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Real Estate in Finland

Second Edition

Juhana Hiironen (ed.)

Aalto University
School of Engineering
Department of Built Environment

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Publisher School of Engineering**Unit** Department of Built Environment**Series** Aalto University publication series SCIENCE + TECHNOLOGY 7/2017**Field of research** Real Estate Economics**Language** English**Abstract**

Finland is well-functioning and stable economy which has transformed itself into a modern welfare society in a matter of decades. During the late 1990's, strong growth transformed Finland into one of the world's most competitive economies. In global reports Finland is appreciated highly for the functioning of its institutional framework as well as health and primary education. Finnish weaknesses include the small market size, weak macroeconomic conditions, and the inflexibility of its labour markets. Since the financial crisis, the competitiveness and the financial stability of the economy has fallen. The growth of the Finnish economy has been weak in recent years. For 2017 and 2018, slightly positive GDP growth is forecasted, mainly based on domestic demand. Despite the current economic situation, Finland is still one of the richest country in the world and enjoys a high level of income and well-being.

There has been a huge development in the Finnish real estate sector during the past decades. New players have emerged, foreign investments have grown, internationalisation and professionalism has increased which have resulted in new practices in property investment processes.

Owning a real property in Finland means owning the land and the buildings on it. This is the basic form of direct real property ownership. In practice it is very common for property ownership to be organised through a limited company founded for the sole purpose of owning the property. There are no restrictions on buying or selling real estate. Transactions with housing or real estate company shares are straightforward and simple. As soon as transfer taxes have been settled, the purchaser can be registered as the owner of the shares in the company's registers. Also the Finnish legislation regulating rental agreements is among the most liberal in the world and is based on the idea of full freedom of agreement between two parties.

Land use in Finland is regulated by the Land Use and Building Act. The system has three levels of land use plans: a regional land use plan, a local master plan and detailed local plans. Regulations and guidelines complement the legislation. During the past decade planning process has taken more open and interactive approach to planning. The local planning process is aimed at facilitating the involvement of all those concerned in planning: landowners, residents and businesses in the area.

Keywords Real Estate, Real Property, Cadastre, Ownership rights, Land Use, Land Policy**ISBN (printed)****ISBN (pdf)** 978-952-60-7521-1**ISSN-L** 1799-4896**ISSN (printed)** 1799-4896**ISSN (pdf)** 1799-490X**Location of publisher** Helsinki**Location of printing** Helsinki **Year** 2017**Pages** 70**urn** <http://urn.fi/URN:ISBN:978-952-60-7521-1>

Preface

The Finnish real estate market has undergone a very strong development in the recent decade. Financial crisis, ever-growing professionalism and internationalization of the branch have had a huge impact on the Finnish property market. At the same time, global trends such as digitalization affect to the modus operandi in the real estate sector.

This publication is a basic description of the Finnish real estate branch in the form of a textbook. The publication is mainly addressed to the foreign university students and the experts in the real estate branch who are starting their acquaintance with the Finnish real estate market. It also aims to give the Finnish students a comprehensive description of the Finnish system in the English terminology.

This is the second edition of the book *Real Estate in Finland*. The second edition is edited and partially written by Dr. Juhana Hiironen. The original writing of this second edition is done by more than 50 students as their group assignment in Aalto University in course REC-E1020 Property rights, cadaster and planning (Autumn 2016). Every sentence in the book is evaluated and discussed with other students and teacher. In the writing process, the section division and the formulation of each chapter was based on the first edition, which was published in 2003. The first edition was written by Kauko Viitanen, Jussi Palmu, Matti Kasso, Erja Hakkarainen and Heidi Falkenbach. In the first edition Jussi Palmu was especially in charge of writing about commercial property markets, Matti Kasso and Erja Hakkarainen were in charge of property, environment and building legislation issues. All the chapters in the book were written and revised by Heidi Falkenbach and Kauko Viitanen, the leader of the project. Like the original one, also this second edition, was written without references, except for the tables and figures, for facilitating the reading. Plenty of other literature, web pages, and statistic material in special, were certainly exploited. The most essential sources of information are mentioned in the bibliography at the end of the book.

I want to thank all of the students who participated to the writing process. You showed me independent and professional working skills and I appreciate it. Other students, who will have your book as their course book next semester, will appreciate your effort also. Thank you Oluwafemi Adekola, Pauli Autio, Elmira Brooshan, Alexandra Cleave, Andrea Cuesta, Jacqueline German, Daniel Grönlund, Maria Haavisto, Eino Hassi, Marika Helin, Simo Hännikäinen, Eetu Jahkonen, Jaakko Kaila, Jouko Keskitalo, Hannu Kirjonen, Lilli Konttinen, Ida-Maria Korhonen, Nele Korhonen, Elisa Korpela, Eero Kujanen, Juho Leppänen, Jon Lindholm, Tuomas Lindholm, Felix Lorenz, Joscha Marx, Halil Memis, Nataliya Motorina, Pia Mäkilä, Bishal Nagarkoti, Thi Nguyen, Juho Nokelainen, Ilkka Oikarinen, Olli-Pekka Pajala, Kalle Parikka, Olli Peltomäki, Linh Phan, Miro Pojanluoma, Kelly Purcell, Emmi Rautio, Kaisa Ridanpää, Matias Rinta, Elyas Saif, Apichaya Sindhuprama, Laura Strömberg, Leo Suokangas, Hong Trinh, Lari Tuominen, Antti Tölli, Iiku Törmälä, Anniina Valaja, Hanna Varkki and Noora Vartiainen. I also express my thanks to all those who have worked in the previous project and made the first edition of this book and its predecessors. And finally I want to thank Maanmittausalan edistämissäätiö for its financial support.

Espoo, September 2017

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1 FINLAND: BASIC INFORMATION ON REAL ESTATES

Finland is a sovereign state in Northern Europe. Finland has land borders with Sweden to the northwest, Norway to the north, and Russia to the east. Estonia is south of the country across the Gulf of Finland. Finland is a parliamentary republic with a central government based in the capital Helsinki, local governments in 311 municipalities, and an autonomous region, the Åland Islands.

The largest cities are Helsinki (the capital with 628 208 inhabitants), Espoo (population 269 000), Tampere (population 225 000), Vantaa (population 201 000), Oulu (population 198 000) and Turku (population 185 000). Finland is a country of thousands of lakes, in fact about 188,000 lakes. Its largest lake, Saimaa, is the fourth largest in Europe. The landscape is covered mostly by coniferous taiga forests and fens, with little cultivated land. The forest consists mainly of pine, spruce and birch. Finland is the largest producer of wood in Europe and among the largest in the world. Of the total area 10 % is lakes, rivers and ponds, and 78 % forest. 9 % is agricultural land and only 4 % building land.

Finland lies in the boreal zone, characterized by warm summers and freezing winters. Within the country, the temperateness varies considerably between the southern coastal regions and the extreme north, showing characteristics of both a maritime and a continental climate. Winters in southern Finland (when mean daily temperature remains below 0 °C or 32 °F) are usually about 100 days long, and in the inland the snow typically covers the land from about late November to April. Climatic summers (when mean daily temperature remains above 10 °C or 50 °F) in southern Finland last from about late May to mid-September. In northern Finland, particularly in Lapland, the winters are long and cold, while the summers are relatively warm but short. The Finnish climate is suitable for cereal farming only in the southernmost regions, while the northern regions are suitable for animal husbandry.

The population of Finland is 5.49 million with an average density of 18 inhabitants per square kilometer. This is the third-lowest population density of any European country, behind those of Norway and Iceland, and the lowest population density in the EU. Finland's population has always been concentrated in the southern parts of the country. Approximately 85 % of the population lives in urban areas. Almost half of the population lives in southern Finland and more than a quarter in Helsinki region (1.4 million).

Finland is aging fast. It is expected that in Finland only the age-group of 65-years old and older is growing and the others will diminish. The aging population decreases the work force and therefore puts pressure to societal development. It increases the dependency ratio and government spending on health care and pensions, and all and all, changes sectors within the economy (e.g. increases the demand for healthcare facilities).

The legislative power in the country is exercised by a unicameral Parliament (*Eduskunta*) and the president of the republic. The president is elected for a period of six years. The main responsibilities of the president are in the foreign affairs. The current president is Mr. Sauli Niinistö (since March 1, 2012). The general administration in the country is the responsibility of the government (*hallitus*). The prime minister is Mr. Juha Sipilä (Since May 29, 2015). The juridical power rests with the independent courts of justice.

For administrative purposes Finland is divided into 19 counties (*maakunta*) and 311 self-governing municipalities (*kunta*). One of the counties, the Åland Islands (*Ahvenanmaa*), enjoys a

special autonomous position. Members of the municipal council are elected by general elections for a period of four years. The councils make local decisions, which the municipal executive board carries out. The Finnish municipalities are rather independent and strong entities with their own municipal taxes.

The gross domestic product at market prices was 214 billion € in 2016, e.g. 39.000 € per capita. It grew by an estimated 1.4 % in 2016. Growth in GDP has been weak ever since the global financial crisis in 2009, although in 2017 faster growth seems to be taken off. The unemployment rate in 2017 was 9.2 %. Exports account for nearly 40 % of GDP. In recent years, Finnish exports have faced challenges due to weak economic conditions in many important target markets especially in Russia, where the share of exported goods has been steadily decreasing. From 2014 to 2015, Finland dropped four places in the World Economic Forum's 10 most competitive economies ranking, going from 4th place to 8th place.

1.1 Finnish Real Estate system

In Finland the word real property or real estate¹ (*kiinteistö*) stand as a unit of ownership for a land or water area(s), including buildings, benefits and easements. In general, the word real estate is commonly used to refer to buildings alone, not to land or water areas. Buildings built on e.g. leased land are legally considered as movable property even though often called as real estates. Property in Finland can be either movable (chattel) or immovable (stationary). For example, the ownership right to an apartment in a housing company is considered as a movable property, whereas a piece of land and a house attached to it, is immovable property.

Every real property has its own identification number. Each real estate may contain several land parcels (pieces of land), buildings and/or apartments. Land and building(s) can be owned directly as a real property (having a title to the property) or in the form of real estate securities, which usually means ownership of shares in a real estate company or in a residential housing company. In a case where the building is located at a leased land, one owns the building and the right to lease the property.

The total value of the Finnish real estate cluster is about 500 billion euros, corresponding ca. 70 % of the national property. The business volume of the cluster is 40 billion euros a year and it employs approximately half a million, ca. one fifth of the total labour force. The real estate cluster employs directly 120.000 employees, in different kind of occupations, such as investors, property managers, real estate agents, realtors etc.

As for real estate market information the land market information is comprehensive and public. This makes the market information of the land market reliable. Because a big proportion of the total transactions aren't made as real estate transactions but as company transactions, the transparent and open view on market situation may remain unclear for the public².

The Finnish property system is based on private land ownership. The ownership is protected by the Constitution. Private individuals and heirs own 60 % of the landed area of Finland. The state owns 29 %³, and 8 % is owned by the companies. 2 % is owned by the municipalities and

¹ Words real property and real estate are considered as synonyms, and both are commonly used.

² Especially the most expensive real estates (e.g. block of flats, highrise office buildings) form a company of its own. Market information for company transactions are not public.

³ Most state ownings is forestland in Northern Finland.

the church. The share of municipal land ownership in the cities is high, mostly because of historical reasons, as until 1905 all cities were founded on land granted by the Crown. It is common, that the cities have decided to keep the land areas in their ownership. In the detailed plan areas, the city or the municipality normally owns 30-40 % of the land area.

1.1.1 The dimensions of real properties

The landed area of Finland is divided into real properties and other register units. The division is done two-dimensionally, according to the ground level. Currently there is no three-dimensional real property registration⁴. The vertical extension of real property has not been strictly limited in legislation. Nevertheless, the mining minerals are not included in real property, nor can the real property owner normally restrict the use of airspace above his grounds or the use of underground space. The underground land use may also have been restricted by the municipal building regulations, and the over ground land use generally calls for a building permit and is particularly restricted by land use planning in the urban areas.

The proprietary rights are entered two-dimensionally in the cadastre and title and mortgage register. The mortgages may concern just the real properties. The perpetual easements and other usufructs are entered in the cadastre under the encumbered and, if possible, also the justifiable real estate. Temporary restrictions (rights) of usufructs based on an agreement are entered in the title and mortgage register.

The physical dimension of real property can be seen in the terrain. A real property is defined as a demarcated part of the Earth's surface, which includes also other dimensions such as commons, easements and special interests. Physical dimension means the demarcated part of the Earth's surface which is entered into the cadastre under the corresponding real property and also on a map. Whenever possible, the physical dimension is marked by boundary marks in the terrain. A Finnish real property may consist both of land and water areas and may comprise several separate land parcels. As mentioned, the Finnish legislation does not define the vertical dimension of real property, in other words the dimension reaches downwards below the Earth's surface and upwards to the atmosphere. According to the fundamental concept of real property, it reaches downwards to the centre of the Earth and upwards so that the sky belongs to the real property as well. In practice it can be said, that a real property reaches vertically as deep and high, as its owner benefits from the use of soil and air space. On the other hand, the land owner has the right to exclude the other users from the property below or above his real property only in the case when the use causes harm in the form of noise, shaking, vibration of foundations or for other such reason.

A common area (*yhteinen alue*) is a property unit which belongs to two or more property units in certain shares. Typically a common area is an area of land or water. Common property units are not real properties themselves but belong as appurtenances to those real properties that have a share of the area. An easement (*rasite*) is a right to use or to dictate the use of the object of the easement. It is a so-called property-to-property right and is executed by the owner(s) of the dominant real property. Although the legal definition of real property claims that easements are one part of real property, the legislator has also meant other types of use rights that are similar to easements, but are not defined as easements in corresponding legislation. There are

⁴ The Ministry of Agriculture and Forestry is currently preparing a legislation that would allow the registration of 3D-properties. The legislation concerning the registration of 3D-properties is scheduled to be implemented during 2017.

several types of easements and use rights acting similarly to easements, but are defined in different laws. The major classes are easements according to the Real Estate Formation Act and easements to the Land Use and Building Act. A special interest (*Erityinen etuus*) is an old type of use right that may not be established anymore, but the earlier established rights are still valid. There has not yet been comprehensive definition for special interest neither in legislation nor in literature. However, the legislative materials of Real Estate Formation Act states that it can be for example a right of fishing, right of rapids or right to quarry and the right is based on previous legislation. A special interest is also a property-to-property right and depending on whether it belongs to one or more real properties, it is either private or joint.

1.1.2 Real property units

There are nine different types of real property units. This book concerns mainly two of the most common types of real properties, which are called property units (*tila*) and plots (*tontti*). The other seven types are mainly public land and water areas with special restrictions. Other register units consist of state roads (redeem units) and common areas. A real property unit is an item of ownership, use, conveyance, and mortgage. A real property may be owned by private persons or legal persons, i.e. by companies and other entities, or by the state and local municipalities. It may consist of several separate parcels of land or water.

Each part of Finland, both land and water area, is divided into different kind of real properties or register units. **Property units** are register units, which are formed either by dividing homesteads in Basic Land Consolidations or by forming them from other real properties as property units. There are more than two million property units in Finland. **Plots** of land in a local detailed plan area are formed according to a binding subdivision plan and entered into the cadastre as plots. **Public areas** are owned by the municipality and entered into the cadastre as public areas. The public areas are formed from an area (or a part of an area) that is assigned in a local detailed plan as a street area, market or square, recreation area, traffic area, vacation or tourism area, conservation area, danger area, special area or water area. **State-owned forest lands** were originally uninhabited wildernesses that King Gustav Vasa claimed on 20 April 1542. He wrote a letter that stated that these wildernesses belonged to God, King and the Crown of Sweden. The state's status as the holder of regal ownership of the uninhabited wilderness dates back to this claim. By amendment to the Subdivision Act the state-owned forest land gained the status of real property units. **Conservation areas** are founded on a state-owned area in accordance with the Nature Conservation Act or the legislation in force prior to it. **Expropriation units** are areas which are formed based on compulsory purchase. These areas are usually airports, highways or railways. The **areas partitioned for public needs** are formed according to the Decree on Basic Land Consolidation. They are areas for plot lanes, roads, main drains, churches, cemeteries, etc. **Separate reliction areas** were formed before the Decree on Forming Separate Reliction Areas as Independent Homesteads was introduced on 13 November 1911. They are owned by someone in the sense that they don't belong to a real property unit, or they have previously belonged to a real property unit but have been transferred to someone else without subdividing it from the homestead. **Public water areas** are those Finnish waters and open lakes that are outside of villages' borders. Other property units that shall be entered into a cadastre are common property units and areas surrounding a road, as referred to in the Act on Public Roads and governed by the right of way.

1.2 Transaction volumes

The Finnish real estate market was a closed market until the end of the 1980's when the gradual deregulation of the market started. Before this, it was forbidden to buy real estate from abroad

and to sell real estate to foreigners. Now, the market can be described as open. The only exception is the province of Åland where the purchase of real estate still has its restrictions even for the Finns. Despite the open market and the membership in the European Union, the grade of foreign ownership of real estate in Finland has remained low. The foreign investments have started to increase again after the financial crisis of 2008.

1.2.1 Transactions of real property (direct ownership)

The number of transactions of real property (direct ownership) varies between 60.000 to 90.000 per year. The share of the sales of property is approximately 85 % of all transactions. About 38% of the transactions in number usually concern detailed planned areas. The total volume of transactions in 2015 was 8,4 billion euros. Rated in money private persons are sellers and buyers in two-third of the purchases. About half of the transactions in number or money are transactions of real estate for housing purposes (4,8 Mrd €), other significant property types being agricultural and forestry land (1,0 Mrd. €) and recreational land (0,7 Mrd. €).

1.2.2 Transactions of real estate company shares (indirect ownership)

The main part of the housing and commercial property transactions is made in shares, and they concentrate in the urban areas. In 2015 the volume of the housing transactions (in shares as movable property) was 10 billion euros, covering almost 70.000 transactions. The volume of the commercial property transactions (in shares as movable property) was a bit more than 5 billion euros.

1.3 Role of local governments in the real estate market

The Finnish municipalities have traditionally had extensive rights to decide on the control and guidance of spatial planning and development issues in their area. This is called municipal planning monopoly. Because of this monopoly, the municipalities play a very important role in local planning and building issues. The municipalities also generally lead gentrification, otherwise known as upgrading or revitalization.

