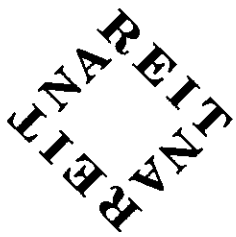
OFFICERS
Chair
R. Scot Sellers
Archstone-Smith
President and CEO
Steven A. Wechsler
First Vice Chair
Arthur M. Coppola
The Macerich Company
Second Vice Chair
Christopher J. Nassetta
Host Hotels & Resorts, Inc.
Treasurer
Jeffrey H. Schwartz
ProLogis

2006 NAREIT Board of Governors
Andrew M. Alexander
Weingarten Realty Investors
Bryce Blair
AvalonBay Communities, Inc.
Jon E. Bortz
LaSalle Hotel Properties
David M. Brain
Entertainment Properties Trust
John Bucksbaum
General Growth Properties, Inc.
Debra A. Cafaro
Ventas, Inc.
Timothy H. Callahan
Trizec Properties, Inc.
Richard J. Campo
Camden Property Trust
Richard B. Clark
Brookfield Properties Corporation
Robert K. Cole
New Century Financial Corporation
Terry M. Considine
Apartment Investment & Management Co.
Gordon F. DuGan
W.P. Carey & Co. LLC
Michael A. J. Farrell
Annaly Mortgage Management,Inc.
James F. Flaherty, III
Health Care Property Investors, Inc.
William P. Hankowsky
Liberty Property Trust
Ronald L. Havner, Jr.
Public Storage, Inc.
Mitchell E. Hersh
Mack-Cali Realty Corporation
Rick R. Holley
Plum Creek Timber Company, Inc.
Richard D. Kincaid
Equity Office Properties Trust
Charles B. Lebovitz
CBL & Associates Properties, Inc.
Peter S. Lowy
The Westfield Group
Hamid R. Moghadam
AMB Property Corporation
Constance B. Moore
BRE Properties, Inc.
David J. Neithercut
Equity Residential
Dennis D. Oklak
Duke Realty Corporation
Edward J. Pettinella
Home Properties, Inc.
Michael E. Pralle
GE Commercial Finance Real Estate
Charles A. Ratner
Forest City Enterprises, Inc.
Scott Rechler
Reckson Associates Realty Corporation
Steven G. Rogers
Parkway Properties, Inc.
Steven Roth
Vornado Realty Trust
Nicholas S. Schorsch
American Financial Realty Trust
Laurence C. Siegel
The Mills Corporation
David E. Simon
Simon Property Group
Martin E. Stein, Jr.
Regency Centers Corporation
Jay Sugarman
iStar Financial Inc.
Gerard H. Sweeney
Brandywine Realty Trust
Robert S. Taubman
Taubman Centers, Inc.
Garrett Thornburg
Thornburg Mortgage, Inc.
Thomas W. Toomey
United Dominion Realty Trust
Scott A. Wolstein
Developers Diversified Realty Corporation
Donald C. Wood
Federal Realty Investment Trust



NATIONAL ASSOCIATION OF
REAL ESTATE INVESTMENT TRUSTS®

September 21, 2006

Ms. Nancy M. Morris
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: Release No. 34-54122; File No. S7-11-06

Dear Ms. Morris:

The National Association of Real Estate Investment Trusts® (NAREIT) welcomes this opportunity to respond to the request for comments from the Securities and Exchange Commission (SEC or Commission) on the concepts and questions contained in File No. S7-11-06 dated July 11, 2006 (Release).

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.

While this letter offers certain specific comments in response to the Release, we would first like to say that we have participated in the development of the comments submitted by the U.S. Chamber of Commerce (Chamber) and strongly support views and recommendations set forth in the Chamber's comment letter.

Specific Comments

Clarification of the Purpose of Internal Control and Implications to Fraud

A significant concern of many companies is the public's apparent confusion over the function and limitations of internal controls and the implications of the major focus on controls as a result of the Sarbanes-Oxley Act (SARBOX). We strongly support the Chamber's suggestion that the SEC clarify that the purpose of SARBOX , Section 404 (SARBOX 404) is to reach an appropriate level of assurance regarding a company's controls over its financial reporting rather than obviating all risks. We further agree that the SEC should begin an effective program to educate users of public financial reporting as to the limitations of internal controls with respect to preventing fraud.

