



CELEBRATING
55 YEARS

nerej

2022 Year in Review: Richard Hirschen, Gray, Gray & Gray, LLP

December 30, 2022 - Spotlights



Richard Hirschen
Partner, Commercial Real Estate Practice

What person, project, transaction or market trend had the greatest impact on your industry this year? On the financial side of the real estate industry is the implementation in 2022 of new accounting standards for leases. The new standards (under ASC 840, ASC 842, and IFRS 16) have been delayed for years. But they are now in place and will exponentially expand reporting requirements. This will impact the balance sheets of practically all lessees. The new rules are very complex and, unless you are using specialized reporting software, will eat up a lot of accounting time. But perhaps the biggest impact the new standards will have will be on loan covenants. Because leases will now appear as liabilities on balance sheets it is going to put a lot of lessees into a non-compliant status on their bank loans, requiring renegotiating and rewriting the covenants. From a landlord's perspective, the changes are not as drastic. The recognition of rental income will still be reported on a straight-line basis over the term of a lease. What will change is the accounting for non-lease components, specifically the indirect costs associated with obtaining a lease. Under the new standard, initial indirect costs will now only include costs that would not have been incurred if the lease ultimately is not executed (i.e., legal and other professional fees are incurred and paid by the landlord). These costs are no longer considered initial indirect costs under the new standard and these costs will now be expensed when incurred, rather than capitalized and amortized over the life of the lease.

What emerging trends will drive investment and development in 2023?

Everybody is waiting to see which direction interest rates will take. If the Federal Reserve continues to drive the funds rate up to combat inflation it is likely to inhibit the real estate market. If inflation stabilizes and the upward trend in rates levels off, I think we'll see the optimism return to the market. But I think there will be more emphasis on multi-family residential and rental properties. Younger buyers have been shut out of the market for so long they are coming to grips with being renters instead of owners.