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CITY OF TALLINN TO CONFIRM NEW LAND TAX RATES BY JULY 2023

For the first time in 21 years, the Land Board has conducted a mass land valuation, with the aim of providing Tallinn landowners with objective and up-to-date information about the market value of their land. The results of the 2022 valuation will be used to inform government decisions related to taxation from 2024 onwards, however land tax will not increase by more than 10 percent per year.

Tallinn Deputy Mayor Tanel Kiik (Center) said, that due to the length of time since the last land valuation was carried out, the value of land has increased significantly.

"In addition to updating the market price (of land plots), this time, plot valuations have also been adjusted. Whereas during previous land valuations, price zones were established, on the basis of which, land prices were then calculated separately for each plot, this time each plot's value was calculated straight away," said Kiik.

The mass land valuation was carried out by the Land Board in cooperation with professional real estate valuing companies to determine the approximate market value, or tax value, of all land plots in Estonia.

The new valuations were reached by considering existing transaction prices, along with the specific characteristics of the plots being valued, and will be available to all interested parties on the Land Registry's website from October 31.

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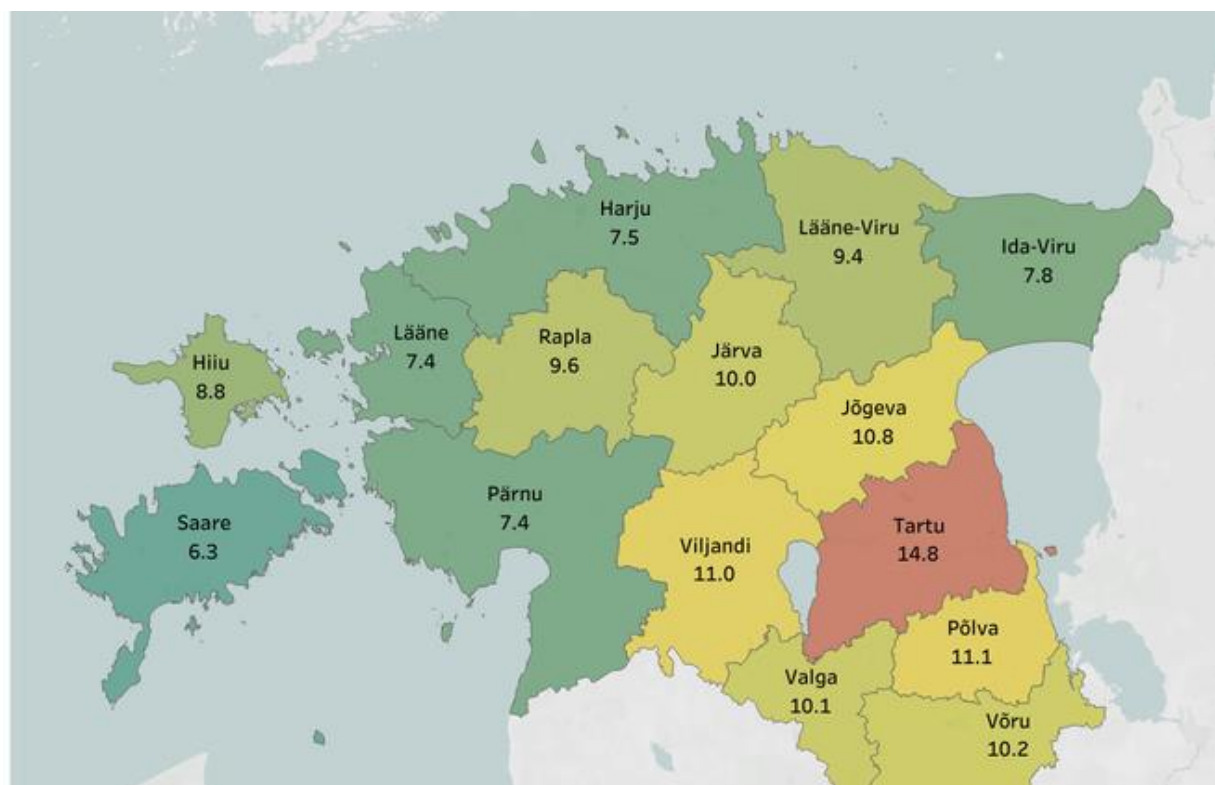
According to the City of Tallinn, all landowners need to do is check the accuracy of information related to their land in the online database and provide feedback to the Land Registry in the event of any errors.

The results of the 2022 mass valuation will also be used as a basis to inform land taxation, but only from 2024 onwards. "This means, that in 2023, land tax will be calculated on the basis of the current assessment prices, with the new assessment prices not yet having an impact," explained Kiik.

"For the City of Tallinn, it is important that land tax remains affordable for people in the years to come. In order to avoid a huge rise in land tax, maximum rates have been lowered up to 5 times (in value) by law. An additional restriction has been put in place to ensure land tax cannot increase by more than 10 percent per year. Homeowner benefits will also remain in place, with those who own homes up to a maximum size of 1500 meters squared in Tallinn continuing to be exempt from land tax," said Kiik.

