NATIONAL ASSOCIATION OF REAL ESTATE INVESTMENT TRUSTS®

May 5, 2008

Mr. Russell G. Golden
Chairman of Emerging Issues Task Force
Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06856-5116

Re: EITF Issue No. 08-2 – *Lessor Revenue Recognition for Maintenance Services* (the Issue)

Dear Mr. Golden:

NAREIT members and staff have been supporting the EITF staff in their work with respect to the applicability of the Issue to lease revenues received by real estate companies (lessors) from tenants (lessees). Attached is an illustrative memorandum that was sent to fourteen NAREIT member companies in an attempt to gather information relevant to the Issue for EITF staff. This letter sets forth NAREIT's preliminary views regarding this issue and discusses more general views with respect to the EITF agenda.

The National Association of Real Estate Investment Trusts ("NAREIT") is the worldwide representative voice for REITs and publicly traded real estate companies with an interest in U.S. real estate and capital markets. Members include businesses that own, operate and finance income-producing real-estate, as well as investors and individuals who advise, study and service the real estate investment community.

NAREIT member companies are committed to providing financial statement users with high quality, relevant financial information. Many financial executives of these companies and NAREIT staff have participated in the development of U.S. GAAP for over 30 years.

Summary of Views and NAREIT Recommendations

For reasons further discussed below, NAREIT recommends that the EITF consider either eliminating this project from its agenda or narrowing its scope to the issue raised with respect to maintenance cost reimbursement arrangements in the airline industry.

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As we believe the EITF staff, as well as the FASB and IASB staff assigned to the joint Lease Accounting project, has discovered, there is a very wide range of explicit and implicit methodologies for reimbursing lessors for the cost of maintaining leased assets. This range begins with the very simple “methodology” where the lessee is leasing a maintained asset and there is no indication of maintenance cost reimbursement in the lease agreement. This is generally the case in short-term car renewals and leases of office equipment, as well as in many simple real estate leases. Along the spectrum, leases require the lessee to reimburse the lessor for varying degrees of maintenance costs. At the other end of the spectrum, certain leases require the lessee to maintain the asset at the lessee’s expense, and thus require no reimbursement to the lessor. These leases may be referred to as triple net leases.

Unless the EITF is certain that its conclusions with respect to Issue 08-2 will not have unintended consequences across the wide range of cost reimbursement methodologies found in leases, we recommend that this project either be eliminated from the EITF agenda or narrowed to precisely the issue that was raised with respect to aircraft leases.

Further, NAREIT members and staff are very active participants in the standards setting processes of both the FASB and IASB, and we believe that the current period represents an important time in the movement toward achieving global harmonization of high quality financial standards. As the FASB and IASB have acknowledged, the movement toward global standards harmonization should not result in multiple changes in accounting practices for any given transaction within a reasonable time period. We believe that there is little doubt that the results of the joint FASB/IASB revenue recognition project will impact the accounting for revenue that represents the reimbursements of maintenance costs. Therefore, NAREIT recommends that this project and any other EITF project that is focused on issues that will be impacted by broader accounting standards projects be eliminated from the EITF agenda.

Finally, while NAREIT supports the issuance of implementation guidance when it is necessary, we believe that, in the spirit of moving toward a more principles-based standards environment, the EITF, along with financial statement preparers, auditors and regulators, should begin to transition away from a rules-based approach to accounting standards and EITF implementation guidance. While the IFRIC has issued only six pieces of guidance for implementing IFRS in over 100 countries during 2006 and 2007, the EITF has issued eighteen pieces of guidance for implementing U.S. GAAP. We respectfully urge the FASB and EITF to reconsider the extent of the EITF agenda and its mission in the context of the current and future accounting standards environment.

Further discussion of NAREIT’s Views and Recommendations

Maintenance cost reimbursement in real estate leases

The following is a summary of accounting practices with respect to maintenance revenue and cost recognition among NAREIT member companies, based on information received from seven companies:

- The great majority of common area maintenance (CAM) costs represents the costs of regular, on-going maintenance and is expensed as incurred.

- CAM costs also include certain capital costs that are reimbursed by tenants.

- While tenant leases include a variety of methods under which tenants reimburse landlords for CAM costs, these lease provisions can generally be classified as either 1) reimbursements of actual costs generally expensed as incurred or 2) fixed charges to tenants (not based on actual costs) for maintaining the property.

- While certain companies are moving more toward leases with fixed CAM charges to tenants, the majority of current CAM revenue is based on actual costs incurred.

