

CLASSIFICATION

Property held under an operating lease

A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property on the fair value model provided that:

- The rest of the definition of investment property is met.
- The operating lease is accounted for as if it were a finance lease in accordance with PBE IPSAS 13- *Leases*; AND
- The lessee uses the fair value model set out in PBE IPSAS 16 for all investment properties.

Partial own use

- If the owner uses part of the property for its own use to meet service delivery objectives, and part to earn rentals or for capital appreciation, and the portions can be sold or leased out separately, they are accounted for separately. The part that is rented out is investment property.
- If the portions cannot be sold or leased out separately, the property is investment property only if an insignificant portion is held for use in the production of goods or services or for administration purposes.

Provision of ancillary services to occupants

If those services are a relatively insignificant component of the arrangement as a whole, then the entity may treat the property as investment property.

Where the services provided are more significant (such as in the case of an owner-managed hotel or hostel), the property should be classified as owner-occupied property, plant and equipment under PBE IPSAS 17.

Inter-economic entity rentals

Property rented to a controlling entity, controlled entity, or fellow controlled entity is not investment property in the consolidated financial statements that include both the lessor and the lessee, because the property is owner-occupied from the perspective of the economic entity and is thus property, plant and equipment.

Such property could qualify as investment property in the separate financial statements of the lessor, if the definition of investment property is otherwise met.

TIER 2 RDR REPORTERS

RDR Reporters are granted certain disclosure exemptions within the standard.

DEFINITION

Property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.

INCLUDES

- Land held for long-term capital appreciation.
- Land held for undecided future use.
- Building leased out under an operating lease.
- Vacant building held to be leased out under an operating lease.
- Property being constructed/developed for future use as investment property.

EXCLUDES

- Property held for use in the production or supply of goods or services or for administrative purposes (PBE IPSAS 17- *Property, Plant and Equipment* applies).
- Property held for sale in the ordinary course of business or in the process of construction or development for such sale (PBE IPSAS 12 - *Inventories* applies).
- Property being constructed or developed on behalf of third parties (PBE IPSAS 11 - *Construction Contracts* applies).
- Owner-occupied property (PBE IPSAS 17 applies).
- Property leased to another entity under a finance lease (PBE IPSAS 13 applies).
- Property held for strategic purposes (PBE IPSAS 17 applies).

Transfers to or from investment property can be made only when there has been a change in the use of the property.

RECOGNITION

Investment property is recognised as an asset when it is probable that the future economic benefits or service potential that are associated with the property will flow to the entity, and the cost or fair value of the property can be reliably measured.

MEASUREMENT

Initial measurement

Investment property is initially measured at cost, including transaction costs.

Investment property acquired through non-exchange transactions is measured at fair value at the date of acquisition.

Subsequent Measurement - FAIR VALUE MODEL

- Investment properties are measured at fair value and reflect market conditions at the reporting date (**FAIR VALUE MODEL**), which is the amount for which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction and should reflect market conditions at reporting date.
- Gains or losses arising from changes in the fair value of investment property must be included in surplus or deficit for the period in which it arises.
- Note that where an entity chooses the **FAIR VALUE MODEL** for any one of its investment properties, paragraph 42 requires that the entity **MUST** use the **FAIR VALUE MODEL** to measure **ALL** other investment property - except in the extremely rare circumstances where comparable market transactions are infrequent and alternative reliable estimates of fair value (for example, based on discounted cash flow projections) are not available per paragraph 62 when the cost model in PBE IPSAS 17 is used.

Subsequent Measurement - COST MODEL

- Option for entities to use the **COST MODEL** in accordance with PBE IPSAS 17 - *Property, Plant and Equipment*, except for those that meet the criteria to be classified as held for sale in accordance with PBE IFRS 5 - *Non-current Assets Held for Sale and Discontinued Operations*.