

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

DIRECT INVESTMENT TECHNICAL EXPERT GROUP (DITEG)

ISSUES PAPER (DITEG) #15

**LAND AND BUILDINGS OWNED BY NONRESIDENTS
ON A LONG-TERM LEASEHOLD BASIS**

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ISSUES PAPER (DITEG) #15: LAND AND BUILDINGS OWNED BY NONRESIDENTS ON A LONG-TERM LEASEHOLD BASIS

I. Current international standards for the statistical treatment of the issue

1. The fifth edition of the IMF *Balance of Payments Manual (BPM5)* states that in instances of ownership of land and buildings by a nonresident, “the owner is treated as if he has transferred his ownership to a notional institutional unit that is actually resident in the country. The notional unit is treated as being owned and controlled by the nonresident owners—much as a quasi-corporation is owned and controlled by its owner.” (paragraph 64). Although not specifically stated in the *BPM5*, the IMF *Balance of Payments Textbook (BOP Textbook)* indicates that “The relationship between the nonresident legal owner of the land and the notional entity is a direct investment relationship.” (Paragraph 550.) *BPM5* also makes it clear that “private, nonbusiness real estate investment (e.g. holiday and other residences owned by nonresidents for personal use...) is, in principle, included in direct investment.” (Paragraph 382.)

2. The third edition of the OECD *Benchmark Definition of Foreign Direct Investment (BD3)*, indicates that the direct investment data should cover “Land, structures (except those structures owned by foreign government entities), and immovable equipment and objects, in the host country, that are directly owned by a foreign resident. Holiday and second homes owned by nonresidents are therefore regarded as part of direct investment...” (Paragraph 10.)

3. Although neither the *BPM5* or *BD3* indicate the component of direct investment under which land and buildings are to be classified, the IMF *Balance of Payments Compilation Guide* specifies that purchases and sales of land and buildings by nonresidents are to be classified under the equity capital component of direct investment (Table 16.2, page 158), as does the *BOP Textbook* (paragraph 551).

II. Concerns/shortcomings of the current treatment

6. The fact that neither the *BPM5* or *BD3* specifically state that land and buildings purchased/owned by nonresidents on a long-term leasehold basis, as opposed to land and buildings purchased/owned outright on a free-hold basis, are to be included in the direct investment data has caused some confusion amongst compilers.

7. The manuals also do not address the issues of whether the data should cover only leases that are long-term, and if so, the precise definition of those “long-term” leases.

8. In response to these concerns the *Annotated Outline for the Revision of BPM5 (AO)* proposes that the treatment of land and buildings indicated in the present manuals will also be applied to long-term leases of immovable assets on the basis that long-term leases approximate ownership. The *AO* also asks for views on whether this proposed treatment is considered to be appropriate, and if so, whether the definition of “long-term” should be one year or whether it should be a longer period. (Paragraph 4.24.)

III. Possible alternative treatments

9. There are three possible options:

(a) To expand the text in the manuals to make it clear that (i) purchases/ownership of land and buildings by nonresidents on a long-term leasehold basis are to be included in the direct investment data, (ii) the definition of long-term leases should be consistent with that used for other debt instruments, namely, “leases with a duration of one year or more”, and (iii) purchases/ownership of land and buildings by nonresidents on a long-term leasehold basis are to be classified under equity capital, together with land and buildings owned outright by nonresidents.

(b) To amend the current methodology to make a distinction between land and buildings owned outright by nonresidents and those owned on a leasehold basis, with the former being classified under the equity capital component of direct investment, and the latter being classified under the other capital component of direct investment, as is the present practice of a few countries.

(c) To amend the current methodology to make a distinction between land and buildings owned outright by nonresidents and those owned on a leasehold basis, with the former being classified under the equity capital component of direct investment, and the latter being excluded from the direct investment data, and instead classified under the Other Investment category in the balance of payments statistics, as is the present practice of several countries.

10. The preliminary results of the 2003 Survey of the Implementation of International Methodological Standards for Direct Investment (SIMSDI) indicate that a significant number of countries already apply the classification and definition proposed in 9(a) above. Of the 56 respondent countries¹ for which purchases of land and buildings on long-term leases are applicable:

¹ At time of writing, the issue was not applicable for 52 countries, and the 2003 SIMSDI questionnaire responses for 5 OECD countries and 3 non-OECD countries had not been received.

(a) 21 countries² include the land and buildings purchased/owned by nonresidents on long-term leases in their direct investment data.

(b) All of the 21 countries classified these transactions/positions as equity capital, together with the data on outright purchases/ownership of land and buildings by nonresidents.

(c) Of the 14 countries that provided information on the definition of “long-term leases” used for their data, 2 countries made no distinction between land and buildings owned outright by nonresidents and those owned on a leasehold arrangement, and all but 2 of the remaining 12 countries used the standard definition for long-term debt, namely leases with a duration of one year or more.³

11. The 2003 SIMSDI questionnaire does not address the reasons why the remaining 35 countries do not include purchases/ownership of land and buildings by nonresidents on long-term leases in their direct investment data.

12. The comments on the questions raised in the *AO (Is the proposed treatment for long-term leases of land suitable? If so, what is the definition of “long-term”? Is it one year, as in other cases or something longer?)* also support the proposal in 9(a) above.

Total responses	12	
Yes	11	• 1 year (4); 3 years (1); 3-5 years (1); 30-50 years (1); long, at country’s discretion (1).
Other	1	• If yes, longer than 1 year.

IV. Points for discussion

1. *Do DITEG members consider that the revisions to BPM5 and BD3 should clarify that (i) land and buildings purchased/owned by nonresidents on a long-term leasehold basis are to be included in the direct investment data, (ii) the definition of long-term leases should be consistent with that used for other debt instruments, namely, “leases with a duration of one year or more”, and (iii) land and buildings purchased/owned by nonresidents on a long-term*

² These countries comprise 4 OECD countries, Mexico, Spain, the United Kingdom, and the United States), and 17 non-OECD countries, including Malaysia, Pakistan, Russia, Singapore, and Tunisia.

³ Costa Rica defines long-term leases for the purchase of land and buildings by nonresidents as being those with a duration of 10 years or more, or leases that includes an option to buy. Pakistan defines long-term leases for the purchase of land and buildings by nonresidents as being 99 years.

leasehold basis are to be classified under equity capital, together with land and buildings owned outright by nonresidents ? or

(b) Do DITEG members consider that the methodology should be amended to make a distinction between land and buildings owned outright by nonresidents and those owned on a long-term leasehold basis, with the former being classified under the equity capital component of direct investment, and the latter being classified under the other capital component of direct investment? or

3 *Do DITEG members consider that the methodology should be amended to make a distinction between land and buildings owned outright by nonresidents and those owned on a long-term leasehold basis, with the former being classified under the equity capital component of direct investment, and the latter being excluded from the direct investment data, and instead classified under the Other Investment category of the balance of payments statistics?*

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