

Does a Higher Real Estate Tax Rate for Unbuild Building Sites Lead to an Increase in the Supply of Building Land – The Case of the City of Espoo

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SUMMARY

The prices for unbuilt building sites for residential use have been increasing in the Greater Helsinki Area, indicating a high demand for building land.

According to the opinion of the decision-makers there is enough area covered by local detailed plans, but the areas remain undeveloped because private landowners are unwilling to build. As a solution the Finnish parliament enacted an amendment to the Real Estate Tax law, which obligates the municipalities in Greater Helsinki to impose an additional real estate tax rate to unbuilt building sites and plots built in violation to the plan. The main objective of the new legislation is to support plan implementation and increase the supply of building land.

The aim of this study is to evaluate the effectiveness of the new tax legislation and understand, why privately owned building sites have remained unbuilt. The analysis was conducted on the example of the city of Espoo and was based on a survey of all owners of unbuilt building plots in the local detailed plan area in the city.

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1. INTRODUCTION

During the past few years prices of unbuilt building sites for residential use have been increasing in the Greater Helsinki area¹, the annual increase being about 10 to 20 per cent (NLS 2002-2005). The price changes can be explained partially by the population growth in Helsinki Metropolitan area as well as the low interest rates and increased household income, which have led to increasing housing demand. Whereas the demand for building land has increased, the number of transactions has decreased since year 2002, which can be interpreted as a sign of decreasing supply. (NLS 2002-2005).

According to The Land use and Building Act² (LBA 132/1999) Finnish municipalities have extensive rights to decide about land use planning in their area. Therefore the municipalities are expected to take measures to increase the supply of building sites and thus moderate the price increase. Possible measures include drafting new local detailed plans for housing areas on municipality or privately owned property as well as increasing the level of implementation of existing plans.

According to the estimates done by the Helsinki Metropolitan Area Council (YTV), there are more than six million floor square metres of unused building right for residential purpose in the existing local detailed plans in Helsinki Metropolitan Area³. This corresponds with about five years' need for building land for new dwellings. (Virtanen 2005)

According to the opinion among decision-makers there is enough area covered by local detailed plans, but the areas remain undeveloped because private landowners are unwilling to build on them. As a solution to that the Finnish parliament enacted an amendment to the real estate tax law, which obliged to impose an additional real estate tax rate to unbuilt building sites and plots built in violation to the plan. The main objective of the new legislation is to support plan implementation.

2. DEFINITIONS

Local plans. Land use in municipalities is organized and steered by local master plans and local detailed plans. The local master plan indicates the general principles of land use in the municipality. The local detailed plan indicates how land-areas within a municipality are used and built. (LBA section 4.1.)

Plot division. In the local detailed plan, an area within a building block is divided into plots if necessary to arrange for land use (*plot division*). The plot division may be binding or may act as a guideline. When the central location of the area, the building density of the block or the explicitness of the land administration system so require, the plot division shall be made binding. The division is indicated on the map of the local detailed plan and prescribed as binding in the local detailed plan. (LBA section 78.1)

Plot. Plot refers to a real estate formed in accordance with a binding subdivision plan and entered into the Real Estate Register as a plot. (The Real Estate Formation Act 554/1995, section 2.1:3)

Building site is either

- a plot
- a building site included in a plot division or
- a building block, with no plot division

defined in the local detailed plan. In cases 2 and 3 the physical extent of the building site may differ from the property division and ownership. (The Real Estate Tax Act 654/1992 section 12 a)

Unbuilt building site. In this article an unbuilt building site is defined as a building site without any building for permanent residence. Recreational housing and outbuildings etc. are not regarded as such.

Permitted building volume refers to the maximum floor area of the buildings, which, according to the local detailed plan, is allowed to be built on the building site. The permitted building volume can be expressed either as a density rate, i.e. the proportion of maximum permitted floor area to the area of the building site, or as the numeral amount of the maximum of the permitted floor area of the building.

