NATIONAL ASSOCIATION OF
REAL ESTATE INVESTMENT TRUSTS®

May 29, 2015

Ms. Susan Cosper
Technical Director
File Reference No. 2015-240
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116
director@fasb.org

Delivered Electronically

Re: Proposed Accounting Standards Update *Revenue from Contracts with Customers (Topic 606) Deferral of Effective Date*

Dear Ms. Cosper:

This letter is submitted by the National Association of Real Estate Investment Trusts® (NAREIT) to provide support and input to the Proposed Accounting Standards Update *Revenue from Contracts with Customers (Topic 606) Deferral of Effective Date* (the Proposal). For reasons discussed further below, NAREIT agrees that the Financial Accounting Standards Board (FASB or Board) should defer the effective date of *Revenue from Contracts with Customers* Standard (the *Revenue Recognition* Standard).

NAREIT is the worldwide representative voice for real estate investment trusts (REITs) and publicly traded real estate companies with an interest in U.S. real estate and capital markets. NAREIT's members are REITs and other real estate businesses throughout the world that own, operate and finance commercial and residential real estate. NAREIT's members play an important role in providing diversification, dividends, liquidity and transparency to investors through their businesses that operate in all facets of the real estate economy.

REITs are generally deemed to operate as either Equity REITs or Mortgage REITs. Our members that operate as Equity REITs acquire, develop, lease and operate income-producing real estate. Our members that operate as Mortgage REITs finance housing and commercial real estate, by originating mortgages or by purchasing whole loans or mortgage backed securities in the secondary market.

A useful way to look at the REIT industry is to consider an index of stock exchange-listed companies like the FTSE NAREIT U.S. All REITs Index, which covers both

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Equity REITs and Mortgage REITs. This Index contained 220 companies representing an equity market capitalization of $966 billion at March 31, 2015 Of these companies 179 were equity REITs representing 93.6% of total U.S. stock exchange-listed REIT equity market capitalization (amounting to $904 billion)[1]. The remainder, as of March 31, 2015, is represented by 41 stock exchange-listed mortgage REITs with a combined equity market capitalization of $62 billion.

NAREIT Recommendation

NAREIT concurs with the Proposed Deferral of the *Revenue Recognition* Standard. While NAREIT does not have a strong preference for a one year or two year deferral, NAREIT recommends that the Board align the effective date with that of other standard setting on the Board's agenda that will impact the real estate industry (*i.e.*, *Leases, Clarifying the Definition of a Business*, and *Revenue Recognition – Identifying Performance Obligations and Licenses* Projects).

Revenue Recognition and Leases Projects

Through our evaluation of exposure drafts and observing the Boards' ongoing re-deliberations, NAREIT has identified the following examples where the *Revenue Recognition* and *Leases* Projects are interrelated:

- Scope - The *Revenue Recognition* Standard clearly excludes leases from the scope of the standard. Similarly, if a contract does not meet the definition of a lease within the *Leases* Proposal, then the contract would probably be subject to the *Revenue Recognition* Standard for the party providing the service.

- Accounting for Sales-type Leases by Manufacture/Dealers – While leases are outside the scope of the new *Revenue Recognition* Standard, accounting for sales-type leases would be in scope. The timing of profit recognition will be determined by whether control has passed from the seller to the purchaser pursuant to the new *Revenue Recognition* Standard.

- Sale-leaseback transactions – While leases are outside the scope of the new *Revenue Recognition* Standard, accounting for sales would be in scope. Whether or not sales treatment is achieved will impact the ensuing treatment of the lease transaction.

- Collectability – Collectability of rent by the lessor assessed pursuant to the new *Revenue Recognition* Standard will affect the lessors' accounting (We note here in passing that both Type A lease receivables and residual values and Type B lease receivables will be subject to the new impairment guidance under development).

[1]https://www.reit.com/sites/default/files/reitwatch/RW1504.pdf at page 21.

Revenue Recognition – Identifying Performance Obligations and Licenses and *Leases* Projects

An area that continues to be of particular interest is the accounting treatment for tenant reimbursements by lessors. In a situation where a gross lease is negotiated between a landlord and tenant, the lease agreement will specify a single amount that the tenant will pay in rent. This amount will include other items beyond the payment to rent the space, including common area maintenance, taxes, insurance, and perhaps other services. Preparers and auditors alike continue to grapple with whether a portion of the rent payment should be allocated to these other embedded items. In our view, the answer to this question could have a significant impact on the financial statements. For example, this could impact the amount of the lease payables and receivables recognized on the balance sheet, income statement presentation, and footnote disclosure in the lease commitment table.

Revenue Recognition and *Accounting for Sales of Real Estate*

The determination of whether real estate meets the definition of a business under the FASB's *Clarifying the Definition of a Business* Project could have a significant impact on accounting for sales of real estate including, most notably, partial sales of real estate. If real estate does not meet the definition of a business, the accounting treatment of the sale will presumably follow the new *Revenue Recognition* Standard. If real estate meets the definition of a business, the accounting treatment for the sale may ultimately be outside the scope of the *Revenue Recognition* Standard, and be subject to Consolidation guidance. A complicating scenario that has not yet been addressed by the new *Revenue Recognition* Standard is the accounting treatment for partial sales of real estate. With the removal of sections of Accounting Standards Codification (ASC) 360 *Property, Plant, and Equipment* that deals with sales of real estate (formerly FAS 66 *Accounting for Sales of Real Estate*), questions surround how to account for partial sales of real estate.

Transition

Because of the significance of these other Projects and their interrelationship to the *Revenue Recognition* Standard, NAREIT does not support an option to early adopt the *Revenue Recognition* Standard. Further, NAREIT values comparability across the industry to be of utmost importance so that investors and analysts can readily compare the operating performance of NAREIT member companies.

We thank the FASB for the opportunity to comment on the Proposal. If you would like to discuss our views in greater detail, please contact George Yungmann, NAREIT's Senior Vice President, Financial Standards, at gyungmann@nareit.com or 202-739-9432, or Christopher Drula, NAREIT's Vice President, Financial Standards, at cdrula@nareit.com or 202-739- 9442.

Respectfully submitted,

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