NATIONAL ASSOCIATION OF
REAL ESTATE INVESTMENT TRUSTS®

March 13, 2006

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

RE: Docket No. OP-1248

Dear Ms. Johnson:

The National Association of Real Estate Investment Trusts® (NAREIT) appreciates the opportunity to provide comments regarding the proposed joint guidance entitled "Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices." NAREIT is the worldwide representative voice for real estate investment trusts (REITs) and publicly traded real estate companies with an interest in the U.S. property and investment marketplace. Members are REITs and other businesses that own, operate and finance income-producing real estate, as well as those firms and individuals who advise, study and service these businesses.

In its "Background" discussion, the proposed guidance states, "While underwriting standards are generally stronger than those during previous CRE [commercial real estate] cycles, the Agencies have observed high concentrations in CRE loans at some institutions. The Agencies are concerned that these concentrations may make the institutions more vulnerable to cyclical CRE markets." The proposed guidance goes on to state that "loans to REITs and unsecured loans to developers that closely correlate to the inherent risk in CRE markets would also be considered CRE loans for purposes of this Guidance."

NAREIT believes that the proposed regulations do not take into account the inherent differences between a financial institution making a loan secured by a single asset as contrasted to a loan to an "equity REIT," *i.e.*, a REIT that primarily owns and usually operates a diverse portfolio of income-producing real estate.

Unsecured Loans

The proposed guidance refers to "loans to REITs" but does not clarify whether those loans are secured loans or unsecured loans or both, although it is immediately followed by the reference to "unsecured loans to developers." The difference between the two is material and should be clarified.

The risk of a secured loan, *i.e.*, a loan secured by one or more specified properties, is by definition more closely aligned with the risks associated with the pledged assets than is a loan secured by the business, *i.e.*, an unsecured corporate obligation. Most equity REITs are fully integrated, operating companies, and, like listed companies in other sectors of the economy, many issue corporate debentures as part of their capital structure. Purchasers of these corporate-level debt obligations recognize that a REIT's value is more than the collection of its properties or the aggregate rents from those properties, but derives from the total economic value of the company, *i.e.*, the going concern value of the REIT. We note that the stock of equity REITs may trade at levels above or below what analysts, investors and others calculate as the "net asset value" of the company's real estate assets. This is not surprising because the management of the REIT is expected to create shareholder value by increasing cash flows in a variety of ways as active managers of the real estate assets. In addition, REITs have the ability to produce additional value-creation opportunities through their taxable REIT subsidiaries.

The Guidance states that "The Agencies have excluded loans secured by owner-occupied properties from the CRE definition because their risk profiles are less influenced by the condition of the general CRE market."

The "owner-occupier" is acknowledged by the proposed guidance as having diversified sources of income to repay the loan that go beyond the security of the property. NAREIT would argue that the risk of an unsecured loan to a REIT is similarly mitigated by diversified sources of repayment because the rental income from one property or even a collection of properties is not the only source of revenue available to most REITs to repay their unsecured bank loans.

Diversified Holdings

NAREIT is also concerned that the proposed guidance fails to take into account the diverse portfolios of most equity REITs. The proposed guidance states that "For purposes of the proposed Guidance, the Agencies are focusing on concentrations in those types of CRE loans that are particularly vulnerable to cyclical CRE markets. These include CRE exposures when the source of repayment primarily depends upon rental income or the sale, refinancing, or permanent financing of the property."

As mentioned above, loans to REITs are also specifically considered CRE loans for purposes of this proposed guidance. Unfortunately, there is no distinction made between loans to REITs (secured or unsecured) with diversified holdings and those to single asset developers whose ability to repay is entirely dependent upon rental income or the sale, refinancing, or permanent financing of a single property. Unlike single asset developers, most equity REITs have structured their property portfolios to incorporate appreciable geographic and property diversification attributes. These diversified holdings provide significant insulation against those very cyclical CRE markets from which the proposed guidance attempts to protect institutions. NAREIT is concerned that the proposed guidance does not recognize the inherent safeguards that a large well-diversified equity REIT property portfolio provides to its lenders, whether for secured or unsecured loans.

