2011-210
Comment Letter No. 43

HEALTHCARE REALTY

3310 West End Avenue, Suite 700
Nashville, Tennessee 37203
P 615.269.8175
www.healthcarerealty.com

February 14, 2012

Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Subject: File Reference No. 2011-210

Dear Director,

We are responding to your request for comment on the exposure draft ("ED") on Real Estate – Investment Property Entities (Topic 973). These comments are offered by management and the Chairman of the Audit Committee of Healthcare Realty Trust Incorporated (NYSE: HR). HR is an equity REIT that owns and manages real estate properties, earns a return from the leasing of those properties, and pays a regular dividend to its shareholders, as required by REIT guidelines, from the cash flows of the properties. REITs are required to pay dividends and are prohibited from churning properties. We had previously provided our views against reporting investment property at fair value for operating real estate companies in a comment letter dated September 13, 2010 (attached as Exhibit A). We believe the points in that letter remain relevant.

We continue to believe the current reporting model is preferable to the fair value model proposed in the ED. However, we understand that some people believe the criteria in determining which companies would be scoped in or scoped out, as currently drafted in the ED, are open to interpretation which could lead to confusion and inconsistency in practice. We agree with the concept in the ED that a company's *express business purpose* should determine whether it is an investment property entity. We are an equity REIT that invests in real estate properties to hold and collect rent, without an *exit strategy*. We believe that the ED, as drafted, would scope our Company out but believe that the language in the ED is not sufficiently clear. For example, the ED states: *"An entity in which substantially all of its business activities are investing in a real estate property or properties for total return, including an objective to realize capital appreciation (for example, certain REIT and real estate funds) would be affected by the proposed amendments."* We think it is unclear in the ED which *"certain REITs"* would be affected by the proposed amendments and which would not be affected.

Furthermore, in our nearly 20 years as a REIT, we have never had analysts or investors request that we report our properties to fair value or provide fair value disclosure. A property's fair value on a given date (currently defined in the literature as an exit price) has no bearing on our results from operations or cash flows. If analysts and investors were requesting fair value information and we deemed such information to be meaningful, we would voluntarily disclose such information in our periodic filings or in supplemental information provided to our investors and analysts. We believe reporting our real estate at fair value provides no value to our shareholders. Instead, it may be confusing or misleading and can overwhelm and obfuscate the more meaningful cash flow and operating data that our investors and shareholders seek and rely upon.

We understand that contrasting views from the conclusions in the ED may be argued by certain REIT industry organizations or certain individuals speaking for those organizations. We are commenting on the ED to ensure that the point of view of an actual preparer/issuer is expressed, not just the opinion of individuals in an organization(s) that purports to represent the REIT industry.

We believe any concerns with the lessor accounting rules should be separately addressed and solved within the lease accounting project.

Sincerely,

/s/ Scott W. Holmes

Scott W. Holmes, Executive Vice President
and Chief Financial Officer

/s/ David L. Travis

David L. Travis, Senior Vice President
and Chief Accounting Officer

/s/ Leigh Ann Stach

Leigh Ann Stach, Vice President
of Financial Reporting

/s/ Bruce D. Sullivan

Bruce D. Sullivan, Chairman of the Audit
Committee and Retired Partner,
Ernst & Young, LLP

EXHIBIT A 2011-210
Comment Letter No. 43

HEALTHCARE REALTY
3310 West End Avenue, Suite 700
Nashville, Tennessee 37203
P 615.269.8175 F 615.269.8461
www.healthcarerealty.com

September 13, 2010

Mr. Russell G. Golden, Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116
Via Email to director@fasb.org

RE: Accounting for Investment Property Project

Dear Mr. Golden:

The comments herein are offered from both the perspective of a real estate owner/operator issuer of financial statements of a publicly traded company listed on the New York Stock Exchange (NYSE: HR), and from the perspective of the Certified Public Accountants that are responsible for preparing the financial statements (Chief Accounting Officer and Vice President of Financial Reporting), signing the certifications included in periodic filings with the Securities and Exchange Commission (Chief Financial Officer), and overseeing the Company's financial reports and related processes including the internal controls over financial reporting (Chairman of the Audit Committee).

