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Technical Director
FASB
401 Merritt 7
PO Box 5116
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Via email: director@fasb.org

File Reference No.: 2013-270

Dear Technical Director:

We appreciate the opportunity to comment on the Financial Accounting Standards Board's ("FASB") Proposed Accounting Standards Update entitled *Leases* (the "Proposed Update"). Equity Residential ("EQR"), a Maryland real estate investment trust ("REIT"), is an S&P 500 company focused on the acquisition, development and management of high quality apartment properties in top United States growth markets. Equity Residential owns or has investments in 398 properties located in 12 states and the District of Columbia consisting of 113,388 apartment units. We are a member of the National Association of Real Estate Investment Trusts ("NAREIT") which is a member of the Real Estate Equity Securitization Alliance ("REESA"). We fully support the views expressed in the comment letter submitted by NAREIT on behalf of its members. While we support the continued efforts of the FASB to develop high quality accounting standards and converge U.S. Generally Accepted Accounting Principles ("GAAP") and International Financial Reporting Standards ("IFRS"), we do have suggested improvements to the Proposed Update. Below are our comments on matters outlined in the Proposed Update.

We generally agree with the proposal to recognize assets and liabilities arising from a lease. However, we do not agree with the classification of leases as Type A or Type B, particularly as it relates to long-term ground leases. Although the Proposed Update classifies leases of property as Type B leases, it appears to suggest long-term ground leases may qualify as Type A leases. Section 842-10-25-7 of the Proposed Update states that if the underlying asset is property, an entity shall classify a lease as a Type B lease unless one of the following two criteria is met:

a. The lease term is for the major part of the remaining economic life of the underlying asset.
b. The present value of the lease payments accounts for substantially all of the fair value of the underlying asset at the commencement date.

If either criterion above is met, the lease is classified as a Type A lease. EQR owns the buildings and improvements and leases the land underlying the improvements under long-term ground leases that expire on various dates through 2110 for several of its operating properties and one land parcel. Due to the long-term nature of these ground leases and the relationship between the present value of the lease payments and the fair value of the land at the lease commencement date, the Proposed Update suggests that these ground leases be classified as Type A leases. Under the Proposed Update, Type A leases appear to be consistent with the existing accounting for capital leases and Type B leases appear to be consistent with the existing accounting for operating leases. The Proposed Update is directly contrary to Section 840-10-25-37 of the existing codification, which states that if land is the sole item of property leased and either the transfer-of-ownership criterion in Section 840-10-25-1(a) or the bargain-purchase-option criterion in Section 840-10-25-1(b) is met, the lessee shall account for the lease as a capital lease. Otherwise, the lessee shall account for the lease as an operating lease. The Company's ground leases are currently accounted for as operating leases.

Ground leases should not be treated as all other leases as they do not meet the premise that one has the choice to lease or buy. Almost every lessee to a ground lease would prefer to own the land, but the land is not available for purchase. In addition, ground leases should not be tied to the building and improvements which may be affiliated with it as the economic life of land is perpetual. In other words, classification of a long-term ground lease as a Type A lease would seem to be in opposition to the consumption principle which underlies the Proposed Update. Therefore, we recommend that the FASB enhance the Proposed Update to make it clear that long-term ground leases are classified as Type B leases.

We also question Sections 842-10-15-17 and 842-10-15-18 of the Proposed Update which state that an entity shall identify each separate lease component within the contract and shall account for each lease component as a separate lease, separately from non-lease components of a contract. The Proposed Update appears to suggest that certain costs such as common area maintenance, real estate taxes, utilities, etc., which are often part of EQR's lease of residential or retail space, may need to be accounted for as either a separate lease component or a non-lease component. We believe that these costs combined with the rental payments should be classified as one lease component because they are dependent and highly interrelated with each other. The tenant does not have the option to lease the residential or retail space without also paying these costs. Consistent with *Example 7 – Lease of Retail Space* in the Proposed Update, because of the location of the residential and retail space we lease, a tenant would not lease the space without having access to the surrounding common areas such as retailers, garage/parking lot or other amenities. As a result, each residential and retail lease contract contains one lease component. The tenant cannot benefit from use of the residential or retail space without also using the surrounding common areas that are part of the contract. The asset comprises the right to use the underlying asset for a period of time and any services that are provided by the lessor within the same contract if those services are not legally separable. As a result, we believe that both the rental payment and the costs discussed above should not be separately bifurcated and instead should be considered part of a single lease component.

Please refer to the NAREIT letter for further detail and explanation of our above positions.

We would be pleased to discuss our comments with the FASB at your convenience.

Sincerely,

Ian S. Kaufman
Senior Vice President and
Chief Accounting Officer
of Equity Residential