national policy bulletin

May 20, 2002

National Association of Real Estate Investment Trusts®

Best Financial Practices Disclosure

Joint Ventures Reported on the Equity Method

In its effort to enhance the quality and effectiveness of industry financial practices, NAREIT's Best Financial Practices Council below offers this third in a series of "best practices" disclosures related to items of particular importance to real estate investment trust (REIT) and other real estate company financial or operations reporting. NAREIT member companies currently provide disclosures about joint venture arrangements required by generally accepted accounting principles (GAAP) and many provide supplemental disclosures. This National Policy Bulletin discusses the usefulness of certain additional supplemental disclosures and provides examples of disclosures from current real estate company reports to shareholders. NAREIT believes that the specific content and manner in which the disclosures are presented should be based on the business judgement of the management of each company.

The use of joint ventures in the real estate industry to raise capital or undertake development projects has increased significantly in the past few years. The complexity associated with the financial reporting of joint venture arrangements has led financial statement users to seek a better understanding of these arrangements through enhanced disclosure.

Because the purpose of a joint venture and the appropriate level of disclosure detail will differ for each company, a company's management should use its judgment to determine how the data is aggregated (i.e., whether it discloses its joint venture arrangements by individual joint venture, by groups of properties, or groups of joint ventures.) Nevertheless, to enhance a financial statement user's understanding of significant ventures, it is recommended that a company: discuss the primary business purpose of the use of joint ventures; provide a description about the ownership structure of a venture; and describe significant terms and conditions that provide a clear understanding about expected and contingent cash flows to or from the venture. Some of the terms may include, but should not be limited to, effective economic interest, control issues, contingent capital obligations, revenue splits, preferences, earn outs, exit conditions, permissible outs, and recourse information. It also may be appropriate to report any non-cash amounts included in earnings that are related to joint ventures.

Another area of importance is the disclosure of any significant policies that govern the activities of a joint venture. These policies might include types of transactions and relationships prohibited by a company's Board of Directors or executive management. The existence of related party transactions also should be disclosed.

Finally, it would be appropriate to describe any financial risks associated with joint ventures. This might include the disclosure of amounts of any guarantees and other potential financial obligations related to the reporting entity's investments in joint ventures.

The examples on the following pages include joint venture disclosures from three REITs (Boston Properties Inc. - first quarter 2002 Supplemental Operating and Financial Data; Equity Office Properties Trust - 2001 10-K Filing; Keystone Property Trust - first quarter 2002 Supplemental Operating and Financial Data) and a disclosure developed by the Council.

Other good examples of joint venture financial reporting include Developers Diversified Realty Corporation's first quarter 2002 financial supplement (http://media.corporate-ir.net/media_files/NYS/DDR/2002_1q.pdf) and Gables Residential Trust's 2001 Annual Report, Note 5. Investment in Unconsolidated Joint Ventures, in the Notes to Consolidated Financial Statements (http://ccbn2.mobular.net/ccbn/7/20/68/).

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Boston Properties, Inc.
First Quarter 2002

JOINT VENTURES

Miscellaneous Balance Sheet Information
(unaudited and in thousands)
as of March 31, 2002

	One Freedom Square	Market Square North	Metropolitan Square	140 Kendrick Street	265 Franklin Street	Discovery Square (2)	901 New York Avenue (2)	Two Freedom Square (2)	Combined
Total Equity (1)	$ 1,032	$ 13,409	$ 31,981	$ 5,640	$ 19,489	$ 6,979	$ 12,604	$ 6,937	$ 98,071
Mortgage/Construction loans payable (1)	$ 19,083	$ 49,194	$ 70,265	$ 14,163	$ 18,900	$ 25,362	$ -	$ 23,409	$ 220,376
BXP's ownership percentage	25.00%	50.00%	51.00%	25.00%	35.00%	50.00%	25.00%	50.00%	

Results of Operations
for the three months ended March 31, 2002

	One Freedom Square	Market Square North	Metropolitan Square	140 Kendrick Street	265 Franklin Street	Discovery Square (2)	901 New York Avenue (2)	Two Freedom Square (2)	Combined
REVENUE									
Total revenue	$ 3,273	$ 5,200	$ 5,899	$ 2,828	$ 2,548	$ 1,158	$ -	$ -	$ 20,906 (3)
EXPENSES									
Operating	952	1,396	1,977	439	1,029	280	-	-	6,073
NET OPERATING INCOME	2,321	3,804	3,922	2,389	1,519	878	-	-	14,833
Interest	1,486	1,905	2,864	1,070	477	298	-	-	8,100
Depreciation and amortization	735	629	1,203	346	503	15	-	-	3,431
NET INCOME	$ 100	$ 1,270	$ (145)	$ 973	$ 539	$ 565	$ -	$ -	$ 3,302
BXP's share of net income	$ 25	$ 635	$ (74)	$ 624 (4)	$ 189	$ 283	$ -	$ -	$ 1,682
BXP's share of Funds from Operations	$ 817 (5)	$ 950	$ 540	$ 907 (5)	$ 365	$ 290	$ -	$ -	$ 3,869