At its July 14, 2010 meeting, the FASB tentatively decided to issue a proposed Accounting Standard Update (the "Proposed ASU") that would require an investment property, as defined in International Accounting Standard 40 ("IAS 40"), to be measured at fair value. We believe that the definition of "investment property," included in IAS 40 and in the Proposed ASU, is too broad. Some operating properties fall within the definition of investment properties (e.g., properties that are operated for the purpose of generating rental income) while other operating properties are excluded (e.g., manufacturing facilities, hotels, and hospitals).

The definition of investment property appears to create a Rule rather than a guiding principle. From a principles perspective, real estate owners own properties with the intent of either actively operating the properties or for investment purposes. We believe the Proposed ASU definition of investment properties that includes certain operating real estate, if adopted, would inevitably lead to additional Rules created to clarify implementation issues.

From a Principles standpoint, the definition of an investment property should take into consideration the intent and purpose for which the property was acquired and is used. Operating results are highly important to financial statement users for properties that are owned and operated for the purpose of generating rental income. Fair value of operating real estate properties is meaningless to these financial statement users because of the long-term economic life and intended use of those properties, whereas, fair value and changes in fair value would be appropriate and meaningful for properties that are held primarily for capital appreciation. The historical cost model for accounting for operating real estate properties is not broken.

We believe the FASB should reconsider adopting a definition of investment property that includes operating real estate properties. The definition should exclude all real estate properties that are owned with the intent to operate for the purpose of generating rental income.

This letter addresses the potential impact on users and preparers of adopting the proposed definition of investment property that includes operating real estate, as well as the interaction with existing accounting literature and SEC rules. Appendix A includes examples of how the adoption of the proposed definition could impact the accounting for real estate properties.

User Perspective

Paragraph 37 of Concept Statement No. 1 states that a primary purpose of financial reporting is to: "*provide information to help investors, creditors, and others to assess the amounts, timing, and uncertainty of prospective net cash inflows to the related enterprise.*" Further, paragraph 22 of Concept Statement No. 2 states that investors' and creditors' expectations about future enterprise performance are commonly based on evaluations of past enterprise performance. The FASB's standard setting has historically focused on the needs of users of financial statements. We believe that the application of the proposed definition would confuse rather than assist financial statement users.

With respect to operating real estate, users are interested in the earnings process, the transparency of reported operating results, and the predictability of cash flows. Users want clarity in financial statements. They want consistent accounting standards that provide meaningful operating information while maintaining comparability with past periods.

Our Company holds an open quarterly earnings call for investors and analysts and takes part in many investor conferences and meetings (e.g., "road shows"). Questions from participants relate primarily to the operating results of our properties, our capital structure, the current operating environment, and cap rates on new acquisitions. In the more than seventeen years of the Company's history, we are not aware of any questions that have been asked of management regarding the current fair value of the Company's real estate assets. We believe the reason for this is that historical changes in fair value are irrelevant to a viable operating real estate company's business model, its future operating performance and cash flows of the properties. In this regard, any fair value information of operating real estate properties provided to users would likely be ignored or, at worst, misused.

Also, since changes in fair value would run through earnings, reported earnings would likely become extremely volatile regardless of the underlying cash flows and results of operations. The proposed investment property definition, together with the FASB project to modify the form and content of basic financial statements and the Exposure Draft on lease accounting, produces uncertainty regarding how financial statements would be presented for companies that operate real estate properties. We do not believe that the results would be in the best interests of financial statement users.

