Development land markets and development gain – stylized facts from a Nordic country

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Purpose

• This is a presentation of a research project that has just started
• The idea of the study is presented
• Stylized facts of research data are presented
1. Concept of development land
2. The players in development land markets
3. Why we need to know more about the value of development land
4. Lot prices follow apartment prices
5. Development land prices follow lot prices
6. A mass database of development land transactions
7. Land markets in local finance
8. The research agenda
Concept of development land

Finnish context:
No planning permission is needed
Local government has a planning monopoly

Existence of a master plan specifically indicates development land
However, any land with locational advantages is development land

(In Finnish discussion a term "raw land" is used)
Development gain as a residual

Agricultural land price

(Value / Existing use value)

Lot services cost

Residual = development gain

Building costs

Lot price

Home price

Housing land market supply chain (Finnish context)

House markets

Markets for served lots

Development land markets

Agricultural land markets

House price

Lot price

Development land price

Agricultural land price
Sharing of the development profit in a development land market

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Lot prices follow apartment prices: mean prices in Finnish communities

The lot share of house prices in Finland
(The circles indicate communities, circle size relates to city size)
The lot share of apartment prices in Helsinki MA as a function CBD distance

(Stationary, circle size relates to number of land sales)
Lot prices follow apartment prices:
over time,
mean prices in Finnish communities (log scale)


Lot prices follow apartment prices: mean prices in Finnish communities (1960-2006)

The lot share of apartment prices in Helsinki Metropolitan area, 1960-2005

The lot share of house prices in Helsinki Region
(red circles = lot share more than 27 %)
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**Development land markets (Finnish context)**

- Traditionally local governments have been dominant players in the development land markets, very often the only buyers
- Historically, there are important exceptions to this rule:
  - building companies buying land in Helsinki MA in phases of rapid urbanization and weak local government, such as in the beginning on 1900-century and in 1960-ies
  - More recently, a legislation was introduced to increase development on privately owned land, with a development charge to be paid
Local governments are the main players in the development land markets

- Historical reasons, legislation
- Local government finances and builds the infrastructure
- Development land market has been a mechanism for local governments to finance the infrastructure

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Why we need to know more about the value of development land

- Valuation
- Local finance
- Supply of housing lots and affordable housing

Local finance

Development land market has been a mechanism for local governments to finance the infrastructure (if the community is the dominant player as a buyer)

If privately owned land is developed, a development charge has to be paid.

The development charge depends on
1. Development costs
2. Increase on the value of land
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The volume of land bought by Finnish local governments in 1985-2007

10533 sales
128262 ha
(0.4 % of land area)

number of sales of development land, 27 communities, years 1985-2007
Oulu region:

Far north, cold climate, dark winters, poor amenities

Fastest growing region in relative terms
Population 200,000
Annual growth 4%

Active land policy
Cheap housing
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Development land prices follow lot prices: across space; mean prices in 27 Finnish communities

Development land prices follow lot prices: over time; in outer ring of Helsinki MA. Lot price is estimated in development land sale location and time. Median prices
The Price ratio between undeveloped land and lot prices in Helsinki MA.
Lot price is estimated in development land sale location and time.
Median prices

The price ratio between development land and housing lots in Helsinki MA.
Lot price is estimated in development land sale location and time.
Median prices

Large red = 30 % or more
No circle= 5 %
Large green = 1 % or less
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Local government share of all lot sale revenue

The share of lot sale revenue of all local government revenues
The ratio of lot sale revenue and taxable income

The research agenda

Development land markets and development gain – stylized facts Risto
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The research agenda

• The components of house prices should be
  – defined
  – measured
  – modelled
• Especially development costs need standard definitions
  for measurement purposes

The research agenda

1. What is the size of development gain in sales of development land?
2. What is the distribution of development gain between buyer and seller of development land?
3. Which factors affect to the size and distribution of the development gain?
4. What are the implications, when private land is developed and a development charge has to be calculated?