

# **The Value of using Information that has Primarily been Collected for Real Property Taxation for Valuation, Granting Loans, Statistics and Other Purposes**

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## **SUMMARY**

The Swedish property market is highly ranked in an international perspective thanks to the fact that the supply of property information is very good. Purchasing and selling properties in Sweden is relatively uncomplicated. Investigation into credit rating is also a very rational process thanks to the supply of property information from different registers. In a European perspective, Sweden appears to be one of the leading countries concerning the supplying of information about properties. This is of great importance in an increasingly global property market and on a European credit market characterized by increased integration.

The information about properties and purchases in the Swedish property register is commonly accessible which contribute to high transparency. A considerable part of the information about properties that exists in public registers in Sweden is currently a result of processes in conjunction with real property tax assessment. It is not only assessed values from the mass valuation but also classification data about property use and data of buildings; for example size, age and standard.

This paper points out the needs for and value of real property taxation. It contains a description of the property market in Sweden. It also shows which property data is collected, registered and supplied by society. A survey of the current range of applications and uses will be presented, including an estimate of the amount of the social utilities.

# **The Value of using Information that has Primarily been Collected for Real Property Taxation for Valuation, Granting Loans, Statistics and Other Purposes**

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## **1. A TRANSPARENT MARKET**

Internationally, the Swedish real property market has a high ranking, amongst other reasons, because the availability of real property information is very good. A transparent market is characterised by openness and a well-defined organisation with a stable set of rules, a consequent application of laws and regulations and by respect for private ownership rights. It is also relatively uncomplicated to purchase and sell real property in Sweden. Whereas in many countries it is necessary to carry out number of time-consuming procedures in order to register a purchase of real property, in Sweden it involves only a single procedure. Investigations into credit worthiness are extremely rational in Sweden mainly because of the availability of relevant register information. In a European perspective, Sweden stands out as one of the most advanced countries concerning the provision of real property information. This is of great importance in an increasingly globalised real property market and on a European credit market that is characterised by increasing integration.

The information that is available concerning real property and purchase prices in the Swedish Real Property Register is openly available which contributes to high transparency. A significant part of the information concerning real property that is available in public registers in Sweden is that, which at present is used as the basis for real property tax assessment. In this case, it is question not only of a standardised, calculated value, but also type codes which define the way the properties is used and the properties of buildings such as size, age and standard for single-family residential units. This information is not only used for tax assessment purposes but also, to a large degree, for other purposes.

Lantmäteriet has the responsibility for ensuring the provision of basic real property and geographic information. Taxation rules may change, but the need for an efficient provision of basic information concerning real property remains. As there is a great need for this type of information it could be of interest to describe how and in what connection the information is used. In case the information not be available in the same way in the future, it is also important to analyse the possibilities that would then exist for providing interested parties with this type of information.

## **2. THE USE OF A STANDARDISED DETERMINATION OF REAL PROPERTY VALUES**

The use of tax assessment values was studied in a report from the Swedish Agency for Public Management in 1993 (Swedish Agency for Public Management Report 1993:2. The use of tax assessed values for real properties).

The most important areas of use are described below together with a number of comments regarding changes that have taken place since the study was carried out.

### **2.1 Taxation**

Use for taxation purposes has been, and still is, the principal area of use for taxation information. Real property assessed values are currently used as the basis for calculation of real property tax and for local government taxes and fees for properties. At present, tax on real property must be paid for premises in apartment buildings, undeveloped plots of land and industrial properties. For dwellings, real property tax has been replaced by a local government charge. The assessed value is still used for determining the size of the local government charge for single-family residential units where 0.75 % of the assessed value is less than SEK 6 000 and for apartment buildings where 0.75 % of the assessed value is less than SEK 1 200 per apartment. No real property tax is paid for agricultural units, although there are local government taxes for the part of the property which is used as a dwelling unit in the same way as for other single-family residential units.

The value which is the basis for the calculation of stamp duty is determined as the highest value of the purchase price and assessed tax value. The tax assessment value is used for calculation of the capital gains tax if there is no base value. If a property that is sold was purchased before 1952, the purchase price is then calculated as 150 % of the property's tax assessment value in 1952. For valuation of housing fringe benefits, the value of the fringe benefit for semi-detached houses is based on a certain percentage of the property's tax assessment value.

