September 12, 2018

Ms. Susan M. Cosper, Technical Director
Financial Accounting Standards Board ("FASB")
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Delivered Electronically

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

Dear Ms. Cosper,

This letter is submitted by a coalition of triple-net lease real estate investment trusts ("REITs") that are member companies of The National Association of Real Estate Investment Trusts ("Nareit"). We want to thank you for the opportunity to provide feedback on the proposed Accounting Standards Update – ***Leases (Topic 842): Narrow-Scope Improvements for Lessors***. We would also like to thank the Board for its careful consideration of our request.

Sales and Other Similar Taxes Collected from Lessees:

We agree with the FASB's proposed accounting policy election to allow lessors to exclude sales and similar taxes from revenue and expense. The election would allow a lessor to avoid the determination of whether it is obligated to pay the tax to the taxing authority. Additionally, these items do not represent lease revenue, but rather are a cost of the lessee for occupying the property. Finally, because the effect of reporting these taxes has no impact on net income or industry performance measures, the reporting of these items has little to no benefit to financial statement users and reporting would place an undue burden on lessors to collect and report this information.

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. Consistent with sales and other similar taxes discussed above, the effect of reporting these costs has no impact on net income or industry performance measures. Therefore, the reporting of these items has little to no benefit to financial statement users, may not be reflective of amounts that would be paid by another lessee (or the lessor should the property go vacant) and reporting would place an undue burden on lessors to collect and report this information.

However, we request the FASB provide an accounting policy election, similar to the election offered for sales and other similar taxes, to allow lessors to elect to account for all lessee-paid amounts as if they were costs of the lessee and exclude them from rental revenue and lessor expenses (i.e., report on a "net" basis). Triple-net leases obligate the lessee to pay property taxes, often directly to the jurisdiction. The lessee agrees to be responsible 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. 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 ASC 842. We believe that a policy election to report these costs on a net basis 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, lenders and financial statement users. Management does not make any key 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, 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 have received feedback from some of our equity analysts and lenders on this issue and many would ask for these items to be quantified so they can remove the gross up from our financial statements when evaluating the operating performance of the company. Some stated that a gross presentation was not applicable to a triple-net lessor and it is improper to try to compare a triple-net lessor to a gross lease concept.

- 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 challenges in obtaining the amount of property taxes paid by the tenant including:
    - In many jurisdictions, only one copy of the property tax bill will be sent to the tenant and the lessor has no visibility to the assessment or payment amounts.
    - There is not one source for property tax information. Obtaining this information would require a burdensome process change including the addition of full-time employees or engaging a costly service provider to gather this data. These costs would ultimately be passed to the stockholders of the company. We do not believe property taxes are a cost of ownership under a triple-net lease unless the property is vacant.
    - As the property tax payments are the responsibility of the tenant, the tenant often initiates the process to appeal its property tax assessment. The lessor 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, of which the lessor is usually not made aware.
    - 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. A company 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 obligation to pay property taxes and other costs to the tenant, tenants have no further contractual obligation to report related amounts to the lessor. Although we can request this information from our tenants, it is unlikely tenants would be able to provide it for accurate and timely reporting.
    - The concept of "readily determinable" is subject to judgment and may result in diverse application of the guidance. Based on the challenges present to obtain relevant information, we believe the amount of property taxes and other costs 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 pleased to see that property taxes were considered in the scope of lessor costs paid by the lessee that would be included in an accounting policy election to present such costs net; however, it is unclear in practice how this will be applied, as we understand there are differing conclusions on property taxes are readily determinable.

We believe that when the application of GAAP requires substantial incremental costs to a company but does not provide additional value to the company, to the management team and most importantly to the users of the financial statements, it becomes a costly compliance exercise with little benefit.

Based on the reasons identified above, we believe that the FASB should allow lessors, as an accounting policy election, to account for lessee-paid costs to be costs of the lessee and exclude them from rental revenue and lessor expenses.

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

Sincerely,

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