Permitted type of building. The type of building permitted on a building site is defined in the local detailed plan. In the case of residential buildings the plan defines as the permitted building types detached houses, semi-detached houses, terraced houses or blocks of flats, or some combinations of these. At the same time the maximum number of buildings on a building site and storeys in a building are defined. (LBA section 55)

3. FINNISH SYSTEM FOR LAND USE PLANNING AND PLAN IMPLEMENTATION

In Finland spatial planning is conducted through systematic hierarchy of planning policy from national level to local level. Land use objectives of national significance are decided at the national level. These objectives must be further included into the regional plans and development programs. Thereafter the regional plans shall guide the drawing up the local master plans. At the local level, besides the local master plan, also a local detailed plan is drawn. Local master plans identify the general spatial framework and criteria for the land use

over an area and shall be further used as a guideline for the local detailed plan. The local master plan is implemented by the local detailed plans that are legally binding, although in practise local detailed plans have also been drafted without a master plan covering the planned area. The highest-level plans are not valid in the territories that are included in the local detailed plans. Local detailed plans regulate the development. Any significant development in urban areas requires a local detailed plan and further the construction process requires a building permit. In the areas that are covered by the local detailed plan the building permit must be issued if all other conditions, such as connection to required infrastructure, are fulfilled.

In the process of land development the municipality plays a dominant role. Finnish municipalities have a so-called planning monopoly, which is understood in the way they have extensive rights to decide about the content and areas covered by the local plans. In the areas covered by the local detailed plan the municipality is responsible for the implementation of the streets, water supply and drainage, and other public areas and services. Thus the municipality can regulate the supply of land for development by improving the implementation of already adopted plans, by adopting new plans and by investing into infrastructure, which encourages the plan implementation. The municipality can use a variety of instruments to promote plan implementation. This includes, for example, the right to expropriate the land, pre-emption, remainder to build and land use agreements. Municipality can also allocate the land in the form of leasehold and incorporate in the lease contract an obligation for the lessee to complete construction within a specified period. In case of allocation of land in the form of the freehold the municipality can impose a penalty on the landowner if the construction process is not started in a certain time. In the areas owned by private landowners also financial incentives are used to improve the implementation of plans. These include, for example, the exemption from capital gains tax when land was sold to a municipality between November 15, 1999 and June 30, 2000 or the in 2006 amended law concerning additional real estate taxes to unbuilt building sites.

4. TAXATION OF RESIDENTIAL REAL PROPERTY IN FINLAND

Real properties in Finland are subject to real estate taxation. The real estate tax is imposed to all real properties except for fields and forests. (The Real Estate Tax Act section 3) The real estate tax is collected by the municipality, in which the real property is located.

The amount of real estate tax is based on the value of the real estate. Municipal councils define the tax rate annually before each taxation year. (The Real Estate Tax Act section 11.1). The tax rate for real estate used as permanent residence has to be set between 0,22 per cent and 1,00 per cent of the value of the land and buildings. The municipal council has the right to impose a higher tax rate to real properties with buildings used for other purposes than permanent residence, such as recreational or secondary homes. For these real properties, the tax rate can be 0,60 per cent higher than the tax rate for real estate used as permanent residence.

As to taxation of unbuilt building sites, municipal councils have, since the amendment of the Real Estate Tax Law in year 2000, the possibility to impose an additional tax rate to unbuilt residential building sites. If the municipality decides to impose this higher tax, the tax rate for unbuilt residential building sites has to be set between 1,00 and 3,00 per cent of the value of the building site.

The amendment of the law in 2000 was motivated by a growing need for building land and rising house prices in the growth centres of Finland, especially in the Greater Helsinki. According to the common opinion among decision-makers, one of the main reasons for the shortage of building land was that the local detailed plans were not implemented. The aim of the higher tax rate was to motivate landowners to either build on the sites or to sell the land to someone who would. The higher tax rate was justified by the costs of utilities, which the municipality provides to the area. (Government Bill 100/1999)

In year 2001, the possibility to impose an additional tax rate for unbuilt residential building sites was used by 49 of the 432 Finnish municipalities. Since then, the number of these municipalities has increased yearly, being 88 in 2005. Most of them were small municipalities outside the actual growth areas of Finland. In 2005 the tax rate for unbuilt building sites in these municipalities was on average 1,8 per cent units higher than the tax rate for residential sites that were built. In 2005, the total amount of tax collected for unbuilt building sites was 1,7 million euros, which is about 0,2 per cent of the real estate taxes collected in total. (Tax Administration 2006). Yearly about 10 per cent of the unbuilt building sites subject to the higher taxation have been built. (Takalo-Eskola 2005, p. 21-22) There is no comparative information available about how many unbuilt building sites, not subject to the higher real estate tax, have yearly been built.