### **2.2 Rules in connection with accounting procedures**

If it is not possible to determine the market value, the tax assessment value should, in certain cases, be used to determine the value of an asset.

### **2.3 Rules for the group accounts**

The European Parliament and the Council of Europe have promulgated an ordinance concerning international accounting standards (IAS Ordinance). Amongst the information that the affected companies must show is information about tax assessment value.

## **2.4 Other legislation**

Most of the laws that are referred to in the report from 1993 still apply. In this legislation, there are a number of laws that deal with different types of acquisition permits and orders associated with the sale of state-owned property. In some cases, reference is made to the tax assessment value and in others only the type code is of importance.

In cases where an estate agent acts as an intermediary when a person purchases a property, principally for private use, the estate agent must provide a written description of the property that includes, amongst other information, details of the tax assessment value.

## **2.5 Real property valuation in connection with granting of loans**

Today, the valuation of real property in connection with the granting of loans is a relatively cost-effective process in Sweden. The information in registers is used, to a large extent, both for assessing the applicant's credit worthiness and for valuation of the property. Most credit institutes and banks have access to automated valuation systems which are made available by a number of the larger valuation companies. These systems can be used for standardised valuation of standard single-family housing units in connection with an evaluation of credit worthiness. Customers benefit from the fact that valuation can be carried out quickly and at a low cost. Competition between credit institutes is also increased since it is possible to move a loan to other institutes without the need for an expensive, new valuation. The input data to the automated evaluation systems is mainly data concerning standard and quality, which is taken from the part of the Real Property Register that contains taxation information. Market information, in the form of prices, is taken from the Real Property Register's title registration part, but prices are standardised using taxation assessment values.

## **2.6 Real property valuation in general**

Information from the taxation part of the Real Property Register is important for use with real property valuation, other than that which is directly linked to granting of loans. Information concerning standard and quality from real property tax assessments is important for selection of comparable properties and for standardising prices in connection all valuation tasks where the market comparison method is used. Also when the yield method or production cost method is used for valuation, the tax assessment value is included in the valuation document.

## **2.7 Granting of credit in general**

The new capital coverage rules (Basel II), which came into force on February 1st 2007 imply major changes to the way banks handle credit risks. The banks have formulated risk classification methods for evaluating the risks associated with real property loans. The methods, which have been approved by the Financial Supervision (Finansinspektionen), and are based on the fact that part of the credit capital for real property has been valued in a standardised way using, for example, tax assessment values, type codes and standard and

quality information for the building. This has proved to be a rational and cost-effective method, which is possible because the relevant information concerning the properties is openly available.

## **2.8 Local government activities**

Tax assessment values are particularly useful for calculation site leasehold ground rents and when purchasing site leasehold land. They are also used in connection with physical planning.

## **2.9 statistics**

Statistics Sweden (SCB), bases its real property and real property price statistics on a combination of real property prices and tax assessment values. Standardisation of real property prices with the help tax assessment values results in more reliable statistics for single-family residential units than standardisation using other variables such as area. Concerning statistical products, primarily the Småhusbarometern (Single-family house barometer), SCB co-operates with Lantmäteriet. Statistics for real properties play an important role for, amongst other purposes, identifying "bubbles" on the housing market at an early stage. Trends in house prices are of great importance for following economic development and other factors and can be seen as a compliment to inflation evaluations that are the basis for the Swedish Central Bank's interest policy.

## **2.10 Activities in the insurance sector**

Standard and quality information is used by insurance companies as the basis for their calculations of premiums. The information mainly concerns the area of buildings.

