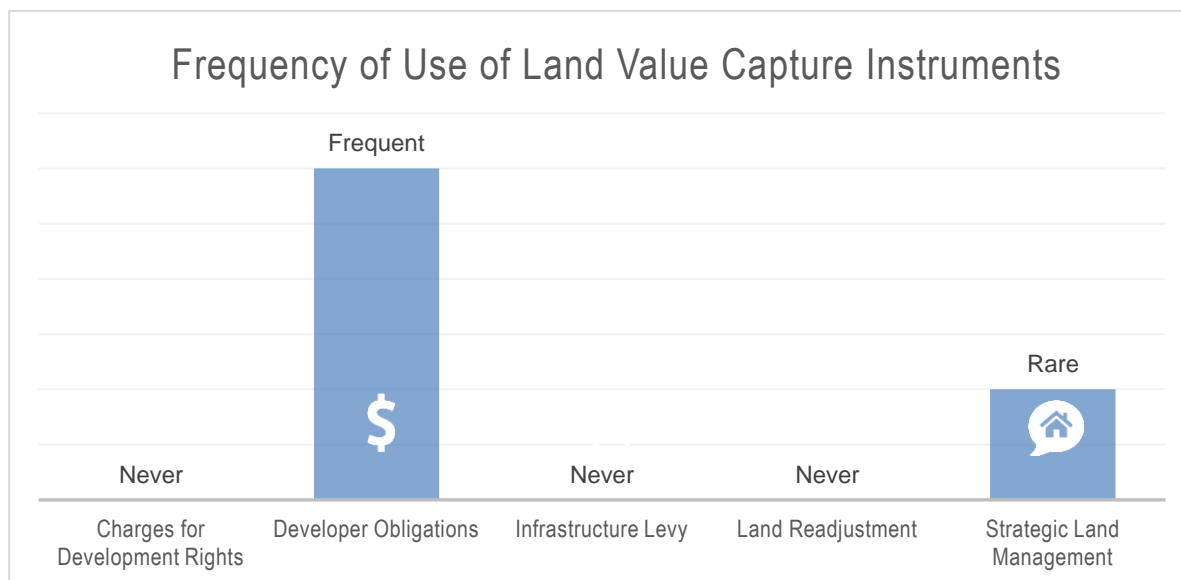


Finland



Several land value capture instruments are used systematically in Finland. Many local governments raise high revenues through developer obligations and strategic land management. The main obstacles that limit the use of more land value capture are high overall tax levels, residents and space users inability to pay more, lack of political will to charge them and complex legislation. The *Land Use and Building Act*, which regulates several instruments is being reformed.

Main instruments

Instrument (OECD-Lincoln terminology)	Local name	National legal provision	Implementation	Use
Developer obligations	<i>Maankäyttösopimukset</i> (land use agreements) and <i>Katualueen ilmaislouutusvelvollisuus</i>	Chapter 12a of the <i>Land Use and Building Act/2003</i> and Section 104 of the <i>Land Use and Building Act/1999</i>	Local governments	Frequent
Strategic land management	<i>Kunnan maapolitiikka</i> (municipal land policy) and <i>kunnan lunastusoikeus</i> (municipal compulsory purchase right)	Section 99 of the 222 <i>Land Use and Building Act/2003</i>	Local governments	Rare
Land readjustment	<i>Rakennusmaan järjestely</i>	Chapter 12 of the <i>Real Estate Formation Act/1995</i>	National and local special purpose body	No

Finland



Enabling framework

Finland is a unitary state with 309 municipalities. There are 19 regional councils but only one has an autonomous administration (the island region of Åland); the other 18 regional entities are statutory joint municipal boards (OECD, 2021^[1]). The Ministry of Environment drafts national land-use objectives and provides guidance on the land-use planning process and regulation of building activities (OECD, 2017, p. 93^[2]). Regional councils and municipalities are respectively in charge of regional and local land-use planning. Municipalities are also responsible for planning and issuing building permits. Finland has a hierarchical system of plans, so lower levels of government have to take into account the plans of higher levels of government (*ibid*). Nevertheless, local officials have high discretion when preparing plans and issuing building permits. The national government level creates the legal framework for land value capture.



Developer obligations

Regular developer obligations

Local governments use developer obligations to:

- Capture some of the land value increases that local detailed land-use plans (which guide development in specific areas within municipalities) generate;
- Cover the cost of stronger public infrastructure and services use resulting from private development.

The obligations consist of cash or in-kind payments or a combination of both. There are three types of obligations.

First, landowners may ask for local detailed plan changes or for a new plan to better suit their needs. In those cases, landowners usually enter into land-use agreements (*Maankäyttösopimukset*) with the local government to get the planning process started and negotiate the obligations. Land-use agreements have a longstanding tradition although after the 1970s they were unpopular before the current legislation from 1999 and 2003. Local governments implement them and frequently use them. The agreements raise substantial revenues for local governments' general budgets.

