national treasury
Department: National Treasury
REPUBLIC OF SOUTH AFRICA

GRAP 16 – Investment Property

Effective 1 April 2021

DEFINITION

Property (land or 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 undetermined future use
- ✓ Building leased out under an operating lease on a commercial basis
- ✓ Vacant property held to be leased out under an operating lease on a commercial basis to external parties
- ✓ Property that is being constructed or developed for future use as investment property

EXCLUDES

- ✓ Property held for use in the production or supply of goods or services for administrative purposes (GRAP 17 applies)
- ✓ Property held for sale in the ordinary course of business or in the process of construction or development for such sale (GRAP 12 applies)
- ✓ Property being constructed or developed on behalf of third parties (GRAP 11 applies)
- ✓ Owner occupied property (GRAP 17 applies)
- ✓ Property leased to another entity under a finance lease (GRAP 13 applies)
- ✓ Property held to provide a social service and which also generates cash flows (GRAP 17 applies)
- ✓ Property held for strategic purposes (GRAP 17 applies)

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 provided that the

- ✓ Rest of the definition of investment property is met
- ✓ Operating lease is accounted for as if it were in accordance with GRAP 13
- ✓ Lessee uses the fair value model set out in GRAP 16 for all investment properties

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

Partial own use

- If the owner uses part of the property in the production or supply of goods and services or for administration purposes, and part to earn rentals or for capital appreciation, and the proportions can be sold or leased out separately under a finance lease, each part is accounted for separately. The part that is rented out is investment property
- If portions cannot be sold or leased out separately, the property is investment property only if the owner-occupied portion is insignificant

Provision of ancillary services to occupants
If those services are a relatively insignificant component of the arrangement, then the entity may treat the property as investment property. Where the services provided are more significant the property should be classified as owner-occupied

Inter-entity rentals
Property rented to a controlling entity or another 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 prospective of the economic entity

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
- ✓ Such costs should not include start-up costs, abnormal waste, or initial operating losses incurred before the investment property achieves the planned level of occupancy
- ✓ Where investment property is acquired at no cost, or for nominal cost, its cost is its fair value at the date of acquisition

Subsequent measurement
GRAP 16 permits entities to choose between a fair value model and a cost model

Cost model
After initial recognition, investment property is accounted for in accordance with the cost model in GRAP 17 (cost less accumulated depreciation and impairment losses)

Fair value model
Investment property is re-measured at fair value. Gains and losses arising from changes in fair value of investment property must be included in surplus or deficit for the period in which it arises