



January 6, 2012

Financial Accounting Standards Board
Technical Director, File Ref No. 2011-230
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Response to Revenue Recognition Exposure Draft (Topic 605)

The Related Companies, L.P. is a real estate developer and owner with over 5,100 units of residential market rate rental properties, 13,400 units of affordable housing, and 8.9 million sq ft of commercial properties under lease. We currently use 'percentage of completion' accounting to record income from sale of condominium units. Our interpretation of the proposed changes to this model is that it would eliminate traditional deposit criteria and instead equate progress payments from customers with progress toward completion, in order to qualify for 'percentage of completion' accounting. We believe that this is not reflective of the earnings process. Contracts for sale of condominium units in the U.S. rarely have 'pay as you go' provisions; therefore, this requirement is not realistic and would distort revenue of U.S. developers by effectively basing income recognition on full payment or transfer of title, which can be accelerated or delayed, without regard for actual construction progress, which is the core business activity of developers. Most of our income is usually derived from a handful of major development projects which span 2-3 years. Therefore, the effects of the proposed changes will be very significant and will not 'average out' in a given year. As proposed, our income will be understated in the early phases of construction, when the most economic value is created, and overstated in years of transfer of title to customers. Additional costs will be incurred to renegotiate bank covenants, since traditional tests will not be met in years when income cannot be recorded due to the change in measurement of progress. Users of financial statements will also need to do additional analysis to determine the income effect of actual construction progress.

Our responses to the questions in the Exposure Draft follow:

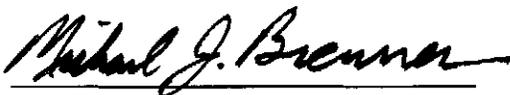
Question

1. We do not agree with the provisions of par 35 and 36, which require a right of payment for performance completed to date, in order for a developer to recognize revenue over time. Most condominium sales contracts require an initial deposit of 10%, with additional deposits up until closing, representing 20%-25% overall. The contracts relate to specific units, which are not interchangeable. In certain cases, buyers select finishes and choose fixtures among an array of options. When a customer signs a contract, and makes the required deposits (which are not refundable), he is committed to that unit. This satisfies the 'continuing investment' criteria of existing GAAP. We believe that as long as a customer is deemed 'committed' to a purchase contract, as evidenced by making the required deposits, this supports the concept that a condominium unit has no alternative use to the entity (it is committed to a single customer). The customer has the market risk during the construction period since he has committed to a fixed price. The developer's role is limited to satisfying its performance obligation through the construction process, which enhances the asset, for the benefit of a single customer. We do not believe that full payment, or transfer of title should be required. Based on criteria (a) of par 35, the customer in a typical condominium contract would not be deemed to control the asset. For legal as well as tax reasons, title to individual condominium units will never transfer prior to completion.

Furthermore, based on criteria (b) of par 35, we would not pass the 'alternative use' test, despite our belief that a sales contract legally restricts use of a unit to a single customer. We believe that a signed contract, backed by evidence of commitment (minimum deposit criteria) should be sufficient to enable a developer to recognize income over time, using the input measures discussed in par 44.

If examples are included in the final pronouncement, we believe that one should be based on terms used customarily by real estate developers in the U.S., i.e., a 10% deposit upon signing of the contract and one or two additional deposits, adding up to 20-25% of the contract price. The example on page 61 of the ED leave unanswered questions: was the developer's conclusion about the 'customer's obligation to compensate the entity for performance rather than only a loss of profit' based on explicit payment terms of the contract requiring 'pay as you go' (very rare) or based upon some other interpretation, regardless of actual payment terms? The example on page 62 also leaves open the question about whether the deposits were made on a 'pay as you go' basis, or based on more traditional terms.

2. We do not believe that revenue should be recognized if there is no expectation that a customer will pay (par 68-69). This is equivalent to giving a customer a discount. In the case of a discount, revenue is recorded at the net amount; therefore we do not agree that revenue should be recorded gross with an offsetting contra account based on the customer's credit condition at the time of sale. We recognize income and record receivables at net realizable value. If the net realizable value is less than cost, we would probably not make the sale in the first place. Reserves for bad debts should only be recorded based on conditions that arise after the sales contract is executed.
3. We agree that variable consideration should not be recognized until the conditions that give rise to the payments are met. This means that the consideration is 'more likely than not' of being collected.
4. We agree that a loss should be recognized if costs are expected to exceed revenues.
5. As a private company that is not required to prepare interim financial statements, we would not be subject to these disclosures.



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