

## INVESTMENT PROPERTY: IAS 40

### Definition

**Investment property** is property (**land or a building**) held (by the owner or by the lessee under a finance lease) to earn **rentals** or for **capital appreciation** or **both**, rather than for:

- a) use in the production or supply of goods or services or for administrative purposes; or
- b) sale in the ordinary course of business.

**The following are examples of investment property:**

- land held for long-term capital appreciation
- land held for a currently undetermined future use (If an entity has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation.)
- a building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases
- a building that is vacant but is held to be leased out under one or more operating leases
- property that is being constructed or developed for future use as investment property

### Multipurpose properties

- Some properties comprise a portion that is investment property and owner occupied property (example, rent out 9 floors, and use the 10<sup>th</sup> floor for office space)
- If these portions could be sold separately (or leased out separately under a finance lease), an entity accounts for the portions separately
- If the portions could not be sold separately, the property is investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

### Ancillary services to the occupants of a property it holds.

- If the services are **insignificant** to the arrangement as a whole, treat property as **investment property**
  - Example: owner of an office building provides security services to the lessees
- If the services are **significant** to the arrangement as a whole, treat property as **owner-occupied property (IAS 16)**
  - Example: owner owns and manages a hotel, services provided to guests are significant to the arrangement as a whole

### A property that is held by a lessee under an operating lease

- A property that is held by a lessee under an operating lease may be **classified** and accounted for as investment property if, and only if, **the property would otherwise meet the definition** of an investment property and the lessee uses the fair value model for the asset recognised

## Recognition

Investment property shall be recognised as an asset when:

- (a) it is **probable** that the future economic benefits that are associated with the investment property will flow to the entity; and
- (b) the cost of the investment property can be **measured** reliably.

## Measurement at recognition

- An investment property shall be measured initially at its **cost**
- Cost = purchase price and any directly attributable expenditure (see IAS 16 notes)
- Directly attributable expenditure includes: professional fees for legal services, property transfer taxes, and other transaction costs

## Measurement after recognition

- Two Methods to account for Investment Properties:
  - i. Fair value model; or
  - ii. Cost model
- Regardless of the method chosen, IAS 40 requires you to determine the fair value (If you use the cost method, you must disclose the fair value)
  - Therefore, the cost of doing a valuation is not a valid reason to not choose the fair value model
- Note that when a property that is held by a lessee under an operating lease (see above) is classified as an investment property, all investment properties must use the fair value model

### 1. Fair Value Model

- Investment property is measured at fair value
- If you use the fair value model, you need to measure all investment properties using the fair value model (if the fair value is not available for a certain investment property, you can use the cost model for that investment property)
- The fair value of investment property shall reflect **market conditions at the end of the reporting period**
- **Gains and losses** are recognized in the income statement (P&L)
- **No amortization is taken if the fair value model is used**
- The fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction

### 2. Cost Model

- Once you choose the cost model, must measure all investment properties using cost model
- Cost model = the use of IFRS for PPE (IAS 16)
- Therefore you can use the cost or revaluation method

## Change in Use

### Owner Occupied to investment property:

- If an owner-occupied property becomes an **investment property that will be carried at fair value**, an entity shall apply IAS 16 up to the date of change in use.
- The entity shall treat any difference at that date between the **carrying amount of the property in accordance with IAS 16** and its **fair value** in the same way as a revaluation in accordance with IAS 16 (initial revaluation gain go through **OCI** – see IAS 16 notes)
- If an investment property that will not be carried at fair value continue with IAS 16 measurement

### Inventory to Investment Property:

- For a transfer from inventories to **investment property that will be carried at fair value**, any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in **profit or loss**

### Investment Property to Inventory:

- For a transfer from **investment property carried at fair value** to inventories, the deemed cost subsequent to change in use = fair value @ date of change in use
- Gain or loss goes to **P&L**
- When an entity decides to dispose of an investment property **without development**, it continues to treat the property as an investment property until it is derecognised

### Investment Property to Owner Occupied:

- For a transfer **from investment property carried at fair value** to owner-occupied property, the deemed cost subsequent to change in use = fair value @ date of change in use
- Gain/loss goes to **P&L**

## Comparison with ASPE

- No separate criteria under ASPE for investment properties; investment properties are accounted for as a property, plant and equipment (section 3061)