The municipalities are often active in the land market, by buying undeveloped land for planning and then selling or renting out the developed plots. On average, the municipalities used approximately 10 % of the amount in land acquisitions, compared to what they receive from land sales and rents. In addition, municipalities receive payments from land use agreements in which municipality makes an agreement with the landowner about the distribution of unearned value increase caused by municipal planning.

The Finnish municipalities are rather independent and strong entities with their own municipal taxes. The amount of the municipalities' operational costs and incomes depends, in addition to the size of the municipality, on the municipalities' rate of incorporating its operations. Municipalities generally have a proportional or fixed income tax typically between 18-20% in 2016. Approximately half of all municipal revenue is collected from this local income tax as well as real estate tax and corporate tax. The rest is collected from state subsidies and other means.

2 LEGISLATIVE FRAMEWORK FOR REAL ESTATES

2.1 General

2.1.1 Laws and Court System

The Government prepares and finalises all new legislation and takes the legislation to the Parliament. All Acts are accepted by the Parliament, which normally takes about three to six months. In some cases, the process may take years. After the Parliament has accepted the new Act, the President of the Republic confirms it, but the confirmation is mostly formal. When the Act is confirmed, it normally comes into force in a few months. Besides the Acts, there are also decrees, which are mostly based on Acts. The decrees include more detailed information and their idea is to clarify the interpretation and adaptation of the Act. The decrees are given by the Government, The President of the Republic and the Ministries. As Finland is a member of the European Union, also the EU directives and decrees have an impact on the Finnish legislation. As EU legislation seldom concerns properties, the property legislation is still mostly national.

Finland, the property of a citizen is protected by the Constitution. This protection can only be deviated from according to law and with full compensation, or according to laws, which are legislated in order of enactment of the Constitution, as most of the legislation concerning real estates is. In Finland the use of real property is limited in many ways and by many laws, e.g. Land Use and Building Act, Environmental Protection Act, Nature Conservation Act and Real Property Formation Act.

The Finnish court system has three degrees: District Court (local), Court of Appeal, and the Supreme Court. To get a case to the Supreme Court, a permission of the Supreme Court is required. A special reason must be given for the permission. There is also a special court, the Land Court (*Maaoikeus*), which handles cases concerning cadastral survey and compulsory purchase proceedings. Appeals on the decisions of the Land Court are directed to the Supreme Court. The District Courts handle both civil cases, such as demands for payments and other claims, as well as all criminal cases. The commencement of action is not limited, but mainly the one who loses the case must pay the costs of the defendant. The civil process may take six months to several years when handled in all degrees. For administrative cases there are Administrative Courts (local) and the Supreme Administrative Court. The Administrative Courts handle appeals concerning e.g. taxes, building permits, plans and other administrative matters. Appealing to the Supreme Administrative Court is not restricted.

Attorneys and even lawyers can assist their clients in both Civil and Administrative Courts, and at any degree, without exclusions. The use of an assistant or attorney is not compulsory, but most of the cases are handled by lawyers and attorneys.

2.1.2 Ownership and economical entities

Private persons, companies and other economic or juridical entities may own a real property unit or shares in a real estate company without any general limitations. Both companies and private persons may also jointly own a property, i.e. two or more subjects together. This is called joint ownership. There are three main types of companies: partnership companies (*ay*), limited partnership companies (*ky*) or limited companies (*oy*). The minimum of share capital for limited companies is 2.500 euros and for public limited companies (*oyj*) 80.000 euros. The companies must be registered in the Trade Register and for the tax authorities.

Besides the companies, there are also different kind of co-operatives, foundations and associations, which may own all kinds of property. Also the state, the municipalities and the churches are notable landowners.

2.2 Owning real properties

2.2.1 Indirect ownership of real property

Besides direct ownership of real property, it is also possible in Finland to own real estate through a real estate company, which is formed only for this purpose of real estate ownership. This form is called indirect ownership or owning through shares. In case of indirect ownership there is usually a real estate company, which owns the building and the land. The shares of the company may be connected with a flat or a floor in the building (mutual real estate company or apartment house company). This means that the shareholder has a right to possess a certain flat or premise. There are also “normal” real estate companies in which the shares and the building have no connection and the tenancy is between the tenant and the real estate company. The form of owning through shares is used both in commercial and residential properties and from single-family houses to blocks. There may be one or several buildings within one real estate company. Apart from that, there are also different kinds of partial ownerships and rights of occupancy for residential use. These forms, especially the right of occupancy, are supported by the municipalities, and thus there may also be some limitations for transferring these rights.

2.2.2 Direct ownership of real property

In direct owning the owner usually owns both the building and the land, but especially in the bigger cities it is also possible to own the building and have a long-term lease agreement (usually for 30 to 50 years) with the landowner, which is usually the municipality or the city. There is a public registration system for direct ownership and the land lease agreements. Direct ownership and land lease agreements are registered in the title and mortgage register.

2.3 Register system

A real property is specified as a register unit, a piece of land (or water). The unit may also include several separate parcels, which is common especially outside detailed plan areas. Each unit has a register code that helps identifying the real property and finding all the registered information needed. In addition to the register code, the real property can be traced out with official boundary marks or coordinates. Outside the detailed plan areas the real properties normally also have names, in addition to the register numbers. In subdivision the new unit receives a new register number and the mother property nowadays keeps its register number.

Besides the registered real property units, also unseparated land areas can be owned and purchased. These pieces of a real property will be subdivided after the transfer of the ownership of the land area is registered in the Land Register. A real property unit may also be divided in specified shares of two or more owners and these shares (e.g. ½) may be sold. The specified shares of a real property are registered only in the Land Register (ownership), and there is no obligation for such a real property to be divided, unless the owners want to.

All the information is registered in the public Land Data Bank System (*Kiinteistötietojärjestelmä*). Real estates are registered in the cadastre⁵ (*kiinteistörekisteri*). The ownership rights to

⁵ Also called real estate register.

real properties are registered to title and mortgage register⁶ (*lainhuuto- ja kiinnitysrekisteri*). Cadastre is maintained by National Land Survey of Finland and by some municipalities. It includes information of the real property units, how the land (and water) is divided, what the process has been, and also the information on easements and special rights. The register also includes the register map and the archive of official cadastral survey documents. The information from the cadastre is given in an extract, and it is public and available for all. Also the title and mortgage register is kept by National Land Survey of Finland. It includes data of the ownership of the real property, and the mortgages and different kinds of special rights. The information from the register is public and available for all. The information can be received from the local authorities and also directly on the Internet for registered users.

Information from the ownership register is given in a Certificate of Registration of Title (*Lainhuutotodistus*), and the information of the mortgages and special rights is given in an Abstract of Title (*Rasitustodistus*). All this information and the extract are public and available for all, although only in the Finnish or Swedish languages. It is very important to read them before the final decision of a purchase of a property is made. The correctness of the information in the title and mortgage register is secured by the law.

2.4 Purchase of a real property

The purchase of a real property is an official legal act, which must be done in a specified form. If the specified form is not concluded the sale is not binding. The specific form must also be followed when buying non-separated land areas or specified shares of a real property. The specified form includes a written document with the main terms, and the signatures of the parties and a special public purchase witness, e.g. notary public. The signatures must be drawn at the same time. A public purchase witness can be found e.g. in the Local Court, or in the local service point of National Land Survey.

The purchase of a real property can also be done electronically on the Property Transaction Service (*Kiinteistökaupan verkkopalvelu*) which is maintained by the National Land Survey of Finland. When one purchase a property through the Property Transaction Service, a public purchase witness is not needed, because the electronic system confirms the requirements.

The purchase agreement for a real property must include certain terms. The obligatory terms are:

- the intent to convey
- a specification of the real property (or a part of it) to be conveyed
- the seller and the buyer
- the price or other compensation

Usually the agreement also includes at least the following terms:

- time to pay the purchase price or other compensation
- time to transfer the possession of the real property
- arrangement of mortgages, if any
- limitations of liability for the building

⁶ Also called land register.

A private person, if married, also needs the permission of his/hers mate to sell the home of the family, even if the mate does not own a share of the property. The purchase agreement is made in at least three copies, one for both of the parties and one for the public purchase witness who also checks that the legal form has been followed in the transaction. The public purchase witness then informs the National Land Survey and the municipality on the purchase.

The seller has duties to the buyer. All information given by the seller to the buyer must be true and sufficient and all the information, which may have an influence on the buyer's decision, must be given. In spite of this, the buyer is also obligated to inspect the property carefully and cannot afterwards claim for such matters he/she should have noticed before the decision. The post-purchase problems may concern e.g. the extent of the land or the building, the condition or the faults of the building. Also the environmental matters have become more important. During the past few years it has been usual to let specialists investigate the building and the soil before the purchase, especially if the land has been in industrial use. If the sold property is not in the condition that the buyer has expected and the seller has told, the buyer may be compensated for the fault, or in more serious cases, the buyer may have the right to cancel the sale. The liabilities of the seller may be limited in the purchase agreement but the limitations must be specified. In the transaction of direct ownership right to a real property, the term guarantee is five years from the purchase and two years in the transaction of indirect ownership.

After the purchase of a real property the buyer is due to register his title in the service point of National Land Survey, or via internet in the National Land Survey's web page, within six (6) months from the purchase. National Land Survey receives the original purchase agreement directly from the public purchase witnesses. The transfer tax (4% of the purchase price) must be paid when applying for the registration. The delay penalty is quite heavy. If the registration is delayed, the transfer tax will increase 20 % to 100 % (4,8-8,0 %) of the amount of the original tax.

Municipality's right of pre-emption

The municipalities have a right of pre-emption (*etuosto-oikeus*) of the real property when it is sold. In a case where the municipality uses its right of pre-emption the municipality will substitute the buyer. The pre-emption of the municipality may be used to get land for urban development, recreation or conservation, and when the area sold is bigger than 5000 m². In the four cities in the capital area (Helsinki, Espoo, Vantaa and Kauniainen) the area must be more than 3000 m².

The right of pre-emption can't be applied in conveyances where the negotiating parties are close relatives, the transaction is done in a compulsory auction, one of the parties to the deal is the state, or when pre-emption cannot be considered reasonable concerning the circumstances.

The municipality must make the decision to use its right of pre-emption within three (3) months from the purchase. The municipality will get the information of the purchase from the public purchase witness, so the buyer has no obligation to inform the municipality. It is also possible to get advance information whether the municipality is going to use the pre-emption or not. If the municipality decides to use its right, the buyer will be compensated for the paid purchase price and for the costs caused by the preparation of the purchase.

In practice the municipalities use their right of pre-emption quite seldom (under 5% of the land acquired by the municipalities). It is never the main tool to practice land policy, but it is considered as an important tool to negotiate with the contracting parties for the clauses of the transaction.

2.5 Real estate companies

Owning through shares is usually organised through a real estate company (*kiinteistöyhtiö*). The real estate companies are limited companies (*osakeyhtiö*) and the purpose of them is to own the ground and the buildings on it. The possession of the land may also be through leasehold. A very typical real estate company is an apartment house company (*asunto-osakeyhtiö*). When owning through share the shareowner in fact only owns the shares, not the real estate, the building or the dwelling, which are owned by the real estate company. The shares may have a connection to the building or not.

Shares can be pledged as any movable property. The pledges are not registered in an official register. Through the transaction of the shares, the creditor gets the lien for the shares. There are no taxes, such as stamp duty, for pledges or loans.

2.5.1 Types of real estate companies

Mutual Real Estate Companies

In a real estate company the shares may be connected with a flat or a floor in the building. The articles of association of the company may state that certain shares give the shareholder the right to possess a certain part, a flat or a floor of the building. This kind of a real estate company is called a mutual real estate company (*keskinäinen kiinteistöosakeyhtiö*).

In the mutual real estate companies the shareholders pay maintenance charges for the company, which mostly makes no profit. In mutual companies the shareholders often use the premises themselves, and pay only the maintenance charges and no rent. If the flat is rented out by the shareholder, the tenancy is between the tenant and the shareholder. The rent income goes directly to the shareholder.

It is usual that the mutual real estate companies have some premises, commercial or residential, which are not attached to the shares. In this case, the tenancy is between the company and the tenant, and the incomes from the tenancy go to the company. Normally it is also very positive for the real estate company's economy to get these rent incomes, because then the payments from the shareholders can be lower. If the company has no premises, which are not connected with shares, the company usually gets no other incomes but the payments from the shareholders.

There are specific legislations for the mutual real estate companies. Mutual real estate companies may decide in their articles of association whether they follow the Housing Companies Act or the legislation for limited companies. The Housing Companies Act is always followed if the building is more than 50 % in residential use.

According to the Limited Liability Housing Companies Act, the shareholder has the right to possess the apartment, and has the duty to take care of the interior. The apartment house company is obligated to take care of the rest and of the construction of the building and the site.

The shareholder normally pays maintenance charge to the company to cover the costs, as in other mutual companies.

The older apartment house companies or other mutual real estate companies, especially, have a redemption clause (*lunastuslauseke*) in their articles of association, which means the other shareholder's right to reclaim from the buyer the shares sold outside the company. The redemption price shall be the current price of a share and the reclaim must be proposed to the company within two months. The opportunity of redemption is seen unfavourable as it often weakens the willingness of the outside purchaser to purchase shares.

Real Estate Corporations

The other type of real estate companies is the standards limited company (*kiinteistöosakeyhtiö*), where the share and the premises have no connection with each other. Shareholder has no specified flat to possess. In these real estate corporations the shareholder pay no maintenance charges to the corporation, which has its rent income and can also make profit and pay divided to the shareholder. In these corporations the shareholders, which use the premises themselves should pay the market rent to the corporation. If the rent is lower, a question of tax avoidance and favouring of the shareholder may arise. Standard limited companies follow the Limited Liability Companies Act (2012).

2.5.2 Purchase of shares

The purchase of shares of a real estate company is legally a purchase of movable property, also in the case of mutual companies. Therefore, no public purchase witness is required for the transaction and also non-written agreements may be legally binding. In general, all transactions should be made in written. The object of the purchase is always the shares, not the premises, the dwelling or other part of the building, which the shares may have a connection with. Therefore, when the shares have a connection with the premises, the seller in fact transfers to the buyer the right to possess the premises.

Restrictions to buy shares may only be written in the articles of the company. In some cases there may be a repurchase clause or redemption clause, where the previous shareholders may substitute the buyer if the shares are sold outside the company. It is important to notice that in an apartment house company the shareholder is not able to transfer a part of the shares connected with the dwelling but the shares may only be transferred together. On the other hand, a fraction (e.g. 1/3) of the shares can be transferred.

When buying commercial premises (i.e. the shares of a mutual real estate company) there is no special legislation for the purchase agreement, but the general Sale of Goods Act. In general, the seller and the buyer may agree upon the terms of the transaction quite freely. It is the same as when buying shares of a usual real estate company.

When buying dwellings (i.e. the shares of an apartment house company) there is a special legislation for the purchase agreement, called Housing Transaction Act, the Housing Companies Act or the normal legislation for limited companies. There are special regulations in the act for new dwellings and the marketing and purchase of dwellings in a building under construction, and special regulations for the purchase of used dwellings. When marketing and selling new dwellings, i.e. dwellings which have not been used before, the promoter of the apartment house company or the seller of the shares must follow the regulations in the legislation. Among other duties, sufficient assurance must be deposited to ensure the building to be completed (minimum

5 % of the construction price), the responsibility of faults during the first year (minimum 2 % of the sales prices), and finally the responsibility of guarantee for ten years. The deed of a purchase of a new dwelling must be done in writing and there is a legally binding form for the deed.

When buying shares connected with a used dwelling, there are special clauses in the Housing Transactions Act for the responsibilities, duties and rights for both the seller and the buyer. When the seller is a merchant and the buyer is a consumer, the legal rights of the buyer may not be limited in the purchase agreement.

When owning through shares in a new building, it is normal that the building costs are divided in the purchase price and the bank loan for the real estate company (company loan). In this case, the buyer pays the price to the seller and assumes his part of the company loan. The loan may be paid at once or during a longer period. Usually the company loan is 20 % to 30 % of the total price of the shares in a newly built-up real estate, but the share may be also bigger. The company loan must be taken into consideration in the purchase agreement, so that the price to be paid to the seller must be lower when there is a company loan.

In the past few years, most of the bigger constructing companies have produced a model for residential use where the apartment house company loan is as much as 60 % to 70 % of the total price. In this kind of financing the buyer needs less money to get the apartment. Because the rate of a personal loan for an apartment may be partly deducted in taxation, it is often more useful for a private person to take a loan of his own - or to use his own money - and to pay both the purchase price and the company loan. Regardless of the amount of the company loan, the shareholder has all the rights in the company.

In general, the seller and the buyer have the same duties and responsibilities as in the purchase of real property. The only significant difference is, that the buyer is due to register his ownership in the company and pay the transfer tax 2 % of the purchase price within the purchase. If the sale has been done with a real estate agent. In other cases, the buyer must pay the tax within two (2) months from the purchase, whereas for a purchase of real property the buyer is due to pay the 4 % tax within 6 months. No tax is imposed if a person aged between 18 and 39 acquires his or her first owner-occupied permanent home. There is no transfer-tax liability if the transfer is due to an inheritance, a donation or a division of property subject to matrimonial rights. The purchases of real estate company shares are not registered in the Land Register.

2.5.3 Other forms of owning and buying properties

In the beginning of the 1990's a new ownership model mixing the normal indirect ownership and tenancy was developed for social reasons. The model is called right of occupancy (*asumisoikeus*). In this case the occupant, a private person, gets the right of residence in the apartment by paying a certain charge, which is 10 % to 15 % of the price of the apartment. In addition there is a monthly rent.

The right of occupancy can be transferred to another private person and there is an index clause for the residential charge. The transfer price may not exceed the indexed price of the seller's purchase price. For the buyer this kind of possession may be more flexible compared to the usual apartment house company and safer compared to tenancy.

In these cases, the state supports the rent by participating in the building costs, and the total rent may not exceed the level defined by the authorities. Mostly there are no economical limitations for the occupant to get the right of residence, but the apartment must be in the occupant's own use or in the use of his family's.

There are also different kinds of models – non-subsidized and state-subsidized – for partial ownership, in which the buyer e.g. only owns 10 to 20 % of the shares. Some construction companies have been producing such models. By owning a part of the shares in an apartment house company, the shareholder normally pays the costs in the form of a company loan. It depends on the level of the rate whether this model is economically better than normal ownership. Mostly it is possible to buy also the rest of the shares.

