

Land Asset Revaluation

Upward land revaluations should not lead to higher charges at the direct expense of airlines and their passengers.

SITUATION

Some airports propose a revaluation of their land assets. The land revaluation is based on the investment value of the asset, i.e. its value in (often theoretical) alternative uses, rather than the operational value of the land in terms of the services it facilitates for its customers. In the absence of effective independent regulation, such a revaluation is used in an attempt to justify higher charges for airline customers.

IATA POSITION

Airlines should not pay for the investment value of land used by airports or ANSPs. Instead, the charges paid by airlines should reflect the operational cost of using the land to provide aeronautical services. Land is a store of value for airports or ANSPs, unlike depreciating assets such as terminal buildings. This investment value can be realised if the assets are sold, but changes in its value do not reflect changes in quality or efficiency. Charges should only be adjusted in consultation with users where an additional cost is incurred in purchasing new land to expand or improve services, and this land is in operational use.

A supermarket does not raise the price of its products to customers simply because the value of the land it sits on has increased. Even if it tried, a competitive market would see its customers move elsewhere. Why should airports, operating in much less competitive markets, be allowed to do so?

KEY REASONS WHY LAND ASSET REVALUATION SHOULD NOT BE IMPLEMENTED

IATA believes that an increase in land values based on the application of an alternative use (i.e. opportunity cost) valuation is:

- 1 Inefficient.** It overvalues the service provided by the asset in its operational use, penalising airlines and their passengers. Allowing airports or ANSPs to artificially increase the value of their assets and the return they receive on it does not create any clear incentives for greater efficiency in the use of these assets. By contrast, airports or ANSPs can look to rely on higher land values to maintain their profitability, rather than actively work with airline customers to improve operational efficiency.
- 2 Unfair.** It merely creates unearned returns (i.e. windfall gains). Airlines should not pay for an airport's or ANSP's investment in land; they should pay only for the services an airport or ANSP provides. In other words, airlines should not pay higher charges for using the same asset simply because the investment value has changed. Airports or ANSPs can realise the investment value when surplus land is sold or the provider itself changes ownership.
- 3 Impractical.** When there is no feasible alternative use, the opportunity cost valuation has no clear basis. In the vast majority of cases, much of the aeronautical land is either designated for aviation use or impractical for other uses. Indeed, often the land is leased rather than owned by the airport company or ANSP, so could not be sold without Government consent. If the land is owned, and can be sold, it can appear in financial accounts of airports or ANSPs, with the higher value realised when sold, but should not affect the level of charges.
- 4 Not standard practice.** Adjustments to charges based on unearned land value appreciations are not allowed in other regulated industries (e.g. energy, water). They are not a factor in the pricing decisions of firms operating in competitive markets (e.g. supermarkets).