# IAS 40 Investment Property

## Classification

<table>
<thead>
<tr>
<th>Property held under an operating lease</th>
</tr>
</thead>
<tbody>
<tr>
<td>A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property provided that:</td>
</tr>
<tr>
<td>• The rest of the definition of investment property is met</td>
</tr>
<tr>
<td>• The operating lease is accounted for as if it were a finance lease in accordance with IAS 17 Leases</td>
</tr>
<tr>
<td>• The lessee uses the fair value model set out in IAS 40 for all investment properties (see subsequent measurement).</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Partial own use</th>
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</thead>
<tbody>
<tr>
<td>If the owner uses part of the property for its own use, and part to earn rentals or for capital appreciation, and the portions can be sold or leased out separately under a finance lease, they are accounted for separately. The part that is rented out is investment property</td>
</tr>
<tr>
<td>If the portions cannot be sold or leased out separately, the property is investment property only if the owner-occupied (property, plant and equipment) portion is insignificant.</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Provision of ancillary services to occupants</th>
</tr>
</thead>
<tbody>
<tr>
<td>If those services (e.g. security or maintenance services) are a relatively insignificant component of the arrangement as a whole, then the entity may treat the property as investment property.</td>
</tr>
<tr>
<td>Where the services provided are more significant (such as in the case of an owner-managed hotel), the property should be classified as owner-occupied property, plant and equipment.</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Interrelationship between IFRS 3 and IAS 40</th>
</tr>
</thead>
<tbody>
<tr>
<td>Judgement is required to determine whether the acquisition of investment property is the acquisition of an asset, a group of assets or a business combination in the scope of IFRS 3 Business Combinations</td>
</tr>
<tr>
<td>The judgement of whether the acquisition of investment property is a business combination is based on the guidance in IFRS 3. Judgements needed to distinguish investment property from owner-occupied property are based on the guidance in IAS 40.</td>
</tr>
</tbody>
</table>

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<tr>
<th>Inter-company rentals</th>
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</thead>
<tbody>
<tr>
<td>Property rented to a parent, subsidiary, or fellow subsidiary is not investment property in consolidated financial statements that include both the lessor and the lessee, because the property is owner-occupied from the perspective of the group.</td>
</tr>
<tr>
<td>Such property will be investment property in the separate financial statements of the lessor, if the definition of investment property is otherwise met.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Transfers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Only permits assets to be reclassified into or out of the investment property category when there is a change in use and provides examples. In isolation, a change in management’s intention does not provide evidence of a change in use.</td>
</tr>
</tbody>
</table>

## 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 indeterminate 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 (IAS 16 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 (IAS 2 Inventories applies) |
- Property being constructed or developed on behalf of third parties (IAS 11 Construction Contracts applies) |
- Owner-occupied property (IAS 16 applies) |
- Property leased to another entity under a finance lease (IAS 17 applies) |

## Recognition

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

## Measurement

### Initial measurement

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

Cost does not include start-up costs, abnormal waste, or initial operating losses incurred before the investment property achieves the planned level of occupancy.

### Subsequent measurement

An entity can choose between the fair value and the cost model. The accounting policy choice must be applied to all investment property.

**Fair value model**

- Investment properties are measured at fair value, which is the price that would be received to sell the investment property in an orderly transaction between market participants at the measurement date (see IFRS 13 Fair Value Measurement)
- Gains or losses arising from changes in the fair value of investment property must be included in profit or loss for the period in which it arises
- In rare exceptional circumstances if fair value cannot be determined, the cost model in IAS 16 is used to measure the investment property.

**Cost model**

- Investment property is measured in accordance with requirements set out for that model in IAS 16.
CONTACT
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