In the City of Helsinki there is a special form of regulating the price level of apartments called Hitas. The system is based on land lease agreements, where the city leases a site to an apartment house company. There is a clause in the articles of the apartment house company, which forbids the shareholder to transfer the shares at a price higher than the one confirmed by the municipality. In case the transfer price is too high, the city may redeem the shares.

2.6 Leases

As there are two types of real property ownership, there are also two types of leases in the Finnish real estate tradition: leasehold, which stands for leasing of land, and tenancy, for leasing of premises.

2.6.1 Leasehold of real property

In direct owning the owner usually owns both the building and the ground. Especially in the bigger cities and other growing centres it is also possible to own a building and have a long-term lease agreement (usually for 30 to 50 years) with the landowner, which is usually the municipality or the city. Land lease agreements are made both for commercial and residential purposes.

The leasehold agreement must be registered in the public registration system and the registered land lease agreements together with a building owned by the lessee are quite close to the ownership of real property, and are mostly transferable. They can also be mortgaged.

The most important terms in a lease agreement are:

- the period of validity of the lease,
- the rent and the information on whether the rent is index-linked,
- the right to have a building on the real estate,
- the right to transfer the agreement, and finally
- the clauses regarding the building in the end of the period, i.e. whether the lessor is obligated to buy it, or should it be taken away.

These terms can be freely agreed upon, especially with commercial properties, but in residential use there are some limitations for protecting the lessee.

The transaction of a leasehold agreement with a building must be made in writing, and the contract letter is similar to the one of a real property conveyance. However, a public purchase witness is not required.

Like a real estate, the leasehold agreement and the transactions must be registered in the public Land Register, except for the purchase of agricultural land, where the leasehold needs not be registered if the period of the leasehold is less than two (2) years. The buyer of the leasehold should register the purchase within six (6) months from the sale. The transfer tax (4% of the purchase price) must be paid and the delayed penalty is also equal to the purchase of real estate.

2.6.2 Tenancy of premises

Tenancy assignments

In addition to owning, tenancy is a quite usual form of possessing both residential and business premises. The premises in tenancy may be a part of a building or a building on a land lease or premises in an apartment house company or a real estate company. The tenancy agreements for commercial properties and for residences are mainly quite similar, but there are different laws for them, The Act on Residential Leases and The Act on Commercial Leases.

The assignments can be made for a fixed period of time or for until further notice. The length of the term is not limited. When the period is fixed, the term is usually binding for both the lessor and the tenant. The tenant or the lessor may, in some circumstances, get a permission from the court to serve a dispossession notice before the end of the period. This rule is applied for both commercial and residential properties.

Rent

Tenancy is an assignment binding both parties. In general, the lessor has no right to raise the rent without the permission of the tenant. The tenant may give the permission already in the tenancy agreement (index clause) or when the lessor proposes to raise the rent. This right requires, that the lease be done for until further notice or for a certain period of at least three years. Under these conditions the rent may be index-linked or linked with some other measurable figure. The indexes can be freely chosen but the basis to raise the rent must be determined. When there is an index clause in the agreement, the lessor may raise the rent without the permission of the tenant.

The rent may also change according to the assignment when the rent is scaled, so that the first years are with a lower rent. The lessor and the tenant may agree that the rent will change due to a renovation, or the rent may be lower for the first years and then higher for the rest of the term. It is also possible to fix the rent to the tenant's turnover, with or without a minimum and maximum rent. The measuring should always be considered carefully. In general the rent must also be reasonable.

Maintenance and repairing costs

The maintenance and repairing costs can be divided between the lessor and the tenant. Normally the lessor pays the usual maintenance costs and the tenant pays the electricity and water costs, etc. and only the costs of smaller repairs of the interior. The lessor usually pays the insurance of the building, management, real property tax, etc. As commercial lease is subject to VAT of 24 %, the tax should be added to the rent, unless the tenants are VAT exempt (e.g. banks) or not VAT registered.

Typical lease terms in commercial properties

It is possible that according to the tenancy agreement, the tenant has the right of first refusal if the property (real estate company) is sold, but this does not concern real property. These rights are not very commonly used.

The tenant generally needs the permission of the lessor to make improvements. Normally the tenant and the lessor agree on this in the contract. The tenant normally has no option to expand the rented area; usually the tenant and the lessor make a new contract when the tenant needs more space.

The tenant needs a permission to transfer the contract to another or to re-lease the contract. The permission can be written into the tenancy agreement or the lessor can grant it later. One exception is to transfer the tenancy with the substance of the business. In business premises all the rights to transfer the assignment, to re-lease or to subcontract may be forbidden in all cases.

Termination of tenancy

When the lease is for until further notice, both the lessor and the tenant may, with some limitations, give a notice of termination. The tenant may give the notice of termination whenever he wants to. The lessor must always give a reason for the notice, for example a sale of the property, in writing. Both for residences and commercial properties there are some legal limitations for the lessor to give a notice of termination, e.g. if the purpose in fact is to raise the rent too much. If the purpose to serve a dispossession notice is to raise the rent and the asked rent is considered unreasonable, the notice of termination may be ineffective. The situation is the same when the notice of termination is considered unreasonable for the tenant and the lessor has no accepted reason to give the notice. The tenant has to summon the lessor, and if the tenant wins, the lease continues.

When the lease is done for until further notice, the lessor may be due to pay compensation for the tenant for giving the notice of termination. If the reason for the notice is not fair to the tenant, the lessor is due to pay compensation for some repairs, moving costs, etc. In some cases the tenant also has the right to get compensation for the loss of customers and goodwill. In these cases the lease will not continue.

When the tenancy is for until further notice, the time to give the notice of termination in residences is one (1) month for the tenant and three (3) months for the lessor, or six (6) months when the agreement has been in force at least one year. In residences, the notice periods may not be worsened for the tenant by agreement. In commercial properties the notice period can be agreed freely. If there is no clause on the notice of termination in tenancy of a commercial property, the period is three (3) months when the lessor gives the notice, and one (1) month when the tenant gives the notice. The usual term of notice according to lease is three (3), six (6) or twelve (12) months for both parties. There may also be other kinds of limitations, e.g. the tenant may not give the notice before a certain period, or that the tenant may only give the notice on a certain day of a year.

If the lease is done for a fixed period, it expires at the end of the term. The tenant has no right to continue the lease, unless an option agreement of renewal is made. When the period ends or the lease ends according to the notice of termination, the tenant has to move out. For special

reasons, e.g. in the case that the lessor has given the notice, the day of removal may be altered: in residences a maximum of twelve (12) months and in a commercial property a maximum of six (6) months. To get this prolongation, the tenant is due to summon the lessor. The accepted prolongation is usually three to six months. The alteration of the removal date cannot be done, if it causes a significant harm or damage to the lessor or someone else. The prolonging is not possible in leases that are done for a fixed period.

2.6.3 Sale and lease back

Mostly for financial reasons, the companies sometimes sell their properties to an investor but stay as a tenant in the same premises. These arrangements are called sale and lease back. Usually the seller, or later the tenant, has the right or even the obligation to buy the property back, at a price agreed between the parties.

When owning through shares (limited real estate company) there are no limitations for sale and lease back, and there is no special legislation for it. When the premises are a real property unit, not a real estate company, there are some limitations in the legislation and the special form for transactions of real properties must be used. When the company sells the property to the investor it is forbidden to agree upon any rights or obligations to buy the property back. This is to ensure the reliability of the public register. For this reason the lessor and the lessee usually agree on it in the tenancy agreement. It may be an option or an obligation to buy and sell, too.

2.7 Mortgage and pledge

Direct-owned real property and also the land lease agreement together with a building can be mortgaged and the shares of a real estate company can be pledged. In real estate companies it is also possible that the company has been financed by a bank through a mortgage loan, and the shareowners pay the loan costs to the company. Typically a part of the building costs is financed by the real estate company and the bank, and the rest is paid by the shareowners directly.

Mortgaging is an official process and is usually done by the owner in the local survey office or via internet in the National Land Survey's web page. Hereafter, depending on the situation, either the creditor or owner will receive a special mortgage letter as a document of the mortgage. This letter - or alternatively an electronic notation - may be pledged and through this process the creditor gets the lien for the real property. The mortgages are registered in the Land Register. There are no tax costs such as stamp duty for mortgages or loans, except the small payments for the documents.

2.8 Taxation

People who have permanent residence in Finland and the Finnish companies are generally liable to tax for their incomes. A company is regarded a resident in Finland when it is registered in Finland or is incorporated under the Finnish law. Other companies or individuals without a residence in Finland are due to pay tax from incomes earned in Finland. To avoid double taxation Finland has tax agreements with most countries. The general rule concerning incomes from property is that they are taxed in the country where the property lies.

2.8.1 Transfer tax

In a real estate transaction the buyer must pay a transfer tax before assuming legal possession of a property. Transfer tax for real property, building and land lease with building is 4 % of the purchase price. The tax must be paid within the registration, which is six (6) months from the purchase. If the registration is delayed, the transfer tax will be increased from 20 % to 100 % of the amount of the original tax.

A transfer tax equal to 2 % of the purchase price is paid for share transactions, except for transactions in the Helsinki Stock Exchange. After the purchase, the buyer is due to register the company shares and to pay the transfer tax (2 %) within two (2) months from the purchase, with some exceptions. In a deal with a real estate agent the transfer tax must be paid at the purchase. If the payment delays, the penalty interest must be paid. The interest varies yearly and it has been approximately 7 % to 8.5 % per year.

2.8.2 Income and wealth tax

The income tax for sales profit and for rental revenues is 30 % if you receive €30,000 or less and 34 % for the part that goes over €30,000 (year 2016). The corporate income tax rate and the tax for dividends are also 30 % and 34 % with the same limit of €30,000 (year 2016). For non-residents the taxation depends on the cross border taxation agreements, withholding tax, etc. Dividends from a Finnish company paid to a non-resident shareholder are subject to a withholding tax of 30 %.

The municipal tax is payable for both residents and non-residents, varying in different municipalities approximately 16 % to 23 % of the net income.

2.8.3 Value added tax

The value added tax (VAT) payable on goods and services (e.g. constructing, consulting, property asset management and brokering) is 24 % (year 2016). Value added tax is not paid on a purchase of shares or real estate. A company charging VAT from the goods and services sold has to account the tax collected to the state. In order to avoid double taxation the company has the right to deduct from the amount of collected VAT the amount of VAT the company has paid buying products from other VAT liable companies.

According to the law tenancy is non-taxable, with some exceptions (like hotels, parking). In commercial properties and in certain circumstances this may cause extra costs for the tenant because the tenant is not able to deduct the so-called hidden VAT included in the rent, from his sales.

Having made construction or improvements also the lessor may lose deductions, if the tenancy is non-taxable. Therefore, in tenancy it is possible to voluntarily register liable to pay value added tax, when the lessor and the tenant consider this reasonable. After the registration, the tenant pays the rent plus the VAT, and the tenant is allowed to make deduction from the sales. The registration demands that the tenant carries on a taxable venture. Normally the registration will not cause any extra costs for the tenant or the lessor, except some administrative costs for the VAT system. The registration is also possible in real estate companies. In these cases both the real estate company and the shareholder in mutual companies must register themselves liable to pay VAT.

When selling a commercial property, where deductions have been made because of constructing or improvements, the VAT should be considered in order to avoid potential extra costs to the seller and to make sure the buyer gets the best deduction possible.

2.8.4 Real property tax

Except for agricultural and forested land and some special purpose properties, all properties in Finland are subject to real estate taxes, yearly payable to the municipality in which the property is located. The tax rates vary in general between 0,80 % to 1,55 % of the taxable value of the property, and in residences between 0,37 % to 0,80 % (year 2016). The taxable value is generally close to the actual market value of the property, although significant variance between the tax values and market values are observed.

The local authorities determine the tax rates yearly within the limits mentioned. Usually the real estate tax for the current year will be paid in the autumn. Responsible for the tax is the registered owner in the beginning of the year or a tenant equal to the owner.

3 ENVIRONMENTAL AND BUILDING LEGISLATION

Environmental questions have become more and more important during the past decades. Some of the Finnish environmental legislation is from the 1990's, but it's kept up-to-date with constant changes. Its foundation is on the old concept of land and water law that regulates the use of land and water areas. From the land and water law the legislation has moved towards a wider concept, called environmental law. It can be divided into four major sectors e.g. planning and building law, environmental protection law, nature conservation law and natural resources law. All these sectors include legislation very important when buying or possessing a real estate.

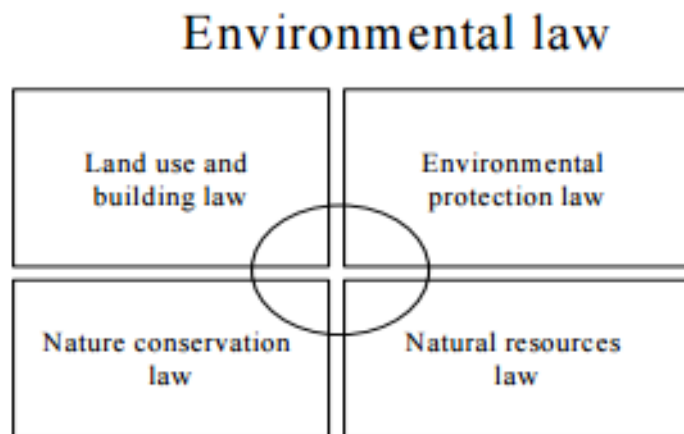


Figure 3.1. The four major sectors of the environmental law.

3.1 Environmental protection

The environmental protection law aims to prevent pollution, combat climate change, reduce waste, improve assessment of hazardous activities and let citizens have a better part in environmental legislation. The main part of the legislation is the Environmental Protection Act with regulations for non-contamination of the soil, water and air. The Act applies to all activities that lead, or may lead to environmental pollution, as well as to activities that generate waste, and to the recovery and disposal of waste.

The Environmental Protection Act includes general principles that the undertaker has to follow in the activity as well as the general duties and the general prohibitions based on the law. The principles apply to activities that pose a risk of pollution and they are:

- principle of preventing and minimizing harmful impact,
- principle of caution and care,
- principle of best available technique,
- principle of environmentally best use, and finally
- the principle of 'polluter pays'.

The general duty of knowledge requirement means that the operators must have sufficient knowledge of environmental impact and risks caused by their activities, and of the ways to reduce harmful effects.

The soil pollution prohibition is aimed to protect the soil. Waste or other substances shall not be left or discharged on the ground or in the soil, so as to result in such deterioration of soil quality as may endanger or harm health or the environment, substantially impair the amenity of the site, or cause comparable violation of the public or private good. The groundwater pollution prohibition means, that a substance shall not be deposited in or energy conducted to a place or handled in a way that, for example, groundwater may become hazardous to health, or its quality otherwise materially deteriorate in areas important to water supply or otherwise suitable for such use, or groundwater on the property of another may become hazardous to health or otherwise unsuitable for usage.

The Environmental Permit Act has a permit system and a notification system for certain activities or situations. A permit is required for activities that pose a threat of environmental pollution (environmental permit). The permit authority is either a municipal permit authority or the Regional State Administrative Agencies, depending of the scope of the activity.

Operators must notify the municipal environmental protection authority in writing of measures or events causing temporary noise or vibration, such as construction work or public events. A polluter's duty is to notify the supervisory authority if a substance, which may cause pollution has entered the soil or groundwater.

Treatment of polluted soil and groundwater is an important part of the environmental protection law. In the purchase of a real property, the seller shall always give all information of potential contamination and of the industry previously carried on in the real estate, along with any substances or waste present on the real estate. It is usual to investigate the soil properly and thus minimise the risks of compensation of damages before a purchase.

The responsibility for cleaning is mainly the polluter's, the one who is responsible for the contamination. Any party whose activities have caused the pollution of soil or groundwater is required to restore the said soil or groundwater to a condition that will not cause harm to health or the environment, or represent a hazard to the environment. But if the party that has caused the pollution of soil cannot be established or reached, or cannot be prevailed upon to fulfil its treatment duty, the liability is transferred to the holder of the area. This is the law if the pollution has occurred with the consent of the holder of the area or the said holder has known, or should have known the state of the area when it was acquired, the said holder of the area shall restore the soil in so far as this is not clearly unreasonable. The same rule applies to treating groundwater if the pollution has arisen from pollution of the soil in the area. If the holder cannot be hold responsible, the municipal authority shall establish the need for and carry out the soil treatment. If the part responsible for treatment does not take action, an order may be issued to fulfil the obligation.

The responsibility issues in the soil or groundwater are either civil cases (liability only) or criminal cases (criminal issues). Those cases are referred to the general courts (District Court, Court of Appeal and the Supreme Court).

3.2 Nature conservation

The Nature Conservation Act (1996) includes regulations for protecting nature, landscape and flora and fauna. The Act from 1996 replaced an old act with the same name from the 1920's. This Act has a wide impact on land use planning, building and other activities. The elements of nature conservation can be found in the land use planning law and the natural resources law

together with for example Forest Act and Water Act. In the Land Use Planning and Building Act, the nature conservation is included both in the land use planning and in the building activities.

The Forest Act, for example, includes protection of the forests and certain habitats. The renewed Water Act (2011) aims to promote, support and adapt the usage of water resources and water environment in socially, economically and ecologically sustainable ways, preventing their damage, and enriching their condition. It also regulates water related projects. The Land Extraction Act (1981) aims to regulate the uptake of land to protect nature, landscape and other environmental values in line with sustainable development. It includes a nature protection instrument in the permit system.

The Nature Conservation Act is, for example, for establishing protection programs, protecting areas, landscape, habitats and species. It is usually possible to give a permission to lift the protection. If any activity takes place in an area included in the European Union Natura 2000 network or close to it, the plans and projects need to be assessed. A permit to the project must not be given if the assessment shows that those plans or projects have a significant adverse effect on the protected site. The Council of the State may lift the protection if it needs to be carried out for imperative reasons of overriding public interest. The Natura 2000 network is revised to ensure especially the marine nature's diversity in the future.

It also needs to be noted that the Regional Environment Centre has the right to appeal any decision taken under other acts than Nature Conservation Act, if the decision is contrary to the provisions or regulations in it. The decision may be to issue a permit or to adopt a plan. The regulatory officer monitors or observes the environmental impacts of the permits given.

An interesting example of the connection between the nature conservation and the land use and building law can be found in the Land Use and Building Act. It is directly ordered that certain provisions of the Nature Conservation Act shall be observed when land use plans are approved and ratified. Also in the permit procedure or in making other decisions, the authorities shall observe the provisions issued in and under the Nature Conservation Act.