The transactions of real property are also subject to taxation. In Finland the buyer of a real property must pay a transfer tax of 4 per cent. In purchases of apartment house company shares⁴ the transfer tax is 1,6 per cent. (The Transfer Tax Act 931/1996 sections 1, 6, 20) In addition to that, if the selling price of the real property exceeds the purchase price, the seller has to pay capital gains tax for the difference of these prices, i.e. the capital gain. The tax rate for capital gains is at the moment 26 per cent. The seller of real property has the exemption from the capital gains taxation if he or she or his/hers family has used the real property as their permanent residence uninterruptedly for at least two years (The Income Tax Act 1535/1992 section 48).

4.1. Taxation of unbuilt building sites: amendment of year 2006

In the Greater Helsinki, prices for unbuilt building sites nearly doubled during the years 2000-2005 (NLS 2002-2005). The estimated need for new dwellings in the province of Uusimaa⁵ is about 12 000 dwellings per year, mainly in the area of the Greater Helsinki, the largest growth centre in Finland. The amount of new dwellings built has been varying between 8 500 and 10 500 dwellings per year (Vanhanen 2005). In response to the increasing

demand and prices of building land in the Greater Helsinki, real estate taxation for unbuilt building sites was revised in 2005.

The amendment of real estate taxation is part of the Finnish government's six measures program, which aims to increase the amount of building land available and moderate the prices for building land. As tools for reaching the goal, the following means were suggested: (1) amendments of the taxation of unbuilt building sites, (2) some kind of compulsion for municipalities to draft local plans, (3) a reduction of the possibilities to appeal against a plan and (4) fastening of the appeal process by increasing the monetary resources of the appellate authority, (5) supporting of the building of municipal infrastructure in areas where it would lead to increasing supply of building land and (6) planning of residential areas on state-owned land. (Government proposition for the State Budget 2006)

According to the renewed legislation, the 14 municipalities of Greater Helsinki are obliged to impose the higher real estate tax rate to unbuilt building sites. Other municipalities can decide whether to impose the higher tax rate for unbuilt residential building sites or not. Before the amendment, only two municipalities of the Greater Helsinki had imposed additional real estate taxes to unbuilt building sites. The additional tax rate in the Greater Helsinki has to be at least 1,00 per cent higher than the common real estate tax rate used in the municipality. On the other hand, the tax rate may not be more than 3,00 per cent of the value of the building site.

The higher tax rate can be imposed to unbuilt building sites if

- 1) the local detailed plan of the area has been effective for at least a year
- 2) more than 50 per cent of the permitted building volume is planned for residential purposes
- 3) there are no buildings used for residential purposes on the building site or a construction work for such a building has not been started
- 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, i.e. the building site is owned by one natural or legal person or more than one natural or legal person own a quotient of such building site in joint ownership. (The Real Estate Tax Law Section 12 a)

An exception to the list above are unbuilt building sites, whose owner owns also the neighbouring building site and uses it as a permanent residence. In this case the imposition of additional tax is not obligatory, but up to the decision of the municipal council. 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.

According to the estimates, there are about 4 000 unbuilt residential building sites in the Greater Helsinki, that qualify for the additional tax. This amount corresponds with

approximately 2 million square meters of permitted building volume and about two years' need for building land for new dwellings. (Mattila Maankäyttö 4/2005) The number of building sites subject to additional tax will naturally decrease, if some building sites will be exempted from the tax due to a neighbouring building site used for residence by the owner of both sites.

In the public debate, the additional real estate tax was criticized for being too ineffective. The additional real estate tax of 1 to 3 per cent would not decrease possible speculative incentives in the areas where the land prices are increasing yearly 10 to 20 per cent. (HS 27.09.05).