It is conceivable that under the Proposed ASU, in conjunction with other convergence projects, an operating real estate company would have no reported operating activities and would only have investing and financing activities. In this case, the income statement and cash flow statement would be limited to an investing and financing section. Furthermore, the Proposed ASU conclusion that certain operating real estate assets are investments, not operating properties, seems to be in conflict with paragraph 45 of the lease accounting exposure draft which states that: "A lessor shall classify the cash receipts from lease payments as operating activities in the statement of cash flows..."

Preparer Perspective

Preparers need accounting standards that are grounded in practicality and sound business sense so that reported results produced by revised standards are not misinterpreted. Certainty in standard setting – represented in the absence of future modifications – is also critical.

Application of the Proposed ASU definition of investment properties would require significantly more judgment and estimation in the preparation of financial statements. The burden of providing independent, objective and timely evidence of fair value would be problematic. We have noted numerous comment letters from the SEC staff related to registrants' application of existing fair value requirements (e.g., Level 1, 2, and 3 inputs and related disclosures). Clearly, preparers have struggled with applying these provisions to the complete satisfaction of the FASB and regulators. This cannot be solely the fault of the preparers as regulators appear to be struggling to communicate their expectations under these new provisions.

We also foresee that the financial statement impact of applying these new provisions would be in conflict with existing SEC rules and regulations. For example, Rule 5-03 of Regulation S-X contains specific requirements regarding the form and content of Income Statements, including separate line item presentation of income from rentals, expenses applicable to rental income, other operating costs and expenses, and general and administrative expenses. Clearly, these income statement line items are components of operations for an operator of real estate. Conversely, a real estate operator has no operations under the Proposed ASU definition of investment properties.

CEOs and CFOs must also personally certify that the financial statements comply with US GAAP and SEC rules and regulations. Certification statements are provided each quarter and annually in certain filings under the Securities Exchange Act of 1934. These certifications state emphatically that the financial statements are materially correct. Under the Proposed ASU, the value of the most significant assets in the financial statements of operating real estate companies would be based mostly on unobservable (Level III) inputs. The subjective nature of recording fair value of investment property through earnings every period and the increased inherent risk of error pertaining to such fair value estimates would make it extremely difficult – if not impossible – for certifiers to make, in good faith, adequate and timely certifications that the financial statements are "materially correct."

Cost Benefit

According to the FASB's Conceptual Framework, the benefits of changes in accounting standards should exceed the cost of the change.

For companies that operate real estate properties, the costs of applying the provisions of the Proposed ASU would be excessive, whereas the benefits, if any, are questionable. The costs for additional staff, use of specialists and other compliance efforts with just this one proposal would substantially increase. Other unintended consequences and costs are obviously harder to assess.

For example, companies would most likely need to adjust debt covenants and other contractual arrangements impacted by this proposed change, as well as assess the potential impact on taxation. Furthermore, we expect users would simply ignore the costly new information.

While accounting should not drive business decisions, the promulgation of new standards has historically resulted in changes in business behavior because of Rules included in those standards. Whether these behavioral changes have been positive or negative, foreseen or unforeseen, intended or unintended is beyond our capacity to know. We do know that changes in behavior have occurred or will occur as a result of changes in the accounting for fair value, derivatives, variable interest entities, leases and others. Many of these changes were unintended and are evolving. Because the Proposed ASU definition of investment property that includes certain operating real estate properties would result in numerous Rules, applying the definition would impact business decisions and behaviors. Again, we do not believe the historical cost model for accounting for operating real estate properties is broken.

Conclusion

We believe that the FASB's proposed definition of investment property to include certain operating real estate properties is too broad, would result in numerous Rules, and would create confusion for users, preparers and regulators. In addition, we believe that the Proposed ASU is inconsistent with the FASB's own Concept Statements because users are interested in real estate operations and cash flows. Further, the costs resulting from applying the provisions of the Proposed ASU would far exceed any perceived benefit.

We respectfully request that the FASB reconsider the definition of investment property that includes certain operating real estate properties.