3.3 Building heritage and protection

A building, entire blocks, or several buildings together may be protected, mostly when they represent special architectonic, historical or cultural values. The protection is regulated in a detailed land use plan based on the Land Use and Building Act in areas covered by a local detailed plan and in areas where building is not permitted as local detailed plan is being prepared. In other areas the protection is regulated by the Act on the Protection of the Built Heritage. The Act on the protection of the Built Heritage applies also with areas under the Land Use and Building Act. If the object has national importance, its preserving and existence may not be secured only with the Land Use and Building Act or its regulation, there exists special reasons to use latter Act based on the town planning situation.

The Act on the protection of the Built Heritage aims in securing the historical and regional diversity of built cultural environment, protect the characteristics and special features of it and to promote its culturally sustainable maintenance and use. The term built heritage as such refers to built cultural environment. The structure of the built environment, buildings in- and outside, yards and parks, technical structures such as streets, roads, bridges, channels and other built

objects of the environment. The protection in a detailed land use plan may concern the building as an entity, the interior, or only the façade.

The Act on the Protection of the Built Heritage covers buildings, constructions, groups of constructions and built areas, which have significance to building history, building art, building technology, to environmental values, use of a building or other events related to its use. Protection may cover a part of a construction, its fixed furnishing or other built or plant areas. When a building is protected, special permissions from the authorities are required for making changes and improvements.

In Finland, the Ministry of the Environment is in charge of the built heritage's development and guidance. The National Board of Antiquities and Historical Monuments acts and supervises together with local industrial and commercial, traffic and environment centers to protect the law. Their license is required for making changes and improvements to buildings operating under the acts. When planning the act, the authorities have wanted to secure the proper's' position stating that they have chance to impact to preparation of their case.

In Finland churches are protected according to the Church Act and the Orthodox Church Act. These acts cover church buildings, their surroundings, fixed structures and artworks in all churches constructed before 1917. Churches built after the Finland's independency year 1917 may be protected based on separate decisions.

3.4 Neighbours and other people

The Finnish constitution protects peoples' private lives, dignity and living. Disturbance of domestic peace is not permitted in anyone's home. Based on the Criminal Act people are entitled to be without disturbance in places, which may be comprehended as their home. These kind of places can be residents, summer residents and other facilities planned for housing, together with hotel rooms, boats with sleeping facilities, trailers and tents. Also residents' yards, its buildings and staircases are protected by the law. Therefore, possessor of a real property must take his neighbours into consideration. It is forbidden to use a real estate in a way, which causes harm to the people living nearby (e.g. immission effects). This includes all activities carried on in the real estate.

There has been an active general debate on the limits of the criminal law in ensuring some parts of the constitutions enforcement during the past years⁷. As a consequence, the Finnish parliament approved and ordered a new law to clarify its will in relation to cigarette products. The new law (est. 1.1.2017) will better protect peoples', especially children's private lives and give housing cooperatives a permission to limit smoking in residents to ensure private living with protecting them from neighbours cigarettes' smoke.

Based on Finland's legal concept of "everyman's right", the right to go and spend time, even a night in the forest and fields belongs to everybody. This right includes a free right to walk, ski, bike, ride, fish and to collect most flowers, berries and mushrooms. However, it does not allow to make an open fire or disturb dwellings. To enter a yard is not allowed, as well as to harm growing crops or cause any such harm. Environmentally rich, protected nature areas have their own regulation based on their level of governmental protection.

⁷ Especially when preparing the new Act for smoking

3.5 Planning and building

3.5.1 Planning system

The Finnish legislation on planning and constructing was amended in 2000, when the Land Use and Building Act came into force, which serves as guidance for general land use planning. Responsibility for land use related legislation and the development of instruments to steer land use is the responsibility of the Ministry of the Environment. The power of the local authorities was increased by the new legislation, although the government authorities may still closely control the local planning and land use. The legislation distinguishes between three types of plan: the regional plan, the master plan, and the detailed plan. There are also special regulations for detailed planning and plan implementation in the shore areas for holiday homes (summer-houses). This plan type is also called the detailed shore plan. In addition to the plans, there are also two execution plans, the plot division plan, which is used for dividing a building block into plots, and the street plan for the construction of a street. Besides these plans, there is a local building ordinance (*rakennusjärjestys*) in every municipality, which gives detailed guidelines and regulations for building in the municipality. In addition, the Government has the right to decide on the guidelines for the national planning policy. The planning system is hierarchical: a plan prepared in general guides the drawing of a more detailed plan, but a more general plan is not valid in an area with a more detailed plan.

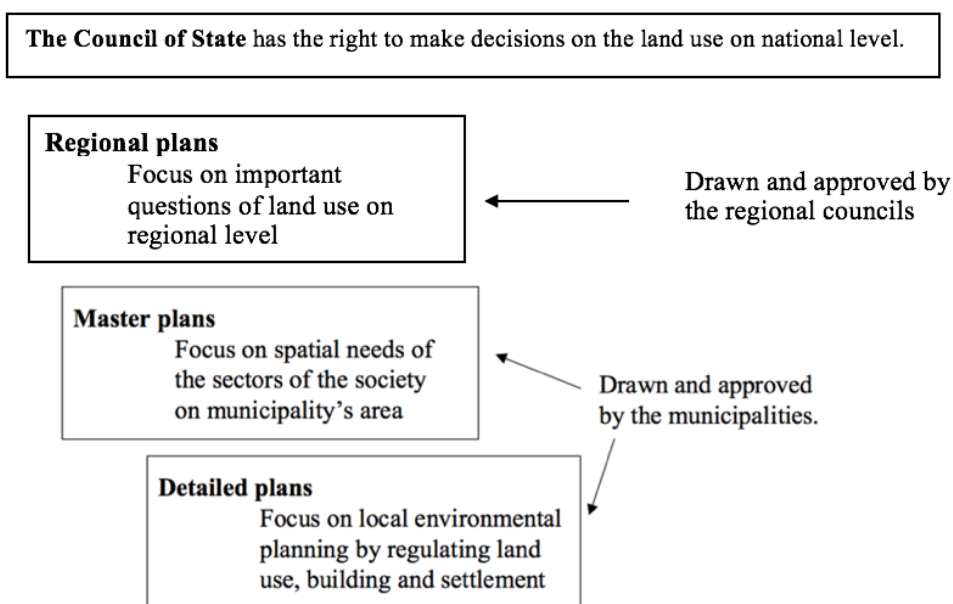


Figure 3.2. Plan hierarchy and responsible authorities

The Land Use and Building Act also emphasises environmental aspects. The objective in land use and planning is to promote a safe, healthy, pleasant, socially functional living and working environment. Other objectives are, for example, the economical community structure, protection of the beauty of the built environment, protection of the cultural and natural values, biological diversity, functionality of municipalities and cities, and favourable business conditions, services and traffic.

According to the Land Use and Building Act, the environmental impacts of the implementation of plans have to be assessed on all levels and in all types of land use plans. The definition of the environmental impacts is wide; it includes impacts on nature, architecture and landscape, as well as the settlement structure.

The planning process is quite open and the right for public participation is extensive. The process begins with the Municipal Council's decision to draw a plan for an area. In addition to a plan being drafted, both a participation and interaction procedures scheme and a scheme for assessing the plan's impacts must be drawn up. The initiation of the planning process must be made public so that the interested parties have the opportunity of obtaining information on the principles of the planning project and of the participation and assessment procedure. After preparing the plan, the plan proposal is presented in public and the members of the municipality as well as other interested parties shall be provided with an opportunity to express their opinion on the matter (incl. objection). The plan becomes effective after the Municipal Council has approved it. The decisions to approve a plan may be appealed to an Administrative Court and further to the Supreme Administrative Court. On the average, one of ten decisions to approve a plan is appealed. The process to alter a plan follows the same procedures as drawing a new plan.

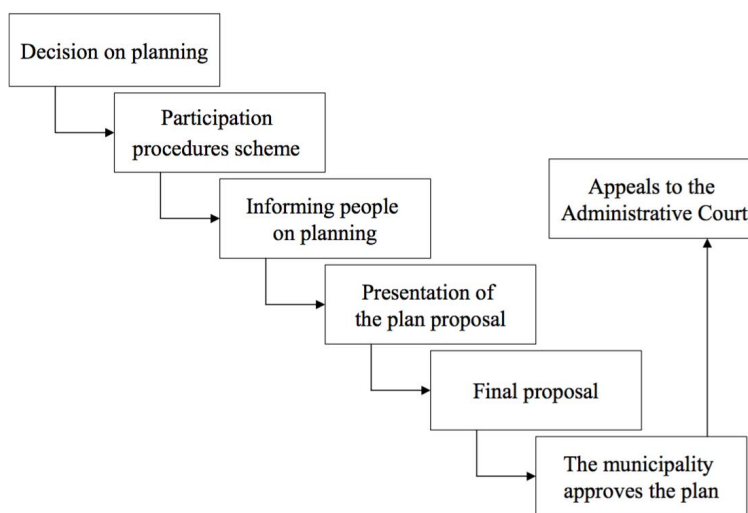


Figure 3.3. Main stages of the Finnish planning process

3.5.2 Regional planning

The counties have the right and obligation to prepare their own land use plans and create regional development strategies. The essential parts of county planning are the regional scheme, which indicates the objectives of development of the area, the regional plan that controls other land use, and the Regional Development Programme. The regional plan is focused on the important matters of land use in regional level. Its salient mission is to make the national land use objectives concrete and to reflect them into the municipal planning. In the regional plan, the areas important for developing the region are allocated. Particular attention is given to ensuring an appropriate regional and community structure, to preserve landscape values and ecological sustainability, and to provide proper conditions for the business and the industry. The regional

land use plan is prepared by regional councils. Since 1 February 2016 Ministry of the Environment no longer ratifies regional plans.

In practice, the regional plan is prepared gradually for the different objectives and sectors, such as the networks of centres, environmental protection, suburbs, etc. It sets out a framework for the more detailed local plans, which are made by the municipalities. Individual citizens and different non-governmental organizations are deserved to participate in the planning process. At this moment every Finnish region is covered by a regional land use plan.

3.5.3 Local planning

A plan refers to a document about the planned land use of an area. It is drawn in the form of a map. The areas of different types of land use are shown on the map. In addition to the plan map, there is a statement, which includes, e.g. the principles used in the planning process and the timing of its implementation. All plans also include written provisions about land use. Generally, all building projects in the urban areas are based on a detailed land use plan. An increasing number of municipalities have also drawn up legally binding master plans, which may control land use in the entire municipality or just part of it.

Traditionally the independent Finnish municipalities, both urban and rural, have had extensive rights to decide on the control and guidance of their own spatial planning and development. This is called municipal planning monopoly. Because of this monopoly, the municipalities play a very important role in local planning and building issues. The key actor in a municipality is the local council. With local plans, the council can decide on the location, size and quality of public spaces, housing, industries, services, green spaces, recreation and environmental protection areas, and traffic arrangements. The council holds full responsibility; local plans are not subjected for approval by central government since 2000. However, when plans are being prepared, consultations with regard to the national guidelines or otherwise broader issues have to be held with the Regional Environmental Centre, i.e. the state authority.

The municipalities either prepare their plans in their own planning offices or use consultants. All the municipalities together have thousands of persons involved in planning. More than one third of these have an academic degree, usually either from architecture or civil engineering. According to the law, the municipalities with more than 6,000 inhabitants have to have a qualified planner. The total planning costs of the municipalities were in 2015 about 255 million euros, i.e. 58 €/inhabitant.

Planning is a task for the local authorities and the planning process is mainly started and directed by the authorities. When the real property owner has a special need for planning, it is also possible to start the process with the owner's suggestion. In these cases, the owner normally has to make a planning agreement with the municipality and pay at least a part of the costs of the planning process and of the infrastructure needed. However, all planning decisions are made by the authorities and the planning process has its normal stages. All forms of local plans are normally legally binding after they have been approved by the Municipal Council. No plan implies a right to build as such; a building permit from the Municipal Building Committee is always needed.

Local Master plans

The local master plan (*yleiskaava*) can be fine-tuned according to municipal needs. The local council can decide to make either a more strategic or visionary master plan to coordinate the

spatial needs of different sectors, or it can make a more specific one to guide building quite directly by binding regulations. The Land Use and Building Act states, that in a case of a local master plan with binding regulations certain legal implications concerning the compensation for decrease in land value are created. The local master plan has to promote a well-functioning and economically sound community structure, good access to services, and the conservation and maintenance of the natural and cultural heritage. The Land Use and Building Act also gives the council, e.g. the right to determine the location of hypermarkets in order to keep inner cities lively and prevent urban sprawl. The municipalities may also prepare joint master plans to promote inter-municipal spatial policies.

The local master plan can cover the entire municipality or a part of it. There is a local master plan for 97 % of the municipalities. These plans usually cover the urbanised parts of the municipal area, and in some cases the entire municipal area. There were 2,505 ratified local master plans in the end of 2015, covering 10,7 million hectares, i.e. 28,3 % of the surface area. The municipalities approved in total 205 local master plans in 2015, and 136 were under process in the end of 2015. Since the 2000's the number of plans annually under process has varied between 100 and 200.

There are no regulations determining how long a master plan is effective, but the average age of a master plan is about 5 to 10 years. The implementation programmes are determined by the municipalities, which also finance the planning work. The planning is encouraged and supported financially by the Ministry of the Environment.

Local detailed plan

A local detailed plan (*asemakaava*) is needed especially for dense settlement, i.e. in the areas in a need of planning for organising the land use, building and development. The plans are regulating the location of functions, the size and the type of buildings, as well as the formation of the townscape. Rather detailed regulations about the location and height of the buildings, building density, maximum number of buildings and storeys, construction materials, facades, roofs, parking, planting, etc., are normally given in the plan provisions. The building right is usually indicated with a ratio showing the maximum floor area per the area of the plot.

The size of the area of a detailed plan varies a lot, covering one plot, a block or a district. Because of the extensive participation in the planning process, the detailed regulations and the wide and cheap appeal possibilities, the planning process is often very slow. The process may be carried out in a few months, and the median length without appeals is less than one year. Still, in most extreme cases, the process can even take longer than ten years.

When planning a first detailed plan for an area, there are usually no actual building projects. As the areas then are built, it is often noticed that the detailed plan regulations lead to non-functional building and the plan must be altered before building, as building must not be in violation to the local detailed plan.

A subdivision plan (*tonttijako*) is also normally required in building blocks. The subdivision plan divides the blocks into building plots. A subdivision plan may be binding or directive. In the areas with a binding subdivision plan, a building permission cannot be granted before the subdivision plan is approved, the plot is surveyed (subdivided) and legally registered in the

cadastre. A binding subdivision plan is normally required in the cities. In the rural municipalities, the detailed plans are normally prepared with a directive subdivision plan. In these areas a registration of the site is not required for a building permit.

The municipality must monitor the local detailed plans to ensure that they are kept up-to-date. When necessary, the authorities should take actions to revise outdated plans. If the plan has been in force for more than 13 years and remains unimplemented to a significant extent, a building permit may not, with some exceptions, be granted for the construction of a new building before the local authority has assessed whether the plan is up-to-date. This 13-year period may also be determined shorter or longer in the detailed plan, at least five years but not longer than 20 years.

The local detailed plan is also used for building holiday homes on the shores and on the shoreline areas. Because the detailed plan for the shoreline still has special rules, it is also called a special detailed shore plan and it resembles the former shore plan (before 2000).

The local detailed plans covered approximately 7,730 km², which equals to about 2,3 % of the total area of the country. Since 2005, the number of approved local detail plans has varied between 1,000 and 1,500 a year and on 2015 a total of 1,070 plans were approved by city governments.

3.5.4 Plan implementation

Fundamentally, the implementation of a plan is the task of the landowner in areas for private buildings, and the task of the municipality, State, or other public body in the areas for public buildings and public use. A detailed plan entails no obligation for the building of private plots but the municipality has the right to give a request for building and initiate expropriation. The landowner can also be obligated to build by agreement. Furthermore, if a detailed plan is prepared for a recreational or other type of private project, the responsibility for implementing the public areas can be transferred to the private landowners. The responsibility can also be delegated to the landowners if the detailed plan can only be seen to benefit the internal needs of an area.

The municipality has to draw up and keep up-to-date the local detailed plan as required by the development of the municipality or by the need to steer land use. When the plan has been ratified the local authority is in charge of implementing the streets and other public areas. The municipality is also responsible for the construction and maintenance of water supply and drainage in a detailed plan area. Connection to these networks is normally compulsory. The municipalities are also responsible for collecting the waste charge for waste management in their area according to the waste legislation.

The municipality is normally responsible for the planning and implementation costs of public areas and for other constructions needed. A landowner who gains a remarkable profit of a detailed plan may be obligated to pay compensation to the municipality for the infrastructure. The compensation shall however, not exceed 60 % of the increase of the value of the property.

Streets

Building and maintenance of the streets in the urban areas is normally the responsibility of the municipality. The landowner is obligated to give the municipality the area needed for streets according to the first local detailed plan without compensation or pay compensation for a street

area. However, the area transferred without compensation shall not exceed 20 % of the total land owned by the landowner in the plan area in question, or shall not be larger than the building volume permitted for the land remaining in his/her ownership.

The owner of a real property shall keep his/her part of the street (breadth max. fifteen metres) clean from litter. Usually this does not include snow removal, which is done by the municipality. Further on, the owner of a real property is responsible for cleaning the pavement in front of the real estate object, which includes also snow and ice, and may be claimed for damages if someone, for example, falls down on a snowy pavement.

Utilities

For joining and using the networks for water supply and sewer system, the property owners have to pay, normally to the municipality. The connection fee is to cover the construction costs and the use charge covers the maintenance costs of the network and the sewage treatment plants. The basis of the using fee is the amount of water used in the property. In sparse settlement and shore plan areas, water services can be carried out without municipal networks.

Construction, maintenance and paying for other networks serving the community, such as telephone, internet, electricity and heat, are private matters. Sometimes conduits for telephone, electricity, heat, lighting and private and public drainage serving a property or community have to be built on private property. The property owner has to allow this, if the conduit cannot be built on public property at reasonable costs. The property so burdened is entitled to compensation for damages.