We have considered the industry's practices for accounting for CAM revenue and costs and have discussed this matter with senior/national representatives of the major accounting firms. Based on these considerations and discussions, NAREIT believes that current practices for recognizing maintenance revenue by real estate companies represent the reasonable application of current accounting literature and do not represent diversity in practice in cases of similar facts and circumstances.

Also, we are not aware of any requests from the real estate financial statement user community for modifying accounting for revenue that represents tenant reimbursements for maintenance costs.

EITF Agenda

As indicated above, NAREIT members and staff are very active participants in the standards setting processes of both the FASB and IASB. NAREIT members and staff, as well as a coalition of real estate organizations from around the world, have responded to a number of IASB standards proposals and have developed a global real estate industry financial statement model in connection with the joint FASB/IASB financial statement presentation project. This model has been discussed with the FASB and IASB staff. In addition, a NAREIT staff member is a member of the Joint Lease Accounting Working Group. As such, NAREIT members have provided extensive information to FASB and IASB staff with respect to real estate leases.

During the week of April 21, 2008, NAREIT staff listened to the webcast of the FASB/IASB discussion of possible modifications to the 2006 Memorandum of Understanding (MOU), and attended the IFRS Conference in Toronto, Canada. Based on information gathered through the webcast and the conference, it seems clear to us that financial statement preparers, standard setters, financial statement consumers, accounting firms and regulators are fully engaged in this long and aggressive march toward the development and global harmonization of high quality financial accounting standards. Therefore, we believe that the EITF should limit its focus to only those issues that may resolve abusive accounting practices and issues that are not subject to current FASB/IASB projects. Clearly, current practices for recognizing maintenance revenue in the real estate industry are not abusive and will probably be modified by conclusions reached in the context of the joint FASB/IASB revenue recognition project.

NAREIT's view that accounting for maintenance revenue will be impacted by the revenue recognition project is supported by paragraph 19.f. of the April 21, 2008 IASB/FASB meeting paper, *Completing the February 2006 Memorandum of Understanding: Developing a timetable for convergence between IFRS and US GAAP* (the Paper). Paragraph 19.f. of the Paper recommends that conclusions reached in the revenue recognition project should be tested "against existing practice problems. A new revenue recognition model that does not resolve the practice problems recently raised for EITF or IFRIC consideration would not, in our view, represent an improvement in practice."

Further, we do not believe the EITF should attempt to resolve issues that simply represent diversity in accounting practice unless such practices are abusive. Based on our experience with respect to recent EITF issues, including EITF Issue No. 07-6, *Accounting for the Sale of Real Estate Subject to the Requirements of FASB Statement No. 66 Accounting for the Sale of Real Estate When the Agreement Includes a Buy-Sell Clause,* NAREIT believes that FASB staff resources, as well as constituent resources, are being focused on issues that are not critical at this time. This concern mirrors the concerns identified in the Paper referred to above with respect to the utilization of FASB and IASB staff resources.

As suggested in the summary comments above, NAREIT believes that EITF conclusions that currently change accounting practices that, in turn, have a clear probability to change again as a result of conclusions reached in broader standards projects would result in complexity in financial reporting, confusion on the part of financial statement users and cost inefficiencies. A similar sensitivity with respect to multiple changes in accounting over a relatively short time period is identified in the Paper. In paragraph 9.a., the Paper sets forth a view that "the IASB agenda priorities should limit the possibility that a company adopting IFRS in 2013 would undergo two changes in a relatively short period."

Based on the foregoing discussion, NAREIT urges the EITF to eliminate its consideration of the Issue in relation to the real estate industry as it considers the Issue, even if the Task Force continues work on Issue 08-2.

NAREIT appreciates the opportunity to work with the EITF staff on projects that may impact financial reporting by real estate companies. Please let us know if you have questions regarding this letter.

Respectfully submitted,

George L. Yungmann
Sr. Vice President, Financial Standards

Sally Glenn
Director, Financial Standards

cc: Robert Herz, Chairman, FASB
James L. Kroeker, Deputy Chief Accountant for Accounting, SEC

Illustrative Memorandum

To **George Yungmann**

From

Date **April 4, 2008**

Re **Maintenance Costs and Revenue Recognition**

This memo describes the various lease terms under which tenants reimburse (name of company) for costs of maintaining and improving the company's investment properties. It further describes the accounting for these costs and the reimbursements billed to tenants pursuant to the terms of lease contracts.