(1) Represents the Company's share.
(2) Property is currently under development.
(3) The impact of the straight-line rent adjustment increased revenue by $1,273 for the three months ended March 31, 2002.
(4) Reflects the cumulative adjustment (totaling $381) for changes in the allocation percentages pursuant to the achievement of specified investment return thresholds as provided for in the joint venture agreement.
(5) Reflects the cumulative adjustments ($399 and $482 for One Freedom Square and 140 Kendrick Street, respectively) for changes in the allocation percentages pursuant to the achievement of specified investment return thresholds as provided for in the joint venture agreements.

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Example 1

Boston Properties, Inc.
First Quarter 2002

JOINT VENTURE DEBT ANALYSIS (*)

Debt Maturities and Principal Payments
(in thousands)

	2002	2003	2004	2005	2006	Thereafter	Total
Amount	$ 1,241	$ 46,112	$ 25,409	$ 2,165	$ 2,342	$ 143,107	$ 220,376
Average Rate	7.88%	3.60%	4.07%	7.89%	7.89%	7.94%	6.58%

Floating and Fixed Rate Debt Analysis

	% of Debt	Weighted Average Rate	Weighted Average Maturity
Floating Rate Debt	30.71%	3.53%	1.9 years
Fixed Rate Debt	69.29%	7.93%	8.9 years
Total Debt	100.00%	6.58%	6.7 years

Debt Maturities and Principal Payments by Property
(in thousands)

Property	2002	2003	2004	2005	2006	Thereafter	Total
Metropolitan Square (1)	$ 438	$ 704	$ 764	$ 830	$ 901	$ 66,628	$ 70,265
Market Square North (2)	557	795	858	927	1,001	45,056	49,194
Discovery Square (2)	-	25,362	-	-	-	-	25,362
Two Freedom Square (2)	-	-	23,409	-	-	-	23,409
One Freedom Square (3)	144	205	221	239	258	18,016	19,083
265 Franklin Street (4)	-	18,900	-	-	-	-	18,900
140 Kendrick Street (3)	102	146	157	169	182	13,407	14,163
	$ 1,241	$ 46,112	$ 25,409	$ 2,165	$ 2,342	$ 143,107	$ 220,376

(*) All amounts represent the Company's share.
(1) Boston Properties owns 51% of the property.
(2) Boston Properties owns 50% of the property.
(3) Boston Properties owns 25% of the property.
(4) Boston Properties owns 35% of the property.

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Example 2

EQUITY OFFICE PROPERTIES TRUST Year 2001 10-K

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 -- INVESTMENT IN UNCONSOLIDATED JOINT VENTURES

The following is a summary of Equity Office's economic ownership in unconsolidated joint ventures. All of the properties are Office Properties except for the St. Louis parking garages and the entities included in the other category.

PROPERTY	LOCATION	TOTAL RENTABLE SQUARE FEET	ECONOMIC INTEREST(1) AS OF DECEMBER 31 2001	2000
One Post Office Square	Boston, MA	765,296	50%	50%
75-101 Federal Street	Boston, MA	813,195	51.61%	51.61%
Rowes Wharf	Boston, MA	344,645	39%	39%
Four Oaks Place (square feet not included in Equity Office portfolio)	Houston, TX	1,753,281	2.55%	2.55%
10 & 30 South Wacker	Chicago, IL	2,003,288	75%	75%
Bank One Center	Indianapolis, IN	1,057,877	25%	25%
Pasadena Towers	Los Angeles, CA	439,366	25%	25%
Promenade II	Atlanta, GA	774,385	50%	50%
Sun Trust Center	Orlando, FL	640,741	25%	25%
Preston Commons	Dallas, TX	418,604	50%	50%
Sterling Plaza	Dallas, TX	302,747	50%	50%
Bank of America Tower	Seattle, WA	1,537,932	50.1%	50.1%
One Post Street	San Francisco, CA	391,450	50%	50%
Key Center	Seattle, WA	472,929	80%	80%
1301 Avenue of the Americas	New York, NY	1,765,694	84.47%	84.47%
Griffin Towers(2)	Orange County, CA	540,966	90%	--
St. Louis parking garages	St. Louis, MO	--	50%	50%
PROPERTIES UNDER DEVELOPMENT				
Ferry Building	San Francisco, CA	--	(3)	80%
Foundry Square I, II, and IV	San Francisco, CA	--	(4)	(4)
800-900 Concar	San Mateo, CA	--	80%	80%
San Rafael Corporate Center	San Rafael, CA	157,700	80%	80%
OTHER				
Wright Runstad Associates LP	--	--	30%	28.5%
Wilson/Equity Office, LLC	--	--	49.9%	49.9%
Regus Equity Business Centers, LLC	--	--	50%	47.5%
HQ Global Workplaces	--	--	50%	--
	Total	14,180,096		