Building permits and restrictions

The principle rule for development in the urban areas is that it is not allowed to build without a detailed land use plan. Each municipality is required to produce and require its own municipal Building Ordinance (*rakennusjärjestys*) considering the local conditions in building. Planning and building control is the responsibility of the municipality. The master or detailed plans do not automatically imply the right to build.

A building permit from the municipality is needed for new development and larger renewal projects in the areas with or without a land use plan. A building permit is also needed for a major change of use, e.g. when changing residential spaces to offices. Building permit is granted by the municipal Building Committee, which in its decisions follows the building regulations and land use plans. If, in an urban area, a plan does not exist, the developer can ask the local authorities to start a planning process or apply for an exceptional planning permission. Exceptional planning permission should be granted before a building permit's application and by the municipal authorities.

Buildings may not be built in violation of the local detailed plan. Also the restrictions of the local master plan or the regional plan should be taken into account. Building on the shores and on the shoreline areas mainly demands a detail plan, in which it is decided, whether there are both judicial and technical possibilities to build.

3.5.5 Possibilities to promote plan implementation

In addition to planning, the municipality has a central position in promoting the plan implementation. In the areas owned by the municipality, the plan may be implemented as the municipality wishes. This is one of the reasons, why the municipality often acquires areas before planning them. The government may however intervene with the planning and implementation if it sees that the municipality does not follow the guidelines set forth in regional planning. Besides the planning agreements with the landowners, the municipality can use many coercive measures for land acquisition and for promoting plan implementation. The landowners also have some measures for promoting the implementation (e.g. the right to coercive purchase of a part of a plot). In addition to these, there are many special restrictions to prevent a development, which may complicate the planning or the plan implementation. The municipality may even restrict development in an area, in which general plan is under development, for up to five years. The Land Use and Building Act does not abolish the traditional right of the landowners in rural areas to build isolated buildings without a land use plan. However, if matters seem to be getting out of reasonable control, the Act will give the municipality the right to define the location in question as a planning requirement area. The involved parties will then negotiate to regulate development.

The possibilities to promote plan implementation can be classified in many different ways. The use of different measures varies from one municipality to another because the municipalities have a lot of power to decide on the measures used and in what quantity. In practice, the municipalities often have given principles for the use of different measures in their land policy guidelines.

The following presentation aims to move from voluntary to more coercive measures: strategic purchase of land, promoting the plan implementation in planning, building or parcelling prohibition, land use agreements, land readjustment (reallotment) procedures, special development areas, reminder to build, and coercive measures. In addition, a municipality can impose an additional property tax rate, which is higher than the regular real property tax, for a non-built residential site, max. 4 % of the property value.

Strategic purchase of land

In Finland, the municipalities often own wide land areas, and land development is often done in the municipal-owned areas. The municipalities usually purchase land areas and real estates by voluntary transactions. By doing so, the municipality ensures that their planning process is successful, while doing a profit through increased value of land. In the beginning of the 1990's, a municipality acquired about 20 ha of land in a year on the average, more than 90 % of which was acquired by voluntary sales or land exchanges. Nowadays, the land areas for urban development are usually acquired before the land area is planned, because then the municipalities can buy the land at the price of undeveloped land. This means that the municipalities often also own a number of plots and building sites in the planned areas. After detailed plans are approved, these plots are usually sold or rented out. The share of development on the municipal assigned land is approximately 50 % to 60 % of all developments. By assigning the plots, the municipality can carry out its housing and commercial policy plans. Most of the transfers have clauses, which require the purchaser to build the plot in a certain time period. When a local detailed plan has been in effect for at least two years, the municipality may demand that building on the plots has to commence. If this is not done in three years of the notice, the municipality has the right to purchase the land back.

Promoting the plan implementation in planning

The implementation of a plan is discussed in all levels of planning legislation, even though no direct requirements exist. In practice, the planner can draft the plan without taking the plan implementation into concern, a matter, which has led to criticism. It seems that many other countries take the implementation of plans better into account already in the planning stage.

Restrictions and prohibitions on building or parcelling

In the Finnish legislation there are regulations, which aim to prevent activities impeding planning or plan implementation. The Real Property Formation Act forbids real property formation if the new real properties are not according to the effective plan, if the property formation complicates the implementation of the plan or plot subdivision, or complicates the future planning. In practice their significance is, however, minor and their necessity can be questioned. Building constraints are more important.

If a real property unit is not formed according to the detailed plan with binding plot subdivision, it cannot obtain a building permit. Further, all building activities and demolition of buildings demand a permit. In order to ease the implementation of the plans, it is also forbidden to build against the local detailed plan. Building can be prohibited also when the plan is being prepared. In a detailed plan which is undergoing changes the building of plots can be prohibited for two (2) years at a time. The municipality may extend this period by two (2) years at a time, up till eight (8) years. During this time, the local building authorities have the discretion power to approve building permit applications with minor deviations from the plan.

Land use agreements

In Finland, planning is the responsibility of the society, and applied through the planning monopoly of the municipalities. There is no system of planning permits, but land-use agreements are a normal practice, especially in the growing centers. Land-use agreements state the provisions applying to the municipality and the landowner for planning or the implementation of a plan or both of these. The agreements were not mentioned in the legislation before the year 2000, although they were usual. According to the Land Use and Building Act, land use agreements shall not override the objectives and the content requirements of planning laid down in the Act.

Typical targets for land-use agreements are the alterations of the existing plans, development of raw land, and the implementation of various kinds of projects, such as industrial sites, business parks and commercial centres. The agreement usually includes, for example, details of the area involved, planning and payment of the planning costs, the estimated amount of building rights to be planned, schedule for the building, building and paying for the infrastructure, principles of conveying areas, dwelling production, securities and sanctions for breaking the agreement.

In these agreements, it is normal to have a clause according to which the public areas are transferred to the ownership of the municipality. Also, the possible compensations from the landowner to the municipality are often given in land areas; in cases of land-use agreements with land purchases a part of the purchase price can be settled by enlarging the permitted building volume.

There are two main types of land-use agreements:

- The agreement to implement a plan, which is a detailed agreement between the municipality and the landowner. The responsibilities and the rights for implementing the plan are specified in the agreement. The agreements are attached to the detailed plan.
- The skeletal agreement, which is a procedural agreement by nature. It is made for areas that are too large to be planned at once in detail and for projects that are significant in their size or value.

Urban land readjustment

The objective of urban land readjustment is to promote the implementation of a detailed plan by organising the real property units, and to equalise uneven distribution of building rights to the landowners. The urban land readjustment procedure is legislated by the Real Property Formation Act. It is provided for the proceedings that the procedure is allowed to be used only by the first detailed plan prepared for the area, i.e. it cannot be used in a situation where a detailed plan will be altered. The procedure is started, when an application from a landowner or a municipality is received at the National Land Survey. The application has to be made before the detailed plan becomes legally binding. After the plan is approved, a cadastral survey committee determine if the legal provisions for the procedure are met and define the readjustment area. The decision is publicly displayed and those objecting to it can appeal to the Land Court. After the decision is validated, the cadastral survey committee first confirms the basis for the apportionment in accordance with the real property values existing before the detailed local plan was prepared, and then produce the readjustment plan. Public areas are partitioned and transferred to the municipality, and the municipality is required to compensate for those areas exceeding the free transfer obligation. The remaining areas (sites) are shared between the participants according to the participatory shares. Any differences are compensated. The parties have the right to agree on the form of compensation. The procedure costs are shared between the municipality and the landowners. Appeals against the final results of the procedure may be made to the Land Court. The procedure does not include the construction of infrastructure.

Although the aim of the procedure is to achieve better-shaped local plans, the planners often do not know in practice if the readjustment procedure can be carried out, due to the extensive legal provisions. Urban land readjustment procedure has been used very seldom in recent years. This may be partly due to the fact, that the procedure was not incorporated into the Land Use Planning and Building Act, and the planners thus have little experience of its potential benefits. Therefore, it seems that the existing regulations are ineffective in meeting the needs of urban land readjustment, and further improvements are required.

Development areas

An element in town planning is the possibility of the municipality to define special development areas at most ten years where specific measures are needed, e.g. renewal, protection or improvement of an existing built-up area. Undeveloped areas can also be designated as special development areas where such is necessary due to the housing or business policy, and special development or implementation measures are required because of the fragmented ownership or property structure. In a special development area, the responsibility for developing the area can be delegated to a body established for the implementation, and the benefits gained and the costs incurred from the development may be distributed between the municipality and the property owners in a separate urban land readjustment procedure. The municipality may also be

entitled to collect a reasonable development charge based on the landowner's gain and use pre-emption without restrictions on the acreage of the area. In addition, special supportive measures for the housing or business policy can be done in the area. The use of the procedure has been studied actively in the municipalities, but until now, the use has been insignificant.

Reminder to build

A summons to proceed with the building process can be issued according to the building legislation. After the local detailed plan has been in force for at least two years, the municipality can issue an owner of a plot with a reminder to build, if the plot has not been mainly developed according to the plan. If the plot has not been developed according to the plan in three years after the reminder to build, the municipality is entitled to expropriate the said plot without special permission within one year of the end of the period reserved for building.

The reminder can be issued for underutilisation of two types, quantitative and qualitative. Quantitative underutilization stands for a plot, from which a less than 50% of the allowed building volume is used. Qualitative underutilization stands for plots that are built against the actual detailed plan. The reminder does not change the landowner's financial standing. The landowner can still use and sell the property as before, and if he decides not to build the required buildings, the municipality may expropriate the plot and the landowner will receive a full compensation. The municipality must be keep up the public list of given reminder to build.

Expropriation (compulsory purchase; eminent domain)

The property of a citizen is protected by the Constitution in Finland. The Constitution includes, among other things, the basic provisions for expropriation. The Constitution establishes that an act can only direct expropriation, which is required for public need with full compensation.

Expropriation is executed for public needs and is based on a permit given by the government, the Ministry of the Environment or the National Land Survey of Finland, directly in the legislation, or on a confirmed plan. Expropriations are executed by cadastral committee from the National Land Survey. The compensation paid for the expropriated properties or property rights is usually the full price, i.e. market price of a property. However, in some cases in planning areas the compensation may be excluded the rise in value due to the planning.

The Finnish legislation makes it easy to use the expropriation procedure. Besides the normal expropriation according to the Expropriation Act, a municipality or the State has the right to expropriate land for planning purposes according to the land use and building legislation. For example, within the local detailed plan areas, the municipality may, without a specific permit, expropriate public areas and plots of public building designated to a municipal agency by the plan. When the public need so demands, the Ministry of the Environment may permit the municipality to expropriate an area needed for community construction and the related arrangements, or for other planned development by the municipality. The ministry may also grant the authority implementing a plan a permit to expropriate an area included in an regional plan, if this is required in order to meet the public needs of the State or the region, or the public needs of the municipality's population. Further, the ministry may grant the municipality a permit to expropriate an area designated in the local master plan as a traffic area, or for housing development, a related community construction, or for other needs. In addition, the ministry may grant the municipality a permit to expropriate a building block or other area included in the

local detailed plan, if its expropriation is justified for the purpose of implementing the plan, and the public need so demands.

The Council of State has the right to expropriate areas planned as conservation areas and the buildings and special rights attached to these areas. Also, the Ministry of the Environment has this right if the areas are protected by law. If a building is protected by law or by the decision of the Municipal Board, the landowner is entitled to compensation for his losses deriving from the protection. If considered necessary, the Council of State can also authorize the municipality or state to expropriate the building with its domains. When the conservation decision has been effective for more than four years and the conservation plans have not been realized, the state has, on the landowner's demand, the expropriation duty.

Expropriation is carried out by the authority of the National Land Survey in an expropriation survey by an expropriation committee lead by a cadastral surveyor. The survey takes on average approximately two years. Although expropriation is easy, the method is rarely used: approximately 1-2 % of land acquired by the municipalities is expropriated. This is because of its political unpopularity in the municipalities. According to the Expropriation Act (1977) the expropriation may not be implemented if the purpose of expropriation can be acquired any other way. That's why municipalities should always first try to voluntarily purchase the land areas needed. Before the expropriation permit can be granted, municipalities must give evidence of discussions with the landowner negotiations. Expropriation is mainly practiced when acquiring land for common need, such as for street areas, parks and building sites of civic buildings.

Coercive purchase of a missing part of a plot

The coercive purchase of a missing part of a plot is the other example of the Finnish expropriation tradition where also others than the public authority may have the right to compulsory purchase. The coercive purchase of a missing part of a plot is used when a plot in a local detailed plan area or a plot according to a subdivision plan is owned by more than one owner as areal parts, i.e. the plot according to the plan belongs to two or more real property units. The possibility gains in importance in the areas with binding subdivision plans, because in these areas it is forbidden to build if the plot is not formed according to the plan, registered in the cadastre and owned by one owner.

Coercive purchase is used if the owners of the areal parts of the plot cannot reach unanimity on the transaction. The biggest problems are often the purchase price, and the question who should buy and who should sell. When purchasing, the landowner who owns the most valuable part of the plot, both the land and the buildings included, has the first right to purchase. If the parts have equal value, the right of coercive purchase belongs to the person who has demanded it first.

Also the municipality has a special right to purchase a part of a plot in an area with a local detailed plan and subdivision plan. If none of the landowners has applied for the right to purchase the missing parts of the plot in one year after adopting the binding subdivision plan, the municipality has the right to purchase all the parts of the plot. When the municipality informs the landowner of the coercive purchase, the landowner has 60 days to apply for the purchase right. Municipality is trying to achieve the most effective construction following the detailed plan by its special status in coercive purchase.

Correspondingly, in some cases the municipality also has the duty to purchase a part of a plot. The prerequisites for this are that the landowner is not able to use his land in a way that would bring reasonable profit to him. In this case, the municipality has the duty to purchase the land within one year of the subdivision plan coming into force, if none of the owners of a part of the plot has used his right to purchase the land. The purchase duty may emerge, for example, if a small part of the landowner's area is left on the other side of a new street, and the person who owns the biggest share of this plot has no interest in building. The purchase duty and the municipality's right to expropriate a plot have rarely been practised.

3.6 Real property formation

3.6.1 Register system

The land data bank system (*kiinteistötietojärjestelmä*) is an integrated system that consists of the real property division (*kiinteistöosa*) and the registration division (*kirjaamisosa*)⁸. The real property division includes the real property register (*kiintestörekisteri*) maintained by the National Land Survey and the municipalities. The registration division consist of the register of land ownership and mortgages (*lainhuuto- ja kiinnitysrekisteri*) and the personal data division (*henkilötieto-osa*). Personal data division includes data of real estate owners and particular rights holders (*erityisten oikeuksien haltija*). The register of land ownership and mortgages is maintained by National Land Survey and the information for the personal data division is maintained by Population Register Centre. The purpose of the system is to produce computerised information on legal decisions concerning real properties, ownership, planning and other matters of land use, and to make this information available to anyone who needs it.

In practice, the National Land Survey is responsible for the management and the maintenance of the land data bank system. In addition, each authority which is responsible for producing information to the land data bank system has to make sure that the information is updated to the system.

3.6.2 Legal Cadastral Surveys

Legal cadastral surveys are statutory procedures for the formation of new real property units and for the proclamation and registration or amendment of the dimensions of existing properties. The surveys are conducted by cadastral surveyors (*toimitusinsinööri*), either independently or with two trustees. Cadastral surveyor has to be in service of National Land Survey or municipality. The surveyor must have an education either a Bachelor or Master level education from the surveying field. In detailed plan areas, the surveys are conducted by the cadastral registry (*kiinteistörekisterinpitäjä*) of the area, usually the municipal cadastral surveyor. Otherwise, legal cadastral surveys are conducted by the National Land Survey.

A written application for a legal cadastral survey shall be addressed primarily to National Land Survey and in certain cases to municipal cadastral surveyor. In case of a subdivision, the legal cadastral survey is normally carried out automatically, without the application of the owner, after National Land Survey has granted a title of ownership for an unseparated land area, i.e. when registered ownership has been permitted.

⁸ In the future, the land data bank system may include a planning division as well. The planning division is not yet completed, but the idea is to implement it gradually. It will include the registers containing planning data and the concomitant information service maintained by the municipalities.

Legal cadastral surveys are dealt with at a meeting. The applicant and the other parties concerned are informed of the meeting by sending an announcement at least 10 days before the meeting. A party dissatisfied with the proceedings may appeal the decision to the Land Court within thirty days. After completing the documents of the survey, they are kept in public, and entered in the real property register after obtaining legal validity.

A dozen different cadastral surveys are specified in the Property Formation Act. The most important surveys are the subdivision, property definition, establishment of the easements, reallocation, and partitioning. In practice, the various surveys can be combined as required.

The subdivision survey of an unseparated land area begins automatically when the parcel is sold and the transfer of the title has been registered in the Real Estate Register, or at the owner's request. When a share of an interest in a joint property unit of a real property is sold, the subdivision survey will be applied and carried out in the same way as with land areas. In the detailed plan areas, an unseparated land area can be subdivided only if the new real property unit is formed in accordance with the plan and the subdivision plan.

Partitioning stands for a division of the property into shares specified in the registration of ownership of the property. For example, a party who owns 1/3 of the real estate, must be given an independent share of the property, comprising of 1/3 of the value of the property. In reallocation the land division in an area is altered to better correspond to the new land-use requirements, or when implementing various infrastructural projects, such as motorways. The main objects of reallocation are the rural or peri-urban areas.

The costs of a survey are usually paid by the applicant, in certain cases the state pays a part of them. The basis for the bill is either fixed price or the time spent on the work. For example, the costs of subdivision and boundary survey are fixed. In subdivision, for instance, the survey fee is based on the area. The amount of the subdivision fee starts from one thousand euros and rises according to the area. Fixed price includes the necessary actions which are needed for implementing the survey, such as costs of essential boundary survey, costs of boundary markers, meeting costs and extra labour costs. Instead, survey fees concerning for example private road survey, partition and public road survey are based on the time charging. The amount of fee is 90 € per hour including the costs of boundary markers and meeting costs. Other costs and compensations caused by performing the survey, for example field assistant and expert costs, are charged separately.

Easements

An easement and a right of private road refer to permanent rights of use applied to a real property or in some cases to another entity (municipality, tenant, etc.), which promote the appropriate use of the entitled property. Various easements on a real property may be established in the legal cadastral surveys or procedures according to several other acts than the Property Formation Act (e.g. the Act on Private Roads, Land Use and Building Act, and Water Act). The easements are recorded in the real property register. Such a right can also be conveyed with an agreement, which is binding in certain cases even in the changes of ownership. The easements are mainly permanent but may also be temporary.

