September 12, 2018

Ms. Susan M. Cosper, Technical Director
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116
director@fasb.org
Delivered Electronically

File Reference No. 2018-260, FASB Exposure Draft, *Narrow-Scope Improvements for Lessors*

Dear Ms. Cosper,

Thank you for the opportunity to provide feedback on the Proposed Accounting Standards Update – Leases (Topic 842): Narrow-Scope Improvements for Lessors.

EPR Properties (EPR) is a triple-net lease real estate investment trust (REIT) specializing in investments in entertainment, recreation and education properties. As of June 30, 2018, we have 396 properties located in 43 states and Canada. Our leases are primarily structured as triple-net leases, which transfers the obligation to our lessees to pay taxes, insurance and maintenance associated with the leased property.

Sales and Other Similar Taxes Collected from Lessees:

We agree with the proposed accounting policy election to allow lessors to exclude sales and similar taxes from revenue and expense. We do not believe these items represent lease revenue, but rather are a cost of the lessee for occupying the property. Additionally, because the effect of reporting these taxes has no impact on net income, we believe it is appropriate to exclude these items from the income statement of a lessor and the reporting of these items has little to no benefit to financial statement users.

Certain Lessor Costs Paid Directly by Lessees:

We support the proposed amendments which allows lessors to exclude variable payments made directly by the lessee to a third party when the amount is not readily determinable by the lessor. However, we would like to propose to expand the scope of these costs to include all lessee paid costs paid directly to third-parties, if an accounting policy is elected, like the election offered for sales and other similar taxes. As stated above, most of our leases are triple-net. Triple-net leases obligate the lessee to pay property related costs directly. The lessee agrees to be obligated for property taxes, insurance and maintenance costs as a part of the agreed-upon terms of the lease agreement that gives the lessee control of the leased asset for the term of the lease. Under current practice in our triple-net lease industry, lessee paid costs are reported net. The effect of potentially reporting these items as lessor revenue and expense would inflate revenues and expenses with no impact to net income or industry performance measures. In addition, we believe the requirement to report certain lessor costs as revenue and expense would change the lessor accounting model, which was not intended to change significantly under Topic 842. We believe that a policy election to report these costs net is necessary for the following reasons:

- Limited Value to Management and Financial Statement Users: We believe there is limited value for this information to management, analysts and financial statement users. Management does not make any operating decisions based on this information and the amount of lessee paid costs is not requested or used by our analysts or investors. In addition, as this proposed gross-up of revenue and expense has no impact to net income or FFO (a commonly used non-GAAP performance measure used to evaluate a REIT's performance), we believe there no value in providing this information. Information on lessee paid costs is not currently provided in our financial statements and has never been requested by our investors our analysts. We have had feedback from our equity analysts on this issue that it the analysts would ask for these items to be quantified so they can remove from our financial statements for their use in valuing the company. We believe there is no benefit for EPR and its management or for the users of our financial statements in including these costs in our financial statements as revenue and expense.

- Operational Challenges: Due to our triple-net lease structure, our tenants are required to pay all costs of occupying the property including property taxes, insurance and maintenance expenses. As these costs are paid directly to third-parties, there are certain challenges in obtaining the amount of property taxes paid by the tenant including:
    - Our properties are in 43 states and multiple jurisdictions within each state. In many jurisdictions, only one copy of the property tax bill will be sent to the tenant and EPR has no visibility to the assessment or payment amounts.
    - There is not one source for property tax information. Obtaining this information would require a significant process change including the addition of full-time employees or a costly service provider to gather this data. It is important to note, when we do have a vacant property, the property taxes and other lessee costs are paid by EPR and expense is recorded in our financial statements, however, this situation is uncommon. We do not believe property taxes are a cost of ownership unless the property is vacant.
    - As the property tax payments are the responsibility of the tenant, the tenant initiates the process to appeal its property tax assessment. EPR has no visibility to these appeals and the property tax amount can change significantly through this process or the tenant can receive a refund of property taxes, which EPR is not made aware.
    - In some cases, the status of the tenant can change the amount of the property tax obligation. For example, in our education portfolio, many of our public charter school tenants can become exempt from property taxes or pay a reduced amount due to the nature of their operations (not-for-profit education properties). In these cases, EPR as owner of the real estate does not have any impact on the amount or exemption of property taxes.
    - Certain jurisdictions do not have online information available where a lessor can retrieve property tax information (assessments, notices, invoices or tenant payment details.) In those jurisdictions, an email, telephone call, fax or letter is required to obtain any property tax documentation. We may be required to contact the same jurisdiction multiple times to receive all necessary information on a single property.
    - Because our triple-net leases assign the payment of property taxes and other costs to the tenant, our tenants do not have any contractual obligations to us to report the amounts to EPR. Although we can request this information from our tenants, it is unlikely they would be able to provide it for accurate and timely reporting. EPR recognizes as the owner of the property that we are the primary obligor for the payment of the property taxes, however, as we have obligated our tenants to pay these costs directly, it would be challenging and costly to gather this information.
    - The concept of "readily determinable" is subject to judgment and may result in diverse application of the guidance. We believe the amount of property taxes and other cost our tenants pay is not readily determinable. Obtaining this information would be difficult and time consuming as we do not have routine access to the information. In addition, it would require us to estimate amounts that may be significantly different from actuals due to appeals or timing of payments. Based on the results of the March 2018 FASB meetings, we were happy to see that property taxes were considered in the scope of lessor costs paid by the lessee that would be included in the scope of costs that are

