Thackeray Partners

February 14, 2012

Ms. Susan M. Cosper Technical Director File Reference No. 2011-210 Financial Accounting Standards Board 401 Merritt 7 P. O. Box 5116 Norwalk, CT 06856-5116

RE: Proposed Accounting Standards Update, Real Estate-Investment Property Entities (Topic 973)

Dear Ms. Cosper:

On behalf of Thackeray Partners (referred to herein as "Thackeray" or "we"), we appreciate the opportunity to comment on the Financial Accounting Standards Board's Proposed Accounting Standards Update, *Real Estate – Investment Property Entities (Topic 973)* ("ASU 973).

Thackeray currently sponsors and manages three real estate private equity funds representing approximately \$2.5 billion of assets under management. These funds are invested in domestic real estate and currently have over 100 real estate assets under management. Our funds currently report under investment company accounting and reporting guidelines. Based on the definition of an investment property entity ("IPE") in ASU 973, we believe our real estate private equity funds would be classified as IPEs.

We support the Board's desire to reduce the diversity in practice related to the accounting by real estate entities and to promote useful financial information. However we believe that certain principles outlined in the ASU 973 are inconsistent with how real estate private equity funds are financed and managed with the net result being less useful information for the investors in these funds at a substantial cost to them. We have outlined below for consideration our comments on these aspects of ASU 973 related to the presentation and disclosure of rental revenue and rental operating expenses and the consolidation of an entity if the interest held is a controlling financial interest.

Presentation and Disclosure of Rental Revenue and Rental Operating Expenses

Pursuant to section 973-225-45-1 of ASU 973, an IPE should present rental revenue from investment properties and rental operating expenses from investment properties on its income statement. Section 973-360-50-1 of ASU 973 would also require IPEs to disclose the amounts of direct operating expenses recognized in the financial statements (for properties that generated rental revenue and separately for properties that did not generate rental revenue), the restrictions on the ability to increase rent and collect revenue, and contractual obligations related to an investment property.

First, since the information required by ASU 973 would be aggregated across all real estate investments, rather than property by property, we believe there is no incremental value to investors. Rather, due to the way properties are owned, financed and ultimately sold, if anything it would create confusion. Currently we provide property by property operating information and valuations that is valuable to our investors. This is done quarterly and annually.

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Because information is property specific, we provide information that is relevant based on the type of investment (apartment, retail, warehouse, acquisition, development). This data is relevant for each individual property but not comparable from property to property. Further, merging the revenues of say an apartment development with a stable apartment yields a consolidation of data that is technically accurate but from a practical point of view, is useless information. Our investors like the property level information we currently provide and we believe this is the only way to provide them proper understanding of their portfolio.

The proposal would also be confusing because rental income does not necessarily translate to distributions. Cash flow often has to be re-invested in the property, applied to the reduction of debt, or held in reserve at the property level. Thus, distributions as currently reported under investment company guidelines are more relevant than a consolidation of revenues and expenses.

Non-recourse debt at the property level is also an important reason to not consolidate. In our case, each of our funds may hold up to 60 assets at its peak. Each asset is capitalized with an equity contribution from the fund but with debt that is typically only recourse at the asset level. Thus, the only thing that is financially relevant to the investor is the value of each individual asset and whether there are distributions from that asset to the fund level. Showing for example negative cash flow (more operating expenses than revenues) on an asset with non recourse debt on a consolidated basis is misleading particularly if the fund has no obligation or intent to cover through contributions any negative cash flow at the individual project entity. The nature of traditional real estate investment (with each deal individually capitalized) makes each individual asset relevant but an amalgamation of the revenues and expenses provides an abundance of data with no meaning.

We believe that the inclusion of the information then reduces the clarity and the transparency of the financial statements to our funds' investors. Our feedback from our investors is that they want greater clarity and comparability from fund financials. Financial statements, such as the ones that we currently provide under investment company guidelines, which properly present fair value by asset that can be reconciled to their capital accounts, accomplish this.

Applying the required information in ASU 973 across a portfolio of more than 100 assets will have significant challenges operationally and financially. We have an annual audit requirement for each of our funds. ASU 973 would be included in the scope of these audits. This will result in substantial increased costs to our funds' investors at no obvious benefit to them. Further, in a small firm like ours, with only 20 employees, the administrative burden for consolidating this information will be disruptive to firm operations.

Finally, our firm is somewhat unique in fund investing in that we invest in smaller assets. Imposing this level of accounting costs will negatively impact our investor's returns in a material way while providing them no incremental useful information.

Consolidation of Entities when an IPE has a Controlling Financial Interest

Pursuant to section 973-810-45-1 of ASU 973, an IPE should consolidate an investment in another IPE, an investment company, or an operating entity that provides services to the IPE, if that investment is a controlling interest.

Currently, our real estate private equity funds' financial reporting is based on the fair value of the funds' investments in the real estate property. Our funds do not consolidate the underlying real

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estate property holding company (where a venture partner in the property may have a financial interest or where property-level debt is outstanding). We believe that this accounting and presentation is appropriate and provides the most meaningful presentation to the investor as it presents the fair value of the fund's equity in the property, excluding the value of non-controlling interest or property-level debt that is non-recourse to the fund.

Based on the application of the ASU 973, our funds would consolidate IPE's that are ventures as well as wholly-owned real estate holding companies that contain property level debt financing. This will result in the funds' financial statement reporting non-controlling interests (i.e. a joint venture partners equity) and debt obligations that due to their non-recourse nature, are not relevant at the fund level. This information is not only not meaningful to our fund investors but confusing. The inclusion of non-controlling interests obscures the funds fair value to the investor which is the data most important to them. The inclusion of non-recourse debt obscures the debt obligations of the fund versus the properties which is terrible if an investor wants to assess the actual leverage and risk of their investment.

The Board has indicated that "the Board believes that consolidation of controlling financial interests in an investment company would increase the transparency..." (BC45). For the reasons cited above we believe that this requirement actually reduces the transparency and would render virtually useless the financial statements from an investor's perspective.

In conclusion, we support the Board's efforts to improve financial reporting and provide relevant information to financial statement users. We respectfully suggest the current practice of accounting for real estate private equity funds within the construct of the investment company accounting and reporting guidelines has historically succeeded and is the best way to provide meaningful information to the financial statement users. The proposed changes discussed above would reduce transparency and meaningfulness of financial statements and would do so at a substantial cost to the very investors it is meant to benefit.

We appreciate the opportunity to offer our feedback on ASU 973. We would be pleased to discuss our views with you at your earliest convenience.

Sincerely,

Mary M. Hager

Co-Founder, Managing Partner

Anthony W. Dona

Co-Founder, Managing Partner

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Controller