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(1) The amounts shown above approximate Equity Office's economic ownership interest for the periods presented. Cash flow from operations, capital transactions and net income are allocated to the joint venture partners in accordance with their respective partnership agreements. Equity Office's share of these items is subject to change based on, among other things, the operations of the Property and the timing and amount of capital transactions. Equity Office's legal ownership may differ.

(2) Griffin Towers was acquired in the Spieker Merger.

(3) In the second quarter 2001 a joint venture between Equity Office, W/EO and other unaffiliated parties leased the Ferry Building from the City and County of San Francisco, through its Port Commission (the "Port"). Under this lease, the Port is paid a stated base rent. In addition, once the lessee has received from the project a cumulative preferred return of 8%

Example 2

EQUITY OFFICE PROPERTIES TRUST Year 2001 10-K

NOTE 8 -- INVESTMENT IN UNCONSOLIDATED JOINT VENTURES -- (CONTINUED)

(prior to stabilization) and 11% (after stabilization), then 50% of the proceeds from the operation and ownership of the project are paid to the Port as percentage rent.

The joint venture is redeveloping the Ferry Building in a manner to permit the use of federal rehabilitation tax credits ("Historic Tax Credits"). Since the original members of the developer joint venture could not take full advantage of the Historic Tax Credits, in the fourth quarter 2001, the joint venture admitted a new member who could do so. This investor member will contribute approximately $23.5 million in equity to fund a portion of the total project estimated costs for the project, and will receive a preferred return with an effective annual rate of approximately 3% on its capital investment. The investor member's interest in the joint venture is subject to put/call rights during the sixth and seventh years after the Ferry Building is placed in service. Upon the purchase of the investor member's interest pursuant to the put/call, it is estimated that the joint venture will retain approximately $11 million of the capital contributed by the investor member, based on the formula to determine the purchase price for the investor member's interest and after taking into account the preferred return that will have been paid to the investor member by such time. Through the creation of a master lease, Equity Office's effective ownership percentage in the net cash flow of the Ferry Building project is approximately 80%, after the distribution of the preferred returns.

(4) Foundry Square is a project with three sites currently under development, each of which has a separate joint venture structure. Equity Office's economic interests are approximately 64%, 68%, and 40% for Sites I, II and IV, respectively. Site III is currently held as land available for development.

Combined summarized financial information of the unconsolidated joint ventures is as follows:

	DECEMBER 31, 2001	DECEMBER 31, 2000
	(DOLLARS IN THOUSANDS)	
BALANCE SHEETS:		
Real estate, net	$3,135,250	$2,928,225
Other assets	276,322	239,267
Total Assets	$3,411,572	$3,167,492
Mortgage debt	$1,370,025	$1,333,304
Other liabilities	169,987	138,210
Partners' and shareholders' equity	1,871,560	1,695,978
Total Liabilities and Partners' and Shareholders' Equity	$3,411,572	$3,167,492
Equity Office's share of equity	$1,194,441	$1,016,213
Net excess of cost of investments over the net book value of underlying net assets, net of accumulated depreciation of $19,984 and $16,905, respectively	126,686	$ 148,400
Carrying value of investments in unconsolidated joint ventures	$1,321,127	$1,164,613
Equity Office's share of unconsolidated non-recourse mortgage debt	$ 848,944(a)	$ 834,093

Example 2

EQUITY OFFICE PROPERTIES TRUST Year 2001 10-K

NOTE 8 -- INVESTMENT IN UNCONSOLIDATED JOINT VENTURES -- (CONTINUED)