covered by an accounting policy election to present such costs net; however, it is uncertain in practice how this will be applied, as we understand there are divergent conclusions on if property taxes meet the definition of readily determinable.

Based on the reasons identified above, as there is no benefit to users of the financial statements and application of this aspect of the guidance would cost EPR a significant amount, EPR would like to propose that the FASB allow lessors, as an accounting policy election, to account for lessee-paid costs on a net basis and exclude these costs from rental revenue and lessor expenses.

Subleases:
In addition to EPR's traditional lessor arrangements, EPR has certain operating land lease arrangements where we are the lessee and sub-lessor. Traditionally as a REIT, EPR owns the land and building for our real estate investments, however, in some situations, the land is not available for purchase and EPR enters into a ground lease arrangement. EPR subleases the ground lease to its building tenant and passes the obligation on to our sublessee to pay all land lease related payments directly to the ground owner. It is important to note that EPR is passively involved in these arrangements. EPR does not pay any cash out for ground lease payments, rather the sublessee (the ultimate lessee) pays all costs directly to the ground owner. EPR does recognized that we are primary obligor on these arrangements and we will be reporting a lease liability and right-of-use asset for the ground rent payments, however, we have no visibility to the variable payments made directly by the sublessee to the ground owner. The sublessee is contractually obligated to make all these payments directly. Because of the elections provided for above regarding lessor costs paid by the lessee, we believe this election should also be applied to sublease arrangements.

Currently, as the new guidance is proposed, EPR would not be able to elect the lessor relief in this sublease situation as the income statement presentation would not reflect the nature of the payments. We would need to include the revenue from the sublessee to offset the expenses we would be required to report as lessee. EPR would like to propose to expand the scope of the election to report lessor costs paid directly by lessees to include costs paid directly by sublessees in a sublease arrangement. We believe that a policy election to report these costs net is necessary for the following reasons:

- Information is Not Readily Determinable: Similar to the fact pattern outlined above for our traditional lessor arrangements regarding lessor costs paid directly by the lessee, EPR believes this should apply to subleases as well. These costs are not readily determinable by EPR as the lessee and sublessor in these arrangements, as the costs are paid directly by the sublessee.

- Limited Value to Management and Financial Statement Users: We believe there is limited value for this information to management, analysts and financial statement users. Management does not make any operating decisions based on these variable payments. The proposed gross-up of these payments have no impact on net income or FFO. This information has never been requested by our investors or analysts. In addition, there would be no impact to cash inflow or outflow and no impact to the Statement of Cash Flows. We believe that the users of our financial statements would not benefit from this information and our users would likely ask for these items to be quantified so they can remove from our financial statements for their use in valuing the company. We believe there is no benefit for EPR and its management or for the users of our financial statements in including these costs in our financial statements as revenue and expense.

- Operational Challenges: We do not have visibility to the variable payments (such as property taxes, insurance and common area maintenance costs) made by our sublessee to the ground owner. If we were required to report these items, we would have to make estimates and obtain information that is uncertain. This information is not readily determinable, and we do not expect the uncertainty to be resolved. Our sublessee is not contractually obligated to provide us this information and we do not have routine access to this information. Obtaining this information would require a significant process change including the addition of full-time employees or a costly service provider to gather this data.

Based on the reasons identified above, as there is no benefit to financial statement users and application of this guidance would be costly to EPR, we would like to propose an expansion of the lessee paid costs to specifically include sublease arrangements.

Thank you for your consideration of these matters. Please feel free to contact us with any questions.

Sincerely,

Tonya L. Mater
Vice President and Chief Accounting Officer
EPR Properties (NYSE "EPR")