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The signers of this letter collectively have 114 years of experience in the Big 4 accounting firm and public reporting environment, in numerous industries, spanning a 47-year period. While none of us have previously provided input to the FASB through a comment letter, the gravity of these issues is so important that we felt obligated to comment on this current project.

We would be pleased to discuss with you our comments included in this letter. You may contact Scott W. Holmes at (615) 269-8175 or SHolmes@Healthcarerealty.com.

Sincerely,

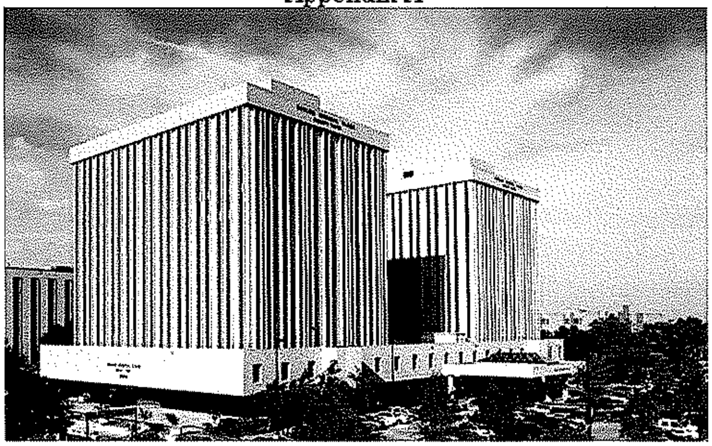
/s/ David L. Travis
David L. Travis, Senior Vice President
and Chief Accounting Officer

/s/ Leigh Ann Stach
Leigh Ann Stach, Vice President
of Financial Reporting

/s/ Scott W. Holmes
Scott W. Holmes, Executive Vice President
Committee and Chief Financial Officer

/s/ Bruce D. Sullivan
Bruce D. Sullivan, Chairman of the Audit
and Retired Partner, Ernst & Young LLP

Appendix A



Situation 1: A hospital system owns a hospital campus with three real estate properties located on the campus: the hospital and two identical medical office buildings which will be referred to hereafter as "Building A" and "Building B." Both of these medical office buildings are fully occupied by physicians. The physician occupants in Building A are physician employees of the hospital. The physician occupants of Building B are non-employee physicians who rent their space from the hospital/owner.

Outcome: Applying the definition of investment property in IAS 40, building A would not be investment property and the hospital would carry it at historical cost. Building B would be investment property carried by the hospital at fair value because it rents the space to tenants. Changes in fair value of Building B would flow through investment earnings of the hospital.

Situation 2: Use the same assumptions as Situation 1, except Building A and Building B are both acquired by a real estate operating company with the intent of operating both buildings (collecting rents and profiting from the rental operations).

Outcome: Building A and Building B are both investment properties and would be carried by the real estate operating company at fair value with changes in fair value flowing through investment earnings even though it acquired the properties for the purpose of operating them.

Situation 3: Use the same assumptions as Situation 1, except Building B is 60% occupied by physician employees of the hospital and 40% occupied by non-employee physicians.

Outcome: The answer to the question of how the buildings will be carried will require judgment. Because the variation opportunities are endless, the outcome will likely be additional Rules for clarification. The intent of the hospital/owner should be a determining factor as opposed to the temporal status of the occupancy.

<u>Situation 4</u>: Use the same assumptions as Situation 1, except that Building B is 40% occupied by physician employees of the hospital, 40% occupied by non-employee physicians, and 20% vacant.

Outcome: Like Situation 3, the answer to the question of how the buildings will be carried will require judgment. Because the variation opportunities are endless, the outcome will likely be additional Rules for clarification. The intent of the hospital/owner should be a determining factor as opposed to the temporal status of the occupancy.

<u>The Point</u>: We believe the intent of the owner is the key. Clearly the intent of the owner of Building A and B in each situation is to own the properties and operate them.