In the late 1980's, as the Finnish economy and land markets were overheating, a more vigorous attempt was used. A special charge for unbuilt building sites in the four municipalities of Helsinki Metropolitan Area was introduced. For the first year, the charge was 10 per cent of the value of the building site and was thereafter yearly increased 5 per cent until a maximum of 50 per cent of the value of the building site. (The Act on the Charge for Building Land in the Helsinki Metropolitan Area 1061/1988, section 7). Few years later the economic depression led to the collapse of the demand for land and housing, and the special charge had to be removed because it was seen as unjust towards the landowners.

Also real estate professionals working for the municipalities have criticized the amendment of real estate tax law. According to their opinion other instruments, such an exemption from the capital gains tax while selling land areas to municipalities, would be more efficient. (HS 26.08.05)

5. EMPIRICAL STUDY

The empirical study was conducted as a questionnaire survey, which included both multiple choice and open-ended questions. The survey was posted to all private persons or corporations who own an unbuilt residential building site or sites in detailed plan area in the city of Espoo. If the site was owned by more than one actor, the survey was sent to only one of the owners.

Espoo city is the western neighbour of the capital city Helsinki and is a part of the Helsinki Metropolitan area. The population of Espoo is 232 000, making it the second largest city in Finland. The population is growing at a rate of circa 1 % per year.

The total area of the city is 528 square kilometres, of which 312 is land territory and 216 water areas (198 square metres sea). The city owns 31,7 per cent of the land in the city area. The total building stock of the city area is 31 607, of which 28 314 are residential buildings. The number of dwellings is 103 332. In the year 2005, in total 1 139 buildings (397 635 floor sq m) were completed. Of this amount, 686 were residential buildings (248 952 floor square metres). The total number of dwellings completed was 2 602. (Espoo in a nutshell, 10.7.2006)

The average price for a building site in Espoo in the year 2005 was circa 200 000 euros. In Espoo in 2006 918 building sites fulfil the requirements for additional real estate tax. If the additional rate would be 1 per cent, the municipality's income would increase by 1,8 million euros, which is about 5 % of the annual real estate tax revenue of the city of Espoo (year 2004).

5.1. Data

The data concerning the sites was obtained from the municipal register of the city of Espoo, which is based on the data from the Land Information System, the Population Register (incl. data on buildings), legally binding land-use plans and register of building permits. The Land Information System and the Population register are statutory, state governed registers (The Act on Real Estate Register 392/1985, The Act on Population Information 507/1993)

All building sites in Espoo, which met the following criteria, were included in the study

1. The building site is defined in a legally binding local detailed plan and in a subdivision plan. The subdivision plan can differ from the property division and ownership.
2. There is no building for permanent residence on the building site. Recreational housing and outbuildings etc. are not regarded as such.
3. The building site is not owned by the state, municipality or other public actors.

The unbuilt building sites were identified through an SQL-search of the municipal registers. All building sites without any buildings for permanent residence were sorted out from the register. Thereafter all the building sites were studied manually in order to check that they fulfilled the above-mentioned criteria. In addition persons and corporations, who were located abroad or had an insufficient address, were removed from the database. About 1000 sites were removed from the database by the manual check. The manual check was done using the program Xcity, which is a program of the municipal information system used in the city of Espoo.

The final data consisted of 1101 unbuilt building sites. The total area of was 1,7 million square metres and the total permitted building volume 450 000 floor square metres. 3 % of the building sites were planned for housing in general, 85 % for detached or semi-detached houses, 1 % for terraced houses and 2 % for blocks of flats. 6 % were planned for areas with combined houses such as areas for detached and terraced houses. 2 % were planned for other uses such as combined residential and commercial use or housing services.

The sites were owned by 872 different owners, from which 82 per cent were private persons or estates of deceased persons, 14 per cent apartment house companies, 3 per cent limited companies and 1 per cent associations and foundations.

46 per cent of the building sites were formed as individual real estate, i.e. the building site is formed according to the subdivision plan. In 54 per cent of the sites the property division differed from the subdivision plan.

