December 15, 2010

International Accounting Standards Board
30 Cannon Street
London
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United Kingdom

Technical Director
File Reference No. 1850-100
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Subject: Leases Exposure Drafts

Dear Sir/Madam:

We appreciate the opportunity to comment on the Lease Exposure Drafts. Equity Residential is the largest publicly traded owner of multifamily properties in the United States based on the aggregate market value of its outstanding common shares, the number of apartment units wholly owned and total revenues earned. 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 letters submitted by both NAREIT and REESA on behalf of their members.

Equity Residential believes that if a standard is issued requiring that investment property be reported at fair value (similar to IAS 40) that both standards become effective at the same time and that lease income from investment property reported at fair value be scoped out of the proposed lease standard (similar to the current IASB proposal). However, should the requirement that investment property be reported on a cost basis continue, we believe that lease income for lessors should be recorded in accordance with the proposed revenue recognition principles in the project on Revenue from Contracts with Customers.

As proposed, the lease standard misrepresents the economics of the lease transaction with respect to recognition on the income statement. The underlying characteristics of a real estate lease are dramatically different from those of an equipment lease. The real estate asset is managed by the lessor on an ongoing basis through multiple tenant turnovers. Space is always being evaluated and reconfigured to promote the highest and best use. Equipment leases are generally a financing arrangement where a great majority of the equipment life expires during the lease, while a real estate lease agreement will usually only cover a small portion of the useful life of the leased
asset. The negotiation of a real estate lease is market based and determined by the supply and demand of physical property. Unlike an equipment lease, there is no interest rate implicit or embedded in the lease.

We encourage the exclusion of potential contingent rentals and options to extend the lease term from the measurement of lease assets and liabilities. We do not believe contingent rentals and options meet the definition of a liability. The lessee generally controls the obligating event and contingent rentals are generally only due based on the lessees’ usage and results. The obligating event has not occurred at the inception of the lease but occurs at some point in the future. Including these items in any initial estimate of lease assets and liabilities further distorts the economics of the lease transaction and misrepresents the reported results.

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

In addition to the matters covered in the NAREIT and REESA letters, we believe it is redundant to measure and record lease income on a straight line basis where investment property is recorded at fair value. The value of the contractual rental stream is embedded in the fair value of each individual property and it is unnecessary to record an additional asset or liability relating to the timing of those rental payments only to have it netted out against other comprehensive income.

Further, we are concerned with the treatment for lessees entering into long term ground leases with CPI or other indexed increases. 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. Currently, with the requirements to straight line CPI or other indexed increases, the accounting for these arrangements is not representative of the economic transaction. Rental income generated from the use of the land will on average grow over the lease term but the lease expense for land is evenly recorded throughout the entire term. Under the proposed standard, in an example where $150.0 million of rental payments are paid over a 95 year life of a ground lease, $15.0 million of rent expense and $135.0 million of interest expense would be recorded. In addition, because of the way that financing works, while the cash rental payments (along with the underlying rental income generated from the use of the land) will be going up over time, the expense recognition will actually be going down over time. Currently, straight lining does not faithfully represent the economic impact of these leases and the new lessee accounting rules will further exacerbate this problem.

We would be pleased to discuss our comments with the Board Members or the FASB Staff at your convenience.
Sincerely,

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