NATIONAL ASSOCIATION OF
REAL ESTATE INVESTMENT TRUSTS®

May 9, 2012

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Re: FASB Memorandum 227 / IASB Agenda Paper 2C–Lessee Accounting

Dear Ms. Cosper and Ms. Lloyd:

This comment letter is issued on the Financial Accounting Standards Board (FASB) Memorandum 227 and the International Accounting Standards Board (IASB) Agenda Paper 2C that address Lessee Accounting.

NAREIT is submitting these comments on behalf of the following member organizations of the Real Estate Equity Securitization Alliance (REESA):

- Asia Pacific Real Estate Association, APREA
- British Property Federation, BPF
- European Public Real Estate Association, EPRA
- National Association of Real Estate Investment Trusts (United States), NAREIT
- Property Council of Australia, PCA
- Real Property Association of Canada, REALpac

The purpose and activities of REESA are discussed in Appendix I. Members of the organizations identified above would be pleased to meet with the Boards or staff to discuss any questions regarding our comments on FASB Memorandum 227 / IASB Agenda Paper 2C - Lessee Accounting.

We thank the FASB and the IASB (collectively, the Boards) for the opportunity to provide further input on the Leases proposal. If you would like to discuss our comments, please contact George Yungmann, NAREIT's Senior Vice President, Financial Standards, at 202-739-9432 or Christopher Drula, NAREIT's Senior Director, Financial Standards, at 202-739-9442.

Respectfully submitted,

George Yungmann
Senior Vice President, Financial Standards

Christopher T. Drula
Senior Director, Financial Standards

Comment Letter Submitted by the

National Association of Real Estate Investment Trusts (NAREIT)® (United States)

On behalf of the following members of the
Real Estate Equity Securitization Alliance (REESA):

Asia Pacific Real Estate Association (APREA)
British Property Federation (BPF)
European Public Real Estate Association (EPRA)
National Association of Real Estate Investment Trusts (NAREIT)® (United States)
Property Council of Australia (PCA)
Real Property Association of Canada (REALpac)

On the

FASB Memorandum 227 / IASB Agenda Paper 2C

Discussed by the

Financial Accounting Standards Board and

International Accounting Standards Board

February 28 - 29, 2012

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Re: FASB Memorandum 227 / IASB Agenda Paper 2C - Lessee Accounting

Dear Ms. Cosper and Ms. Lloyd:

The Real Estate Equity Securitization Alliance is a global coalition of representative real estate organizations from around the world. REESA seeks to help promote equity investment in real estate on a securitized basis. Together, the members of REESA represent the vast majority of constituent companies in the FTSE EPRA/NAREIT Global Real Estate Index. REESA focuses on cross-border investment, international taxation, financial reporting standards initiatives, and educational outreach to investors. REESA members represent major operating real estate companies (including REITs) – companies that acquire, develop, lease, manage and opportunistically sell investment property.

REESA strongly supports the harmonization of global accounting and financial reporting and understands the importance of achieving a high quality universal set of accounting standards. We have been fully engaged in the Boards' discussions on major convergence projects and have actively participated in meetings with the Boards and their staff with respect to these projects. REESA greatly appreciates the opportunities to express our global views through these meetings and comment letters.

Background

Although not specifically addressed in the staff papers and the joint Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) (collectively, the Boards) deliberations during meetings on February 28 – 29, 2012, REESA continues to strongly support the Boards decision to scope lessors of investment property out of the proposed receivable and residual lessor accounting model.

Primary Concern: The Operational Complexity in Approach C for Lessee Accounting

After observing the joint board meetings in London, UK on February 28 - 29, 2012, REESA has significant concerns about the "Underlying Asset" Approach (*i.e.,* Approach C). Our primary concern rests with the fact that the counterparties to the leases that our members execute (*i.e.,* our tenants) will have to apply the proposed lessee accounting model. While we recognize the Boards' intention to bring lease assets and liabilities on the balance sheet, we believe that treating all leases of space in a multi-tenant building as financings is conceptually flawed.

REESA believes that the "Underlying Asset" Approach could result in similar outcomes as Approach A whereby the recognition of rental expense would result in a front-loading effect on the income statement. Further, REESA questions whether the approach is operational when applied to leases of multi-tenant real estate. The "Underlying Asset" Approach would require lessees to estimate the fair value of the underlying asset at inception and an expected residual value at the end of the lease term. Lessees would then calculate a percentage consumption that is equal to the expected change in asset value over the lease term divided by the initial value of the underlying asset. There are a number of issues with pursuing this approach, many of which REESA raised with respect to the Receivable and Residual Lessor Accounting Model in its July 11, 2011 submission. To summarize, the issues include:

- Application of the "Underlying Asset" Approach would require lessees to make a fair value determination of portions of the building (even portions of a floor) at lease term inception and an estimated residual value.

- Tenant space is not generally held for sale apart from a sale of the entire building; thus there is no fair value of tenant space that would comply with the Boards' joint Fair Value Measurement Standard.