The easements on another property may concern, e.g. giving a right to use water or the soil, have water pipes, electric wires, telephone lines, routes and parking places. This kind of easements may also be established for using a building or a structure. The building easement may

concern, for example, water pipes, electric wires, telephone lines, garbage disposal, and bomb shelters, and they are formed with a decision of the municipal building committee according to the Land Use and Building Act.

A private road is a road constructed and maintained by the users of the road. Permanent rights to use the road are established in a legal cadastral survey for private road. A right of private road may be based on an agreement, but it can also be formed based on the decision of the cadastral surveyor when the legal provisions for establishing a right of way are fulfilled. Every real estate is normally granted with a right of way.

4 COMMERCIAL PROPERTY MARKET

4.1 Stock of commercial property premises

The stock of commercial property premises is concentrated in the Helsinki Metropolitan Area and other major cities. The Helsinki Metropolitan Area is the administrative and economic center of Finland, which can be seen in the significant amount of office stock, more than 7 m² per capita, in the area. In the other major cities, the number varies between 2 m² and 4 m² per capita. Nevertheless, the amount of retail premises in Helsinki is only 2.4 m² per capita, when it is 3.4 m² to 7.4 m² per capita in other cities.

Table 4.1. Building stock in Finland (Catella, 2015)

Area	Retail, sqm	Office, sqm	Industrial, sqm	Total, sqm	%, of the total
Helsinki MA	3,457,000	8,662,000	7,966,000	20,085,000	54%
Tampere	1,000,000	869,000	2,102,000	3,971,000	11%
Turku	919,000	806,000	2,220,000	3,945,000	11%
Oulu	667,000	600,000	1,321,000	2,588,000	7%
Jyväskylä	808,000	374,000	1,150,000	2,332,000	6%
Lahti	692,000	259,000	1,560,000	2,511,000	7%
Vaasa	500,000	279,000	745,000	1,524,000	4%
Major Cities	8,043,000	11,849,000	17,064,000	36,956,000	100%

4.2 Development of the property market

Because of the strong and steady growth of the economy after the Second World War there were no bigger crisis in the property market until the beginning of the 1990's. The main drivers in the property investment market were the construction companies who established the development project, let the property and sold it to the investors, often banks or pension funds. The global recession in the beginning of the 1990's hit the Finnish economy extremely hard. Also the property market suffered a lot through bankruptcies, unusual high vacancies, dramatic decrease of rents, increasing financial costs, etc. New commercial developments were close to zero for three years. Between 1993 and 2007 the economy, as well as the property market, improved fast in Finland. Even though the financial crisis in 2009 had a major impact on the Finnish property market, again in 2015 the transaction volume rose close to the previous record levels. That ascending trend is currently expected to continue.

Besides the economic growth, there were some other changes in the market, too. While being earlier a more or less independent investment segment, property investments today are clearly a part of the total investment portfolios of investors. The basic investment decisions focus first on the fund allocations between different investment vehicles and thus the property investments must compete with the other vehicles, such as stocks and bonds.

During the past decades, the market transparency has improved too, a lot thanks to the increased degree of market information available. As a consequence, the investors and developers can react more sensitively to the options and changes in the market. This has also grown in importance because of the increasing volatility of cycles in the economy.

4.3 Real estate investors

The commercial investment market has until the 21st century been purely in domestic hands. During the recession in the beginning of the 1990's there were some studies on the market made by some foreign speculative investors but no deals were done at that time. Until the end of the year 2001, only a few investments were made by foreign real estate investors. However, some foreign financial institutions have taken a bigger role as an investor by combining contracts, cash flows, and financial tools. Another significant change in the Finnish real estate market recently is the allocation between the sectors. Housing (29 % of total investments) has become more interesting while commercial investments – especially offices (29 % of total investments) – are suffering from the uncertainty in the economy outlooks⁹.

Since Millennium, many foreign investors have entered into the Finnish property market. Typical of these purchases is the big size of the transaction often including many properties. For the investors the Finnish market seems to be a way of diversifying their portfolios to the secure and improving market. For example in 2003, the share of foreign new investments in the Finnish commercial property market was about 60 % of the total volume. This is a big change compared to the past. In 2015 international investors' had investments of 12 billion euros in total value, that is 22 % of real estate investments in Finland overall. On the other hand, many Finnish institutional investors are still looking for a way to invest abroad to diversify their strongly domestic real estate portfolios.

4.3.1 Insurance companies

Pension insurance companies, as well as life assurance companies, have been the main real estate investors in the market. The number of significant companies is about ten (the most significant are Varma, Ilmarinen, Keva, Elo, OP Financial group, and Nordea Life Assurance) and the value of their real estate portfolios range from 200 million euros to 2.500 million euros. Normally they invest 10 % to 15 % of their funds to properties. Because the real estate market in Finland is quite small, some of these companies have made plans to invest abroad to improve the liquidity of investments and to decrease the market risk.

The investments are mainly made in the Helsinki Metropolitan Area. The portfolios are dominated by offices. Quite a big share is also invested in apartments though they cause much more administrative work. Industrial properties have normally not been in favour of the insurance companies.

4.3.2 Banks

In the past, the banks used to be important property owners. Just during the recent years, they have worked actively to get rid of these portfolios. The main reason for this has been investing in the core business, banking. The idea is also to improve the condition of the balance sheet and create better key economic figures. This is also due to tightened regulation and control by the European Central Bank, that has led to higher capital requirements regarding banks' own real estate investments. As a consequence, some bigger sales of portfolios have been seen in the market, as well as continuous activities to sell smaller non-core properties. The most active in the market has been Nordea followed by Sampo Group, which has also been active. Osuuspankki group, which has cooperative group properties owned mainly by local branches, has the biggest portfolio.

⁹ For example in 2007, investments on office premises were more than a half of the total investments.

4.3.3 Real Estate Investment companies

In the Finnish scale, there are three big real estate investment companies. Two of these are listed in the Stock Exchange; Sponda with mixed portfolio of 2,700 million euros (includes also minor investments in Russia) and Citycon having mixed portfolio of 1,600 million euros in Finland.

A more or less characterising feature to all real estate investment companies is that the main owners do not see their ownership as core investments but want to get rid of them instead. In fact, these companies are established to give the owners an opportunity for exit. Many of these companies have made a big effort to sell non-core properties and at the same time improve and increase their portfolios. For example in 2003 the majority holdings of Polar and Citycon and in 2004 the majority holdings of Dividum were sold to foreign investors.

4.3.4 Public holding companies

Senate Properties was established in 2001 to own and manage the government properties. Its portfolio value is about 4,400 million euros, thus being clearly the biggest real estate owner in Finland. Its importance in the market comes from the special role of being the landlord for the government tenants, but also from its size and presence all over Finland. Senate Properties is also an important developer.

4.3.5 Owner occupants

The current trend is that the owner occupants try to get rid of their properties in order to use the money to the core business and ease the balance sheet.

4.3.6 Financial institutions

At the turn of the Millennium some financial institutions have entered into the Finnish real estate market as investors, such as Landes Bank Kiel, Nordisk renting and Scanrenting. Their interest is to create a contract where the rental agreement is e.g. for 15 to 25 years and the rent level covers the interest rate, as well as a reasonable yearly discount of the property to minimize the residual value in the end of the rental contract. The risks are also taken care by different arrangements.

4.3.7 Foundations

The characters of the Finnish foundations differ a lot from each other. The most important in the real estate market are the ordinary independent foundations, which distribute grants. The total number of these foundations is about 500 but only about 15 have some influence on the market. The most important are Suomen Kulttuurirahasto, Föreningen Konstsamfundet rf, Svenska Litteratursällskapet i Finland and Jenny ja Antti Wihurin rahasto. In practice other organisations have quite small property portfolios and they are very stable. Their main role in the market is to act as landlords.

4.4 Overview of the recent commercial market mechanism

According to some latest estimates, the vacancy rate of office premises in Helsinki has mainly been 1% to 4% during the 1970's and the 1980's. Just in the end of the 1980's, when the market was booming, the vacancies started to grow and reached their peak in 1993 (12 %). Just after seven years (2000), the same vacancy rate was only 1,5 % thanks to the rapid economic growth. In the beginning of 2003, the vacancy rate was reaching the level of 6,8 %, and in the end of 2015 the vacancy rate was in Helsinki Metropolitan almost record breaking 13,3 %. The turbulence of the economy has proven the flexibility of the market. During the deepest recession,

e.g. office rents in the Helsinki Metropolitan Area decreased about 40 % in two to three years. In 2015, the rent has declined slightly from 2011, except for the downtown prime, which has increased from recession in 2009 till 2015.

The normal length of the rental agreement had been three to five years, but during the recession, it decreased to one to three years. Some free months were also possible, and improvements of the premises made by the landlord. In the middle of the 1990's, it was very easy for tenants to change or find new premises. In the end of the 1990's, the stock of old vacant premises was empty and new construction had started. For the companies in need for more space, the situation became difficult because in practice all the new developments were started only after pre-letting of at least 50 %. The construction time of one to two years together with the five to seven years rental terms for new developments was a lot longer period for the companies than they could foresee as their needs for space. Increasing vacant office space in early 2000's has normalised the market, and the quantity of free office space has increased since.

In the 1960's small shopping centres were built in the new suburbs around the country. Their economic life cycle lasted about 25 to 30 years. In the 1970's the major retailers started to establish supermarket chains in the market. In the 1980's the first big shopping centres were built investor-led. The construction of the big shopping centres, as well as the supermarkets and hypermarkets, is still active. Shopping center construction is now record high in Helsinki Metropolitan, with the biggest construction sites being Redi in Kalasatama and Tripla in Pasila. The retail area of shopping centre has almost doubled from 2004 (1,000,000 m²) to 2014 (1,900,000 m²).

When new foreign retailers came into the market in the beginning of the 1990's, they brought along rental contracts based more or less on the lessee's turnover. Contracts of this kind were used with varying success. The main part (close to 90 %) of the rental contracts is, however, based on fixed rent with a yearly escalation clause. The rent is normally paid monthly. While the retail market has moved more and more to shopping centres and retail parks, which are all in practice owned by investors. This means that the retailers co-operate with landlords who normally are well aware of the retail business. This should help both parties in finding common goals and means to achieve competitive advantage.

The industrial and warehouse premises are mainly owned by the occupants. Thus, there is a lack of flexible supply of premises. On the other hand, there is lot of vacant land with good location for new developments. Though the attitude towards modern industrial premises has somewhat softened among the investors, they are still very selective.

4.5 Construction and development market

There are six big construction companies (YIT, Skanska, NCC, Kesko, Lemminkäinen and SRV) who have the clear dominance in the commercial real estate construction and development market. Also a few mid-size companies (Peab, Rakennusosakeyhtiö and Jatke) have been active. With a total amount of € 28.4 billion euros, the construction market is mainly dominated by building constructions with a total value of € 22.2 billion euros. Out of 22,2 billion euros, 57 % concerns new building (30 % residential, 27 % non-residential) and 43 % renovation of old buildings (21 residential, 22 % non-residential).

While there has been lack of speculative investors in the commercial market, the construction companies have taken this role. In the end of the 1980's this activity gained high importance in the strategy of construction companies. The deep recession in the beginning of the 1990's

realised the risk of speculation and construction companies were more concentrating on their core business. Still they were active in establishing new projects by finding plots on good locations, pre-letting the projects and pre-selling them to the investors. Because of less risks in the housing market, construction companies have always played an important role as a speculative developer in the private housing business and this continued until the beginning of the financial crisis in 2007. Due to the financial crisis the whole GDP of Finland declined in 2009 by nearly 10.5 %. This of course also had a huge impact on the construction market, with a diminution of 12.7 % of construction market's total turnover. Nowadays Finland's construction market is still suffering under the big financial crisis but is regaining slowly year by year.

4.6 Services in the property market

Service sector in the real estate market has seen quite a lot new companies taking care of the work earlier carried out by the property owners. Especially facility management with its different variations has improved much since the late 1990's. The deep economic recession favoured outsourcing and thus contributed service companies to establish this kind of services. Also the demand of the investors for quality as well as for more sophisticated products has encouraged the companies to improve their services. Cross border activities have made it possible to learn service practices from foreign companies. These days operations in property and facility management are essential to survive in such a high competitive sector.

4.6.1 Management services

Facility management as well property management services are today provided by several private mainly domestic and nordic companies. There has been a rapid increase of new suppliers in this sector and, on the other hand, property owners have increasingly adapted this type of out-sourced services in the 1990th and 2000th. One process has been to establish independent service providers from the former in-house management teams. Standardisation of services, as well as benchmark studies has been carried out during the past few years. Common attitude is that these services meet well the international requirements.

Nowadays property portfolio management and asset management are common professions as private consultancy services. In earlier times the landlords, however, hesitated to outsource this type of intelligence. Due to the continuous globalization portfolio and asset management are widely available in Finland as well as in every European country.

One of the biggest providers of management services such as asset and property management in Finland are Ovenia, Corbel and Realia Management. These companies are mostly held by private equity firms. Besides the traditional real estate management services, corporate real estate management has become more and more common as a new line of business to support non-property companies by handling real estate issues to strengthen the core business. Increasing global competition leads to a review of core as well as non-core business segments and often requires professional services.

4.6.2 Real estate brokerage

Compared to roughly 60 real estate brokers in the commercial sector who are working more or less full time more than 10 years ago, the Central Federation of Finnish Real Estate Agencies (KVKL), the nationwide umbrella organization for real estate brokerage companies and associations, is comprises now more than 3.300 real estate professionals, most of them in the Helsinki Metropolitan Area. Including approx. 80 % of all professional real estate agents in Finland, the goal of the association is to promote and develop research and training and improve

the quality of real estate transactions in Finland. The majority of real estate brokerage are organized as real estate companies, but also credit institutions, law offices and as well student organizations can appear in the brokerage market. A commercial brokerage company is normally carried out by one up to three brokers. Due to internationalization, global real estate service firms entered the finish real estate market and typically provide transaction advisory and brokerage services for major transactions. For example Cartella Property Oy, a leading advisor in the finish real estate market, comprises 37 employees in six offices in Finland.

It is supposed that only 20 % to 30 % of the commercial brokerage business is done by brokers. Their role in the commercial sector could be bigger, but because of the tradition, the major investors have quite strong resources in in-house letting and selling/buying. Furthermore, the market is rather small and the main players often know each other.

The commercial fee in transactions is normally paid by the seller and ranges from 3 % to 5 %. Sometimes there are extra incentives depending e.g. on the selling time or price. The amount of letting fee is 1.5 to 2 months' rent.

4.7 Market information and studies

During the last 20 years, the availability of market information has improved a lot. It is no problem to get, e.g. time series of 10 to 15 years of any main market indicators. In addition there is a lot of related public information available, e.g. on the population, economy, city planning, construction or the purchasing power. The new GIS-technology together with digital maps makes it possible to combine different information and focus it on certain areas. Thus, there are a lot of possibilities to exploit different registers but there are also many registers, which are not yet activated for free private use. Comprehensive and analysed market information, as well as time series, are provided, e.g. by Catella Property Consultants or KTI (Institute for Real Estate Economics). Information on a smaller scale is also available from, e.g. JonesLangLasalle (JLL), Aberdeen, Newsec, Rakli, etc.

4.8 Real estate valuation

Professional real estate valuation in the private sector started in the beginning of the 1970's. The number of valuers started to increase in the middle of the 1980's and in 1995 an examination was introduced in Finland for authorising the valuers. The number of more or less full time commercial valuers around 2000 was about 50. They have often established small companies having one to four employees. Today the biggest commercial valuation company offering an overall package from brokerage to investment management is the Realia Group.

The valuation service market comprises small Finnish family-offices as well as leading international real estate companies. With companies as Newsec, Catella Group and JLL there are well known global players which are dominating the European market and ensure their market position through mergers and acquisitions. To improve the quality of valuation and standardization of valuation processes, international valuation standards (IVS) as well as international financial reporting standards (IFRS) are used on a regular base.

4.9 Helsinki Metropolitan Area is the main property market

The Helsinki Metropolitan Area is clearly the largest commercial market in Finland. Having over one million inhabitants and 8,7 million m² office space, 3,9 million m² retail space and 9

million m² warehouse space, it belongs to same category of market size in Europe as Amsterdam, Copenhagen, Madrid, Oslo and Vienna. Finland has stayed as a reliable land where to invest. According to recent market studies, the real estate transaction volume is reaching a new record level this year in Finland. Especially the housing investments have been boosted the transaction volume. The main demand for office space comes from the public administration and universities, business to business services, ICT, R&D, etc. In Helsinki, there are also a great number of headquarters of companies. Helsinki normally leads the way regarding the market cycles in the Finnish cities.

The core of the commercial property market is the centre of Helsinki. It is very compact and limited. The natural directions to enlarge the market are the West, profiling with high tech and research and the North, profiling with high tech assembling, warehousing and logistics. The cities along the railway to north from Helsinki are benefiting from the flow of internal migration to the southern part of Finland. While economic growth has been weak for a long time, dramatic urbanization has boosted the real estate investment market. In Finland, this urbanization is felt even more as we are slightly behind in regard.

4.9.1 Office market

While the service sector has improved a lot during the recent decades, also the need for office premises has increased remarkably well. In the 1970's the back office functions of the companies started to move from the city centre to the new developments in the local centres in the Helsinki Metropolitan Area. At the same time, the Helsinki CBD has changed to the area of business-to-business functions. Just after the recession in the beginning of the 1990's the development of modern business parks started. As 60 % of export-oriented services, such as IT services and consulting, are produced in the Helsinki region, the positive drive in exports supports the office market. Nonetheless, the office vacancy rate has now reached a new high score in Helsinki Metropolitan area, 13,5 %. The attractiveness of office investments has decreased because of the continuous decline and sluggish outlook for rental demand of office space.

The high amount of new office developments has changed the infrastructure of the Helsinki Metropolitan Area by creating new office areas to the west of the city centre, e.g. Ruoholahti, Keilaniemi, Otaniemi (in connection to the Aalto University and VTT Technical Research Centre), and Leppävaara. Today the new development seems to be directed more towards northwest and north (close to the international airport).

In 2016 rental levels for office premises were 370 EUR/sq.m/year (Helsinki CBD prime), 300 EUR/sq.m/year (Helsinki CBD) and from 200-270 EUR/sq.m/year in other main prime locations (Keilaniemi, Ruoholahti, Aviapolis and Leppävaara). Prime office yields was on average 4,7 %, being a little less than in Warsaw (5,5 %) and Brussels (5,3 %), and a little more than in Oslo (4,2 %), Copenhagen (4,2 %) and Stockholm (4,0%).

