Decomposing a CPPI into land and structures components

Discussant remarks

The result!

The authors identify 4 methods that are practical and could be used by NSIs to improve their balance sheet estimates for commercial properties and their estimates of depreciation

In doing so, they address issues relating to;

- Decomposition of asset value into land and structure
- Account for capital expenditures
- Depreciation of structures
- Depreciation of capital expenditures
- Loss of asset value due to demolition

An improvement on current NA methods?

Data requirements

REIT Data
1. Quarterly assessed property (single properties)
2. Age of structure
3. Floor area of structure
4. Plot size
5. Quarterly capital expenditures

Other Data
6. Construction cost (producer) price index
7. Demolition data
8. Starting construction costs

Assumptions/estimations are required

1. Value of a new structure should approximate its cost of construction
2. Assume quarterly geometric structure depreciation rates (linked to age)
3. Assume quarterly geometric structure depreciation rates for capital expenditures
4. Estimate sample average real capital expenditures
5. Estimate starting stock of capital expenditures

Questions/clarifications

- The construction cost index should be an output (producer) price index

- The "country product dummy methodology" and its impact

- A National Accounting device only – or wider application?

The target index

- Transactions based
- If transactions not possible then hybrid/appraisal
- Unsuitable measures?

Other indicators on market conditions, as well as data availability should help to inform design choices. Are these other indicators target measures in themselves?

Prices

- Taxes and charges
- Goodwill, business
- Portfolio sales

Development Land

- Where does it fit in?
  - In of itself
  - When it comes with a building on it

Types of commercial property and their respective weights

- Some obvious property types
- Sales versus stock
- Introduction to sources of weights and their pros & cons

What am I missing?

- Types of sale?
- Types of seller/buyer?

Other significant challenges

- Heterogeneity of property
- Scarcity of transactions
- Availability of Suitable and timely data
  - The requirement for data matching across different sources