In addition, the proposed regulations do not reflect the extent to which the risk of leverage has been reduced by securitization of real estate equity through publicly traded REITs. The public capital markets have required equity REITs to maintain relatively conservative leverage levels when compared with the period before the 1990s and even today when compared to privately owned real estate. As can be seen in the attached exhibits, equity REITs have relatively low leverage ratios and high debt coverage and fixed charge ratios. In addition, the credit rating agencies have assigned two-thirds of listed equity REITs (as measured by market capitalization) an investment grade rating. The proposed regulations do not appear to direct banking regulators to take these factors into account when they evaluate loans financial institutions made to REITs, either on a secured or on an unsecured basis.

Finally, the emergence over the last 15 years of a vibrant and significant listed REIT industry has brought about a revolution in the amount of publicly available data with respect to the commercial real estate industry. Not only have data required by the SEC increased appreciably the information about the assets, operations and financing of commercial real estate, but most equity REITs provide an even wider range of data in supplemental disclosures made available at their Web sites, including lease roll-overs, occupancy rates, rental rates, etc. These data are reviewed and analyzed by buy- and sell-side analysts who make their assessments known to the public. Also, private data vendors (such as SNL Financial, Reis and CoStar Group) have developed very sophisticated data and analytic tools widely used by investors and others to monitor opportunities and risks in commercial real estate markets. The proposed regulations should encourage bank regulators to take advantage of this massive amount of data in making their assessments of financial institutions lending to REITs in order to avoid a “one size fits all” approach.

Conclusion

NAREIT requests that the guidance be amended so that, in referencing “loans to REITs” as being specifically considered CRE loans for purposes of this proposed guidance, the regulators clarify that they principally consider “secured loans to REITs” as CRE loans for purposes of this proposed guidance, for the reasons stated above.

NAREIT further argues that, in general, a loan to a large, well-diversified equity REIT (whether secured or unsecured) does not carry the same credit risk as a secured loan on a single asset, and that the guidance should be amended to state that lending institutions should be allowed to consider the diversification of the borrower and its overall financial strengths. These changes would clarify to lenders that REITs need not be treated as merely collections of single properties but are rather geographically and product diverse operating companies with diversified revenue streams.

NAREIT appreciates this opportunity to comment on the proposed joint guidance entitled "Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices." We hope that these comments will be considered as part of a constructive effort to assure that the institutions protect themselves from the properly defined inherent risks in the CRE market, and feel free to contact me or John Prible at (202) 739-9400 if you would like to discuss our comments in greater detail.

Respectfully submitted,

Tony M. Edwards
Executive Vice President & General Counsel

EXHIBITS

Summary of Financial Leverage by Property Sector : Third Quarter 2005

(REITs and Publicly Traded Real Estate Companies)

Sector	Number of Companies	Implied Market Capitalization (Sep 2005)[1]	Debt Ratio[2]	Interest Coverage[2]	Fixed Charge Coverage[2]
By Property Sector					
Industrial/Office	34	91,391,762	40.2	3.04	2.77
Office	21	59,232,759	41.9	2.75	2.57
Industrial	7	20,490,310	39.0	3.57	3.17
Mixed Industrial/Office	6	11,668,693	33.5	3.63	3.06
Retail	6	93,338,260	42.9	3.02	2.73
Shopping Centers	18	35,887,097	34.6	3.52	3.16
Regional Malls	9	51,318,679	49.6	2.34	2.12
Free Standing	6	6,132,484	36.0	5.78	5.40
Residential	24	51,961,110	41.3	2.71	2.48
Apartments	20	49,600,295	40.6	2.73	2.49
Manufactured Homes	4	2,360,814	54.5	2.37	2.28
Diversified	11	22,451,648	37.0	3.40	2.44
Lodging/Resorts	17	17,243,803	42.0	2.90	2.44
Health Care	10	15,205,942	34.1	3.59	3.29
Self Storage	4	4,665,875	43.6	2.12	1.92
Specialty	5	13,864,290	24.8	4.00	3.95
Equity Totals by Property Sector	138	310,122,690	40.1	3.05	2.73
Commercial Property Financing	12	7,130,713	70.8	0.00	0.00
Home Property Financing	25	16,937,092	90.2	0.00	0.00
Mortgage Totals	37	24,067,805	84.5	0.00	0.00
Hybrid Totals	5	6,101,285	46.8	1.68	1.33
Industry Totals	180	340,291,780	43.4	2.81	2.51

Notes:
[1] Equity market capitalization in thousands of dollars, including operating partnership units.
[2] Weighted averages using end-of-period equity market capitalizations, including operating partnership units.
Source: SNL Securities, National Association of Real Estate Investment Trusts ®.