## **2.11 Credit information**

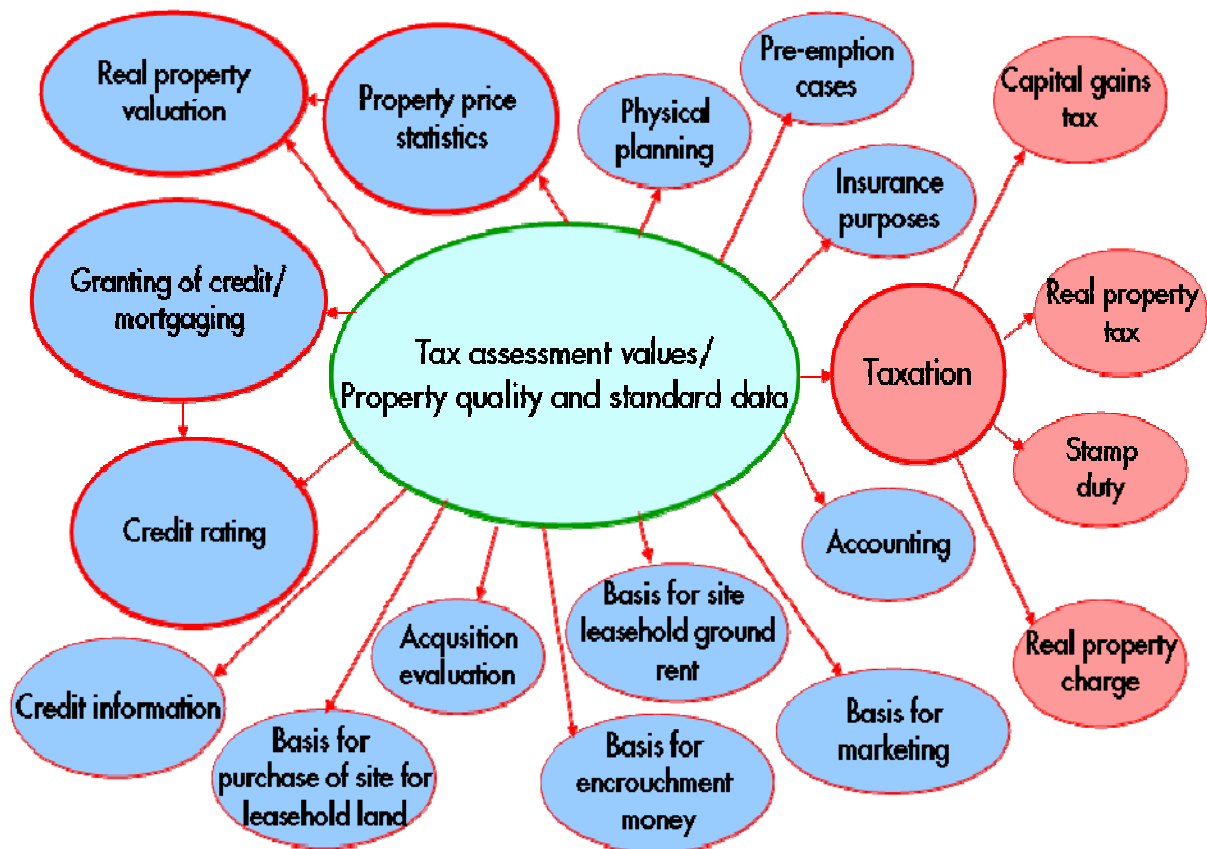
This relates mostly to information about ownership of the property and to the property's tax assessment value.

## **2.12 Use for direct mail advertising**

Taxation information is used for direct mail advertising to certain categories of property owners. The main purpose is to identify owners of special types of properties and for this the property type codes are a useful tool.

As has been described above, the information that is collected for real property tax assessment, classification of real property based on use and calculated values has several different areas of use. Many of these have little or no connection with the prime purpose which is to serve as the basis for calculation of tax. There is a graphic presentation of all areas of use for tax assessment values, type codes and associated properties in the figure below.

**Figure 1.** Areas of use for tax assessment values, type codes and associated properties



### 3. THE FUTURE PROVISION OF REGISTER VALUES FOR REAL PROPERTIES

As the area of use for standardised values for real properties, with associated value data that is available in connection with real property tax assessment is wide, it is important to investigate how these needs can be satisfied in the future.

No patent solutions will be given in this paper but it is, nevertheless, interesting to sketch how the need for this type of information could be satisfied in the future should the present type of tax assessment values be abandoned.

During a transition period it will certainly be possible to use the most recently produced tax assessment values for most of the requirements that are stated above, but there is also a need for a system that continually updates the register to include changes that occur in the cadastral pattern, building and the way the properties are used. It is most certainly possible to build on the existing updating system, which is linked to the system for special real property tax assessment, but it can also be a suitable time to investigate whether it would be possible to

increases efficiency by changing the current updating processes. The level of standardisation of the produced values must be in parity with the benefits and the costs for producing them.