	FOR THE YEARS ENDED DECEMBER 31,		
	2001	2000	1999
	(DOLLARS IN THOUSANDS)		
STATEMENTS OF OPERATIONS:			
Revenues	$509,238	$383,526	$119,566
Expenses:			
Interest expense	95,389	74,376	18,787
Depreciation and amortization	86,270	63,376	19,968
Operating expenses	212,202	143,575	44,002
Total expenses	393,861	281,327	82,757
Net income before gain on sale of real estate	115,377	102,199	36,809
Gain on sale of real estate	--	17,915	--
Cumulative effect of a change in accounting principle	(2,279)	--	--
Net income	$113,098	$120,114	$ 36,809
Equity Office's share of:			
Net income	$ 69,203	$ 56,251	$ 13,824
Interest expense and loan cost amortization	$ 63,105	$ 41,947	9,116
Depreciation and amortization (real estate related)	$ 51,021	$ 39,730	$ 15,741

(a) Equity Office's share of the scheduled payments of principal on mortgage debt for each of the next five years and thereafter through maturity as of December 31, 2001 are as follows:

YEAR	DOLLARS IN THOUSANDS
2002	$113,737
2003	5,780
2004	143,887
2005	520,359
2006	50,074
Thereafter	15,107
Total	$848,944

Example 3

Keystone Property Trust

Equity Method Investments - Pro rata Consolidating Balance Sheet at March 31, 2002 (Dollars in thousands)

	KTR Historical	Pro rata Keystone NJ Associates, LLC (1)	Pro rata Airtech Park (2)	Pro rata Keystone Realty Services, Inc. (3)	Other Adjustments (4)	Proforma Total
Assets						
Gross Real Estate Assets	$ 815,446	$ 27,584	$ 7,407	$ -	$ -	$ 850,437
Accumulated Depreciation	(51,378)	(664)	-	-	-	(52,042)
Other Assets	59,430	641	-	6,154	(18,497)	47,728
Total Assets	$ 823,498	$ 27,561	$ 7,407	$ 6,154	$ (18,497)	$ 846,123
Liabilities & Equity						
Debt	$ 438,267	$ 15,331	$ 6,315	$ -	$ -	$ 459,913
Other Liabilities	16,272	496	-	483	-	17,251
Total Liabilities	454,539	15,827	6,315	483	-	477,164
Equity, Including Minority Interest	368,959	11,734	1,092	5,671	(18,497)	368,959
Total Liabilities and Equity	$ 823,498	$ 27,561	$ 7,407	$ 6,154	$ (18,497)	$ 846,123

(1) In 2001, the Company formed a joint venture known as Keystone New Jersey Associates, LLC with CalEast Industrial Investors, LLC ("CalEast"). CalEast is a real estate operating company whose members are LaSalle Investment Management, Inc. (a division of Jones Lang LaSalle ("JLL")) and the California Public Employees Retirement System ("CalPERS"). The Company owns 20% of this joint venture.

(2) In June 2001, the Company formed a joint venture with Browning Investments, Inc. ("Browning") known as 4 Points Associates, to develop and construct a 796,000 square foot distribution facility in Indiana. The Company owns 50% of this venture and the construction of this facility was completed in the first quarter of 2002.

(3) The Company accounts for its investment in 100% of the non-voting preferred stock in Keystone Realty Services, Inc. (the "Management Company"), which represents 95% of the total equity, in accordance with the equity method of accounting. The Company is entitled to receive 95% of the amounts paid as dividends by the Management Company.

(4) Consists of elimination adjustments for presentation purposes.

Keystone Property Trust

Equity Method Investments - Pro rata Consolidating Statements of Income & FFO For the Quarter Ended March 31, 2002 (Dollars in thousands)

