The Effect of Ground Leases on House Prices in Helsinki

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Abstract

Houses are expensive illiquid long-lived assets traded in an imperfect market. One of the imperfections is knowledge about legal interests such as ground leases. Uncertainty surrounding the rights, interests, and long-term costs of owners of houses constructed on land leased from the government may affect house prices relative to houses built on fee simple land. This paper uses regression analysis of sales price of a large sample of condominium transactions in Helsinki to examine the effect ground leases have on house sales. We find that condominiums constructed on leased lots sell at a 4% discount relative to houses on freehold lots in the same market.

Keywords: housing markets, house prices, marketing duration, ground leases, Finland