

THE VIBRANT CITIES ACT

To spur homebuilding and economic investment in Washington cities, tax buildings less and vacant lots more.

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The Vibrant Cities Act is a revenue-neutral option for Washington cities to rebalance property taxes so they encourage homebuilding and discourage land speculation and vacant lots in the heart of our communities. Cities can opt in, applying an exemption on all buildings, shifting taxes toward land, and away from local investments and housing. When we tax buildings less and land more, we stop rewarding empty urban lots and instead spark economic vitality in our downtowns and more convenient, affordable home choices within our cities.

The problem: Too much vacant urban land and not enough homes

Washington faces a shortage of homes, yet many cities have an excess of empty or underused lots where new housing could be built but is not. One big reason:

- Property taxes treat **buildings and land the same**, which means...
- Owners will pay a lot **more tax** if they construct a new building on empty land...
- So they often opt to **hold land vacant** and **speculate** on its rising value.

The result: empty, unproductive land in the heart of our cities is rewarded, and infill homebuilding is penalized.

The solution: Tax buildings less and land value more

The Vibrant Cities Act gives cities a legal option to shift property tax from buildings to land, a proven way to:

- Encourage in-city housing construction and reinvestment;
- Reduce the payoff from holding land vacant;
- ...While keeping **total tax revenue unchanged**.

How the Vibrant Cities Act works

One way to tax buildings less and land more is to charge a higher tax rate on land and a lower rate on buildings, but Washington state's constitution prohibits that kind of non-uniform tax rate. State law does allow an alternative that has the same positive effects: exemption of building value from property tax.

Here's how:

- The Vibrant Cities Act lets cities exempt from property tax a portion of the value of all buildings.
- A new balance is struck for revenue-neutrality where an upward adjustment of the tax rate makes up for the building exemptions—keeping local revenue the same.
- The upshot: tax bills shift toward land and away from buildings, making it more expensive to sit on underutilized lots and more viable to build infill housing.

Cities that opt in can choose:

- To exclude farmland, ports, or industrial zones
- A building value exemption that's a **flat amount**, a **percentage**, or a **hybrid**

Cities can tailor the level of exemption to keep the new tax rate below the state's constitutional 1 percent property tax cap. For taxing districts that cover properties both inside and outside city boundaries, like fire or schools, cities can leverage a mechanism to ensure no revenue changes for those districts.

Economic modeling of the Vibrant Cities Act applied to Spokane shows that:

- For most homeowners, it has little effect on their tax bill.
- It yields larger tax reductions in neighborhoods with lower incomes.
- The exemption can be tailored to ease the impact on owners of low-value buildings.

Vacant to vibrant: Broad community benefits

More homebuilding where Washingtonians need homes

Lowering the tax on buildings reduces the financial penalty on constructing new homes or otherwise improving properties. It tilts the scales toward creating something productive rather than letting land lie unused or blighted in urban downtowns and high-demand residential neighborhoods.

Less speculative land hoarding in the heart of our communities

Speculators often benefit from keeping prime city parcels vacant and betting on rising prices. Shifting taxes to land raises holding costs, cutting into the unearned profit of speculation and pushing underused land to market for redevelopment.

Stronger local economies

The Vibrant Cities Act provides a no-cost stimulus for economic development. Cities can adopt a powerful tool to spur infill housing, revitalize downtowns, and broaden the general tax base—with no loss of total property tax revenue.

A community-minded property tax system

The value of a parcel of land is derived in large part from the public investments, vibrancy, and economic activity of its surroundings. And landowners reap that benefit whether or not they do anything productive on their land. Exempting building value to shift property taxes to the land returns some of that community-created land value back to the local coffers to fund shared public benefits.