



Technical Director
File Reference No. 2011-210
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Re: File Reference No. 2011-210 Proposed Accounting Standards Update: Real Estate – Investment Property Entities (Topic 973)

Dear Sir / Madame:

Taubman Centers, Inc. appreciates the opportunity to comment to the Financial Accounting Standards Board (“the Board”) on the above-referenced Accounting Standards Update (the “Proposed Update”). Taubman Centers, Inc. is a publicly traded real estate investment trust engaged in the ownership, development, acquisition, and operation of regional shopping centers and interests therein. We currently own 23 properties in the United States.

We are a member company of the National Association of Real Estate Investment Trusts (NAREIT), a worldwide representative voice for real estate investment trusts (REITs) and publicly traded real estate companies with an interest in U.S. real estate and capital markets. NAREIT is submitting a separate comment letter in regards to the Proposed Standard that we fully support and respectfully request you consider in regards to our industry.

We share NAREIT’s overarching concerns about the Proposed Update in regards to its lack of convergence with International Financial Reporting Standards and the taking of an entity-based approach to reporting investment property at fair value. In NAREIT’s comment letter, our company is used an example to illustrate the business and financial reporting needs of entities that own and manage portfolios of investment property. We agree with NAREIT’s descriptions of our company, the assertions about our business activities, and the points made regarding owning and operating investment property. In our comment letter, then, we wish to focus on certain aspects of the Proposed Update’s entity-based approach.



Nature of Business Activities

We are concerned that to qualify as an investment property entity, “substantially all of the entity’s business activities are investing in a real estate property or properties” and that businesses owned through noncontrolled entities (e.g. unconsolidated joint ventures) would not be considered investments in real estate property for this purpose. We believe that real estate owned through noncontrolled entities should indeed qualify as real estate property.

As of December 31, 2011, seven out of our company’s twenty-three properties (or thirty percent) are owned through unconsolidated entities, contributing approximately 33% of our income from continuing operations. As a result of the significance of these investees to our business, we do not believe our company would meet the “substantially all” criteria of the Proposed Update. As a result, our company would not be classified as an investment property entity. We do not believe this should be the result or intention of the Proposed Update.

We do not consider our unconsolidated investments to represent “real estate” in any less of a way than our controlled properties, nor do we think our investors and other users of our financial statements do. We provide (and our financial statement users demand) operating information about our unconsolidated properties in substantially the same form as our controlled properties. That is, due to the importance of the noncontrolled investees, in our periodic filings, earnings releases, and investor presentations, we present a significant level of supplemental information about our unconsolidated businesses at 100% (i.e. without regard to ownership percentage), including full statements of operations, balance sheets, and operating statistics (e.g. tenant sales, rent per square foot, occupancy), just as we do for controlled properties. In our Management Discussion and Analysis and other discussions of our operations, we generally make no distinctions between controlled and noncontrolled properties except when necessary to differentiate them for purposes of technical (US GAAP or SEC) reporting requirements. In summary, we fully intend that our financial statement users receive a full understanding of both our controlled and noncontrolled shopping centers as “real estate properties”.

NAREIT’s supplemental industry-wide standard of operating performance, Funds from Operations (FFO), does not differentiate or otherwise consider noncontrolled investees to be fundamentally different than controlled properties. The opposite is true – NAREIT’s definition of this measure requires that unconsolidated entities be reflected in FFO on the same basis as controlled entities. By almost all regards, FFO is a useful and widely accepted metric. We believe the consistent treatment of all real estate investees within FFO to be



evidence of the common perception that both controlled and noncontrolled investments fully represent “real estate properties”.

Note that defining an entity’s business activities in a way that would exclude real estate properties owned through noncontrolled entities could cause entities to fall in and out of the definition of an investment property entity. That is, the significance of the investments in UJV’s and/or their operations could shift over time due to the acquisition or disposition of interests, as well as capital transactions with such investees (e.g. contributions or distributions). We believe this potential inconsistency in qualification for investment property entity accounting to be unfavorable and undesirable.