◆ ◆ ◆

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

Relationship Between AS2 and a Top-Down, Risk-Based Approach

An overarching concern of most of our members is that it has been extremely difficult to implement a rational top-down, risk-based approach to identifying, documenting and testing internal controls, as described by the SEC, with the very specific and detailed audit requirements of Auditing Standard # 2 (AS2) issued by the PCAOB. The issues this has caused have placed both management and auditors in untenable positions and have, therefore, forced conservative interpretations of any related rules or standards and extremely cautious approaches to complying with those interpretations. We strongly urge the SEC and the PCAOB to remedy this situation by modifying AS2 based on the SEC's top-down, risk based approach to identifying and testing internal controls over financial reporting.

Control Identification

Our members strongly believe that the SEC needs to provide additional guidance regarding the identification of key controls. In particular, we understand from members that there is considerable confusion as to how the strength of entity-level controls impacts the identification of other key controls. In most cases, even after entity level controls are tested and considered effective, the remainder of control identification and evaluation is based on analogies to AS2. This result is clearly inconsistent with any notion of top-down, risk-based control identification and evaluation.

We believe that the SEC's publication of extensive examples of what it believes are material entity level controls would have a positive impact on the identification and evaluation of controls in a top-down, risk-based notion. Examples of major entity level controls related to real estate investment trusts and certain other real estate companies include:

- Controls that ensure the compliance with legislation and regulations required to maintain REIT status. These controls might include:
  - the existence of effective knowledge of REIT legislation and regulations;
  - regular review and testing to ensure that business transactions comply with related legislation and regulation; and
  - external review of the company's testing and conclusions with respect to compliance.
- Audit Committee, as well as executive management, approval of the pro forma and actual financial statement impacts of all property acquisitions, dispositions and project development.

Some of our members suggest that the SEC establish conservative "safe harbor" thresholds to provide guidance as to whether certain controls could have a material impact on the financial statements.

For example, if a breakdown in a specific control is estimated to have an impact of less than:

- 2.5% of Revenues,
- 2.0% of Operating Income,
- 1.5% of Income before Income Taxes, or
- 5.0% of Total Assets

and would not;

- Change net earnings to net loss or vice versa,
- Affect the company's compliance with regulatory requirements, or
- Affect the company's compliance with loan covenants or other contractual arrangements,

such control would be deemed to be immaterial.

In addition, we believe that the SEC should consider establishing a resource to provide companies on-going guidance with respect to complying with SARBOX 404 requirements.

NAREIT staff and financial executives of member companies would welcome the opportunity to further discuss the identification of controls and the linkage between strong entity level controls and other controls with SEC staff.

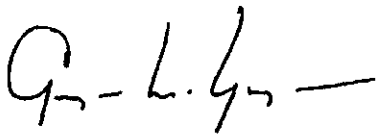
Impact of SARBOX 404 Requirements on Smaller Public Companies

The requirements of SARBOX 404 will disproportionately impact smaller companies in terms of the time and costs of complying with the requirements. As the SEC clearly understands, smaller start-up companies represent a very positive driving force in the U.S. economy. While NAREIT would not suggest that smaller public companies be exempted from the requirements of SARBOX 404, we recognize the need for "scalable" guidelines that address the characteristics of smaller companies.

Conclusion

NAREIT strongly supports the need for effective internal controls over financial reporting. We believe that, on balance, SARBOX has and will continue to improve public company financial reporting. At the same time, as the SEC and PCAOB have recognized, the implementation of SARBOX 404 has not been as effective as intended. We look forward to further guidance from the SEC and PCAOB and will continue to participate in the positive evolution of corporate practice that promotes ethical and effective financial reporting.

Respectfully submitted,



George L. Yungmann
Sr. VP, Financial Standards

◆ ◆ ◆