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**NATIONAL ASSOCIATION OF
REAL ESTATE INVESTMENT TRUSTS®**

VIA E-MAIL

September 26, 2006

IAS 23 Amendments
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Re: Amendments to IAS 23, *Borrowing Costs*

Dear Sir/Madam:

We are pleased to submit this comment letter on the IASB's proposed amendments to IAS 23 *Borrowing Costs*. We are submitting these comments on behalf of the following real estate organizations:

Asian Public Real Estate Association (APREA)
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)

Members of the organizations identified above would be pleased to meet with the Board or its staff to discuss any questions regarding our comments.

We thank the IASB for this opportunity to comment on the proposal. Please contact George Yungmann, NAREIT's Senior Vice President, Financial Standards at gyungmann@nareit.com or 1 (202) 739-9432 if you would like to discuss our comments.

Respectfully Submitted,

George L. Yungmann
Senior Vice President, Financial Standards



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

**Comment Letter Submitted by the
National Association of Real Estate Investment Trusts®**

On Behalf of the Following Organizations:

**Asian Public Real Estate Association
British Property Federation
European Public Real Estate Association
National Association of Real Estate Investment Trusts®
Property Council of Australia
Real Property Association of Canada**

**In response to the
Exposure Draft of Proposed Amendments to
IAS 23 Borrowing Costs
Issued by the International Accounting Standards Board
September 26, 2006**

September 26, 2006

IAS 23 Amendments
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Re: Amendments to IAS 23, *Borrowing Costs*

Dear Sir/Madam:

The undersigned real estate organizations welcome this opportunity to respond to the request for comments from the International Accounting Standards Board (IASB or Board) on the proposal contained in Amendments to IAS 23, *Borrowing Costs* (Proposal). The undersigned organizations represent publicly traded real estate companies and Real Estate Investment Trusts (REITs) worldwide. Our members are real estate companies and other businesses that develop, own, operate and finance investment property, as well as those firms and individuals who advise study and service those businesses.

In general, we support the proposed elimination of the option of immediately recognizing as an expense borrowing costs directly attributable to the acquisition, construction, redevelopment or production of a qualifying asset. Our experience indicates that virtually all real estate companies capitalize borrowing costs incurred during the construction period. The basis of this accounting practice is that these costs are direct and incremental to the development of the asset and contribute to the future cash flow of the property. Additionally the capitalization of these costs more accurately reflects the actual costs related to the development of the property.

We would recommend that the Board clarify the accounting for borrowing costs incurred in connection with the redevelopment of investment property as further discussed below.

Discussion of issue

We understand from reading IAS 40, including paragraphs B40 – B42 of the Basis for Conclusions, and from discussions with accounting professionals reporting under IAS 40 that borrowing costs may be (and are) capitalized during the redevelopment of an investment property carried at fair value if the capitalization meets the tests for capitalization prescribed by IAS 16.

Seemingly contrary to this accounting, paragraph BC4 of the ED states:

“Biological assets and other qualifying assets such as investment properties that are being redeveloped measured at fair value are excluded from the scope of IAS 23 as amended.”

Further, Paragraph 6 the ED indicates that; “examples of qualifying assets are inventories that require a substantial period of time to bring them to a saleable condition and other assets that take a substantial period of time to get ready for their intended use or sale, such as ... properties that will become self-constructed investment properties once their construction or development is complete and investment properties measured at cost that are being redeveloped.”

Appendix A of the ED *Amendments to other Pronouncements* does not include any amendments to IAS 40.

Question

Does the Proposal require borrowing costs that meet the tests of IAS 16 be capitalized in connection with the redevelopment of investment property if that property was being carried at fair value prior to its redevelopment or only if the property was carried at cost prior to its redevelopment?

Respondent's Position

We believe that the proposed standard should be clarified to require the capitalization of borrowing costs incurred in connection with the redevelopment of all investment property regardless of the measurement attribute applied to the property prior to redevelopment.

Factors supporting this position include:

- In paragraph B40, the Board indicates its agreement “that the failure to capitalize subsequent expenditure would lead to a distortion of the reported components of financial performance.” We agree with this conclusion and would apply it to borrowing costs specifically related to the redevelopment of the investment property.
- Even when investment property is reported at fair value before and after the redevelopment period, there are requirements to accumulate the cost basis of the property. We understand that IAS 16 is applied to accounting for redevelopment costs. Therefore, all redevelopment costs, including related borrowing costs, should be added to the cost basis of the property.

- As all investment property is accounted for in accordance with IAS 16 prior to placing it in service, thereby providing comparable cost basis information, we believe that costs of redevelopment, including related borrowing costs, should be accounted for consistently in accordance with IAS 16 whether the property has been reported at cost or fair value.

We thank the IASB for this opportunity to comment on the proposal. Please contact George Yungmann, NAREIT's Senior Vice President, Financial Standards at gyungmann@nareit.com or 1 (202) 739-9432 if you would like to discuss our comments.

Respectfully submitted,

Asian Public Real Estate Association (APREA)

British Property Federation (BPF)

European Public Real Estate Association (EPRA)

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