4.9.2 Retail

Until 2016, Helsinki metropolitan area has up to 3.8 million m² out of 29 million m² of total retail premises in Finland, and since 2006, its retail stock has continuously increased by 20 %. Due to economic difficulties, low consumer demand and changes in consumer behavior, the retail property market is facing a number of increasing challenges. For example, the vacant retail space rate increased by one-third during 2014 and reached 4.6 % at the end of 2015. The vacancy rate rose even more after Anttila's bankruptcy before finally declining to 4.2 % in 2016. In addition, some of the retail spaces are used ineffectively. This is because most landlords intensely avoid vacancy by taking immediate short-term lease instead of waiting for more

permanent and suitable tenants. They also become more flexible with rental price, which might cause negative return on investment.

Leasing price outside CBD has reduced by 10 % during 2013 - 2014 and the price inside CBD also suffered a slight decline in 2016. Prime retail rents in Helsinki CBD are currently 1330 EUR/sq.m/year. Only top location premises still remain their high prices and low vacancy rate especially when many international luxury brands have recently entered the Finnish market. Despite the increasing difficulties, the development of commercial space is still going strong thanks to the rapid growth of population in Helsinki. The region's existing retail centers (Forum, Itis, Citycenter, Ruoholahti, etc.) been going through some major redevelopments and extensions. Along with that, 175,000 sq.m of new retail space is created for many new shopping center projects such as Iso Omena, Pasila Tripla, Kalasatama Redi and Ainoa.

4.9.3 Industrial

Space for manufacturing and warehousing still concentrates in the outskirt area of Helsinki metropolitan and new development of logistics and industrial properties continue to be active here. Some underway projects are S Group's Freeway in Sipoo, Stockman warehouse in Tuusula, DB Schenker logistic centre in Vantaa and Yantex data centre in Mäntsälä. The sector is attracting foreign investors such as AB Sagax from Sweden and Ness, Risan & Partners from Norway. The investment on industrial space has been performing poorly in recent years. While income return remains quite high (8 % in 2015), capital growth still stays negative.

The rental price of industrial sector in Helsinki region is falling due to the weak demand and the increase in new premise supply. However, it is still considered as expensive in the international scale as result of high production costs. In 2016, the rent price is stable at average rate of 8.25 EUR/sq.m/month. The vacancy rate was growing and recorded at 6.9 % at the end of 2014. Its upward trend started to turn with a minor decrease since spring 2015 and continued to decline to 6.2 % in 2016.

5 HOUSING MARKET

5.1 Development of the housing market

Finland urbanized relatively late. The great migrations from rural areas to the cities took place in the 1960's to the 1970's. Before that, the large majority of the Finnish people lived in the rural areas mainly in detached houses made of wood. In connection with the migration the construction of big and compact concrete suburbs started. Not all cities had sufficient resources for controlling this construction, so they made extensive areal development contracts (land use agreements) with the big construction companies in the growing centres. The construction companies acquired the land, had it planned, and constructed the necessary infrastructure and the residential buildings, which either sold as owner-occupant residences or built as tenement houses for the municipalities and collective companies. Nearly all of the construction, except for single-family houses, executed in the form of an apartment house company, where certain shares entitle to the possession of a certain flat. These are, in practice, owner-occupant residences in the form of a limited company. As for the operations, this resembles the condominium system.

The rapid migration and construction created a well-functioning private housing market in the cities. For the owner-occupiers the system meant the creation of a so-called housing career. The first residence was a small one-room or two-room flat, which at the increase of wealth and family was gradually replaced by a bigger residence: one-room flat – two-room flat – three-room flat – four-room flat, and so on. In the 1970's and 1980's the families started to move from blocks of flats into terraced houses and other detached or semi-detached houses.

After the Second World War until the beginning of the 1980's, the main interest in the housing policy was the quantity of new production. Just during the past thirty years the focus has been more or less on quality, which means better building architecture, human scale of the living areas, improved functionality of the buildings and infrastructure, etc.

Although the Finns still prefer detached or semi-detached houses, the cities are full of blocks of flats. Only in the past few years, the planning organizations in the cities have awakened to the planning of small well-located apartments. One of the reasons for this may have been the moving of the wealthy households from the cities to the commuter belt offering sites for single-family houses. However, the biggest reason for this is residential demand both in owner-occupied and rental housing markets. Demand is mainly caused by demographic development, increasing urbanization and changes in housing preferences (e.g. the need for single-family houses and large apartments has decreased).

Table 5.1. Development of the living space (Statistics Finland, 2016)

	Unit	1960	1970	1980	1990	2000	2010	2015
Dwelling units	1000	1204	1420	1781	2036	2295	2537	2634
Average floor area	m ²	51	60	69	74	77	80	80
Floor area per person	m ²	14	19	26	31	35	39	40
Overcrowding ¹⁰	%	31	30	24	18	18

¹⁰ Overcrowding is at hand if more than one person occupies a room on average (excluding kitchen); i.e. two person lives in a one-room flat.

The government has made some political decisions to improve the flexibility of the residential market. The key factor for successful residential market is the growing urbanization and how respond to that. Growing urbanization is decreasing the popularity of the owner-occupied housing especially in Helsinki and increasing the volume of other ways of living (right of occupancy, part-ownership of dwelling, living on a rent).

5.2 Housing stock and ownership

The total number of buildings (not taking holiday houses into account) in Finland is 1,28 million, 85% of which are residential buildings, although the share is only 62,6% of the floor area. The buildings consist of 2,87 million dwellings. 46% of the dwellings are in blocks of flats, although 35% of population lives in flats. The number of detached houses is 40% and the number of attached houses is some 14% of the housing stock. The housing stock is very young, 68% being built after 1960. Almost two thirds of the household-dwelling units are living in an owner-occupied dwelling. 58% of the all dwellings are owner-occupied. 31% are rental dwellings, which also include official residences, dwellings provided by the employer and empty dwellings in buildings inferred as rental buildings. 2% of the all dwellings are right of occupancy dwellings and the rest 9% of the dwellings are other form of tenure or unknown dwellings.

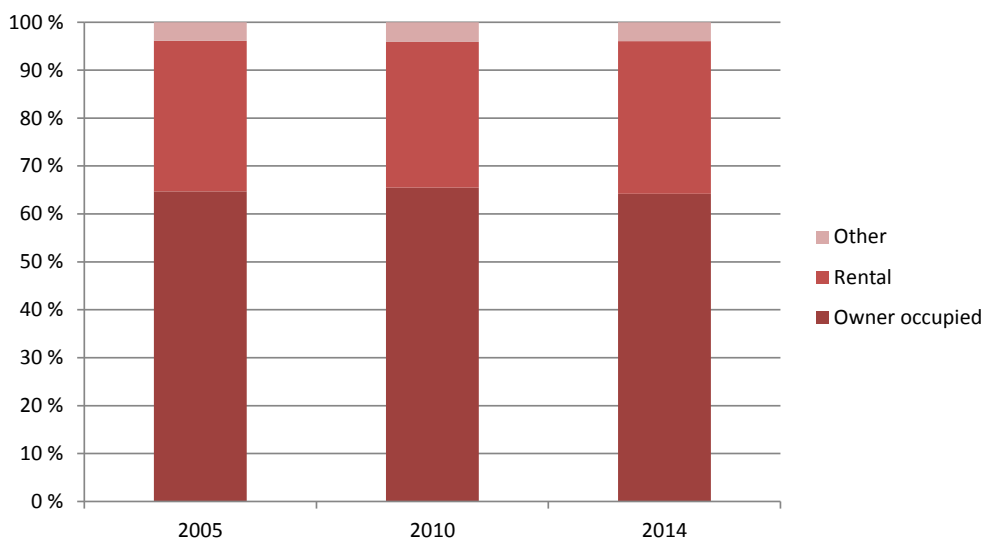


Figure 5.1. Dwelling by tenure status (Statistics Finland, 2016)

The dwellings in Finland are rather small on the average. The average floor area is 111 m² in detached houses, 71 m² in terraced houses and 56 m² in blocks of flats. Classified according to the housing type, the number of one-room flats is 13% and the number of two-room flats 29% of the housing stock. However, also the household-dwelling units are small and are becoming even smaller. The average size of a household-dwelling unit is 2,04 persons in the whole country, and 1,88 persons in Helsinki region. Some twenty years ago, the share of the households of one or two persons was 65%, while today it is 75% in the whole country and 79% in Helsinki region.

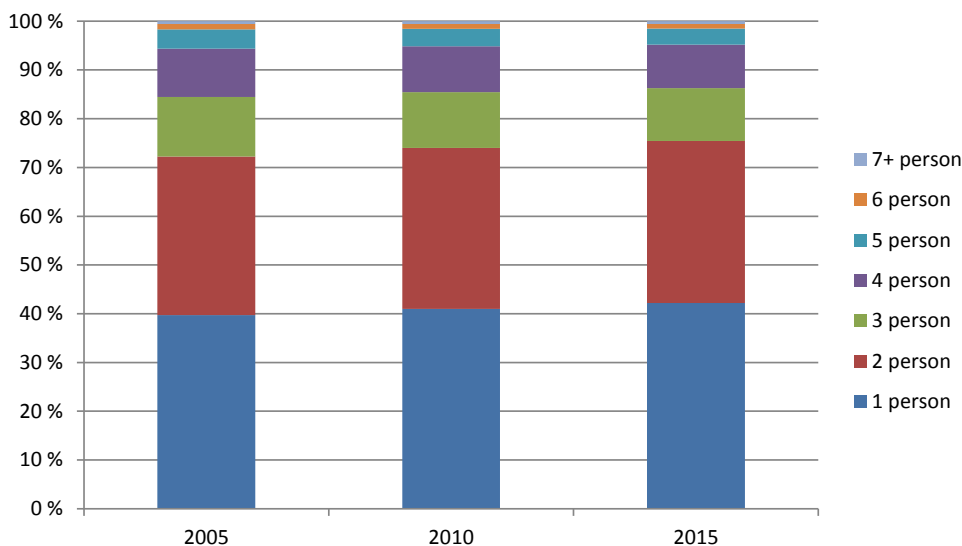


Figure 5.2. Size of household-dwelling unit in whole country (Statistics Finland, 2016)

In Finland the dwellings are equipped with kitchen and bathroom fixtures and surface materials. They are included in the home sale and thus in the price as well. The standard of equipment in the Finnish dwellings is normally at a very high level. In the year 2014, 94% of dwellings are well equipped, i.e. they at least have sewer, piped water, hot water, flush toilet, bathing facilities, and central or electric heating. 54% of the dwellings have a private sauna. However, 5% of dwellings are poorly equipped, which means that the dwelling lacks bathing facilities and/or central or electric heating. 3% of dwellings are classified with a substandard level of equipment, i.e. a dwelling lacks at least one of the following: piped water, hot water, and flush toilet. According to the Finnish building regulations in the detailed plan areas, the houses have to be equipped with sewerage. The poorly equipped dwellings are mainly located in the rural areas.

The maintenance of a normal private-owned block of flats and terraced house is arranged by the apartment house company. The management of the apartment house company is determined by the shareholders, who often also live in the house. The shareholders pay a monthly maintenance charge to cover the company costs. The average maintenance charge in 2015 in a block of flats was 3,62 €/m²/month including payments for water and 2,72 €/m²/month in terraced houses. The companies often have investment loans for which a monthly capital charge is collected. In 2015, the average charge was 0,18 €/m²/month in a block of flats and 0,26 €/m²/month in terraced houses.

5.3 Housing finance and production

After the Second World War, there was lack of finance for housing production. Especially the construction of blocks of flats was largely financed by government-secured loans, the so-called ARAVA loans. The loans were granted both to the apartment house companies and to the buyers¹¹. In 1980's, the high inflation made the financing favourable both to the constructors and

¹¹ The government also supported private ownership by allowing tax relief for housing loans. The tax reliefs for housing loans is however now been reduced annually. In year 2019, only 25% of the housing loan's interests can be reduced in taxation.

the owners, although the periods of private bank loans were short, only 5 to 10 years. The heavy increase of the loan interests and the decrease of the housing prices in the early 1990's depression, turned the housing loans into decline, and they did not start to rise until in 1996. Construction by private financing also nearly totally stopped for several years in the early 1990's. Since the mid 1990's construction was rather active and steady until the Great Recession in 2008 when the whole world economy plummeted. Lately, the construction active has been on the rise but it is not yet on the same level as it was before the Great Recession in 2008.

The loan periods for the housing loans have been significantly extended. Today, an average loan's payback time is 19 years and the loan terms are flexible. Joining the European currency system in 2002 has decreased and stabilised the interest rates remarkably enabling the most advantage loan terms ever. The average interest rate for the new housing loans was 1% in 2016, which is remarkably low. For example before the Great Recession in 2008 the average housing loan interest was 5%, and before the 1990's recession, 12%. Together with migration to the major cities, this has activated the recent housing market, as well as housing development. The interest rate is expected to remain at the record-low level (12 months Euribor 0,2 %) and this will support the activity of the housing market. Also during the last couple years the construction costs have remained at quite stable level and the housing production has started to rise.

Nearly all housing loans for the Finnish households are provided by the commercial, co-operative and savings banks. The loans are secured on property. A housing loan is normally granted for approximately 70% of the residence value.

The volume of construction output greatly varies in Finland. In the 10-year period of 2006 to 2016, the amount of granted building permits has annually varied approximately between 30 and 57 million m³. The number of completed dwellings has been approximately 30.000 a year, apart from the time between the mid 2009 to mid 2011, when the recession decreased the production. The construction costs of the buildings financed with the State housing loans or with interest subsidy loans were ca. 3114 €/m² in the Helsinki metropolitan area, and ca. 2574 €/m² in the rest of Finland in 2016.

The biggest construction companies have the main role in the new developments. They establish housing projects and sell individual flats to occupants, or to some extent, also to private investors. There are also three private developers, which are big players in the private sector: VVO, Sponda Oyj and SATO. They develop dwellings for sale, as well as invest in rental premises often using some government finance. Each of these developers has 10.000 to over 30.000 flats in their portfolios.

5.4 Transactions

The housing market in Finland is quite cyclic, as both for the prices and construction. In the late 1970's, the prices rose heavily just to drop after the so-called oil shock. In the late 1980's there was a very high increase in prices assisted by the liberalization of the money market, easy availability of loan financing, and the extension of the loan periods. The bubble was pricked at once in the early 1990's by the heavy economic recession, and the housing prices were halved. The prices did not reach the level of the early 1990's until nearly ten years later. The housing market of the early 2000's was very active again, especially in the growing centres, due to the very low interest rates and extensive loan periods. The situation was also effected by the fact that the tenement rents had not significantly declined at the reduction of interest rates, and as the tenants had been able to purchase a dwelling of their own almost at the price of the rent,

many people moved from tenement to a dwelling of their own. On the other hand, thousands of dwellings became unoccupied especially in the out-migration areas in Eastern and Northern Finland, where houses were even torn down, due to the loss of occupants.

The Finnish housing markets can roughly be divided in three parts; Helsinki metropolitan area, other main city regions, and the rest of Finland. In Helsinki Metropolitan area, trading is at normal level and steadily increasing due to urbanization. Prices are increasing steadily, year after year. In other main city regions, biggest growth is in trading volumes. In addition, the prices have begun to rise. Elsewhere in Finland, the housing market is recovering although prices are still in fall. The developers notice the positive atmosphere in the housing market. For example in 2015, residential construction produced amount of 30,000 new dwellings. In 2015, more than 50,000 conveyances of dwellings were made. The total sum of money spent was 8.4 billion euros.

Over 70,000 transactions of flats are annually made in Finland. The mean price per square metre of apartment units was 2,338 euros (April 2017). In the Helsinki area the mean price was 3,737 euros and 1.711 euros elsewhere, so the housing prices in the Helsinki area are more than double compared to the rest of Finland. Prices have generally increased between 2010 and 2017 in all sectors.

In 2016, there were approximately 14,500 transactions of single family houses. Number of transactions increased by 5% from previous year. The mean price was 170,000 euros in detailed plan areas and 117,000 euros outside of it. In Helsinki Metropolitan area, the mean price of single family houses was 405,000 euros. The prices of detached houses seem to follow the prices of residential flats with the delay of approximately one year, so the price fluctuations are similar to each other.

Nearly 3,000 transactions of residential sites were made in the detailed planned areas in 2016 and approximately 1,400 in the rural areas. The site prices in the detailed planned areas are varying a great deal depending on whether the seller was a municipality or a private part. On the other hand, the prices are greatly dependant on the size of municipality. In 2016, the sites binding subdivision plan sold by the cities cost 68 €/m² on the average and 22 €/m² if the site had directive subdivision plan. The prices of the sites sold by private parties were 103 €/m² and 35 €/m², correspondingly. One reason for the price differences between private sellers and municipalities is that some municipalities try to tempt inhabitants by offering sites with a considerable discount. Calculated to the permitted building volume on the site (€/floor area) the prices are approximately quadruple compared to the land area. This is also greatly dependable of the location, i.e. the price of permitted building volume on the site in Helsinki metropolitan area was approximately 12 times as much as in Lapland.

The housing sites in the rural areas considerably larger. In 2015, the average surface area was 6,000 m² and the average price 6,5 €/m². Thus, the total price (39,000 euros) approximately corresponds to the site prices in the detailed planned areas of others than the urban municipalities where the price of a site was 36,300 euros on the average when sold by the municipality, and 57,750 euros when sold by a private party.

5.5 Rental market

Traditionally there has been a great lack of rental flats in the bigger cities. The rental market was long regulated through rent control, which later in the 1990's was cancelled regarding the so-called free market. Approximately half of the rental flats are state-financed social production with ARAVA or interest support loans. In addition to the non-profit housing developers¹², the cities are among the major owners of rental flats. In 2012, for example, the housing companies owned by the City of Helsinki had approximately 50,000 flats with a total of approximately 100,000 occupants which corresponds 17% of the population of the city. Big players in the rental housing market are also the companies established for owning flats for the students (e.g. HOAS with 9300 rental flats). Flats offered by employers to their employees has been decreased in the last decades. In 2014, approximately 2% of 1.3 million tenants were job-related.

