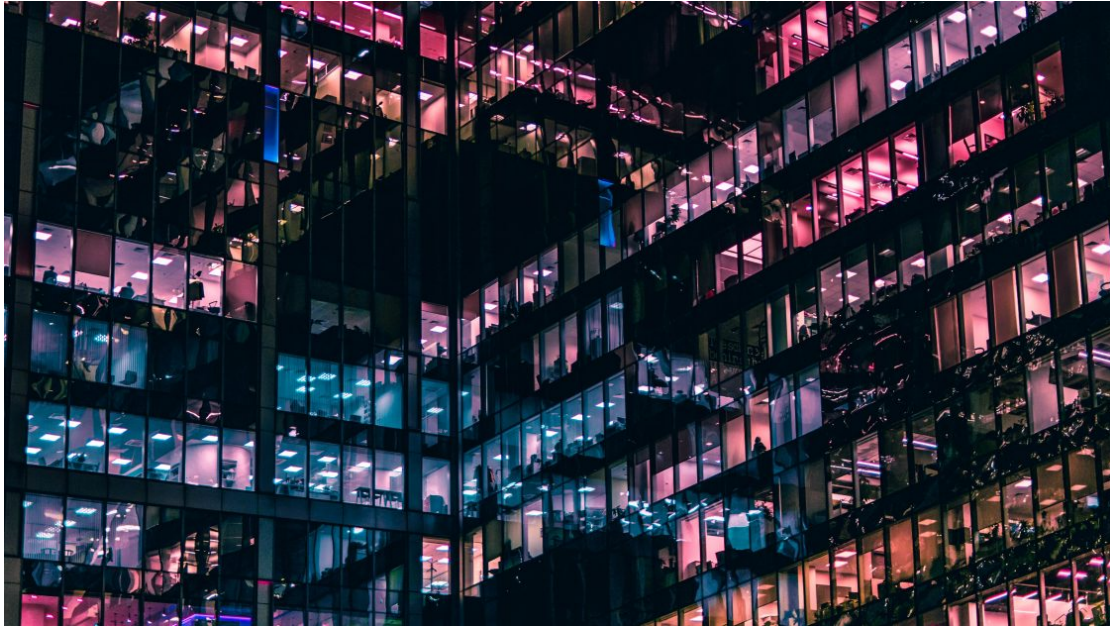


COLUMNS • NEWSWIRE

# Real Estate Impairment Considerations

🕒 June 5, 2023



While COVID-19 created opportunities for some businesses and organizations, real estate owners and operators experienced unprecedented challenges. Retail/hospitality and office markets were particularly tested.

This turn of events and the financial market's volatility, forced virtually all real estate owners with financial reporting requirements in accordance with generally accepted accounting principles (U.S. GAAP) to review the carrying value of their properties for impairment.

Financial Accounting Standard Board (FASB) Accounting Standard Codification (ASC) Topic 360 — Property, Plant and Equipment — provides guidance for impairment testing that becomes mandatory whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable.

In brief, management shall:

1. Determine if indicators of impairment are present for a long-lived asset (asset group). Such indicators can include a significant decrease in the market price of the long-lived assets, significant adverse changes in legal factors and business climate, cash flow losses, loss of significant tenants and/or high vacancy levels.
2. If indicators of impairment are present that indicate the carrying amount of the asset group may not be recoverable, management shall determine whether the carrying amount of the asset group is recoverable.
3. If the carrying amount of the asset group is not recoverable, an impairment loss should be measured based on the excess of the carrying amount of the asset group over the fair value of the asset group. If the answer to step 1 is negative, then no impairment analysis is required.

Unfortunately, all the events that arose from the COVID-19 pandemic were clearly impairment indicators. Most real estate owners were faced with proceeding to steps 2 and 3 of the analysis and, for many, for the first time.

Impairment testing normally requires a high level of judgment. The pandemic presented new forecasting challenges, as past performance and events were suddenly not necessarily indicative of future events.

Even though some temporary effects of COVID-19 have ceased, there are some long-term consequences of the pandemic that created or accelerated impacts for real estate owners. Hybrid work has a significant impact on a company's office footprint. Foot traffic in urban retail centers remains well below 2019 levels. Technology has contributed to a significant slowdown in business travel, reducing occupancy in the U.S. hotel industry.

Management must remain vigilant in its review of the carrying value of their property and ensure that consideration is given to all of these factors to determine if impairment testing is necessary. If an analysis is warranted, management should consider adopting a scenario-based forecast that contemplates multiple situations to account for uncertainty.

*Raffaele Di Censo*  
*Assurance Partner, Real Estate Group*  
*Marcum LLP*  
*Boston, MA*  
*raffaele.dicenso@marcumllp.com*