



Table 2 provides more detail into the scale of changes in tax bills for different property types, for example by showing that all 232 of properties identified as vacant land experience an increase in tax bills of between 25 to 50%. Among residential properties, just over a third of properties (2,835) experience a 10 to 25% increase, and another 1,836 see tax bills increase by less than 10%. Just over 1,000 residential properties enjoy a tax cut of below 10%, and another 1,000 enjoy an increase of between 10 to 25%. 70 of the 84 apartment properties enjoy a tax cut, whereas changes for commercial properties are fairly evenly spread throughout the distribution.

Table 2: Number of properties experiencing different percentage changes in tax bill under the proposed LVT

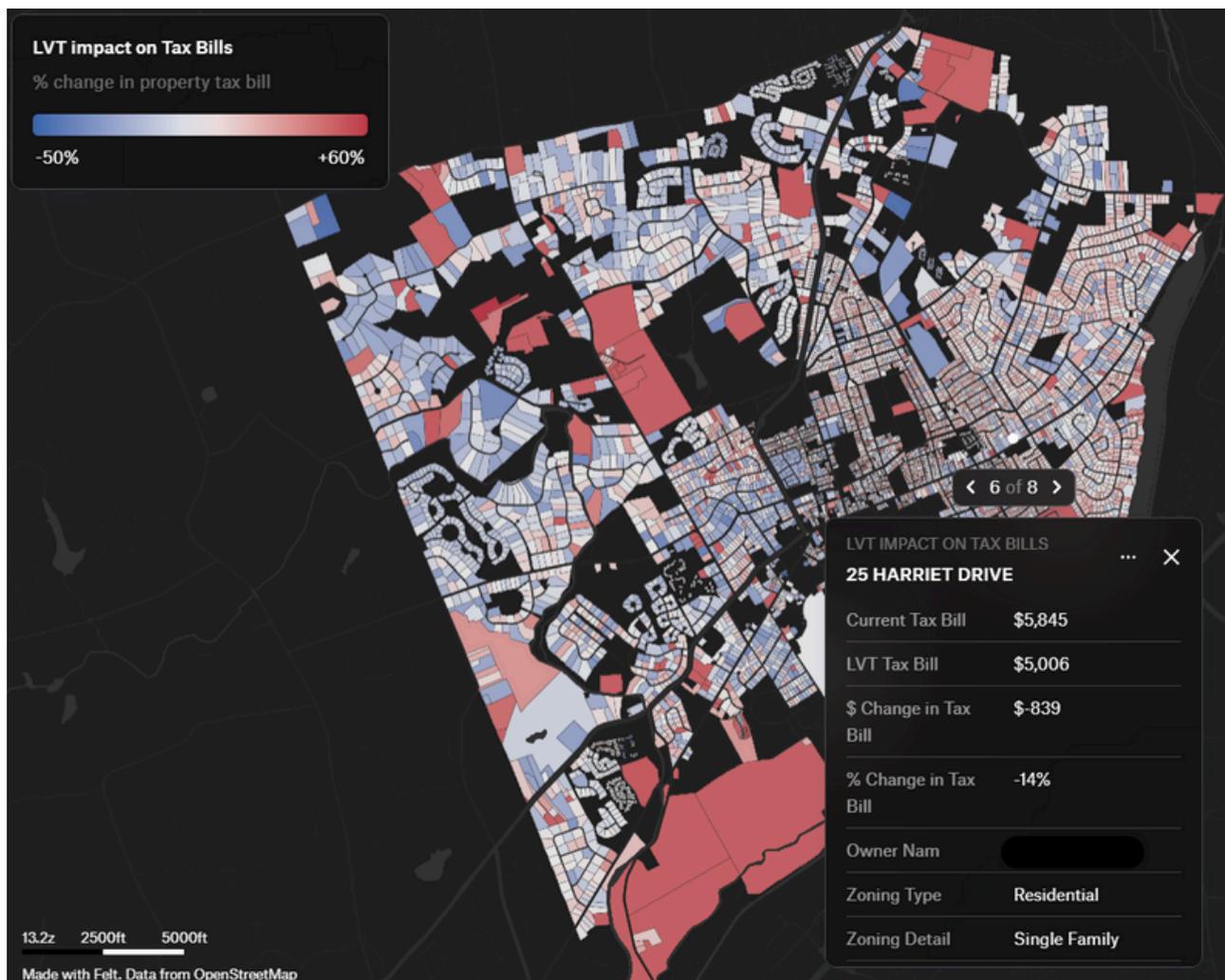
| Change in Tax Bill | Vacant Land | Farm | Residential | Apartments | Commercial |
|-----------------------------------|--------------------|-------------|--------------------|-------------------|-------------------|
| -50% to -25% | 0 | 0 | 186 | 5 | 23 |
| -25% to -10% | 0 | 0 | 1,041 | 46 | 77 |
| -10% to 0% | 0 | 0 | 1,184 | 19 | 66 |
| 0% to +10% | 0 | 0 | 1,836 | 11 | 54 |
| +10% to +25% | 0 | 0 | 2,835 | 3 | 86 |
| +25% to +50% | 232 | 27 | 53 | 0 | 14 |
| Total Number of Properties | 232 | 27 | 7,135 | 84 | 320 |