5.2. The questionnaire

The survey was undertaken using evaluation questionnaires. A covering letter was sent explaining the background, aims and data sources of the survey. In the covering letter, essential concepts were also explained. The respondents were given possibility to contact the researcher in case they had any questions concerning the survey.

The first part of the questionnaire aims to survey the recipients' knowledge on aspects concerning the building possibilities of their unbuilt building site. The recipients were asked if they are familiar with their rights to build or not to build on the site and with the building volume and type of building permitted on the site. They were also asked if they are familiar with the local detailed plan of the area and the possibilities to connect the site to infrastructure networks. In this part the respondents were also asked to take up any other issues concerning land use planning they wanted to comment.

The second part of the questionnaire investigates why plans are not implemented. This part consists of site-specific questions. The aim of the second part was to survey what are the landowners' main interest concerning the unbuild building sites. Those landowners, who plan to build on the site, were asked when and how this will be carried out. Those landowners, who do not intend to build the site, were asked for their motives in owning the area. Landowners were also asked how they are using the site at the moment and what are their plans for the future. In the second part respondents were also given the possibility to give feedback or take up other issues concerning the subject matter.

6. RESULTS

The survey was posted to 872 private persons and corporations. 23 surveys were returned by the postal service due to insufficient or false addresses. Two respondents returned the questionnaire unanswered because they did not want to answer the questionnaire. Four respondents had sold the site before receiving the questionnaire and two respondents had already started building work on the site.

Many of the recipients were under the impression that they do not own any unbuilt sites in Espoo. It seems that many of the recipients may have misunderstood the concept of unbuilt building site, although it was specified in the covering letter. Some of the landowners contacted the researcher and during the phone conversations the concept of unbuilt building site was clarified. The misunderstanding was more common among the landowners who use their site for other purpose than housing and whose site is included in a subdivision plan but not formed as an individual plot. 10 recipients returned the questionnaire unanswered because they did not think they own an unbuilt building site.

Altogether 369 (42 %) answers were received from the landowners representing 463 (42 %) building sites. The respondents distribution by location of the building site and by owner type in comparison to the original data is shown in table 1. Two questionnaires were returned without identification code. Thus the answer data in table 1 represents only 367 respondents and 461 building sites.

The responses represent the original data quite well. Only the sites planned for detached and semi-detached houses are slightly overrepresented. The distribution of the data by the location of the site is presented in planning districts. As it can be seen from the table 1, the area of Suur-Espoonlahti is overrepresented in the answers. In terms of floor square metres in local detailed plans, i.e. building right, also Suur-Kauklahti is overrepresented whereas Suur-Matinkylä is underrepresented.

	Data		Answers		
	n	%	n	%	
Number of owners	872	100 %	367	100 %	*
Private persons and estates	715	82 %	310	84 %	
Apartment or real estate companies	120	14 %	43	12 %	
Limited companies	30	3 %	10	3 %	
Associations and foundations	7	1 %	4	1 %	
Number of building sites	1101	100 %	461	100 %	*
Housing (in general)	38	3 %	18	4 %	
Detached or semi-detached houses	936	85 %	400	87 %	
Terraced houses	14	1 %	4	1 %	
Blocks of flats	21	2 %	10	2 %	
Combinations of house types	68	6 %	21	5 %	
Other	24	2 %	8	2 %	
Total area (sq.metres)	1738175	100 %	726547	100 %	*
Pohjois-Espoo	217555	13 %	82498	11 %	
Suur-Espoonlahti	447743	26 %	233617	32 %	
Suur-Kauklahti	82132	5 %	44579	6 %	
Suur-Leppävaara	432759	25 %	174789	24 %	
Suur-Matinkylä	121085	7 %	43646	6 %	
Suur-Tapiola	95349	5 %	28648	4 %	
Vanha-Espoo	341552	20 %	118770	16 %	
Floor square metres in the plans	452859	100 %	173714	100 %	*
Pohjois-Espoo	33166	7 %	11485	7 %	
Suur-Espoonlahti	113408	25 %	60548	35 %	
Suur-Kauklahti	19759	4 %	12850	7 %	
Suur-Leppävaara	103649	23 %	36906	21 %	
Suur-Matinkylä	66821	15 %	15481	9 %	
Suur-Tapiola	23908	5 %	7113	4 %	
Vanha-Espoo	92148	20 %	29331	17 %	
* Two questionnaires were returned without identification code					

