NATIONAL ASSOCIATION OF
REAL ESTATE INVESTMENT TRUSTS®

February 24, 2004

Mr. Mark M. Bielstein, Partner
KPMG LLP
280 Park Avenue, 8th Floor
New York, New York 10017

Dear Mark,

This letter is a follow-up to our recent phone conversation regarding paragraph A5 of the latest draft of AcSEC's proposed PP&E SOP. Since this paragraph was inserted into the draft SOP after NAREIT's July 9, 2003 letter to Bob Herz regarding the proposed SOP was shared with AcSEC, the paragraph appears to address NAREIT's views expressed in that letter.

Most importantly with respect to paragraph A5, we want to make it very clear that NAREIT's comment letters and subsequent letters have not "argued … that investment property is more appropriately accounted for under a fair value model than a historical cost model." As we indicated to the FASB in our meeting (discussed below), NAREIT has not taken a position with respect to fair value reporting for investment property since we have not yet fully evaluated the broad implications of such reporting.

As you know, NAREIT representatives met with the FASB and certain of its staff on November 25, 2003 to discuss the real estate industry's views on the proposed SOP. Attached is a letter to the FASB clarifying NAREIT's views expressed at that meeting. As you can see from this letter, NAREIT's most significant concern is that hundreds of billions, even trillions, of dollars in costs of investment property may be forced to be componentized under the proposed SOP when a recently amended international standard (IAS 40) would not require such componentization under its fair value model. While we acknowledge (as paragraph A5 notes) that IAS 40 does technically allow for a choice between a cost and fair value model, we believe this choice is entirely illusory. That is because under IAS 40 companies still are required to calculate and disclose the fair value of investment property even if they opt for the cost model. Consequently, we believe that most, if not all, companies would elect to use the fair value model since it eliminates the need for depreciation accounting and the need to componentize the property.

1875 Eye Street, NW, Suite 600, Washington, DC 20006-5413
Phone 202-739-9400 Fax 202-739-9401 www.nareit.com

For these reasons, NAREIT is simply requesting that investment property be scoped out of the componentization requirements of the proposed SOP until the completion of a process of harmonization between U.S. GAAP and IAS 40.

Further with respect to paragraph A5, while this paragraph attempts to provide the rationale for not scoping investment property out of the entire SOP, it provides no discussion of the significant issue of requiring componentization of investment property when there is the potential that the global standards harmonization process may result in investment property not having to be componentized.

Paragraph A5 emphasizes that costs of investment property must be accumulated under the standards provided by IAS 16 as well as under paragraph 55 of the proposed SOP. NAREIT understands that IAS 16 and paragraph 55 would govern the accounting for costs accumulated during the construction/development phase of a property. At the same time, **there is no requirement in IAS 16 and the fair value model in IAS 40, taken together, to componentize investment property.**

Both paragraph 55 of the proposed SOP and IAS 16 require that costs of properties must be accumulated in accordance with the guidance in these standards. But this is only applicable to determining whether particular costs should be capitalized or expensed at the time the investment property is being developed, constructed or acquired.

Is paragraph A5 suggesting that, because the accounting for PP&E during construction and at acquisition must follow the requirements of IAS 16, componentization is required under IAS 40's fair value model? We do not believe this would be an accurate understanding of IAS 16 and IAS 40 as they apply to the fair value model. The only reason for componentization would be to enable a company to measure the depreciated cost of a component at the time it is replaced so that the cost of the replacement component can be capitalized. But, paragraph 68 of IAS 40 provides an alternative accounting treatment of the undepreciated cost of a replaced component under the fair value model. Rather than removing such cost, the cost of the replacement component is added to the carrying amount of the asset and then the fair value of the property is reassessed.

While paragraph A5 may provide the basis for not scoping investment property out of the complete requirements of the proposed SOP, the discussion in paragraph A5 does not provide a basis for AcSEC's concluding that the proposed SOP should not scope investment property out of the potentially unnecessary componentization of investment property.

Again, NAREIT is simply requesting that investment property be scoped out of the componentization requirements of the proposed SOP until the completion of a process of harmonization between U.S. GAAP and IAS 40.

AcSEC Process:

In addition to our concerns with respect to the substance of paragraph A5, we believe the process of adding this paragraph to the SOP was flawed. NAREIT representatives attended every public AcSEC meeting at which this proposed SOP was discussed and do not recall a discussion of NAREIT's specific concerns as they relate to the absence of componentization requirements under IAS 40's fair value model. Further, the minutes/highlights of AcSEC's meetings do not indicate that there was such a discussion. We question whether all AcSEC members are aware of the unique impact of IAS 40 on accounting for investment property and the relationship between IAS 40 and the proposed SOP. We are aware that NAREIT's July 9, 2003 letter to Bob Herz was distributed to AcSEC members at the Committee's July meeting, but again there was no substantive discussion in the public meeting. Since AcSEC had not focused on this issue since NAREIT raised it in its November 14, 2001 comment letters, NAREIT concluded that this concern needed to be addressed with the FASB.

Apparently, paragraph A5 was inserted into the proposed SOP between the July 2003 and September 2003 AcSEC meetings. To our knowledge, there was never an AcSEC discussion regarding the position taken in paragraph A5. We are very concerned and disappointed that AcSEC's proposed SOP sets forth a conclusion regarding this significant NAREIT concern without a discussion among the full committee.

We request that, prior to the Board's educational and clearance meetings, AcSEC fully discuss its position with respect to scoping investment property out of the componentization requirements of the proposed SOP until the completion of the international harmonization process between U.S. GAAP and IAS 40. While the results of this discussion may not be able to be inserted into the draft SOP as delivered to the FASB, it would provide AcSEC leadership the assurance that its position on this issue reflects the considered views of the full Committee. We would be happy to participate in this discussion.

Please let me know if you or other members of AcSEC would like to discuss this matter.

Sincerely,

George L. Yungmann
Vice President, Financial Standards