	KTR Historical	Pro rata Keystone NJ Associates, LLC (1)	Pro rata Airtech Park (2)	Pro rata Keystone Realty Services, Inc. (3)	Other Adjustments (4)	Proforma Total
Revenue:						
Rents	$ 22,104	$ 703	$ -	$ -	$ -	$ 22,807
Reimbursement Revenue and Other	3,415	124	-	538	-	4,077
Total revenue	$ 25,519	$ 827	$ -	$ 538	$ -	$ 26,884
Operating Expenses:						
Property Operating Expenses	$ 1,872	$ 44	$ -	$ -	$ -	$ 1,916
Real Estate Taxes	2,568	101	-	-	-	2,669
Property NOI	21,079	682	-	538	-	22,299
General and Administrative	2,046	2	-	622	-	2,670
EBITDA	19,033	680	-	(84)	-	19,629
Depreciation and Amortization	5,306	164	-	88	-	5,558
Interest Expense	6,062	277	-	5	-	6,344
Income before other items	7,665	239	-	(177)	-	7,727
Equity in Income from Equity Method Investments	62	-	-	-	(62)	-
Losses on Sales of Assets	(430)	-	-	-	-	(430)
Extraordinary Items	(178)	-	-	-	-	(178)
Interest	(3,598)	-	-	-	-	(3,598)
Net (Loss) Income Allocated to Common Shareholders	$ 3,521	$ 239	$ -	$ (177)	$ (62)	$ 3,521
FFO						
Income before Minority Interest of Unitholders in Operating Partnership, Extraordinary Item, and Income Allocated to Preferred Shareholders	$ 7,297	$ 239	$ -	$ (177)	$ (62)	$ 7,297
Gains on Sales of Assets	430	-	-	-	-	430
Depreciation and Amortization- Real Estate Assets	5,470	164	-	-	(164)	5,470
Funds from Operations	$ 13,197	$ 403	$ -	$ (177)	$ (226)	$ 13,197

(1) In 2001, the Company formed a joint venture known as Keystone New Jersey Associates, LLC with CalEast Industrial Investors, LLC ("CalEast"). CalEast is a real estate operating company whose members are LaSalle Investment Management, Inc. (a division of Jones Lang LaSalle ("JLL")) and the California Public Employees Retirement System ("CalPERS"). The Company owns 20% of this joint venture.

(2) In June 2001, the Company formed a joint venture with Browning Investments, Inc. ("Browning") known as 4 Points Associates, to develop and construct a 796,000 square foot distribution facility in Indiana. The Company owns 50% of this venture and the construction of this facility was completed in the first quarter of 2002.

(3) The Company accounts for its investment in 100% of the non-voting preferred stock in Keystone Realty Services, Inc. (the "Management Company"), which represents 95% of the total equity, in accordance with the equity method of accounting. The Company is entitled to receive 95% of the amounts paid as dividends by the Management Company.

(4) Consists of elimination adjustments for presentation purposes.

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Example 4

Best Financial Practices Council
Disclosure

The Council developed the following joint venture disclosure for unconsolidated (equity method) arrangements. The following financial data would be presented for the current and prior-year period.

I. Description
- Significant terms of transaction
- Governing Policies
- Related Party transactions
- Company nominal share of ownership, net income, or FFO
- Effective economic interest
- Operational support provided by the investor
- Financial Risks

II. Financial Statements

Balance Sheet of Joint Venture(s):

Investment property, net	$x,xxx,xxx
Other assets	xxx,xxx
Total Asset	$x,xxx,xxx
Mortgage debt	$x,xxx,xxx
Other liabilities	xxx,xxx
Partners'/shareholders' equity	x,xxx,xxx
Total Liabilities and Partners'/Shareholders' Equity	$x,xxx,xxx

Company share of joint venture(s):

- Investment property, net	$x,xxx,xxx
- Mortgage debt	$x,xxx,xxx
- Other liabilities	$x,xxx,xxx
- Equity	$x,xxx,xxx

Example 4

Income Statement of Joint Venture(s):	
Revenues	$xxx,xxx
Expenses:	
Operating	xx,xxx
Depreciation and amortization	xx,xxx
Interest	xx,xxx
Total Expenses.	xxx,xxx
Gain or loss on sale of properties	xx,xxx
Net income	$xxx,xxx

Company share of joint venture(s):	
- Net income	$xxx,xxx
- Interest expense	$ xx,xxx
- Depreciation and amortization (real estate related)	$ xx,xxx
- Gain or loss on sale of properties	$ xx,xxx

Cash flows received by company:	
- Dividends or other forms of distributions	$ xx,xxx

III. Other information of Joint Venture(s):

Straight-line rents in excess of (less than) contract rents	$ xx,xxx
Capital expenditures	
– tenant improvements	$ xx,xxx
– leasing commissions	$ xx,xxx
– other	$ xx,xxx
Contingent liabilities	$ xx,xxx

Company share of joint venture(s):	
- Straight-line rents in excess of (less than) contract rents	$ xx,xxx
- Capital expenditures	
- tenant improvements	$ xx,xxx
- leasing commissions	$ xx,xxx
- other	$ xx,xxx
- Contingent liabilities	$ xx,xxx