

**Eighteenth Meeting of the
IMF Committee on Balance of Payments Statistics
Washington, D.C., June 27–July 1, 2005**

Valuation of Real Estate

I. DIRECT INVESTMENT TECHNICAL EXPERT GROUP (DITEG)
II. OUTCOME PAPER (DITEG) # 25

April 8, 2005

1. Topic: Valuation of real estate.

2. Issues: See DITEG Issue Paper # 25 by France (October 2004)

3. Recommendations:

- (i) In the course of the useful discussion on this topic, DITEG recognized the importance of the widespread statistical problems concerning the collection and compilation of data on direct investment in real estate realized by individuals (even if 75 per cent of the 53 countries for which purchases and sales of land and buildings by individuals are applicable include these transactions in their inward and outward FDI transactions data, according to the 2001 SIMSDI).
- (ii) In order to calculate the market value of stocks of foreign direct investment in real estate, DITEG encouraged the continued effort undertaken by certain international organisations (EUROSTAT notably) to develop real estate price indices.
- (iii) DITEG expressed a preference in using real estate price indexes rather than a more general price index (such as the price deflator for gross domestic product which would provide a rather imperfect estimate) in order to calculate the market value of real estate stocks. A general price index can not be a suitable indicator to reflect the evolution of the real estate markets.

4. Rejected Alternatives:

The group rejected the exceptional use of acquisition cost to calculate the market value of real estate stocks in the case where transactions were not conducted in the most recent past.

5. Questions for the Committee:

- (i) *Do the Committee and the WIIS agree with DITEG's recommendation to encourage the use of real state price indexes (despite their methodological heterogeneity among countries) rather than a more general price index to calculate the market value of real estate stocks?*
- (ii) *Do the Committee and the WIIS agree with DITEG's recommendation to reject the use of acquisition cost in the same purpose?*

**IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS AND OECD
WORKSHOP ON INTERNATIONAL INVESTMENT STATISTICS**

DIRECT INVESTMENT TECHNICAL EXPERT GROUP (DITEG)

DITEG ISSUE PAPER #25

Valuation of real estate

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October 2004

DIRECT INVESTMENT TECHNICAL EXPERT GROUP (DITEG)

DITEG ISSUE PAPER #25

Valuation of real estate

1. Current international standards

The current international standards for balance of payments statistics recommend that all of the components of the international investment position (IIP) be measured at market value, with reference to observable market prices. For real estate, the stock data can be estimated by using a perpetual inventory approach based on the use of price indexes, which may be produced by the compiling country's statistical agency. Such indexes may be available too from organisations involved in the real estate industry.

2. Concerns/shortcomings of the current treatment

We can first notice that the use of price indexes produced by organisations involved in the real estate industry is not very easy to implement. But the main shortcoming of this approach is the heterogeneity of such indexes. There is no homogeneous methodology at a global level for the production of price index for real estate. According to the countries, the available indexes reflect the prices of old housing or new housing or both of them; the office prices may or not be included; the indexes can be calculated for the whole country, or for some regions, or for big cities only. In short, the market value measurement of the outward stocks in real estate cannot be homogeneous, because it uses a mix of very different national indexes; and this measurement cannot be homogeneous either with the market value calculated for the inward stocks (which uses the index of the reporting country, probably based on a different methodology).

3. Possible alternative treatments

A possible solution could be the use of a price index which is less specific to the real estate, but more homogeneous among countries (and easier to collect for compilers). It could be for example the price deflator for gross domestic product.

However, the shortcoming of such a treatment is that its result is significantly different from a measurement based on a real estate price index. The price deflator for gross domestic product do not reflect the crisis in the real estate sector of the beginning of the 90s, and do not reflect either the current increase in housing prices. The table 1 shows the difference for France between the alternative treatments:

Table 1 : Difference between the alternative treatments
in measuring the market value for real estate stocks (at the end of 2002)

	Book value In bn €	Market value		Ratio market value / book value	
		Price deflator for GDP (2)	Real estate price indexes (3)	(2) / (1)	(3) / (1)
French real estate stock abroad	8,4	14,8	18,5	1,76	2,20
Foreign real estate stock in France	35,7	51,0	71,7	1,43	2,01

4. Questions/points for discussion

1. *Do the members of DITEG have a view about the possibility of improving the homogeneity and the availability of national real estate price indexes?*
2. *If it is not possible to improve the use of real estate indexes, do members of DITEG agree with the use of an alternative index (such as the price deflator for gross domestic product) to calculate the market value of real estate stock, even if the result may not reflect the evolution of the real estate markets?*
3. *Do members of DITEG agree to allow the exceptional use of book value to calculate the real estate stock in order to take into account the difficulties encountered in calculating market value?*

Annex of the most relevant documents

BPM5 paras. 467.

Compilation Guide paras. 718 to 722.