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NATIONAL ASSOCIATION OF REAL ESTATE INVESTMENT TRUSTS®

September 7, 2004

VIA E-MAIL

Letter of Comment No: 15
File Reference: 1201-100
Date Received: 9-9-04

Ms. Suzanne Q. Bielstein Director of Major Projects and Technical Activities Financial Accounting Standards Board 401 Merritt 7 Norwalk, Connecticut 06856-5116

Re: Proposed Exposure Draft on Fair Value Measurements (File No. 1201-100)

Dear Ms. Bielstein:

The National Association of Real Estate Investment Trusts® ("NAREIT®") welcomes this opportunity to respond to the request for comments from the Financial Accounting Standards Board ("FASB" or "Board") on the proposal contained in File No. 1201-100, dated June 23, 2004 ("ED"). NAREIT is the national trade association for real estate investment trusts ("REITs") and other publicly traded real estate companies. Members include 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.

NAREIT commends the FASB's efforts to continue to develop high-quality accounting standards that improve the transparency, usefulness and credibility of financial reporting. We believe that it is useful to have guidance for measuring fair value, where required by any accounting standard, available in a single standard, rather than being dispersed in a variety of pronouncements. However, we would like the Board to clarify or expand on certain items in the ED.

First, it is unclear to us if the Board intends for companies to use multiple valuation techniques for each transaction (pursuant to paragraph 21) or use only the most relevant technique that is consistent with the market, income and cost approaches.

1875 Eye Street, NW, Suite 600, Washington, DC 20006-5413 Phone 202-739-9400 Fax 202-739-9401 www.nareit.com Second, it is unclear to us if a company or an appraiser would have to assume the highest and best use of a property when estimating its fair value. The fair value of real estate property varies by property type, market conditions and location among other things. A company may report as an asset the ownership of a strip center and may intend to continue to operate that strip center. However the highest and best use of the land may be to demolish the strip center and construct a high-end retail center or an apartment complex in its place. Would the ED require that the company or appraiser assume the continued use of the land as a strip center or an alternative structure when estimating fair value?

Third, paragraph 12 of the ED states, "Market inputs shall be determined based on information that is timely, originated from sources **independent of the entity**, and used by marketplace participants in making pricing decisions [emphasis added]." It goes on to give examples of such inputs. We are concerned that this guidance may not allow the use of inputs derived by a company's own market transactions related to a particular property. For example, actual leasing experience between the owner of a particular office building and its tenants may provide the best inputs for projecting the future cash flows from that property. Another example would be the use of recent prices of residential lot sales achieved by an owner/developer in a specific community. These market inputs between a property owner and a third party may be the most relevant inputs in the determination of fair value. We request that the Board clarify that these inputs represent valid market inputs under the final standard.

Finally, we believe that nonfinancial assets and liabilities, as well as illiquid financial assets and liabilities, would typically be more likely than liquid financial assets and liabilities to require measurement using Level 3 estimates. These types of estimates require the most judgment among the levels of estimates in the determination of fair value. Accordingly, we believe that a final Statement should provide additional guidance; perhaps through additional examples in Appendix B, relating to nonfinancial assets and liabilities, such as real estate or intangible assets acquired in a business combination and impaired assets.

NAREIT thanks the Board for this opportunity to comment on the Proposal. Please contact Gaurav Agarwal, NAREIT's Director, Financial Standards, at (202) 739-9442 or me at (202) 739-9432 if you would like to discuss our comments. We would welcome the opportunity to assist the Board in any manner possible, including participating in the public roundtable planned for later in the month.

Respectfully submitted,

George Yungmann

Vice President, Financial Standards