

Sanity at last as land values receive official status

ALTHOUGH the balance sheet has been the poor relation amongst national accounting statistics, and land has been very much the runt of the balance sheet, the UK Central Statistical Office has at last recognized land value as an entity in its own right.

Since the Second World War national income and expenditure accounts have been accepted as an essential tool for understanding and influencing the economy. But only in 1980 were official estimates of the stock of the nation's wealth first published.¹

These estimates drew on some twenty years of pioneering work, first in the USA and then in the Department of Applied Economics at Cambridge, under Professor Jack Revell. Now Chris Bryant of the CSO has extended them in an article entitled "National and Sector Balance Sheets, 1957-1985."²

For the first time a supplementary note on land values has been added, and a methodology has been outlined by which the land value of the UK might be very roughly assessed.

The balance sheet tables list the stock of tangible, intangible and financial assets, in each of seven sectors of the economy, and their financial liabilities. The net balance of each sector — persons, industrial and commercial companies, banks, other financial institutions, public corporations, local authorities, central government — represents the "net worth" or wealth of that sector. The sum of sectoral wealth is the national wealth.

Table I (next page) shows the asset composition of the national wealth in 1985. Consumer and military durables, which are treated as current expenditure, are recorded in the flow accounts. Minerals, climate, ancient monuments, works of art, copyrights and "human capital" are not included because they are too difficult to value.

Wherever possible market

By DAVID RICHARDS

values are used — as reflected in rateable values adjusted by the findings of sample surveys undertaken to indicate their relationship to current capital values. Vacant possession values are then apportioned between landowners' interest and tenants' interest ("intangible non-financial assets").

However, market valuations are not possible for buildings and works that are not traded, such as schools and hospitals, gas mains, coal mines and roads. These are therefore valued at depreciated current replacement costs.

Bryant finishes presenting the accounts with the observation that the CSO Blue Book provides alternative valuations of the nation's capital stock using the "perpetual inventory method":

"For residential and other buildings these alternative valuations have two distinctive features: first, they exclude land values and, secondly, they are replacement cost valuations. At first sight therefore comparison of balance sheet valuations of land and buildings with capital stock estimates of the value of buildings offers an estimate of land values.

"However such comparisons have pitfalls. First capital stock estimates are extremely dependent on assumptions about asset lives which must often be rough.

Secondly the question arises whether comparison should be made between market values of land and buildings in the balance sheets and gross capital stock or net (ie depreciated) capital stock."

Noting that houses depreciate slowly for most of their lives and that commercial buildings depreciate rapidly, Bryant chooses to use gross figures for the former (Table 2) and net figures for the latter (Table 3).

However, similar calculations for the public sector reveal negative or very small "implicit land values". Bryant reflects that "it would appear that the cost of construction of local authority residential buildings is not reflected in the values which these buildings might fetch on the open market."

"In the case of non residential buildings the lower land values in the public sector than the private sector reflect Valuation Office advice that land values for community assets are much lower than values for housing and commercial use."

In other words, the beneficiaries of public buildings are enjoying huge hidden subsidies in the form of land values not included in the national balance sheet. For can it be that the public sector, which accounted for 45% of the expenditure on the GDP at market prices in 1985, occupied only 1% of the capital value of UK land in that year?

If we assume that local authority housing land is of the same value per dwelling as private

TABLE 1: The National Balance Sheet by Asset, UK, 1985.

	£bn	Net Worth	(Of which, land value)
Residential buildings		595.2	(177.5)
Agricultural land and buildings, and forest		39.3	(23.1)
Commercial buildings		174.2	
Industrial buildings		25.9	(200.1)
Other buildings		100.7	
Civil engineering wks		145.1	
Plant and machinery		247.3	
Ships, aircraft and railway rolling stock		8.7	
Road vehicles		18.1	
Stocks and work in progress		89.8	(1.5)
All tangible assets		1444.5	(402.2)
Intangible non-financial assets		107.1	(82.5)
Financial assets		594.6	
Financial liabilities		-515.8	
total net worth		1630.3	(484.7)

TABLE 2: Private Sector Residential Buildings
£bn

End year	Land and buildings (1) (balance sheets)	Buildings only (gross capital stock)	Implicit land values
1970	55.4	36.6	18.8
1973	125.8	71.3	54.5
1976	158.7	104.3	54.4
1979	298.5	200.1	98.4
1982	379.7	283.0	96.7
1985	563.7	376.8	186.9

(1) Includes intangible values of private housing tenancy rights.

Table 3 Private Sector Buildings and Civil Engineering Works (1)
£bn

End year	Land and buildings (balance sheets)	Buildings only (net capital stock)	Implicit land values
1970	24.6	17.6	7.0
1973	45.4	35.7	9.7
1976	61.6	59.7	1.9
1979	128.9	103.9	25.0
1982	191.3	129.7	61.6
1985	237.8	153.2	84.6

(1) Figure excludes agricultural buildings and works.

housing land, then £69bn should be added to the wealth of the UK.

If we also assume that the capital value of the land under other public sector buildings is the same proportion of property values as in the private sector (ie 35.6% in Table 3), then an extra £112bn (over and above £3.6bn) needs to be imputed in the balance sheet.

Including also farm and forestry land, and building site land, this gives a grand total for the capital value of UK land in 1985 of £485bn, which was 183% of the national income (see Table 1).

STEVEN CORD has used similar sources in the USA to arrive at an equivalent figure of \$3914bn for the capital value of land in 1981, which was 166% of national income.³

At a yield of 5%, the annual rental value of UK land would have been £24.2bn. This does not include the rent already captured by the local property tax. If one-third of the "rates" burden of £13.5bn was on land then £4.5bn must be added to land rent.

The rent of mineral deposits has also been excluded. Direct government revenue from oil production has been running at over half of the value of total production, which gives reason for thinking that land rent may account for about half of the value

of all mineral output. In 1982 the latter was £23bn and so the former may have been £11.5bn.

A round figure of about £40bn p.a., therefore, emerges as the UK land rent for 1985, which was 15% of the national income in that year.

Steven Cord applied an interest rate of 14%, as mortgage rates were above 16% in 1981. Adding \$25bn p.a. for land rent collected by the local property tax, and \$85bn for mineral land rent, he produced an annual land rent total of \$658, or 28% of national income. If the same interest rate had been used as for the UK, this proportion would, in fact, have been lower than the UK's 15%.

Nevertheless, these findings render absurd the popular view among economists that land rent is an insignificant proportion of national product. Graham Hallett, for example has written that "the factor income 'rent' was

4.4% of national income in 1976 ... on this basis, the rent of the land itself can hardly be more than 2% of national income".⁴

Misconceptions such as this are exposed by the presentation of balance sheets alongside income and expenditure accounts. Yet the balance sheet has a far from secure status. In Bryant's words, "The CSO has no current plans to compile complete sets of national and sector balance sheets on an annual basis ... Further updates of tangible asset values will be made when resources permit and depending on the contribution it is considered they can make to government assessments of economic developments."

Any business manager attempting to understand a company's position by considering only its profit and loss account would be considered foolish. Yet government appears to be satisfied with that basis for understanding a country's fortunes.

From a statistical point of view alone regular updates would improve the ease and reliability of valuation. The Government's business-like approach must be extended into this area.

REFERENCES

1. *Economic Trends*, Nov. 1980 (HMSO).
2. *Economic Trends*, May 1987 (HMSO).
3. *Land & Liberty*, Jan-Feb. 1985.
4. Hallett, G. *Urban Land Economics*, 1979 (Macmillan), p. 88.