Usually, agreement is sought with landowners. However, they are charged even when agreement is not reached, based on the land value increases local detailed plans generate or the public infrastructure investment private development requires. Anyway, landowners cannot develop their plots without a land-use agreement if their developments require local detailed plan changes or a new plan. The negotiation is specific to each development approval, but the agreements can only be concluded after a draft detailed plan has been published. Landowners pay in cash and/or provide land or local public infrastructure like roads and utilities. For cash payments, landowners pay after getting building permission or can defer payment until the sale of land.

Second, landowners may be subject to charges without land-use agreements if local governments decide to draw up or amend local detailed plans that grant landowners significant benefit (*Kehittämiskorvaus*). In this case, local governments cannot force landowners to develop their plots to meet the new plan. However, local detailed plans grant building rights

only for a limited implementation period of generally 13 years, to reduce opportunities to postpone development speculatively. These charges are rare.

For professional real estate developers the charge may amount up to the total land value increase local detailed plans generate. For non-professional developers the charge must not exceed 60% of the land value increase. Local governments may set a lower threshold – even zero. Exemptions from the charge apply if developments provide a social benefit that outweighs their impact on public infrastructure costs or if residential developments' gross floor area is less than 500 m². Local governments may set a higher threshold. Land value is appraised mainly by comparing with the price of recently sold properties with similar characteristics in the area. Land may also be valued based on the income it generates or its cost if it were bought to build equivalent buildings.

Third, when a local detailed plan is approved for the first time, local governments gain possession of any street area not previously in their possession. This instrument (called *Katualueen ilmaisuusvelvollisuus*) is frequently used. However, landowners have to be compensated if they lose more than 20% of their plots' area. Conversely, local governments have the right to charge landowners who lose less than 20% of their plots the equivalent value in cash. But in practice, this charge (called *Katualueen korvaus*) is not used.

The obligations' main challenges especially in smaller cities are the low demand for new development or densification and the lack of political will to charge landowners. In bigger cities, the obligations can be high for landowners.

Developer obligations in special development areas

Local governments may designate special development areas for a maximum period of ten years for specific purposes including urban renewal, environmental protection, improvement of the living environment and zoning changes.

Special development areas may require developer obligations, which apply instead of the regular developer obligations (see above). Landowners are charged according to the benefits from higher development rights granted by special development areas and the costs of developing those areas. However, local governments almost never use developer obligations in special development areas because the procedure is complicated. They prefer the regular developer obligations, which are more flexible.



Land readjustment

Land readjustment is not used in urban areas but has a legal basis. The first piece of legislation that included urban land readjustment dates back to 1960 and the first proposal to 1924. Local governments are not interested in using the instrument; they prefer developing land through developer obligations (see section above), expropriation or even normal land purchase.

Land readjustment can be used for the conversion of rural to urban land and should be specified in an area's first local detailed land-use plan. Local governments and private landowners can initiate a readjustment project, and one national and one local special purpose body are in charge of implementing it. Landowners are compelled to participate.

After readjustment, landowners should receive a plot with a value proportional to their original holdings and located on or as close as possible to their original land. Owners of readjusted plots that are less valuable than original plots should receive a compensation. Conversely, owners of readjusted plots that are more valuable are required to pay a compensation.



Strategic land management

Most cities own a lot of land. For example, Helsinki, the capital city, owns two thirds of its land area. Older cities were granted land from the crown when they were founded, and both older and younger cities have been active in the land market.

Strategic land management is used to redevelop urban areas, control urban growth and capture land value gains. Local governments and a special purpose body are in charge of implementation and receive the revenues. The amount of land managed and the revenues raised vary strongly across local governments.

Local governments buy land at market price or expropriate it. If local governments seek land in connection to the decision to draw up or amend a local detailed land-use plan, they can expropriate land at the price before the announcement of the plan. This allows recovering the increase in land values local detailed plans generate. However, this instrument (called *Kunnan lunastusoikeus*) is rarely used. It may be used as a threat to get land-use agreements from landowners (see developer obligations section above). Usually, local governments buy or expropriate unused land, agricultural land and land zoned for urban construction. They can buy land within and outside their territory. If they own land in another municipality's territory they are treated like any other landowner.

There is no limit to the length of land retention. Local governments typically procure a local detailed plan, which raises land prices. They then sell the planned land at market price to the highest bidder or through public tenders that involve criteria beyond the sales price, such as private development project plans' quality. Private developers or public-private partnerships develop the planned land, including basic physical preparation and servicing, public utilities and roads. Local governments also increasingly lease their land, for example to encourage affordable and social housing construction. They recover investments in land purchase through the sale or lease of planned land.