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Map of Results:

Appendices to this report contain a range of maps depicting the state of property values and the impact of the proposed LVT shift. Appendix 1 depicts total property values across Princeton, with the large parcels owned by Princeton University clearly visible. In Appendix 2, we divide by parcel size (in square meters) to show a heat-map of land values, which clearly increase close to downtown and alongside Lake Carnegie. Finally, the map in Appendix 3 depicts the percentage changes in tax bills throughout Princeton as a result of the LVT.

Alternatively, an interactive map of these results can be viewed using [this link](#). Properties in blue enjoy a tax cut, whereas properties in red see their taxes increase under an LVT. Properties can be filtered by zoning type using the drop-down menu on the left. Details for individual properties can be viewed by clicking on them.



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Example Properties

We describe the impact of this policy on a few specific example properties. Note that because total property value in Princeton is split exactly 50-50 between land and building values, a general rule-of-thumb is that the LVT shift will reduce tax bills for any property where building values are more than half of total property value and increase tax bills for any property where land is the majority of the property's value.

Example #1: Albert Einstein House

Located at 112 Mercer Street, the Albert Einstein House was the home of its namesake for twenty years while working as a resident scholar at the Institute for Advanced Study, which has owned the property since 2012. Despite its historic significance, the house remains taxable, and with a valuation of \$1,425,300, it paid \$8,238 in municipal property taxes in 2024.²

This \$1.4m in property value is split between \$594,500 of land value and \$830,800 of improvement value, meaning that the building makes up 58% of property value. Following the rule-of-thumb above, we can expect that the proposed LVT shift will result in a tax cut for the Albert Einstein House. Indeed, multiplying the land and building values by their respective tax rates under the LVT shift indicates that the tax bill would have been \$7,532 under this policy.³

Thus, the proposed LVT shift results in a tax cut of \$706 for the Albert Einstein house, or a 6% reduction compared to current tax levels.



²Total property value of \$1,425,300 multiplied by a municipal tax rate of \$0.578 per \$100 of property value returns a tax bill of $(\$1,425,300 \times \$0.578 / \$100 =)$ \$8,238.

³Land value of \$594,500 multiplied by the proposed land value tax rate of \$0.860 per \$100 plus building value of \$830,800 multiplied by the proposed building tax rate of \$0.291 per \$100 returns an LVT bill of $((\$594,500 \times \$0.860) / \$100 + (\$830,800 \times \$0.291) / \$100 =)$ \$7,532.

Example #2: 21 Wiggins Street

Among all properties coded as residential, 21 Wiggins Street receives the largest dollar increase in property taxes under an LVT shift. Located on 0.33 acres of land close to downtown, this property has a land valuation of \$1,703,000. Its two buildings include a 2.5 story house that was formerly home to the HiTOPS non-profit and a smaller one-story commercial office space, which are valued at \$221,900. 21 Wiggins therefore has a total property value of \$1,924,900, of which the existing buildings comprise only 12%, significantly lower than the citywide average of 50%.

Consistent with the current use of this property being relatively low-productivity, given its proximity to downtown and high land values, permits were approved in 2021 to demolish the commercial office space and integrate the larger building into a new four-story residential structure of 19 residential units. Ownership of the property is hidden behind an LLC (21 Wiggins LLC), however Princeton Property Partners advertise the property as one of their works-in-progress, and appear to currently occupy the larger building.

Given 21 Wiggins' high land value and low building value, it is unsurprising that it experiences a meaningful increase in municipal property taxes under an LVT. Specifically, while its 2024 tax bill was \$11,126, this would increase to \$15,288 under the proposed LVT shift. This represents an annual increase of \$4,163, or 37% relative to the existing property taxes. Given that construction of the approved project has not yet begun, we can hope that such an increase in the annual holding-cost for this property would speed redevelopment and spur the provision of much-needed housing for current and hopeful Princeton residents.



