

Remarks on the Story of Land Prices, Told by House Prices

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SUMMARY

Land share of a dwelling price

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For economists, land share of a dwelling price, or land leverage, has been a focus of intensive research during the last three decennia. Land share of a dwelling price is a useful variable in studies of housing markets, and finally in studies of supply of housing land and productivity and growth of cities.

For surveyors, determining land share of a dwelling price has more specific use in property valuation, and especially mass valuation for property taxation and land leasing purposes.

It is common knowledge that land share varies enormously spatially and temporally. It tends to have a rising trend, and more volatility than dwelling prices. Spatially the land share is highest where homes are expensive. A brief theoretical background is offered in my paper.

My paper supplies an extensive illustration of spatial and temporal variation of land prices, and land share of home values. It is based on time series data that goes back a century ago (land prices) and half a century ago (home prices), and some international comparisons. The spatial landscape is illustrated using data of property values comprising the whole country, Finland.

My paper finally explains how to use these findings in mass appraisal. The valuation methods of urban residential land can be divided into three broad

categories:

1. direct comparison method (based on land sales only)
2. residual method (based on dwelling prices and construction costs)
3. land share method (based on dwelling prices and observations of land prices)

In the most expensive urban locations there are only scarce comparables for the first method. There is usually not good enough data on construction costs for the second method to be helpful. Fortunately there is a third method available, calculating the land share of the residential property value, or more shortly, translating dwelling prices to land values.

The number of dwelling price data in larger cities is typically tens or hundreds times the number of land sales, and a thousand times in some locations. Modelling dwelling sales data offers a rank order of land values and amplify the information offered by precious few land sales. It provides a fundament and a framework to properly interpret land prices, and to calculate land values where no sales exist. In fact translating dwelling prices to land values may often produce more convincing and consistent land values than land sales prices, where unique and idiosyncratic factors often play a dominant role.

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