

## **The measurement of land on a country's balance sheet**

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This paper will address the various estimation methods used to measure the value of land on a country's balance sheet and is a summary of the Compilation Guide on Land drafted by the joint Eurostat-OECD Task Force on Land and other Non-financial Assets. How to estimate land depends on what sources of information are available in a given country. There are various approaches used by countries and can be broadly labelled as a direct or indirect approach. The estimation of land using a direct approach may be viewed as a physical inventory method where the area of each parcel of land is multiplied by an appropriate price. Because detailed price and quantity information may not be available— especially when the land has a structure on it— many countries use an indirect approach to value the land underlying a structure. An indirect estimation method, as the name implies, does not obtain a value of land directly. There are three different indirect estimation methods discussed in the compilation guide. The first two indirect approaches (1) the residual approach where the value of the structure is estimated using the perpetual inventory method and the value of the land is derived by subtracting the structure value from the combined total value and (2) the hedonic approach utilising a hedonic regression model aims to deconstruct the combined value of land and structures into a separate value for the land and a separate value for the structure. The third indirect method is (3) the land-to-structure ratio approach where the value of the land is estimated by multiplying the ratio by the value of the structure.