November 23, 2010

Technical Director
File Reference No 1850-100
FASB
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To Whom It May Concern:

Thank you for the opportunity to comment on the Exposure Draft of the proposed changes in accounting for leases.

As a commercial real estate consultant providing guidance to businesses on lease and purchase opportunities, I am interested in the impact of the proposed changes in accounting rules for leases. My experience and comments apply only to the leasing of office space from a tenant’s perspective.

I have reviewed the Exposure Draft and many of the comments already submitted. I share many of the respondents’ concerns about the new standards including: the undue reporting burden for many businesses, the difficulty in making projections about future options, confusion by users of the financial statements, etc. Rather than repeat many of the things that have already been said, I would like to highlight some of the perhaps unintended consequences of the proposed rules as I see it.

Specifically, I am addressing Questions 1 and 8.

The impact of moving lease obligations to the balance sheet (and potentially including assumptions about renewal options) will result in conflicting motivations. Shorter leases, with no options, may have less balance sheet impact, but would likely result in higher underlying lease rates, or correspondingly lower landlord concessions. In a depressed market as we have today, longer term leases allow tenants to reap long term benefit from the current competitive rates. Even in a landlord favorable market, the tenant should sign a lease term consistent with
its business objectives and risk tolerance. Tenants shouldn’t be put in a position of having to choose between a good economic/business decision and a good financial statement presentation.

Renewal options are a valuable right for tenants to have. Relocation costs for office tenants are significant. Without a well negotiated renewal option, a tenant risks losing control of the space and being forced to vacate or pay above market rents. The proposed standard could discourage tenants from seeking renewal options to address a near term balance sheet concern while jeopardizing their long term business objectives.

The proposed standards address renewal options and termination options – but other options can often exist in a commercial office lease. Expansion rights and contraction rights are two common examples. Even with all these options, the final result may be something outside of any of them, based on negotiations between the parties. How would a tenant account for all the possible permutations?

I am concerned about the all out capitalization of leases, but understand that the benefits of consistency may outweigh the possible unintended consequences. However, I would strongly advocate excluding any types of options in the calculations. There is too much uncertainty associated with them to provide any meaningful information and their inclusion potentially compounds the unintended consequences noted above.

Sincerely,

Bettina L. Hoye