Real property owners must, naturally, be able to monitor, approve and, where necessary, take measures to ensure that corrections are made to the information about their property in public registers in the same way as is possible at present.

To be able to achieve a sufficiently high quality in the information that is the basis for calculating real property values, it is important to try to find incentives that would encourage property owners to voluntarily present suggestions for changes that would affect its value. In the future it is feasible that owners of real property could be able to interactively change information about the properties directly in the register without the prior need for a formal decision.

A future perspective is that the real property information in the public registers should be able to be used by the general public and by agencies to facilitate contact with agencies and other players who are involved in the society-building process. Initially, a link was established with the internationalised real property and credit market. Sweden has played and still plays a leading role in demonstrating how real property information can be made more generally available. More recently this has been formalised in the so-called EULIS project which involves making real property information from the participating countries available in the other participating European countries. In this perspective, it is particularly important that all types of included real property information are also available in the future.

#### **4. QUANTIFYING THE VALUE OF ACCESS TO REAL PROPERTY TAX ASSESSMENT INFORMATION**

Relatively many areas of use have been described in the previous section and the value of access to tax assessment values and standard and quality information has been illustrated for each one of them. What is much more difficult to prove is how large the value can be, and, in particular, to quantify it in monetary terms. In order to be able to calculate savings, increased efficiency or improved quality, it would be necessary to examine the structure of every process and analyse in what way and to what extent, tax assessment values and standard and quality information is used. If this were to be done as the first step, the next step would be to determine the extent to which the processes would be affected in time, and the costs that would arise, if the openly available information was not available in the same way as it is today. The alternatives to the present system for the provision of information could very well be either that users themselves take the responsibility for the time-consuming and very expensive manual collection of data or accept that the processes do not satisfy requirements or that the results are of significantly poorer quality.

The organisations and private individual who are actively lobbying for doing away with tax assessment values talk in terms of immediate savings of the order of SEK 200 million per year, which is equivalent to the total cost for the Swedish real property taxation system for

which the National Tax Board currently has responsibility. These costs include all activities from collection of data to compiling the results and setting new tax assessment values. On the other hand, costs for the work carried out by property owners, private persons and companies to collect and compile information and submit it to government authorities are not included in this total.

#### **4.1 An example of the calculation of the monetary value**

The granting of credit and real property valuation are examples of two processes which, in a tangible way, are dependent on the availability of relevant tax assessment values, type codes and standard and quality information for buildings from public registers. The credit granting processes can be made efficient if there is a tax assessment value for the building which can be related to the object's collateral value. If that value falls within the margins for the tax assessment value a new loan will normally be granted without the need for a detailed evaluation. If the credit institute or bank need better information before a decision can be taken, the normal procedure is for a valuation of the property and an assessment of its market value to be made. To be able to carry out to a rational valuation of the property, tax assessment information for it is required and for comparable objects which have been included in the "ortspris" analysis. Real property evaluation for other purposes, such as in connection with the purchase and sale, disputes and financial accounts etc. are examples of situations where the same real property tax assessment information is required to facilitate the valuation process.

According to statistics from the Svenska Bankföreningen (Swedish Banking Group) for October 2007, total loans with single-family residential units as collateral amounted to SEK 1 030 billion. A hypothetical calculation can illustrate the size of the savings, or profits that households and banks and credit institutes can count on thanks to the availability of open information concerning the real property tax assessment process. The fact that there is access to tax assessment values and expert systems for assessing market values most probably means that Swedish households pay lower interest when taking out mortgages on their properties than would be the case if the information was lacking or of insufficient quality. Uncertainty concerning the value of collateral for loans results in higher risk charges because the risk for credit losses increases. If we assume that the tax assessment values and information concerning quality and standards do contribute to the interest on housing loans that households pay being kept between one and three points (0.01-0.03 %) lower, this results in savings for households alone of between SEK 100 and 300 million annually. A cautious assessment is that credit institutions' total profits would, for the same reason, also be on the same level.

If it could be proved that the above hypothesis is correct, it would mean that the costs for continuing to have a system that provides society with the relevant tax assessment values and associated information, would be fully covered by only two of the areas of use that have been possible to identify.



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## BIOGRAPHICAL NOTES

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