

Development Land Markets in Housing Market Context – Stylized Facts

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ABSTRACT

Development land markets provide land for housing production. The price of development land also determines, how the increase in the value of land can be used to service the lots and finance part of local services. The importance of the role of development land markets in this context may be well understood, but the empirical evidence of the impact of development land markets is rather scarce. This is partly due to the problems in definition of the components of housing prices, but mainly due to the poor availability of research data. This paper describes the market for development land and analyses its relationship with lot markets and housing markets. The price of land is modeled, and so is the ratio of development land price and lot price. Spatial issues like accessibility are of special interest in the price model. The price trends between housing, housing lots and development land over time and space are compared. The focus is in the ratio of prices of housing lots and development land, and how the development gain is calculated, if costs are known. The theoretical context is based on simple identity of the composition of housing prices: (1) Housing price = House building costs + Entrepreneurs profit + Lot servicing costs + other development costs + development gain + agricultural / existing land value (2) Development gain = Sellers profit + buyers profit Observed prices of development land reveal how then gain is shared between seller and buyer. The role of local government as the dominant buyer of development land is analyzed, and so is the role of other players. In Finnish system the public sector is the provider of basic services. The public sector is also a dominant player in the development land market. In fact, the land market can be viewed as a mechanism partly to finance the costs of the public services. When houses are expensive lot prices tend to be much higher than agricultural land prices, often in the degree of 2 or 3. Emerging development gain is large, and to measure it accurately is critical in financing development costs. To understand development land market as a way of finance, the composition of house prices should be known better than it is now. An extensive database has been used in this empirical research: more than 10.000 sales of development land and more than 100.000 lot sales, including all sales by local governments of Finland as a buyer and a seller. The database includes a multitude of spatial attributes.

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