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NATIONAL ASSOCIATION OF
REAL ESTATE INVESTMENT TRUSTS®

November 7, 2005

VIA E-MAIL

Ms. Suzanne Q. Bielstein
Director- Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Re: File Reference 1204-001, Business Combinations-a Replacement of FASB Statement No. 141

Dear Ms. Bielstein:

The National Association of Real Estate Investment Trusts (NAREIT®) welcomes this opportunity to respond to the request for comments from the Financial Accounting Standards Board (FASB or Board) on the proposal contained in FASB Exposure Draft (ED) *Business Combinations, a replacement of FASB Statement No. 141*.

NAREIT is the representative voice for U.S. real estate investment trusts (REITs) and publicly traded real estate companies worldwide. Members are REITs and other businesses that develop, own, operate and finance income-producing real estate, as well as those firms and individuals who advise study and service those businesses.

NAREIT commends the FASB's efforts to continue to develop high-quality accounting standards that improve the transparency, usefulness and credibility of financial reporting. In particular, we support the efforts to bring more convergence in the U.S. standards and the International Accounting Standards.



NATIONAL ASSOCIATION OF REAL ESTATE INVESTMENT TRUSTS®

Although we support the issuance of common standards on business combinations, we are concerned about the following provisions of the proposed standard:

1. Definition of a Business
2. Accounting for Acquisition-Related Costs

Question 2—Definition of a Business

We are concerned that the proposed definition of a business may be interpreted by some to identify an asset or an asset group as a business. For example, in our industry we contend that the purchase of a single investment property, i.e. a building, or a group of investment properties may be construed to be business combination, based on the facts and circumstances and the implementation guidance in Appendix A of the proposed ED. Most acquisitions of an investment property are simply the purchase of an assets(s). We recommend that the Board consider a *de minimis* rule, similar to that provided for in FASB Interpretation No. 46, paragraph C6¹ to avoid accounting for routine asset purchases as business combinations.

We also request that much like EITF Issue No. 98-3, “*Determining Whether a Nonmonetary Transaction Involved Receipt of Productive Assets or of a Business*” the Board provide specific examples in Appendix A of how to apply the rules regarding the definition of a business. We request that these include an example of an acquisition of a single-asset operation such as income-producing investment property.

Question 7—Do you agree that the costs that the acquirer incurs in connection with a business combination are not assets and should be excluded from the measurement of the consideration transferred for the acquiree? If not, why?

We do not agree with the Board that acquisition related costs should be excluded from the measurement of the consideration transferred for the acquiree. Acquisition-related costs are clearly a part of a buyer’s total investment in a business combination. Our members consistently include external acquisition costs in the overall investment basis as part of their underwriting criteria in making investment decisions. Many of the comment letters address this point. If a primary goal of financial reporting is to produce financial statements that faithfully represent the economics of a transaction, acquisition-related costs must be recognized in the financial statements as part of the buyer’s investment. Otherwise, returns-on-investment would be distorted, based on the financial statements for periods subsequent to the business combination. This point is discussed particularly well in the comment letter submitted by Grant Thornton International.

¹ C6. If all but a *de minimis* (say, 3 percent) amount of the fair value of the set of activities and assets is represented by a single tangible or identifiable intangible asset, the concentration of value in the single asset is an indicator that an asset rather than a business is being evaluated.



Ms. Suzanne Q. Bielstein

November 7, 2005

Page 3

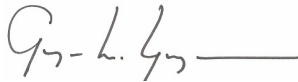
Taking a very simple example, if a buyer evaluates the acquisition of a business that is generating \$1.0 million of cash flow and the buyer's required yield on its total investment is 12%, the maximum investment would be \$8.33 million. If acquisition-related costs are \$500,000, the accounting proposed in the ED would recognize an investment of only \$7.83 million. Analyses of future investment returns would yield a return of 12.8% -- almost 7% greater than the buyer's actual return on its total investment in the business acquired.

Again, we strongly believe that GAAP should report the economic realities of the business combination and subsequent returns by recognizing the acquisition-related costs as part of the carrying amount of the business acquired.

Further, we believe that current practice is relatively uniform in accounting for acquisition related costs. These costs are generally capitalized by the buyer in both an asset purchase and a business combination. Unless and until the Board broadly considers the accounting for acquisition-related costs in the context of what comprises the cost of an asset, we believe the proposed accounting will decrease the uniformity of accounting for these costs.

If the Board or its staff would like to discuss NAREIT's views as expressed in this comment letter, please do not hesitate to contact me at (202)739-9432 or Gaurav Agarwal, NAREIT's Director, Financial Standards at (202)739-9442.

Respectfully submitted,



George L. Yungmann

Vice President, Financial Standards