Generally, our leases provide for the tenant to reimburse the company for both "routine maintenance" and "capital maintenance" – all of which are generally referred to as "common area maintenance costs" (CAM). Although both types of maintenance costs, routine and capital, are subject to reimbursement, the tenant's obligation to reimburse maintenance costs is not dependent on accounting for such costs as either expenses or assets to be depreciated. Leases simply identify the types of costs subject to reimbursement.

On average, the total annual revenue for reimbursements of all CAM costs represents about XX% of revenues recognized under the company's leases. Approximately XX% of maintenance reimbursements are for "routine maintenance costs" which are expensed as incurred based on our accounting policy. Examples of routine maintenance include (provide specific maintenance items/activities).The remainder of the reimbursements (XX%) are for capital maintenance; sometimes referred to in the industry as deferred maintenance, which are capitalized and depreciated based on our accounting policy. Examples of capital maintenance include (provide specific maintenance items/activities).

Variations of CAM reimbursement lease terms:

Full CAM Leases

We will refer to leases that call for the tenant to fully participate in their prorata share of CAM charges as "Full CAM Leases," which represent approximately XX% of all of our leases. For these leases it is estimated that XX% of the total CAM charge is routine maintenance and XX% is capital maintenance. While these leases provide that the company may bill tenants for these reimbursements as they are incurred, the company, at its sole discretion, may bill tenants over multiple years. This decision is made based on the company's judgment as to the tenants' ability to pay for significant long-lived capital expenditures. These leases provide that the billing reimbursement may include an agreed upon mark-up percentage of XX% applied to actual CAM costs to reimburse the company for managing the maintenance programs. Revenues are recognized as they are billed.

Monthly billings are generally fixed by an estimate of expenses to be incurred in any quarter plus the mark up and "trued up" quarterly and annually by applying the mark up to actual costs incurred in the quarter or year.

The typical type of properties and tenants in our portfolio under Full CAM Leases are (provide specific examples, such as lease of space in our malls to retail tenants, single tenant occupancy, etc.).

Capped CAM Leases

These leases account for about XX% of our leases and are similar to Full CAM Leases except there is a "cap" – a maximum of CAM costs that can be charged to these tenants in any one year. In these leases it is estimated that XX% of the total CAM charge is routine maintenance and XX% is capital maintenance. Revenue is recognized as described under Full CAM Leases until charges in any one year amount to the maximum.

The typical type of properties and tenants in our portfolio under Capped CAM Leases are (provide specific examples, such as lease of space in our malls to retail tenants, single tenant occupancy, etc.).

Fixed CAM Leases

We will refer to leases that call for the tenant to be billed a fixed amount per month toward CAM costs as "Fixed CAM Leases," which represent about XX% of all of our leases. In these leases it is estimated that XX% of the total CAM charge is routine maintenance and XX% is capital maintenance. Revenue from these leases is recognized as billed. In cases where the fixed amount escalates over the term of the lease in a quantifiable manner, revenue is recognized on a straight-line basis.

The typical type of properties and tenants in our portfolio under Fixed CAM Leases are (provide specific examples, such as lease of space in our malls to retail tenants, single tenant occupancy, etc.).

Gross Rent Leases

We will refer to leases that simply provide for rent – with no identification of whether the rent is for the space being used or for reimbursement of costs as "Gross Rent Leases" which is approximately XX% of all of our leases. In these leases it is estimated that XX% of the total maintenance portion of rent is routine maintenance and XX% is capital maintenance. Revenue from these leases is recognized as billed. In cases where the gross rent escalates in a quantifiable manner over the term of the lease, revenue is recognized on a straight-line basis.

The typical type of properties and tenants in our portfolio under Gross Rent Leases are (provide specific examples, such as lease of space in our malls to retail tenants, single tenant occupancy, etc.).

In rare cases, a *Gross Rent Lease* may identify an amount of the gross rent that represents a contribution to CAM. These CAM amounts are accounted for as Fixed CAM Leases discussed above.

Triple Net Leases

We will refer to leases that call for the tenant to be fully responsible and pay for all maintenance (routine and capital), taxes and insurance as “Triple Net Leases,” which is approximately XX% of all of our leases. The Lessor does not provide, and therefore, does not bill maintenance to the lessee.

The typical type of properties and tenants in our portfolio under Triple Net Leases are (provide specific examples, such as lease of space in our malls to retail tenants, single tenant occupancy, etc.).