

Does a Higher Real Estate Tax Rate for Unbuilt Building sites lead to an Increase in the Supply of Building Land – The Case of the City of Espoo

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2.11.2006

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- Taxation of real property in Finland
- Increased tax rate for unbuilt building sites
- Some comments to the increased tax rate

Taxation of real property in Finland

- All real estate except for fields and forest are subject to real estate taxation
- Municipal councils set the tax rates
- Tax rate for real estate used as permanent residence has to be set between 0,22 and 1,00 %
- For other properties the tax rate can be 0,60 % higher

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Taxation connected to the transaction of real estate

- Transfer tax 4 % from the transaction price for real estate, 1,6% for apartment house company shares
 - a buyer aged between 18 and 40 years is exempted from the tax when buying his first own home
- Capital gains tax 26 %
 - exemption from the tax if the seller has used the property uninterruptedly as a permanent residence for at least two years

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Taxation of unbuilt building sites: Amendment 2000

- Since the year 2000 municipal councils have had the possibility to impose an increased real estate tax rate for unbuilt building sites in detailed plan areas
- The tax rate has to be set between 1,00 and 3,00 per cent of the value of the building site

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Objectives of the amendment of year 2000

- moderate increase in land prices
- increase the supply for building land

Higher tax rate was justified by the costs of utilities provided by municipality in local detailed plan areas

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Taxation of unbuilt building sites

- In 2001 49 municipalities used the higher tax rate, in 2005 88 municipalities
 - mainly outside the growth areas
- Increased tax rate was on average 1,8 per cent units higher
- 10 % of the building sites subject to the higher tax have been built yearly

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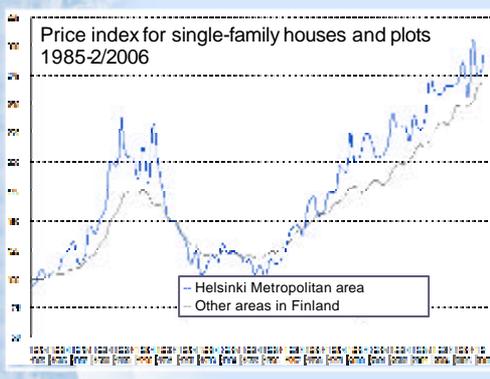
Situation in 2005

- Prices for unbuilt building sites in Greater Helsinki nearly doubled between 2000-2005
- Common opinion among policy makers was that one of the main reasons for the shortage of building land was that local detailed plans were not implemented

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Price index for single-family houses and plots 1985-2/2006



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Government's measures to limit the price increases

1. Amendments of the taxation of unbuilt building sites
2. Compulsion for municipalities to draft local plans
3. A reduction of the possibilities to appeal against a plan
4. Fastening of the appeal process
5. Monetary support to the building of municipal infrastructure
6. Planning of residential areas on state-owned land.

Taxation of unbuilt building sites: Amendment 2006

- 14 municipalities of Greater Helsinki are obliged to impose the higher real estate tax
 - in these municipalities the tax rate has to be at least 1% higher than the normal real tax rate but not higher than 3%
- other municipalities can choose
 - increased tax rate 1- 3%

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Building sites that qualify for the increased tax rate

1. *Local detailed plan* of the area has been effective for at least a year
2. *More than 50 %* of the permitted building volume is planned for residential purposes
3. There are *no buildings* used for residential purposes or a construction work for such a building has not been started

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Building sites that qualify for the increased tax rate

4. There is a *feasible road access* to the site or a *possibility* to arrange one
5. The building site *can be connected to a municipal water pipe and sewer*
6. There is *no building prohibition* enacted according to the sections 53 or 58.4 of The Land Use and Building Act
7. the building site is owned *by one owner / party*

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Building sites exempted

- Unbuilt building sites, whose owner owns also the neighbouring building site and uses it as a permanent residence can be exempted from the higher tax
- The imposition of higher tax to these sites is up to the decision of municipal council

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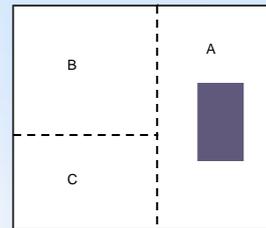
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Building sites exempted

- If there are several unbuilt building sites owned by the same owner, who has his or her permanent residence on the neighbouring site, only one of the unbuilt building sites will be exempted from the additional tax.

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Survey to owners of unbuilt building sites in Espoo

- Survey was sent to 872 landowners representing 1101 building sites
- Response rate 42 %
- Aim was to find out
 - landowner's main interests in owning the building site
 - landowner's plans concerning the building site

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Interest in owning the building site

- 44 % were planning to build on the site by themselves or waiting for their children to do it
 - 1/3 during the following two years
 - 1/6 as soon as the plot can be connected to municipal infrastructure
 - 1/6 as soon as the apartment house company is established and pre-sales shows enough demand

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Investment motivation of landowners

- More than half of the landowners regarded land as a safe or profitable investment
- Almost 20 % wanted to retain the land area in family ownership

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Landowners' reasons for not building on the building site

- most respondents were using the site for other purposes
 - most commonly as a garden or a recreational home
- some were not using the site because they wanted more privacy
- 1/6 felt that the local detailed plan was not good
 - comments for both too low and high density

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Effectiveness of the increased tax rate

- The amendment was based on the assumption that there exists enough detailed plan areas in Greater Helsinki
- However, less than one third of the planned areas qualify for the additional tax i.e. are ready for building

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Effectiveness of the increased tax rate

- Most landowner's owning an unbuilt building site had made plans how to use the site
- Those who were planning to build could be delayed because money is also required for the additional tax
- Professional developers are likely to add the costs of the tax to the prices of dwellings

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Some comments to the increased tax rate

- The landowners who want to retain the land in their possession but do not want to build won't sell or build if they can afford the additional tax
 - vertical inequity because the tax favors those who have higher incomes or own more assets

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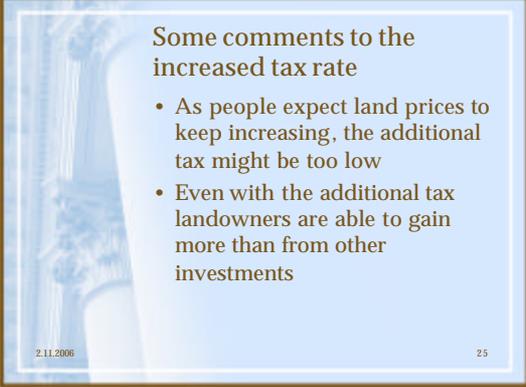
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Some comments to the increased tax rate

- Some landowners feel they were misinformed when they divided the plots
 - some plan now that they would apply for the possibility to combine the sites as one again
 - in this case the potential supply decreases

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Some comments to the increased tax rate

- As people expect land prices to keep increasing, the additional tax might be too low
- Even with the additional tax landowners are able to gain more than from other investments

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Thank you for your interest!

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