Table 1 The distribution of the final data and response data by the location of the building site and by owner type

According to the replies in the first part of the survey, most of the landowners are familiar with the land use planning concerning their site. The distribution of answers is shown in table 2. The respondents who were unfamiliar with the permitted building type were also more unfamiliar with permitted building volume. The respondents were most unfamiliar with their right to build or not to build on the site. The formulation of question 3 could have led to some confusion, which may have caused more spread in answers and that some respondents left the question unanswered.

Questions 1-5: Landowners' knowledge about the building possibilities of their sites									
		Yes		No		I am not sure		Total	
		n	%	n	%	n	%	n	%
1	I am aware of the amount of building volume permitted to the site	430	95 %	11	2 %	13	3 %	454	100 %
2	I am aware of the type of building permitted on the site	442	99 %	5	1 %	0	0 %	447	100 %
3	My rights to build/not to build are unclear to me	47	11 %	376	86 %	13	3 %	436	100 %
4	I know if the site can be connected to the water, sewage, road network and other municipal infrastructure networks	442	98 %	4	1 %	6	1 %	452	100 %
5	I am familiar with the local detailed plan of the area	436	96 %	10	2 %	8	2 %	454	100 %

Table 2 Landowner's knowledge of the building possibilities of their sites

In the first part the respondents were also asked to take up any other issues concerning land use planning they wanted to comment. The comments are discussed with the comments of overall feedback as the subjects are mainly overlapping.

The second part consists of site-specific questions aiming to describe recipients' interest and plans concerning their site or sites. Even though the questions were formulated as multiple-choice questions and recipients were asked to choose only one option, some of the respondents had chosen two or more of the options. For this reason, the analysis of answers is based on the frequency of options chosen.

In the first question of this part, respondents were asked about their prime motives of owning the area. Almost half of the respondents (44 %) were planning to build on the site, either by themselves or waiting for the future generations to do it. Nevertheless, the majority of landowners did not plan to build on the site. They were typically using the site for other purposes, such as garden or recreational house. The distribution of answers is shown in table 3.

Question 6. You own an unbuilt building site on local detailed plan area, which of the following describes best your attitude to it's ownership			
		Frequency	Percent
A	I plan to start building to the site in near future	131	23 %
B	I retain the site in my possession as an investment	57	10 %
C	The site is part of a larger entity, which I use for residential purpose	83	14 %
D	I retain the site in my possession for future generations to build	121	21 %
E	The site is in joint ownership and I can not make decisions concerning it on my own	53	9 %
F	I have other plans regarding the site, which? (open ended question)	67	12 %
G	I do not intend to build on the site, because (open ended question)	65	11 %
Total		577	100 %

Table 3 Landowner's motivation in owning an unbuilt building site

Respondents who plan to build on the site in the near future were asked for more details concerning their building plans in question 7. Although instructed otherwise, also some landowners, who do not plan to build on their site in the near future, answered the question 7.

Almost one third of the respondents plan to start building during year 2006. Almost 20 per cent are going to start building after having founded an apartment house company and sold enough shares to finance the building (see table 4). In additional comments, five per cent of the respondents specified some other time they were planning to start building on the site, most commonly year 2007. Five per cent of the respondents were expecting their children to build on the site and eight respondents were waiting for the municipal infrastructure to be ready, and then sell the site.

Question 7. If you are planning to build on site site in near future, which of the following describes your situation the best?			
		Frequency	Percent
A	Building work will be started during the year 2006	77	31 %
B	Building work will be started as soon as the alteration of the plan or subdivision has become legally binding and the site is formed as an independent unit of landownership (plot)	30	12 %
C	Building work will be started, as soon as the site can be connected to the municipal infrastructure	43	17 %
D	The site is bought in the name of an apartment house company to be established and building work will be started when the company is established and there is sufficient demand for the apartments.	42	17 %
E	Other (open ended question)	59	24 %
Total		251	100 %

Table 4 Details concerning construction plans

Those respondents who are retaining the site in their possession as an investment were asked for more details in question 8. About one third of the respondents expected the future increase in land prices to secure profit for investment and about 20 per cent answered that they consider land as a safe investment (see table 5). The results are somewhat confusing, especially in the option E, because also the landowners who did not regard the site as an investment, answered the question. In the open ended question, one third of the respondents explained that their expectations and plans for future had changed in the near past and quite many of them have not got any plans how to use the site.

