Developers Diversified Realty Corporation

October 23, 2003

Mr. Robert H. Herz Chairman Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, Connecticut 06856-5116

Re: Comments on Proposed FASB Staff Position 150-c, Effective Date and Transition for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities of FASB Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity and FASB Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity

Dear Mr. Herz:

Developers Diversified Realty Corporation ("DDR") is a large publicly held real estate investment trust with approximately \$3.4 billion in net real estate assets. We own, develop, acquire and operate retail and industrial real estate assets in 44 states. Like many real estate companies, we conduct a significant amount of activity through joint venture arrangements, which are organized in a partnership structure (or "partnership-like" structure such as a limited liability company). By practice, or as required by certain state reporting statutes, these entities often have finite lives, often extending 99 years, and providing for further extension. To the extent that we control these investments, the assets and liabilities of such investments are consolidated, with the non-owned investor's portion reflected in the mezzanine section of the balance sheet as minority interest.

We are submitting this letter as a request for the Financial Accounting Standards Board ("FASB") to:

- Modify the provisions of FASB Staff Position 150-c ("FSP") to expand the scope of the proposed deferral of FASB Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity ("SFAS 150") to mandatorily redeemable financial instruments of publicly held entities and
- Reconsider certain aspects of SFAS 150 as they relate to the minority interest of non-wholly owned consolidated entities described above.

We believe that, as currently interpreted, SFAS 150 will inappropriately and significantly impact the financial statements of DDR and other real estate and non-real estate companies that currently consolidate non-wholly owned, finite life entities. Furthermore, we believe that the impact will gain even more significance when DDR adopts FASB Interpretation No. 46, Consolidation of Variable Interest Entities ("FIN 46") in the 4th quarter 2003, due to the number of previously unconsolidated entities which will then be consolidated in the financial statements.

Prior to SFAS 150, the balance of our minority interest reflected the *book value* of our outside partners' claim on the net assets of our Company. We understand that pursuant to the provisions of paragraph 9 of SFAS 150, effective for our third quarter of 2003, the minority interest in non-wholly owned consolidated entities which have finite lives will meet the definition of a mandatorily redeemable financial instrument, in our consolidated financial statements, as such amounts represent an "unconditional obligation" redeemable by transferring assets at a specified or determinable date (or dates) or upon an event certain to occur (i.e. upon termination of the finite life entity). Furthermore, we understand SFAS 150 requires that the minority interest balance be reflected at settlement value pursuant to the contract terms at liquidation, with offsetting adjustments to earnings. Since this "unconditional obligation" exists only if the estimated settlement value is actually realized from the future liquidation of assets, it is our belief that the settlement value adjustment to minority interest is not only subjective, but also premature.

While we believe that real estate generally appreciates (not depreciates as existing GAAP requires), we are unclear, and ask the FASB to reconsider the usefulness of effectively limiting the fair value adjustment pursuant to the provisions of SFAS No. 150 to the portion of the real estate assets and liabilities owned by our minority partner, and not reflecting the corresponding adjustment in the fair value of the underlying assets in our financial statements. Furthermore, we believe an adjustment of minority interest to settlement value without any consideration or discount given to restrictions and limitations contained in the partnership agreements, which indisputably impact the liquidity of that minority interest, creates another disparity between the contemplated settlement value and the fair market value of the minority interest. We do not believe financial statements prepared on this basis would be representatively faithful and that the inaccurate picture of the company's net worth and operating results would disserve the investing public.

To highlight this perceived injustice with SFAS 150 as it relates to minority interest, the following is a recent quote from a JP Morgan analyst, "In a nutshell, SFAS 150 and FIN 46 will force certain JV's to be consolidated, with the partners' interests marked-to-market each quarter. Aside from reducing predictability, the effect is twisted as charges will be recognized at the REIT level to offset the increased value of a partner's investment. Thus, if a REIT does a good job and creates value for its partners, its earnings will be negatively impacted." In line with others in and associated with the real estate industry, we take issue with the premise that an increase in the value of the property held in a joint venture will result in a reduction to earnings. (Statement 150 creates an apparent conflict in the motivation of the consolidating majority interest holder.)

Furthermore, an analyst from Merrill Lynch stated:

- As outlined in our report entitled "Discussion on FIN 46 and FAS 150," dated Friday October 17th, we believe that there is no real economic change as a result of FAS 150.
- Therefore, we plan to "add back" these expenses on a quarterly basis in our computation of AFFO (Adjusted Funds From Operations) which we believe closely resembles the true economic profitability of a REIT.
- Nevertheless, the adoption of FAS 150 may cause some confusion among investors which may create additional buying opportunities within the sector.

Moreover, we do not believe there is a uniform model for fair value. Accordingly, there will be no comparability among the methods employed by different companies to arrive at the settlement value of minority interest. We believe that any benefits of SFAS No. 150, as it applies to minority interest in finite life entities, will be severely outweighed by the cost relating to the inability for lenders, investors, and other stakeholders to compare the performance of "like" companies.

Given the significance of the issues described above to DDR and to many other companies like ours, we are hopeful that the FASB will reconsider this aspect of SFAS No. 150. We believe that, at the very least, the Board should expand FSP 150-c to include publicly held entities in the proposed deferral as well as defer the application of SFAS 150 to those liabilities that represent residual interests with the right to participate in the final liquidation of the net assets of an entity that is included in the consolidated financial statements. We also request that the FASB consider the time sensitivity of the above in light of calendar year companies with third quarter earnings releases. Our earnings release is scheduled for October 30, 2003 and the issuance of our 3rd quarter financial statements is scheduled for November 14, 2003.

We appreciate the opportunity to participate in FASB's standard setting process. If you have any questions regarding this response, please contact me at (216) 755-5775.

Respectfully Submitted,

Developers Diversified Realty Corporation

William H. Schafer Sr. Vice President and Chief Financial Officer

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