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September 17, 2009

Ms Danielle Zeyher, Project Manger
Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06856-5116

Subject: Your September 17 Message to Leases Working Group Members

Dear Danielle:

Because the real estate industry has not regularly faced accounting for "in-substance purchases/sales", this response to the five questions in your September 17, 2009 message only focuses on questions 1 and 2.

For reference, these questions are:

Question 1:

Should there be different leasing models depending on the business model of the company? How many models would you suggest? What criteria should be used to differentiate which model to use?

Question 2:

Do you have specific lease transactions that would lend themselves to certain models? If so, please describe which transactions would fall into which models (derecognition, performance obligation, or other).

The following response is based on input from of members of the REESA (the global Real Estate Equities Securitization Alliance) – specifically, individuals operating in the real estate industry from Australia and Asia, North America and Europe.

As discussed in i) REESA's July 17, 2009 comment letter on the Leases Preliminary Views Document (the Document), ii) REESA's July 14, 2009 meeting with representatives of the FASB and IASB and iii) the August 25 meeting of six prominent industry financial statement users from North America and Europe, the Boards proposed approaches to lessor accounting would not provide useful information to management or to users. To summarize the views of users, John Lutzius of Green Street Advisors, one of the financial statement users in attendance, stated that “a change in accounting presentation to show real estate broken out between the net present value of leases in place and residual value would, in my view, be very disruptive to the user community in both the U.S. and Europe”. Other users commented on the diminution of useful information if rental revenue were bifurcated as interest income and rental income in the income statement.

Our comments in this letter are therefore premised by the REESA view that the Boards should exclude lessor accounting of leases of real estate held for investment from the scope of the proposed new model and that such accounting should be developed separately within the IAS 40 framework. IAS 40 already provides an appropriate model for property lessors This model focuses on the economic characteristics of investment property and the presentation of rental income and fair value of the tangible real estate. It provides a useful and widely supported approach for evaluating investment property performance in the light of changing market values for rents and valuation yields and enables meaningful financial analysis to be undertaken

The fundamental reason for concluding that the proposed approaches are not appropriate is that the business of leasing investment property is very different than providing a lease alternative to financing the acquisition of assets. It seems to us that Boards’ current views are to some extent prejudiced by the very opening statement in paragraph 1.2 of the Document, “Leasing is an important source of finance to business.” *The business of leasing space in investment property is in no way financing transactions.* It is integral to owning, operating and creating/enhancing the value of the properties and of the shareholders’ equity.

If the Boards eventually conclude that a new model is required for lessors of investment property (as opposed to retaining IAS 40 as the guidance), we would strongly urge the Boards to develop at least two lessor accounting models that reflect the distinctions between leases that simply finance assets and those that are clearly an integral part of the operating business plan of the entity owning the asset – we’ll refer to the latter as an operating lease.

Some of the criteria that might be considered in determining whether a lease is an “operating lease” include:

- The leased asset can not be purchased/financed
- Multiple leases cover a larger asset – specific leases covers only a portion of a larger asset, *e.g.* a major office building or retail center may be leased under hundreds of leases of portions of the property.
- The lessor maintains and operates aspects of the overall asset while the lease is in place
- The lessee’s obligations can be impacted by other lessees’ actions, *e.g.* co-tenancy clauses.
- The lease agreement has no residual value
- The lease has no implicit interest rate
- The lease has no purchase option at the end of the lease term
- The lease terms are driven by the supply/demand for the leased asset – the leased space in a real estate lease
- The term of the lease is substantially shorter than the useful life of the leased asset

- The same portion of the larger asset will generally be leased multiple times during the asset's useful life
- The lease provides substantial services over and above the right to use the leased asset (For example, most leases of investment property provide i) the right to use common areas; ii) management of energy/utilities; iii) security; iv) common area maintenance, and v) management of capital improvements.

While we continue to believe that the most direct route to relevant lessor accounting for leases of investment property is through IAS 40, we also support the notion of developing a broader lessor accounting model that would be more relevant to other businesses that use leases as an integral part of their on-going operations.

REESA appreciates the opportunity to participate directly in the Boards' project to develop relevant lessor accounting models. In particular, we look forward to supporting the Boards' examination of an appropriate lease accounting model for lessors of investment property.

Respectfully submitted,

George L. Yungmann
Sr. VP, Financial Standards
National Association of Real Estate Investment Trusts