Express Business Purpose

We find problematic the Proposed Update’s qualifying criteria for an investment property entity to (1) have an express business purpose to invest in real estate property or properties for total return including an objective to realize capital appreciation and (2) have an explicit exit strategy for disposing of investment property.

A review of our company’s public filings would suggest that we do not have an express objective to realize property appreciation through disposal. However, despite this lack of an expressed intent, our company certainly operates to maximize total returns from cash flow and capital appreciation, including those that result may be realized through dispositions.

A quick review of a management of our portfolio supports how we maximize our total returns. At the time of our 1992 IPO, we owned interests in 19 shopping centers. Since that date, we developed 12 centers, acquired 8, and sold or exchanged 16, arriving at the 23 we own today. While our company only has about two dozen assets, we have been able to grow our equity market capitalization by over four times since our IPO through this intensive management of our portfolio.

Additionally, we do not believe we necessarily need to sell our interests in our properties to realize our value creation. In many cases, we have been able to leverage and/or refinance our properties and distribute the excess financing proceeds to the ownership.

We are unclear as to how entities that have demonstrated an opportunistic approach to exiting investments but that do not maintain an express objective and defined exit strategy would be considered under the Proposed Update’s criteria. Therefore, we suggest that this



criterion should be revised and/or clarified. We ultimately believe that a company such as ours that monetizes the fair value of its investments through sale or financings should indeed be considered to be investing in real estate with an objective to realize capital appreciation and qualify as an investment property entity.

Equity Method Accounting

We disagree with the provisions of the Proposed Update that would eliminate the use of equity method of accounting by investment property entities for their noncontrolled investees. Under the Proposed Update's fair value model, we assume the investor's share of changes in the fair value of its noncontrolled investees would be recognized and presented as a single component of income or loss. In doing so, the investor's statement of operations would no longer reflect the investor's share of the investee's underlying operations that is currently provided under equity method accounting. Considering the importance of noncontrolled investees to our industry's and our company's business models, we believe this would significantly reduce the utility of the of an investor's income statement in regard to these investments. We strongly encourage the development of a fair value reporting model for noncontrolled investees that would present both the investor's share of operating results consistent with the current equity method as well as the investor's share of the changes in unrealized fair value.

Consolidation of Controlling Financial Interests

We disagree with that the Proposed Standard's provisions that would only allow an investment property entity to consolidate controlling financial interests in (1) other investment property entities, (2) investment companies, or (3) operating entities that provide services to the investment property entity, with all other controlling financial interests accounted for as single-line item investments at fair value.

We suggest that it is very common for REITS to establish and utilize controlling financial interests in taxable REIT subsidiaries (TRSs) to manage REIT status in compliance with U.S. tax law. The REIT Modernization Act (RMA), which became effective in 2001, allows REITs to own 100% of the stock of a TRS, which in turn can provide services to REIT tenants (and others) without disqualifying rents that the REIT receives from tenants. The business activities of TRSs may be derived from operational services benefitting the underlying investment property, such as those for (for example) security, landscaping,



sponsorship, or valet, or other subsidiaries of the REIT (for example, intercompany financing).

The purpose of TRSs may not necessarily be to “provide services to the investment property entity” as required by the Proposed Update and therefore would seemingly not qualify for consolidation in many cases. However, we do not believe that an ownership interest in a TRS would be best accounted as a single-line investment at fair value. That is, in most cases, an investment property entity’s objective for the TRS is ultimately not one of realizing a gain on its sale of the TRS. As a result, we suggest that the Proposed Update’s requirement that a controlled investee provide “services” to the Investment Property Entity to qualify for consolidation be broadened to reflect the customary synergistic relationships between REITs and their TRSs.

We thank you for the opportunity to comment on the Proposed Update. Please contact us at (248) 258-6800 if you would like to discuss our comments.

Respectfully submitted,

/s/ Esther R. Blum
Senior Vice President, Controller, and Chief Accounting Officer

/s/ David A. Wolff
Director, Accounting Standards and Compliance