

**9th Meeting of the Advisory Expert Group on National Accounts,
8-10 September 2014, Washington DC**

Agenda item: 5.1

Distinction between volumes and prices when measuring the value of land changes

Introduction:

The outcome of a written consultation of the AEG on how to distinguish the changes in the value of land between balance sheets is presented under this agenda item. The initial consultation note was prepared by the joint Eurostat-OECD Taskforce on Land and other Non-financial Assets, to further clarify the guidance of the 2008 SNA on whether to record the change in the value of land as an other change in volume or as a revaluation, when the change in the value of the land was due to changes in the surrounding amenities of the land instead of due to a change in the economic use of the land. The responses of the various AEG members were diverse, however, there was a slight preference (5 out of 9 responses) to record “changes in the value of land that are due to changes in the surrounding amenities of the land” as holding gains (revaluations) and not as volume changes.

For practical reasons this decision appears prudent given that it may be very difficult to make such a nuanced distinction between other changes in volume versus revaluation changes. The situation may be blurred and the different characteristics in land may not be distinguishable, as a consequence of which the relevant changes will most likely end up in the price component anyway.

Given the absence of a clear cut majority in favour or against the above opinion, and on a conceptual basis, there are strong arguments to record changes in the value of land that are due to changes in the surrounding amenities of the land as volume changes, and there should at least be some flexibility given to countries who have identified such changes as part of the volume change. Therefore, the recording of incidental and exceptionally large changes in the value of land due to the surrounding amenities of certain pieces of land can be looked upon as changes in quality and thus be recorded as other changes in volume.

Guidance on documentation provided

- Summary of AEG responses to written consultation note.
- Initial written consultation note.

Main issues to be discussed

The AEG is invited to discuss the following topics:

- Does the AEG agree that, from a purely conceptual point of view, changes in the value of land that are due to changes in the surrounding amenities of the land are to be recorded as volume changes?
- Does the AEG agree that in practice these changes may not be identifiable, and thus end up in the revaluations?
- Does the AEG agree that, if in practice a country can identify incidental and exceptionally large changes in the value of land due to changes in the surrounding amenities, this change in the value of land can be looked upon as changes in quality and thus be recorded as other changes in volume?

Report on the consultation on distinguishing between volume changes from holding gains for land

Introduction

1. During the spring of 2014, the ISWGNA undertook a written consultation of the AEG members on distinguishing the changes in the value of land between balance sheets into other changes in volume versus revaluations. The consultation was requested by the joint Eurostat-OECD Taskforce on Land and other Non-financial Assets. The note was prepared by the Taskforce because they could not find clear guidance from the 2008 SNA on whether to record the change in the value of land as an other change in volume or as a revaluation, when the change in the value of the land was due to changes in the surrounding amenities of the land instead of due to a change in the economic use of the land.

2. The AEG was therefore requested to provide conceptual guidance on when to record changes in the value of land as other changes in volume. Given that the SNA, in general, treats differences in quality as differences in volume and that the value of land is not only determined by the economic use, location, and size of the plot, but also by surrounding amenities (such as parks, high quality schools, and access to public transportation, etc.), these surrounding amenities may also be considered as quality-characteristics.

3. The SNA explicitly mentions that changes in the value of land that is due to changes in economic use should be recorded as other changes in volume:

Different qualities are, therefore, economically different from each other. The same principle applies to assets. The quality changes recorded here occur as the simultaneous counterparts of the changes in economic use that are shown as changes in classification, as described below. For example, the reclassification of cultivated land to land underlying buildings may result in a change of value as well as a change in classification. In this case, the asset is already within the asset boundary, and it is the change in quality of the asset due to changes in its economic use that is regarded as the appearance of additional amounts of the asset. (SNA 2008, para. 12.23)

4. It is definitely clear from the 2008 SNA that a change in value due to a change in economic use is to be recorded as a change in volume, but is that the only way a change in volume can occur?

5. The argument is that any increase/decrease in value of the land as a consequence of activities in the vicinity should be recorded as economic appearance of assets / economic disappearance of non-produced assets. This seems to be in accordance with 2008 SNA 12.21 that states “*Not all land included in the geographic surface area of a country is necessarily within the asset boundary of the SNA... [Land] may also acquire value because of activity in the vicinity, for example, land that becomes more desirable and thus more valuable because of a new development is established nearby or the creation of an access road... any increase [in value of the land] due to adjacent capital activity is recorded as economic appearance.*”

6. The question posed to the AEG was:

What should be the conceptual guidance for recording changes in the value of land between balance sheets as other changes in volume?

- a) To record such changes as other changes in volume only when the changes concern a change in economic use; or
- b) To record such changes as other changes in volume when the changes concern one of the following conditions:
 - a change in economic use;
 - a change due to changes in surrounding amenities.

Analysis of responses

7. The responses of the various AEG members were diverse, with a slight preference (5 out of 9 responses) to record “changes in the value of land that are due to changes in the surrounding amenities of the land” as holding gains (revaluations) and not as volume changes.

Certain AEG members argued that the price of land is not only determined by the economic use, location, size, etc., but also by surrounding amenities which, therefore, should be considered as quality elements. When these surrounding amenities change for any reason a change in volume of the land adjacent to it occurs simultaneously. These externalities generate an increase (or decrease) in volume of the whole stock of land. Here, reference was made to para. 12.21 of SNA 2008 (stated above).

8. However, other AEG members (of which make the majority) expressed the opinion that changes in the value of adjacent land due to changes in the surrounding amenities was much too broad and that the other changes in volume should be restricted to rare cases such as when land enters the SNA production boundary (e.g., land that is reclaimed from the sea). The latter however seems to be too narrow and in contradiction to the SNA that recognizes a change in the economic use of land as an other change in volume. Others argued, for conceptual and/or practical reasons, that changes in volume should be restricted to changes in the economic use of the land. In this respect, it was mentioned that it would be difficult in practice to identify amenities, and there would be a risk that the amenities would not be comprehensive or objectively selected.

9. Furthermore, it was pointed out that, in the economic literature, adjustment for amenities is not without controversy and rather than explaining why certain amenities were adjusted for and others were not the preferred treatment would be to not adjust for any of the surrounding amenities. In addition, it was further argued, that the treatment of amenities as revaluation was consistent with similar treatments in national accounts, such as the effects of spillovers from R & D.

10. Taking into consideration all the arguments it was the opinion of the AEG:

- To record changes in the value of land that are due to changes in the surrounding amenities of the land as revaluations.

11. However, given the absence of a clear cut majority in favour or against the above opinion, the recording of incidental and exceptionally large changes in the value of land due to changes in the surrounding amenities may nevertheless be looked upon as changes in quality and thus be recorded as other changes in volume.

12. *The AEG is invited to discuss the following topics:*

- *Does the AEG agree that, from a purely conceptual point of view, changes in the value of land that are due to changes in the surrounding amenities of the land are to be recorded as volume changes?*
- *Does the AEG agree that in practice these changes may not be identifiable, and thus end up in the revaluations?*
- *Does the AEG agree that, if in practice a country can identify incidental and exceptionally large changes in the value of land due to changes in the surrounding amenities, this change in the value of land can be looked upon as changes in quality and thus be recorded as other changes in volume?*