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Technical Director
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Financial Accounting Standards Board
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Healthcare Realty Trust Incorporated (“HR”) is a Real Estate Investment Trust that owns medical office buildings and is primarily a lessor of real estate space. This letter is provided in response to your request for comments regarding the Exposure Draft of the Proposed Accounting Standards Update on Topic 842, Leases (the “Exposure Draft”).

We are very pleased that the Board responded to its constituents regarding the issues that are listed in the Exposure Draft. As a lessor with a lease population of greater than 2,000 leases, we were in the process of evaluating the impact of the adoption of the standard and the significant cost and effort that would be required to provide a reasonable process surrounding separation of non-lease components that would result in the same pattern of revenue recognition with only a difference in presentation on the Statements of Income. The Company agrees with the concerns listed in the Exposure Draft basis for conclusions regarding the separation of the non-lease components.

The following section is the Company’s response to the questions outlined in the Exposure Draft:

Transition – Comparative Reporting at Adoption

Question 1: Would the proposed optional transition method to apply the new lease requirements through a cumulative-effect adjustment in the period of adoption reduce the costs and complexity associated with implementing Topic 842? If not, please explain why.

Yes, allowing the cumulative-effect adjustment in the period of adoption would reduce the costs and complexity associated with implementing Topic 842.

Question 2: Is the proposed transition method, as written in this proposed update, operable? If not, please explain why.

Yes, the proposed transition method, as written in this proposed update, is operable.

Separating Components of a Contract

Question 3: Would the practical expedient in this proposed update for lessors to not separate non-lease components from the related lease components and, instead, to account for those components as a single lease component reduce costs and complexity associated with applying Topic 842 by lessors? If not, explain why.

Yes. We are a significant lessor and the practical expedient in this proposed update for lessors to not separate non-lease components from the related lease components and, instead, to account for those

components as a single lease component, will dramatically reduce costs and complexity associated with applying Topic 842 by lessors.

Question 4: Is the proposed practical expedient, as written in this proposed Update, operable? If not, please explain why.

Yes, the proposed practical expedient, as written in this proposed Update, is operable. However, we suggest the Board focus the following proposed improvements:

Example 12, Case C in the Accounting Standards Codification 842-10-55-144-145 - This example refers to a situation where a portion of a building is leased and the lessor provides common area maintenance activities. We suggest that a parenthetical qualifier be added to this example referring to the proposed practical expedient similar to the proposed adjustment to paragraph 842-10-55-134 in the Exposure Draft.

Paragraph 842-10-15-42A in the Exposure Draft - The practical expedient allowing lessors the option not to separate non-lease components from lease components has two conditions that are required to be met. The first condition states that the timing and pattern of revenue recognition for the lease and non-lease component associated with the lease component is the same. We suggest the following:

First, the Board should clarify the meaning of timing and pattern of revenue recognition. We interpret the phrase “timing and pattern” to mean that the financial statements would be the same for each period presented whether we account for the lease and non-lease component as a single component or two separate components. We believe that this is consistent with the logic explained in Topic 842 paragraph BC153, “(for example, a lessor may be able to conclude that accounting for an operating lease and a related service element as a single component results in the same accounting as treating those two elements as separate components).” We understand that there is a conflicting interpretation of what is meant by timing and pattern focusing on accounting methods (e.g., straight-line versus variable recognition) rather than the overall impact to the financial statements.

Second, while the timing and pattern of recognition would be the **same** in most cases, the Board should add **substantially the same** to the condition. This should prevent differences that could arise from uncertainties in judgments when analyzing the timing and pattern of revenue recognition.

Question 5: Would the information in the financial statements, including disclosures, provided by lessors electing the practical expedient in this proposed Update be decision-useful? If not, please explain why.

Yes, the information in the financial statements, including disclosures, provided by lessors electing the practical expedient in this Exposure Draft would be decision-useful. The highly subjective estimations resulting from the process of separating between lease and non-lease components would confuse and likely mislead users of our financial statements. Based on our discussions with significant investors and analysts, they view common area maintenance as a component of the lease, rather than a separate service, and thus providing separate presentation and disclosures of those amounts under two different standards would not provide useful information.

We appreciate the opportunity to provide this feedback on the Exposure Draft.

Healthcare Realty Trust Incorporated:


Amanda L. Callaway, Chief Accounting Officer


Bruce D. Sullivan, Audit Committee Chair