

Public benefit

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Modern accounting techniques that correctly identify publicly owned real estate and enable it to be put to full use could help address the global housing crisis and reduce economic disparity

Real estate, and housing in particular, has become one of the biggest symbols of a growing divide in society ? and may well be the [biggest contributor to rising inequality](#) , according to the [National Bureau of Economic Research](#) .

There are millions of households in California and New York city, for instance, who cannot afford a decent apartment at market rates while, according to the [McKinsey Global Institute](#) , London?s annual home completions over the past two decades have fallen far short of demand and [driven house prices five times higher](#) .

The global housing crisis is defined by this chronic shortage, which could in time lead to urbanisation without growth, as a [2015 Explorations in Economic History paper describes](#) .

But suppose real estate could be part of the solution to this crisis? [According to the IMF](#) , governments own assets that are worth twice the value of their respective GDPs. Professionally managed, these assets could generate more revenue than developed economies collect in corporate taxes. The irony is that a large part of this gold mine is highly visible, in the form of real estate.

Indicative valuations of some US cities have recently shown that urban real estate ? that is, the land and buildings ? owned by the public sector has a value equivalent to the cities? respective GDPs and represents [a quarter of the total value of the city?s real-estate market](#) . In addition, there are indications that the land value alone of Manhattan is larger than the GDP of Canada, while the total value of urban land in the USA is worth twice its national GDP.

Publicly owned real estate around the world might be worth as much as global GDP, but we just don?t know. Whatever the precise value of public real estate, professional management could help increase housing supply as well as generating revenues for public expenditure.

The reason governments do not know what assets they own is partly because these are governed in a fragmented way and partly because many local authorities do not have a consolidated list of their real estate. But it is also because the public sector does not use modern accounting methods that properly value their assets. For example, [a 40-fold difference has been identified](#) between the book and indicative values of the real estate owned by the city of Boston.

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Unlike cash-based accounting, which is no more sophisticated than a simple bank statement, accrual accounting makes a record of spending and taxes as they are incurred, regardless of when the money changes hands. It also records assets and liabilities and therefore paints a far more comprehensive picture of an organisation's financial performance and position than does a system based on cash flow alone.

So far, only Singapore has introduced professional governance of all its public assets. Some 30 years ago, New Zealand became the first country to introduce modern, accrual-based financial accounts to inform its budgeting and appropriations as well as its financial reporting; in other words, accrual information underpins the whole public financial management system.

The information systems required to operate on an accrual basis are very similar to those used by all large companies, and are formalised in the standards set by the [International Public Sector Accounting Standards Board](#) . New Zealand's government produces a balance sheet that comprehensively reports [the current value of the assets and liabilities it owns and owes](#) . It also forecasts financial statements for several years ahead.

Since its financial management reforms, the New Zealand government has consistently improved the strength of its balance sheet, building up significantly positive net worth. Most other comparable governments are by contrast consistently operating in deficit, suffering from negative net worth and [deteriorating balance sheets](#) .

When Singapore achieved independence in 1965, it had no significant resources or means to sustain its economy. Its government thus decided to separate its economic policy-making from the management of public assets, by incorporating portfolios of assets into holding companies or public wealth funds, delegating asset management to a professional board and borrowing the proper governance tools from the private sector, including modern accounting.

Temasek Holdings and GIC, established in 1974 and 1981 respectively, have helped fund the city-state's economic development, while the Housing and Development Board has provided almost 80% of citizens with public housing. The importance of having a proper balance sheet and understanding of real-estate assets was also instrumental for Hong Kong and its Mass Transit Railway Corporation, a public-sector entity that has been able to build a subway and railway system the size of New York city without using a single tax dollar, instead [developing the real estate adjacent to its stations](#) .

Denmark took a page out of this book when setting up [Copenhagen City & Port Development Corporation](#) , turning the old harbour area and a military garrison into a holding company responsible for the development of residential housing, schools and universities. This was all done without using taxes, and the direct yield was returned to the city to pay for the subway extension.

If engineers design and build robust bridges, then to build robust public finances we need accountants and valuers. This will not only benefit societies today but also improve the lives of future generations.

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Further information

- Related competencies include: [Accounting principles and procedures](#)
- This feature is taken from [RICS Property Journal](#) (July/August 2019)
- Related categories: [Environmental and sustainability valuation](#) , [Planning neighbourhood planning](#)