

# PRESS RELEASE



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## **NAREIT AFFIRMS COMMITMENT TO GAAP NET INCOME AS PRIMARY INDUSTRY EARNINGS MEASURE**

***Like Bottom-Line GAAP Net Income, FAS 144 Requires No Change to FFO***

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**Washington, D.C.** —In a step affirming net income computed under generally accepted accounting principles (GAAP) as the primary earnings measure for real estate companies, the Board of Governors of the National Association of Real Estate Investment Trusts® (NAREIT) has unanimously agreed to a series of findings and recommendations by the Association’s Best Financial Practices Council (BFPC).

Chief among them is affirmation of NAREIT’s commitment to GAAP net income as the primary industry earnings measure.

The April 4 action by NAREIT’s Board also included adoption of a recommendation that relevant financial items (but not gain or loss from sale) from income-producing property held for sale, sold or otherwise transferred and now reported in “results of discontinued operations” are to be included in consolidated Funds From Operations (FFO), the industry’s supplemental earnings measure.

Clarification of the industry’s White Paper on Funds From Operations, recommended by the BFPC, follows the Financial Accounting Standards Board’s issuance of Financial Accounting Standards (FAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, and will enable real estate companies to better conform FFO with bottom-line GAAP net income.

“NAREIT recognizes net income, as defined by GAAP, as the primary earnings measure for real estate companies,” said Steven A. Wechsler, NAREIT’s President and CEO. “We will primarily utilize GAAP net income to the extent practicable, supplemented by FFO, in our analysis of and communications about the publicly traded real estate industry. In addition, we welcome the efforts of analysts and others to increasingly rely upon and utilize net income in their analysis of the real estate industry. FFO remains a useful supplemental earnings measure for a variety of reasons, including the treatment of depreciation and property sales under GAAP,” he added.

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The clarification of NAREIT's FFO White Paper was needed to ensure that a change in a GAAP classification made by FAS 144 did not create an inappropriate and unintended change in reported FFO. "As is the case with bottom-line GAAP net income, FAS 144 should not change 'bottom-line FFO,'" according to George Yungmann, NAREIT's Vice President for Financial Standards.

In reaching their conclusions, the BFPC and Board of Governors considered comments received from member companies, as well as industry investors, analysts and other participants.

The clarification of FFO is effective January 1, 2002 and should be applied by real estate companies to all periods presented in financial statements or tables.

The revised White Paper on FFO can be found in the "Accounting Issues" section of NAREIT's web site, [www.nareit.com](http://www.nareit.com).

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The National Association of Real Estate Investment Trusts<sup>®</sup> (NAREIT) is the national trade association for REITs and publicly traded real estate companies. Members are real estate investment trusts (REITs) and other businesses that own, operate and finance income-producing real estate, as well as those firms and individuals who advise, study and service those businesses. Visit our web site at [www.nareit.com](http://www.nareit.com).

