15. Investment properties

Investment properties are properties held to earn rentals and / or capital gains. The properties that are under construction or development may qualify as investment property.

Investment property acquired and improvements are recorded at cost, including transaction costs related to the acquisition of assets.

Subsequent to initial recognition, investment properties are measured at fair value. Fair values are determined by independent appraisers.

The gain in fair value is recorded in the “other income” in the income statement during the period in which they occur.

Initial direct costs incurred in negotiating lease leases are added to the carrying amount of investment properties.

An investment property is derecognized on disposal or when the investment property is permanently out of use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between net income and book value of investment property) is included in profit or loss in the period in which the property is derecognized.

		2014		2013
Investment properties	$	2,475,631	$	2,249,466

The changes in investment properties are as follows:

		2014		2013
Balance at beginning of period	$	2,249,466	$	1,534,811
Additions		470		195,751
Transferred from property, machinery and equipment		–		308,828
Gain/(loss) on property revaluation		225,695		210,076
Balance at end of period	$	2,475,631	$	2,249,466

Additions and transfers are primarily composed of land located in Baja California and a warehouse located in Mexico City.

All investment properties of Grupo Carso are held under freehold.

Grupo Carso is based on valuations performed by independent experts with qualifications and relevant experience in the locations and categories of investment properties it holds.

The valuation techniques considered under the following different approaches:

In the cost approach the appraiser estimates the value of the asset compared to the cost of producing a new individual asset or a replacement property, which suggests the market as appropriate. The cost compared to the value of existing assets and is adjusted for differences in age, condition and value for the comparable asset. In its simplest form, the cost approach is represented by the net replacement value less all depreciation rates. Depreciation for valuation purposes is defined as the difference in value between real property and a new hypothetical property, taken as a basis of comparison.

In the market approach (comparable sales) the appraiser looks at recent sales with similar properties (comparable) to indicate the value of the asset. If there are no active subjects identical to comparable sales prices of comparable adjusted to match them to the characteristics of the subject asset.

The value of the asset can be estimated by expected future profits to its owner. The income approach is not widely used in the valuation of machinery and equipment, given the difficulty in determining the income that can be directly related to a specific asset, while in the real estate valuation is applicable to assets of commercial nature.

Key metrics for all investment properties are shown below:

		Recommended ranges for capitalization rates	
No.	Type of property	Low	Maxim
1	Land	4%	8%
2	Warehouses	10%	14%
3	Shops	6.15%	8.86%

The Entity, through its subsidiaries, has two shopping malls, Loreto and Plaza Inbursa located in Mexico City, which generate rental income that is recognized as leasing services are provided and amounted to $222,978 to $220,448 for the years ended December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, the occupancy rate of shopping centers is of 94% and 98%, respectively.

Direct operating expenses including maintenance costs incurred in relation to the investment property are recognized in income and constitute approximately 33% and 37% of rental income for years ended December 31, 2014 and 2013, respectively.

There has been no change to the valuation technique during the year.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Details of the Entity investment properties and information about the fair value hierarchy as of December 31, 2014 and 2013 are as follows:

	2014		2013	
	Level 3	Fair value	Level 3	Fair value
Shops located in Mexico City	$ 1,908,604	$ 1,908,604	$ 1,687,705	$ 1,687,705
Land located in Baja California	258,199	258,199	252,933	252,933
Warehouse located in Mexico City	308,828	350,351	308,828	308,828
Total	$ 2,475,631	$ 2,517,154	$ 2,249,466	$ 2,249,466

For investment properties categorised into Level 3 of the fair value hierarchy, the following information is relevant:

	Valuation technique(s)	Significant unobservable input(s)	Sensitivity
Shops located in Mexico City	Income approach	Capitalization rate, taking into account the capitalization of rental income potential, nature of the property, and prevailing market condition of 6.15% - 8.86% and 6.57% - 8.86% in 2014 and 2013, respectively.	A slight increase in the capitalization rate used would result in a significant decrease in fair value, and vice versa.
		Monthly market rent, taking into account the differences in location, and individual factors, such as frontage and size, between the comparable and the property, at an average of $311.97 and $282 per square metre ("sqm") per month in 2014 and 2013, respectively.	A significant increase in the market rent used would result in a significant increase in fair value, and vice versa.