Question 8. If you are retaining the site in your possession as an investment, which of the following describes your attitude the best?			
		Frequency	Percent
A	A I expect the future rise of land prices to secure my investment a reasonable profit	77	31 %
B	B I expect, that future alteration of the plan will increase the value of my site even more	30	12 %
C	C I consider land as a safe investment	43	17 %
D	D The site in question has been in my family's possession for a long time and I want to keep it in the family	42	17 %
E	E Other (open ended question)	59	24 %
Total		251	100 %

Table 5 Building site as an investment

In question 9 the respondents were asked why they were not planning to build on the site. More than one third answered that they are using the site for other purposes, most commonly as a garden or recreational home (see table 6).

Question 9. If you have no intention to build on the site, which of the following describes your situation the best?			
		Frequency	Percent
A	I do not want to build because I use the site for other purpose. Which purpose?	64	37 %
B	I do not want to build, because in my opinion the local detailed plan of the area is out of date taking into account the development of the area and its surroundings and therefore it is not economic or expedient to build. On which aspects do you think the plan is out of date?	4	2 %
C	I do not want to build, because in my opinion the local detailed plan of the area is inexpedient in following aspects	20	11 %
D	I do not want to build on the site for other reasons, which?	86	49 %
Total		174	100 %

Table 6 Landowners' reasons for not building on the building site

Some respondents, who own two neighbouring building sites, answered that they do not use the other site and that they want to keep it unbuilt in order to have more privacy in the site they use for permanent residence. Other reasons for not building on the site were that the respondent had no need for a building or that the respondents were hoping their children or grandchildren to build on the site. From the respondents who had chosen option B or C, majority commented that the density of the area was either too high or too low.

The respondents were also given the possibility to give feedback or take up other issues concerning the subject matter. Altogether 201 comments were given, most of them describing the situation of the respondent. Some respondents emphasized, that they were unable to build because of their age or health, but were wishing someone in the family to build on the site. Respondents also used the space to describe the planning situation of the area or criticising the overall land-use planning system. The municipality was criticised also for delays in providing a local detailed plan and the municipal infrastructure. Only the comments concerning additional real estate tax for unbuild building sites are discussed below.

According to the comments of some landowners, they approved the division of their existing plots into two building sites during the preparation of the local detailed plan. They were informed that it would not affect the use of the plot nor cause any additional taxes or fees. The divisions were done for free, when in normal cases there are fees to be paid. As the municipality offered them the possibility to divide the plots into two or more building sites, many landowners thought that it would be practical. One could then let their children build on the other building site, or in case of urgent need for money, sell the second building site and still live on the other building site. Now, as the additional real estate tax would change the situation, the landowners felt that they had been misinformed.

At the time the questionnaires were sent, the amendment to The Real Estate Tax Act was still under preparation and there was wide public debate on it. Many respondents expressed their concern about being forced to build on their sites through threat of expropriation, and about the additional real estate tax for unbuilt building sites. Few respondents wrote that they would have to sell the sites because of the additional tax. Few respondents, who were planning to build in few years time, remarked that the additional tax would just delay the beginning of construction works because some of the money planned for building would now have to be used to pay the additional tax. Only one respondent gave his support to the additional tax.

About 10 per cent of respondents commented that the additional tax was unjustified and that it would not help in increasing the supply of building land. Landowners suggested that better ways to increase the supply of building land would be to draw up local detailed plans in municipal owned areas and to fasten the planning processes and the provision of infrastructure. They also suggested exemption from the capital gains tax for some period of time, if the development was to be done in privately owned areas. Those landowners, who were using the neighbouring building site as their permanent residence, commented on the exemption from the capital gains tax more often than those owning only one building site. In Finland one is exempted from the capital gains tax concerning land areas if one has used the

area for permanent residence for at least two years. If the area used for permanent residence consists of more than one building site and some of the building sites without buildings for permanent residence are sold separately, the exemption from capital gains tax is not possible.