The City of Tallinn will confirm the new land tax rates by July 1, 2023 at the latest.

VALUE OF LAND IN ESTONIA UP 8.3 TIMES ON AVERAGE IN 21 YEARS



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Change in land value 2001-2021 by county. Change in land value 2001-2021 by county. Source: Land Board

The Land Board's recent scheduled land evaluation puts the total value of land in Estonia at €32.5 billion 71 percent of which is the value of construction land. The value of land is up 8.3 times since the last scheduled evaluation.

All 761,286 pieces of registered land were given a new valuation in the course of the 2022 mass valuation of land.

Based on this year's valuation, 71 percent of the value of land in Estonia comes from construction land (mostly residential, commercial and industrial land) that only covers 4 percent of the territory of Estonia. Forest land that covers 49 percent of Estonia only yields 8 percent of the total value. The Land Board emphasizes that construction land was valued without the value of structures on it and forest land without the value of the growing forest.

The main reason for the higher value of land is general price advance over 21 years. While the value of land has risen 8.3 times on average, the average salary has grown 4.8 times, housing expenses 4.3 times and the cost of living 2.2 times.

The greatest average change in land value has taken place in Tartu County (14.8 times) and the lowest in Saare County (6.3 times).

The change in land value also depends on the structure of land use in different counties and whether residential or forest land dominates. Based on land use, the value of agricultural and residential land has grown the most (22.5 and 11.6 times respectively), while that of commercial and industrial land the least (5.4 and 4.6 times respectively).

The value of land has grown faster where fields have been replaced by construction land and development been more active. In terms of residential land and other types of land meant for construction, values have grown the most in municipalities surrounding Tallinn and Tartu (by 20 or even 30 times). In less attractive regions (for example, Kohtla-Järve, Loksas, Maardu, Paldiski) the growth of land value has fallen short of five times.

The value of pieces of land can be seen in the updated land cadastre at minu.kataster.ee by searching for the address or cadastral register number and clicking on "Land value information."

HIGHER VALUE OF LAND NOT AN INDICATION OF SHARP LAND TAX HIKE

Even though the Land Board's recent mass valuation of land dramatically hiked the value of land in many parts of Estonia, land tax is not set to be hiked as dramatically as the law does

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not allow for an annual increase of more than 10 percent. Municipalities do not forecast a sharp rise in revenue.

The value of land has grown by 8.8 times since 2001 in Hiiumaa. Municipality Mayor Hergo Tasuja told ERR that one reason is that Hiiumaa is a popular living destination.

"We face a challenge today in that more people want to move here than we have dwellings. There are buildings that need renovation, plots exchanging hands. Every decent place has been bought," he admitted.

Tasuja said that interest in moving to Hiiumaa spiked in March of 2020 when the coronavirus started doing the rounds. Since then, the number of residents has been growing from one month to the next, with the island now just 150 people short of its 2018 goal of having 10,000 residents. The Kõpu Peninsula and the lively village of Kalana make for the most popular destinations.

Tasuja said that a private school-kindergarten has been opened in the village and young families with children who used to spend their summers there have moved to Hiiumaa for good.

Local governments will lay down new land tax rates next summer and they will enter into force from January 1, 2024. Tasuja could not say how the recent valuation of land could affect the tax rate as it has not been discussed on the political or local government levels. Current legislation does not allow the land tax to be hiked by more than 10 percent annually.

"It will not result in a major change in our budget. Land tax is good for 2 percent of our revenue. Even if the tax rate is hiked by 10 percent for 2024, the effect would still be modest."

The price of residential land grew the most in Tartu County. Kambja Municipality Mayor Illari Lään said that the drastic spike in the value of land is due to the municipality's nearness to Tartu and contrast between what was there a few decades ago and what has happened since.

"If a few decades ago, certain areas were overgrown with trees or brush, the general plan has changed things, changed the intended purpose of land, which quite naturally has manifested in the value of land."

Lään listed Ülenurme, Tõrvandi and Soinaste as more popular places in the municipality.

Land Board looked at peak market values

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Veronika Ilsjan, spokesperson for the Land Board's valuation department, said that the agency's valuation is as of June 30, 2022 and considers real estate transactions from the last six years.

"We find ourselves in a curious situation. Our valuation is from June 30, 2022, while the real estate market is now showing signs of cooling. I believe we have fixed land values at the market peak," she said.

The expert added that the real estate market was only showing the first signs of livening up when lands were last valued nationwide in 2001. Therefore, the extent of change is maximally reflected in the valuation that explains the rather startling figures.

The results of the 2022 mass land valuation will be applicable starting in 2024. That said, the land tax rate cannot be hiked by more than 10 percent a year, while actual local rates can be 2.5 or even five times lower than the maximum today.

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