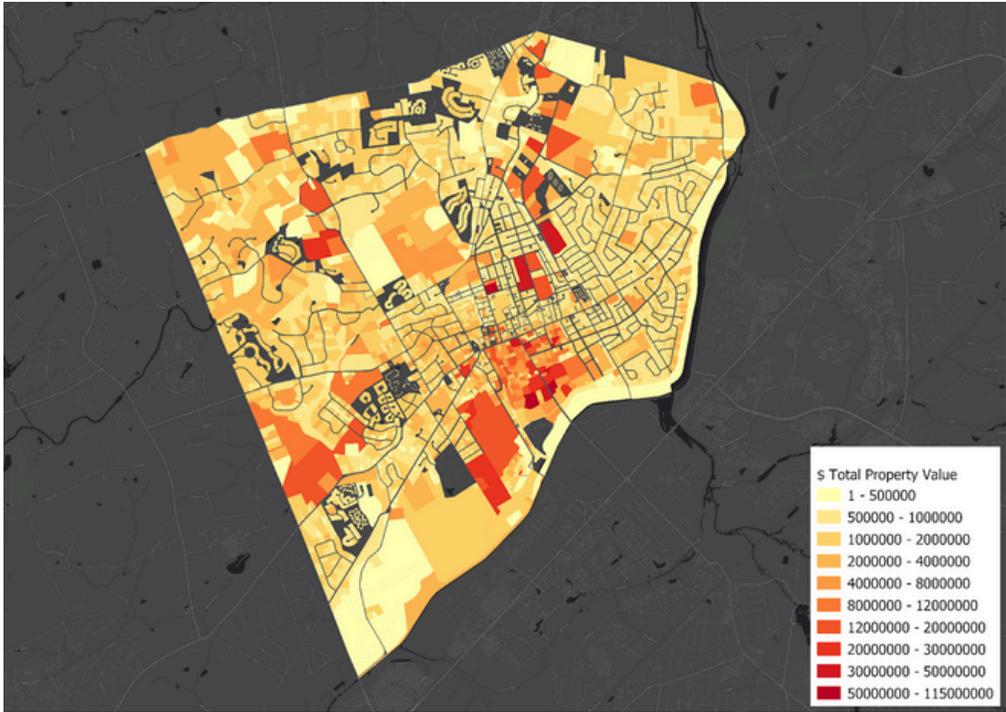
Example #3: Vacant Land at 532 Princeton-Kingston Rd

Finally, we explore an example of the types of vacant land that would experience a significant increase in taxes under the proposed LVT shift, by looking at 532 Princeton-Kingston Road (Route 27). Since at least 2007, this property has been owned by Dickson Development Corporation. Located just over a mile from downtown, this property is 0.64 acres of overgrowth nestled between residential properties.

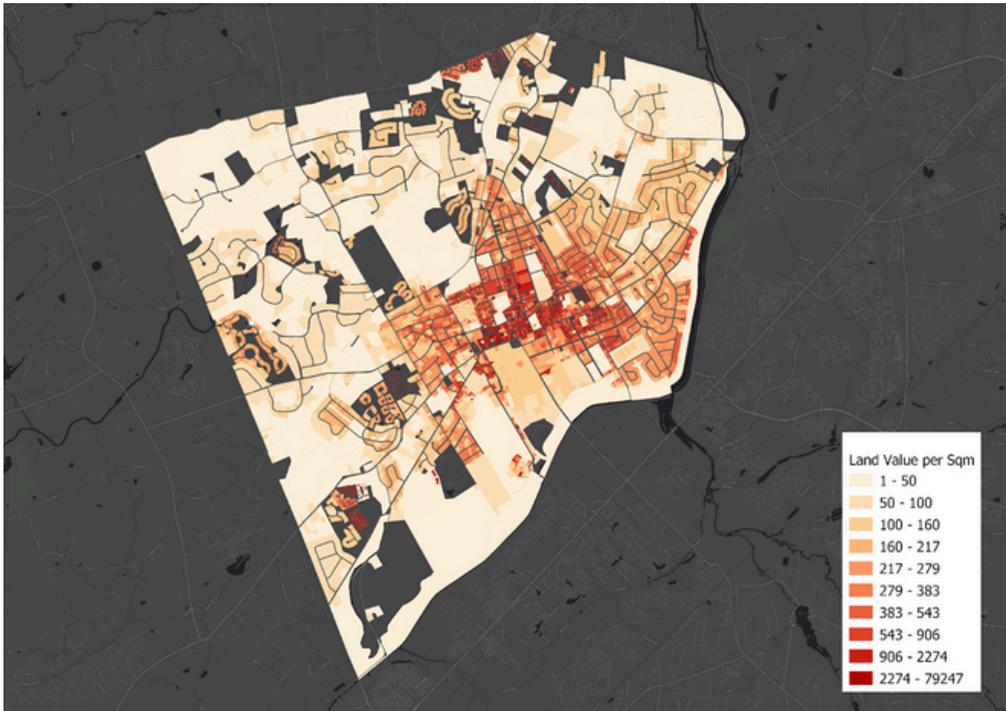
Its 2024 valuation of \$364,000 resulted in a \$2,104 municipal tax bill. Because this value was entirely attributed to land value, the proposed LVT shift results in this tax bill increasing by \$1,026, to \$3,130. This is an increase of 49% over and above the current tax bill, further emphasizing the way in which land value taxes shift the tax burden onto those who unproductively hold vacant land for speculative purposes.



APPENDIX 1: MAP OF TOTAL PROPERTY VALUES IN PRINCETON TOWNSHIP



APPENDIX 2: LAND VALUE PER SQUARE METER (\$/SQM)



APPENDIX 3: PERCENTAGE CHANGE IN TAX BILLS UNDER THE PROPOSED LVT

