

Letter of Comment No: 5/ File Reference: 1100-LEU Date Received: /0/23/03

October 23, 2003

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

Re: Statement of Financial Accounting Standard No. 150. Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity

Dear Mr. Herz:

General Growth Properties, Inc. (General Growth) has recently become aware that the Financial Accounting Standards Board (the Board) is evaluating whether to reconsider certain aspects of Statement of Financial Accounting Standard No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS 150). The purpose of this letter is to demonstrate our concern about certain implications of SFAS 150 and request such a reconsideration by the Board General Growth is the second largest selfadministered regional mall Real Estate Investment Trust (REIT) in the United States. We currently own, develop, and operate regional malls and other retail properties in 39 states comprising over 142 million square feet of retail space. This portfolio is comprised of equity interests in over 125 properties representing a GAAP carrying value of over \$8 billion and management responsibilities for another 38 regional malls on behalf of institutional owners. General Growth is an active member of the National Association of Real Estate Investment Trusts (NAREIT) which we understand has already provided input to the Board on this subject. General Growth supports the views previously presented by NAREIT on this issue as certain members of its accounting staff have been involved in developing the NAREIT comments. However, there are certain points that we would like to stress to the Board in its reconsideration process that are of particular concern to General Growth specifically.

Like many real estate companies, General Growth invests in joint ventures or other entities that are organized in partnership or similar structures. By practice, or as required by certain state reporting statutes, these entities often have finite lives, albeit the termination dates may frequently be as far into the future as 99 years. Further the operating agreements governing these entities usually provide for mechanisms to extend the life of the entity. When a real estate company controls the jointly owned entity, the assets and liabilities of such entities are consolidated and the net assets after deducting the liabilities applicable to the



non-owned investor (i.e., its net equity position) are reflected in the balance sheet as minority interest separate from the parent company's liabilities or equities. Prior to the issuance of SFAS 150, these minority interests reflected the <u>book</u> value of the minority partners' claim on the net assets of the consolidated entity.

We have been informed that the proper interpretation of the provisions of paragraph 9 of SFAS 150, effective in the third quarter of 2003, would be that the minority interest of a jointly-owned consolidated entity as described above may meet the definition of a mandatorily redeemable financial instrument. Under that definition, we would be required to report this minority interest as liability, measured at its fair value at each balance sheet date. In addition, we understand that any changes to the fair value of the minority interest would be included in the parent's operating results for the periods in which the change occurs. General Growth firmly believes that this accounting would not result in financial reporting that faithfully represents the economics of our company's interest in consolidated iontity owned entities.

In our case, and we believe in most real estate joint ventures, the driver for changes in the fair value of the minority interest in a joint venture is the change in the fair value of the net assets of the venture. This is due to the fact that the operating agreements for these jointly owned entities generally provide the minority party with a residual interest in the final liquidation of the net assets of the joint venture. Therefore, if the fair value of the joint venture's net assets were to increase, SFAS 150 would require that the "liability" represented by the minority interest also increase. However, the jointly owned entity's underlying net assets would continue to be carried at historical cost in the consolidated financial statements. This technical separation of the increases in the net assets of the underlying joint venture from the liability that such increases create yields the counter-intuitive result that the better economically the joint venture is, the worse the parent company financial statements appear. As an example, if the value of a consolidated joint venture investment property increases by \$20 million during the reporting period and the minority interest is represented by a partner with a 25% ownership share, the parent would increase the minority interest liability and charge earnings for \$5 million in the current period. At the same time, none of the increase in the value of the underlying net assets would be recognized in the parent's consolidated financial statements. We do not believe that our operating financial results should be adversely affected by increases in a "liability" that would be more than offset by increases in the very assets that would be used to settle that claim.

As we currently understand SFAS 150, the implementation of this standard will have a significant impact on the entire real estate industry as General Growth is not unique within our industry in its use of joint ventures. Further, the impacts of



SFAS 150 on the industry's financial reporting will be amplified by the implementation of FASB Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46), which will increase the extent to which the real estate industry will be required to report minority interests in consolidated joint ventures.

We request that the Board urgently address this counter-intuitive financial reporting result. We and many of our peers in the real estate industry are attempting to implement SFAS 150 for the third quarter of 2003. We believe that, at the very least, the Board should defer the application of SFAS 150 to those "liabilities" that represent residual minority interests with rights to share in the final liquidation of the net assets of an entity that is included in consolidated financial statements.

General Growth appreciates the opportunity to participate in Board's standard setting process. If you have any questions regarding this response, please contact Scott Nelson at (312) 960-5842 or me at (312) 960-5252.

Sincerely,

Bernard Freibaum Chief Financial Officer

General Growth Properties, Inc.