7. CONCLUSIONS

The motivation of the amendment of The Real Estate Tax Act was to increase the supply of building land and hold back the continuing increases in the price level. The results of the research support the opinion, that the efficiency of the additional tax rate is not certain.

There exists a strong opinion that there are enough areas covered by local detailed plans in the Greater Helsinki Area. However, as a general conclusion it can be stated, that it is not enough to evaluate the supply of building land by calculating the areas covered by detailed plans. The fact that an area is covered by a local detailed plan does not mean that the area is ready for construction. According to the estimates of YTV, there are six million square metres of unused building right in local detailed plan areas in Helsinki Metropolitan area. On the other hand, the estimates state that in the Greater Helsinki Area there are only two million square metres of unused building right fulfilling the requirements of the additional real estate tax for unbuild buildinging sites. As the Helsinki Metropolitan Area is much smaller than the Greater Helsinki Area, we can assume, that less than one third of the unused building right in the local detailed plans is ready for development. It means that the other unbuild building sites in local detailed plan areas are not ready for construction, for example, because they may lack a feasible road access or a connection to infrastructure, or the ownership is scattered.

Most landowners owning an unbuild building site in Espoo had made plans how to use site and whether to build on it and when. One third of the landowners were planning to build on the site or were in process of establishing an apartment house to do so. In these cases the additional tax will probably not affect the building plans at all. It could also lead to delays in starting the construction, as money is also required for the additional tax. In case of dwellings build by construction companies, the prices will most likely be reflected in the selling prices of the completed dwellings, leading thus to increasing price level.

20 per cent of the landowners hoped that their children or grandchildren would build on the site and were thus keeping the site unbuild. These building sites may then be developed in the future.

Some landowners used the site as a part of a larger entity, e.g. as a garden to the building built on the neighbouring site. As these people do not want the building site to be built at all, they refuse to sell it if they can afford to pay the additional real estate tax. Those landowners who feel that they were misinformed while dividing their plots into several building sites suggested even that they would apply for an alteration of plot division plan in the area and thereby combine the sites as one plot again. In this way they can avoid the additional tax rate. Although the alteration of the plot division plan is not free of charge, in comparison to the

yearly additional tax rate it can still be more profitable to do so. In this case the amendment of real estate taxation of unbuild building sites does not increase the supply of building sites.

As people are expecting land prices to keep increasing, at least at a moderate annual phase, the effectiveness of the additional real estate tax is also doubtful. In case of Espoo, where the increase of building site prices has been almost 20 per cent for the past few years, an investment in building land will still be highly profitable. In order to decrease speculative incentives, the additional real estate tax would have to be at least doubled to keep the profits in the same level than profits of other investments.

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¹ The Greater Helsinki Area includes 14 municipalities: Espoo, Helsinki, Hyvinkää, Järvenpää, Kauniainen, Kerava, Kirkkonummi, Mäntsälä, Nurmijärvi, Pornainen, Sipoo, Tuusula, Vantaa and Vihti

² The English translations of the names of Acts are done by the authors

³ The Helsinki Metropolitan Area includes four municipalities: Helsinki, Espoo, Vantaa and Kauniainen

⁴ In Finland, residential buildings including two or more apartments are owned and managed through an apartment house company (asunto-osakeyhtiö). The company owns the buildings and the land areas. The shares in the company entitle their owner the right of possession of a specified apartment. (Act on Apartment House Companies 809/1991)

⁵ The province of Uusimaa includes the 24 municipalities: Espoo, Hanko, Helsinki, Vantaa, Hyvinkää, Inkoo, Järvenpää, Karjaa, Karjalohja, Karkkila, Kauniainen, Kerava, Kirkkonummi, Lohja, Mäntsälä, Nummi-Pusula, Nurmijärvi, Pohja, Pornainen, Sammatti, Siuntio, Tammisaari, Tuusula and Vihti.