- There is no residual value associated with multi-tenant leases of investment property.

- There is no implicit interest rate in multi-tenant leases of investment property. Allocation of costs or fair value to arrive at the fair value of a portion of a building or floor of a building would be arbitrary and not reflect the economics of the lease transaction.

- The premise on which Approach C is based is flawed in the context of real estate because pricing is not based on consumption of the underlying asset and return on the residual asset, but rather on market yields.

- Calculating the amortisation by estimating the economic life of a property is difficult because of the appreciating nature of the asset and because property is required to maintained to a certain level or upgraded during the life of the lease.

- The mathematical results of the model would be hard for preparers and users of the financial statements to understand and does not appear to provide information that is useful.

The Boards recognized the operational complexities in applying the Receivable and Residual Lessor Accounting Model to lessors of multi-tenant investment properties. This was the impetus for the Boards' decision to expand the scope exception for lessors of investment properties measured at fair value to lessors of investment property measured at cost.. Similarly, we urge the Boards to consider the operational complexities inherent in the applying "Underlying Asset" Approach to lessees of multi-tenant real estate before concluding that these lessees would be required to apply this model.

Is there really one Lease Accounting Model?

While the IASB has stated an objective for a single lease accounting model, REESA questions whether the "Underlying Asset" Approach achieves this objective. For example, REESA understands that the conceptual basis for the "Underlying Asset" Approach is that the varying level of change in asset value over the lease term is dependent on the consumption of the asset. This view seems inconsistent with the business of investment property companies whose objective is to actively manage property in order to grow operating cash flow and hence grow the value of its investment properties. In order to prevent a situation whereby "negative consumption" of the asset would occur, we believe that the Boards would need to include a practical expedient or exception for real estate such that consumption would be equal to zero. If this is indeed the logical outcome, then we question whether there is truly one model for all leases.

To the extent that Board members believe that Approach C is operational for lessees of multi-tenant investment property, we respectfully request the opportunity to meet with the Boards to review and discuss an illustration of how the model would operate.

Conclusion

REESA commends and supports the Boards' efforts to develop a fully-converged, comprehensive standard on leases. We respectfully request that the Boards navigate through any remaining differences of view in order to reach a converged Leases accounting model that meets the needs of financial statement users. We very much appreciate the opportunity to share our views with the Boards and welcome the Boards' questions on our comments.

Respectfully submitted,

APREA

BPF
BRITISH PROPERTY FEDERATION

EPRA
EUROPEAN PUBLIC REAL ESTATE ASSOCIATION

Asia Pacific Real Estate Association	British Property Federation	European Public Real Estate Association

National Association of Real Association Estate Investment Trusts (United States)	**Property Council of Australia**	**Real Property Association of Canada**

Appendix I

REESA – The Real Estate Equity Securitization Alliance

REESA is made up of seven real estate organizations around the world grounded in one or more facets of securitized real estate equity. REESA's broad mission is to improve the opportunities for investment in securitized real estate equity around the globe. The REESA member organizations are:

- Asia Public Real Estate Association, APREA
- Association for Real Estate Securitization in Japan, ARES
- British Property Federation, BPF
- European Public Real Estate Association, EPRA
- National Association of Real Estate Investment Trusts, NAREIT®
- Property Council of Australia, PCA
- Real Property Association of Canada, REALpac

REESA has responded positively to the challenges presented by the developments in the global economy and, in particular, the global real estate markets. The benefits of collaboration on a global scale are increasingly valuable on major industry issues such as the sustainability of the built environment, tax treaties, corporate governance and research.

The formation of REESA was, in part, a direct response to the challenge and opportunity presented by the harmonization of accounting and financial reporting standards around the world. Given the size and importance of the real estate industry, our view is that there are considerable benefits to be gained by both accounting standard setters and the industry in developing consensus views on accounting and financial reporting matters, as well as on the application of accounting standards.

Since its formation REESA members have exchanged views on a number of accounting and tax related projects and shared these views with regulators and standards setters. These projects include:

- FASB/IASB Revised Revenue from Contracts with Customers
- FASB Investment Companies
- FASB Investment Property Entities
- IASB Investment Entities
- FASB Consolidation: Principal versus Agent
- IASB Agenda Consultation 2011
- FASB/IASB Lease Accounting
- FASB/IASB Financial Statement Presentation
- FASB/IASB Reporting Discontinued Operations
- FASB/IASB Revenue Recognition
- FASB/IASB Effective Dates and Transition Methods
- IASB Fair Value Measurement
- IASB Income Tax
- IASB Real Estate Sales – IFRIC D21
- IASB Capitalization of Borrowing Costs – IAS 23
- IASB Accounting for Joint Arrangements – ED 9
- IASB Consolidated Financial Statements – ED 10
- IASB 2007/2008/2009 Annual Improvements to IFRS
- OECD developments on cross border real estate flows and international tax treaties