The supply of privately owned rental flats was quite remarkable until the 1970's when the regulation of rents and the rights of the tenants were changed. This indicated very soon a decrease in supply of private rental flats. The liberation of the rental market gradually realised in the early 1990's, and caused increasing private supply to the housing market. The landlords in the free housing market are mostly private persons, but the insurance companies and a few investment companies and foundations have nowadays substantial housing portfolios. There is a strong demand for rental apartments in major cities, especially in case of small apartments. New investment are being made both by pension/insurance funds and private investors to the residential housing market. Apartment prices and rents are going increasing steadily, especially in the Helsinki metropolitan area, and due to migration and insufficient supply of new houses (see Fig. 5.3).

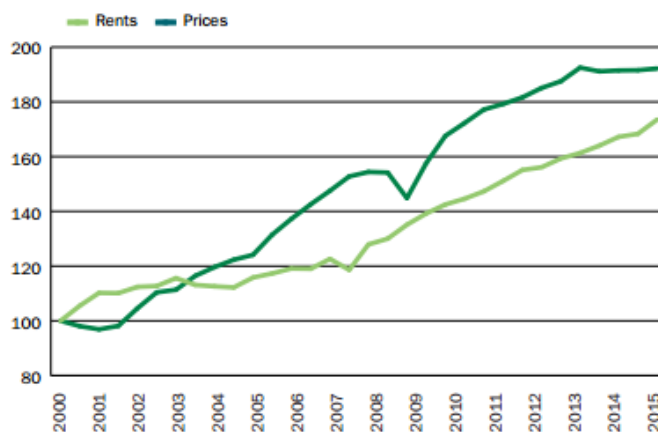


Figure 5.3. Residential price and rents indexes (Statistics Finland, 2016)

The number of rental dwellings was in 2016 approximately 824.000 with the increase of 40.000 since 2003. The share of rental dwellings of the total housing stock is 32%, but in Helsinki metropolitan area it is 43%. 61% of households living in tenancy are household of one person and 25% are households of two, and only 14% were household of more than 3 persons.

¹² E.g. SATO, VVO and 593 others in the year 2016.

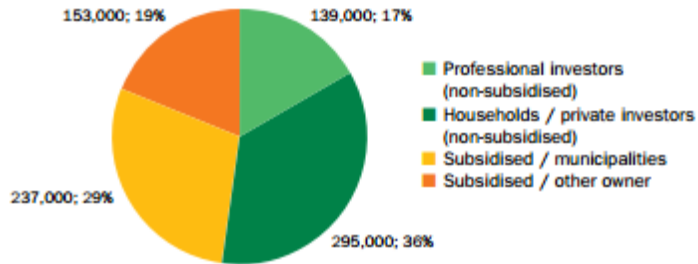


Figure 5.4. Ownership structure of rental apartments in Finland (KTI, 2016)

The newest incomers in the Finnish housing market are the right of occupancy dwellings and various co-ownership flats. Their significance is, however, still rather small, and they have also recently faced the moving of residents to owner-occupant flats due to the low interest rates of housing loans. One specialty is the so-called HITAS Price Control System used by the city of Helsinki. In HITAS system, which aims for affordable housing, the city donates the lot with a very low price and in return, controls the prices of the apartments.

5.6 Residential brokerage

In the housing sector, there are roughly 4.500 brokers. The main objective of brokerage is to sell flats to private people. Heavy advertising in the newspapers and especially Internet are the characteristics of this business. The most important face-to-face marketing happens on Sundays, when there are open doors in flats on sold. This business is divided into two categories: big companies with a few hundred brokers (i.e. Huoneistokeskus, Kiinteistömaailma, OP Kiinteistökeskus and SKV) and many companies with 1 to 5 brokers. Depending on the market situation, 3/4 of the residential transactions are made by brokers and the rest by the owners themselves. The service fee is normally 3-4% plus value added tax.

6 RURAL PROPERTY MARKET

6.1 *Holiday property market*

For a great many Finns, it is important to own a free-time residence (summer house or cottage), preferably by the sea or a lake. At the end of 2015, there were 500,000 free-time residential buildings in Finland. Holiday properties are normally owned as real property units (real ownership), but to a lesser degree also in a form of mutual real estate companies and in so-called time-sharing units. 410,000 of all the free-time residences were owned by private persons, and around 90,000 free-time residences were owned by heirs, companies, communities and foreigners.

New free-time residences are larger in floor area than before. The average floor area of free-time residences in recently built houses is 72 m², when the average floor area of all free-time residences is only 48 m². The new buildings are often of high quality, with all the modern conveniences, and suitable for all-year living. They are so-called second homes, so the standard of holiday homes is growing substantially.

The main part (76%) of the holiday property market today is concentrated on built properties, although the buyer will often replace or thoroughly renovate the old buildings just after the transaction. The share of non-built sites is 24% of all holiday property transactions. It is typical of the market that the holiday home or the site is purchased near the childhood home. A half of the transactions of holiday property is therefore between relatives or otherwise unrepresentative in the price comparison mind.

The number of free-time residential buildings constructed used to be for several decades approximately 10,000 annually. Construction slowed down in the early 1990's to less than 5,000 holiday homes a year. Nowadays the number is even lower. In 2015, building stock contained around 2,200 new free-time residences built during a year.

In the beginning of the 1990's, the holiday property market slowed down. After the mid 1990's the demand for holiday properties increased alongside with whole positive market attitude after recession. The greatest demand is nowadays directed to properties, which can be used throughout the year and are located by a lake or the sea.

In 2016, the number of representative purchases of holiday sites by the sea or a lake (private shore) was 711 (non-built real properties, less than 2 ha). The average price in these sales was 53,000 euros in a detailed plan area in the whole country. In Uusimaa, near the Helsinki region, the average price was significantly higher, 165,000 euros, and in Lapland, only 24,000 euros. Outside the detailed plan areas, the average price was 41,000 euros in the whole country. In 2016, the number of representative purchases of holiday homes by the sea or a lake (private shore) was 2,133 (built real properties, less than 2 ha). The average price in these sales was 120,000 euros in a detailed plan area in the whole country. In Uusimaa, near the Helsinki region, the average price was significantly higher, 220,000 euros, and in Lapland, only 74,000 euros. Outside the detailed plan areas, the average price was 74,000 euros in the whole country.

The sale of holiday properties lacking private shore is considerably smaller than of those with private shore (the share less than 30% of all transactions). The majority of the sales of holiday properties lacking private shore are built properties. In 2016, a total number of 169 non-built sites lacking private shore were sold in detailed plan areas at the average price of 40,000 euros

and 502 built holiday properties at the average price of 74,000 euros. Outside detailed plan areas 153 sites lacking private shore were sold at the average price of 24,000 euros and 777 built holiday properties at the average price of 45,000 euros.

6.2 Agricultural land market

There are 2.3 million hectares of arable land in Finland which is about 8% of the total land area. There are ca. 50,000 farms altogether in Finland, almost all of them owned by private farmers. The field area is 45 ha, on average. In addition, the farms often have forestland, 52 ha on average, and other land, 13 ha on average. Of the field area, one third is on average leased.

The number of farms has been in decline for sixty years. 1950's farming provided jobs for 1.6 million Finnish citizens. Nowadays farming employs only 50,000 citizens. Last time when farming provided jobs for so few citizens was in 1540. Each year small farms go out of business and big farms buy their arable land. European subsidy system encourages the farmers to buy more land, because subsidies are paid according to the cultivated hectares. Most of the farms are moving from animal husbandry to grain growing, since the latter one is less work intensive.

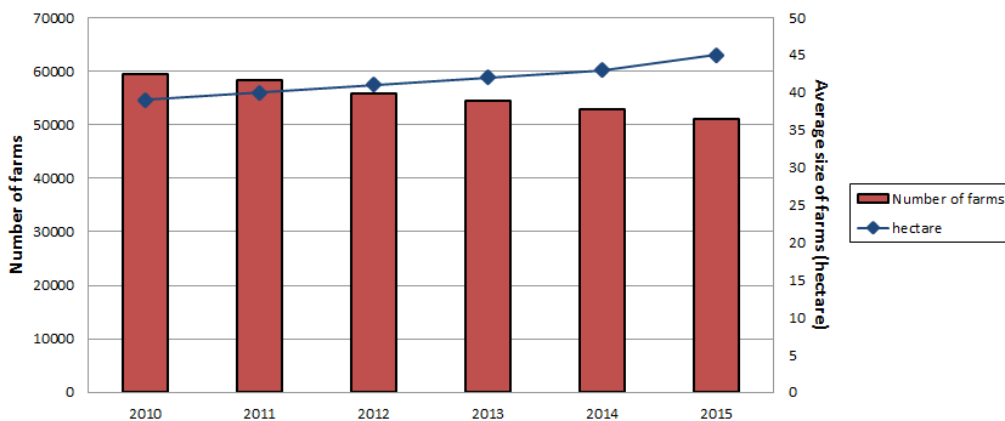


Figure 6.1. The number of farms and their average arable land area (Statistics Finland, 2016)

The price of arable land was relatively high in the beginning of the 1990's, but it came down with the depression and the uncertain conditions of agricultural subsidy after joining the EU. Since 1998, the price of arable land has been steadily increasing (see Fig. 6.2). In 2015, the number of purchases was 548 (non-built real properties only with cultivated field, more than 2 ha) and the average price was about 8,300 euros/ha in the whole country (in Southwest Finland a little over 12,000 euros/ha and in Lapland and Kainuu about 2,000 euros/ha).

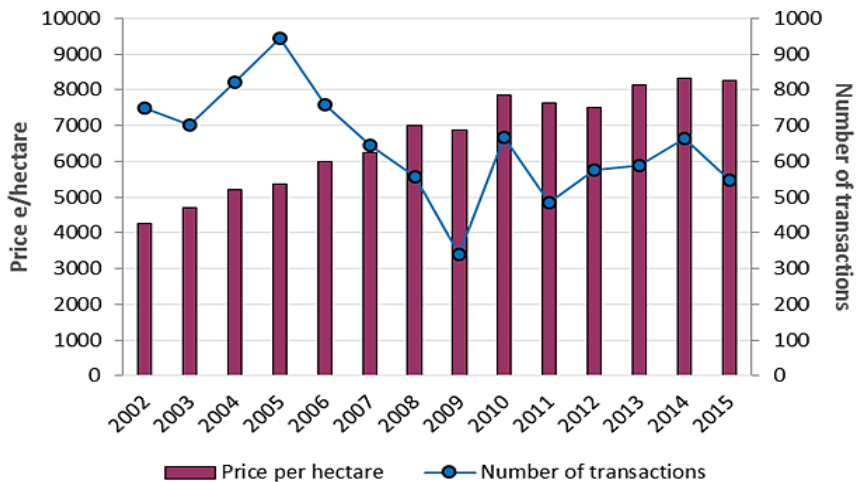


Figure 6.2. The number and price of transactions of arable land (National Land Survey, 2016)

6.3 Forestry land market

Forest land cover about 67% of the total land area in Finland. According to the National Forest Inventory 2009-2013, the area of forest land, is 200,000 km², scrub land 25,000 km² and waste land 30,000 km². Private persons own 375,000 forest properties (10 million hectares, 50% of the total area). The biggest forest owner, however, is the State of Finland (4.5 million ha, 20% of the total area). The State ownership is concentrated in Northern Finland. Companies own 1.5 million ha, 8% of the forest land. On average, the area of a private forest property is 30 ha. Forest properties with an area over 100 ha account for less than 5% of the properties.

Private ownership of forestland in Finland is usually based on inheritance and family connections. This usually means that forest property owners are fairly aged. Due to the migration from rural to urban areas, increasing amount of forest owners live in cities. The increase in the population's average age is expected to change the ownership structure as private forest properties are sold. Prior restrictions of agricultural and forest property ownership were annulled in 1998, which has made acquiring land easier for private persons. Even foreign landownership is possible. The forestry in Finland does not require intensive attention nor living in the same area, and a forest owner can live far from his estate. Because many of the forest owners live far from their properties, they do not do forestry work (i.e. planting, harvesting) as the previous generation. This has made e.g. jointly owned forests quite popular. In these jointly owned forests, paid employees are doing forest management and forestry work, for many amalgamated forest properties at the same time. Forests owners just can just lay back and wait for their annual dividend from the jointly owned forests.

In Finland, forests take, depending on the tree species, the fertility of the habitat, and climatic factors, 60 to 120 years to grow. Nevertheless, incomes from large forest properties are received throughout the forest's lifecycle due to the age distribution of the trees in the forest. The growing stock comprises 2,5 million m³, of which 50% is pine, 30% spruce and 17% broad-leaves, chiefly birch. The annual growth increment totals 100 million m³ and the annual drain 70 million m³. The commercial round wood production (fellings) are ca. 60 million m³/year.

The economic value of a forest property is based on both the value of the trees ready to sell and the expected value of the younger trees still growing and the expected expenses of the forestry. The expenses of forestry and administration account for approximately 10% to 30% of the forestry incomes, which are taxed as capital incomes.

The wood industry is an important branch in the Finnish economy, which also makes forest production and protection important for the whole country. The forest legislation is targeted to promote economic, ecologic and socially sustainable management and utilization of the forest areas. The principle is to guarantee both the economical yield and the biological diversity of the nature. There are also areas, which are protected from felling and from all kinds of forest use. The owner of a forest property must make an announcement to the local authorities before felling trees. The authorities may deny the felling if the principles mentioned above are not followed. Besides this, the owner is obligated to establish a new tree stand, e.g. by planting new seedlings. If the property has been sold after the felling, the obligation to renew belongs to the new owner.

Forest areas with a tree stand of good quality have been in steady demand in the recent years and apart from the swaying closely a decade ago their price has also been without great changes. There is always a demand for a forest property independent of the trade conditions. The forest price level follows the development of the stumpage price. The demand for outlying parcels with poor tree stands is, however, small. In 2015, the number of purchases was 3,201 (non-built real properties only with forest land, more than 2 ha) and the average price was 3,176 euros/ha in the whole country (in Southern Finland approximately 4,500 euros/ha and correspondingly in Northern Finland 1,900 euros/ha).

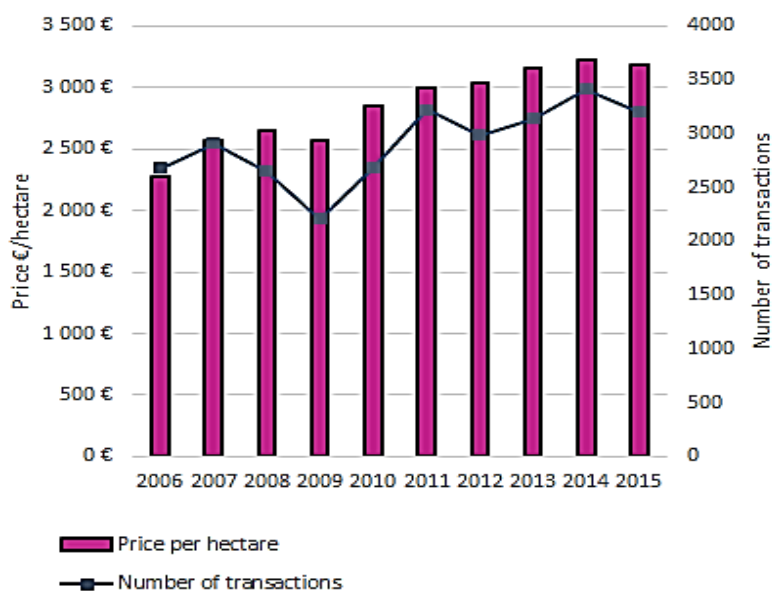


Figure 6.3. The number and price of transactions containing only forestland (National Land Survey, 2016)

6.4 Raw land

Raw land is mainly non-built but it is expected to be planned for urban building in the near future. It is not forest or agricultural land, nor is it building land. No improvements have yet been made, and especially, no building rights has been approved in plan for the area. In literature, raw land has many names, development land, unimproved land, undeveloped land, vacant land, peri-urban land, etc. Raw land has special value, which is based on the expected or hoped value increase in the future. It includes a surplus amount that, at the date of valuation, the market is willing to pay in the hope of a higher value, use or development opportunity being achievable than is currently permitted under development control, existing infrastructure constraints or other limitations currently in place.

In Finland the municipalities are nearly the only purchasers of raw land. The raw land market is very narrow, but at the same time, a very important one. The raw land market defines the location of the future houses, offices, etc., and also, how the development is financed. If a piece of land is granted building rights, i.e. in the Helsinki metropolitan area, the value of land area multiplies by 10-1.000 times. Therefore, it is of major importance to explicitly define, who is entitled to receive the so-called unearned value increase. Usually the municipality buys the raw land, which locates at the fringe of urban and rural areas, with a little surplus compared to its current use (usually agriculture or forestry). When the municipality has acquired the land, a detailed plan is approved, and the value increment held by the municipality.

In 2015, the total of ca. 1.100 ha of raw land was purchased at approximately 22 million euros. There were 152 representative transactions with the average area of 7 ha and the average price of 2 euros/m². In the Helsinki metropolitan area, the average price was 3,5 euros/m² and in the rest of the country 1,5 euros/m².

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20.12.1996/1096	Nature Conservation Act (Luonnonsuojelulaki)
5.2.1999/132	Land Use and Building Act (Maankäyttö- ja rakennuslaki)
28.3.2002/232	Laki vuokra-asuntojen korkotukilainalla rahoitetuista osaomistus-asunnoista
21.7.2006/624	Limited Liability Companies Act (Osakeyhtiölaki)
10.11.2006/985	Orthodox Church Act (Laki ortodoksisesta kirkosta)
22.12.2009/1599	Limited Liability Housing Companies Act (Asunto-osakeyhtiölaki)
4.6.2010/498	Act on the Protection of the Built Heritage (Laki rakennusperinnön suojelemisesta)
27.5.2011/587	Water Act (Vesilaki)
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The Finnish real estate market has undergone a very strong development in the recent years. The activities and the actors in the branch have changed and professionalised to a great extent, the essential regulations for the branch have been renewed, and foreign actors have entered into the market. The education in the universities has been revised, and foreign students have started to matriculate. There is a great demand for a publication dealing with the focal concepts, regulations, and the operations of the market in the real estate branch. This publication is a basic description of the Finnish real estate branch in the form of a textbook. The publication is mainly addressed to the foreign university students and the experts in the real estate branch who are starting their acquaintance with the Finnish real estate market. Yet it also aims to give the Finnish students a comprehensive description of the Finnish system in the English terminology.

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