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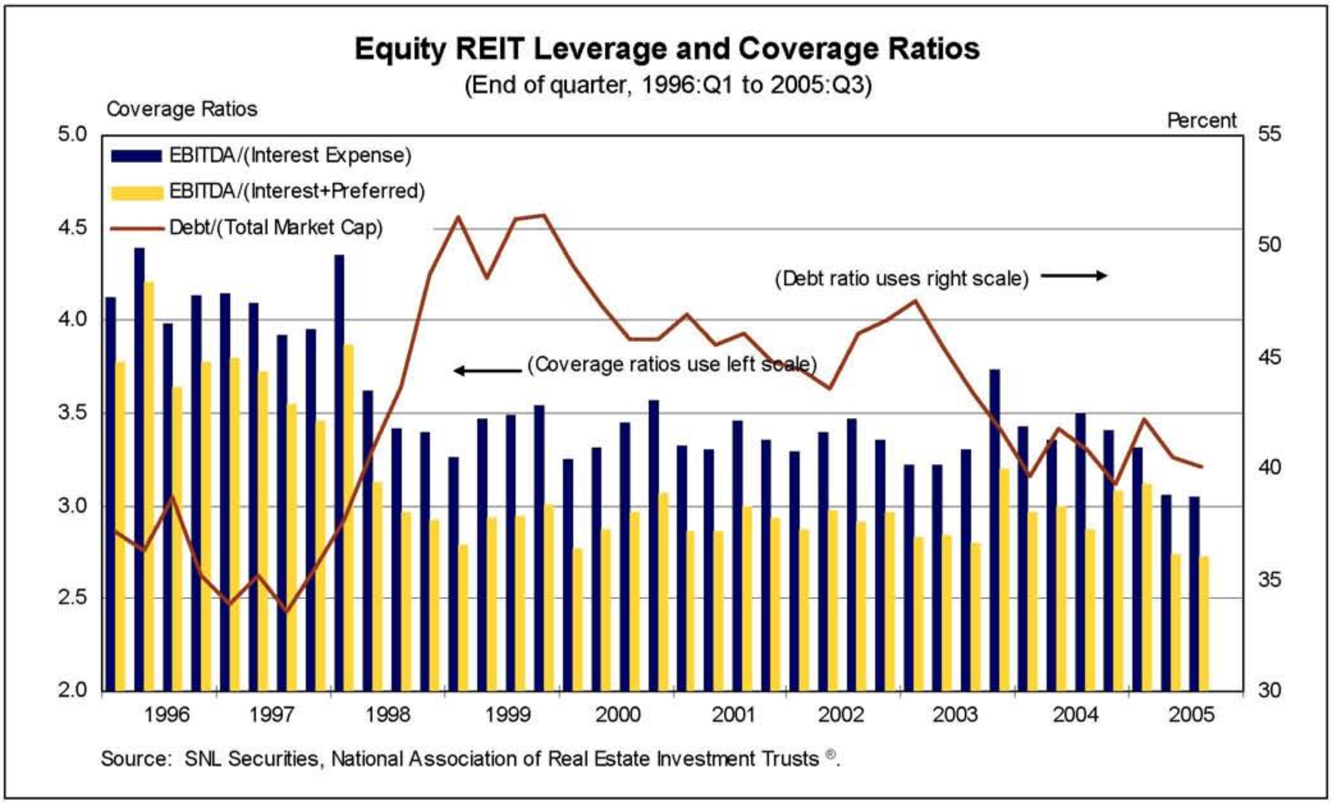
Equity REIT Leverage and Coverage Ratios
(End of quarter, 1996:Q1 to 2005:Q3)
Coverage Ratios
Percent
EBITDA/(Interest Expense)
EBITDA/(Interest+Preferred)
Debt/(Total Market Cap)
(Debt ratio uses right scale)
(Coverage ratios use left scale)
5.0
4.5
4.0
3.5
3.0
2.5
2.0
55
50
45
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1996
1997
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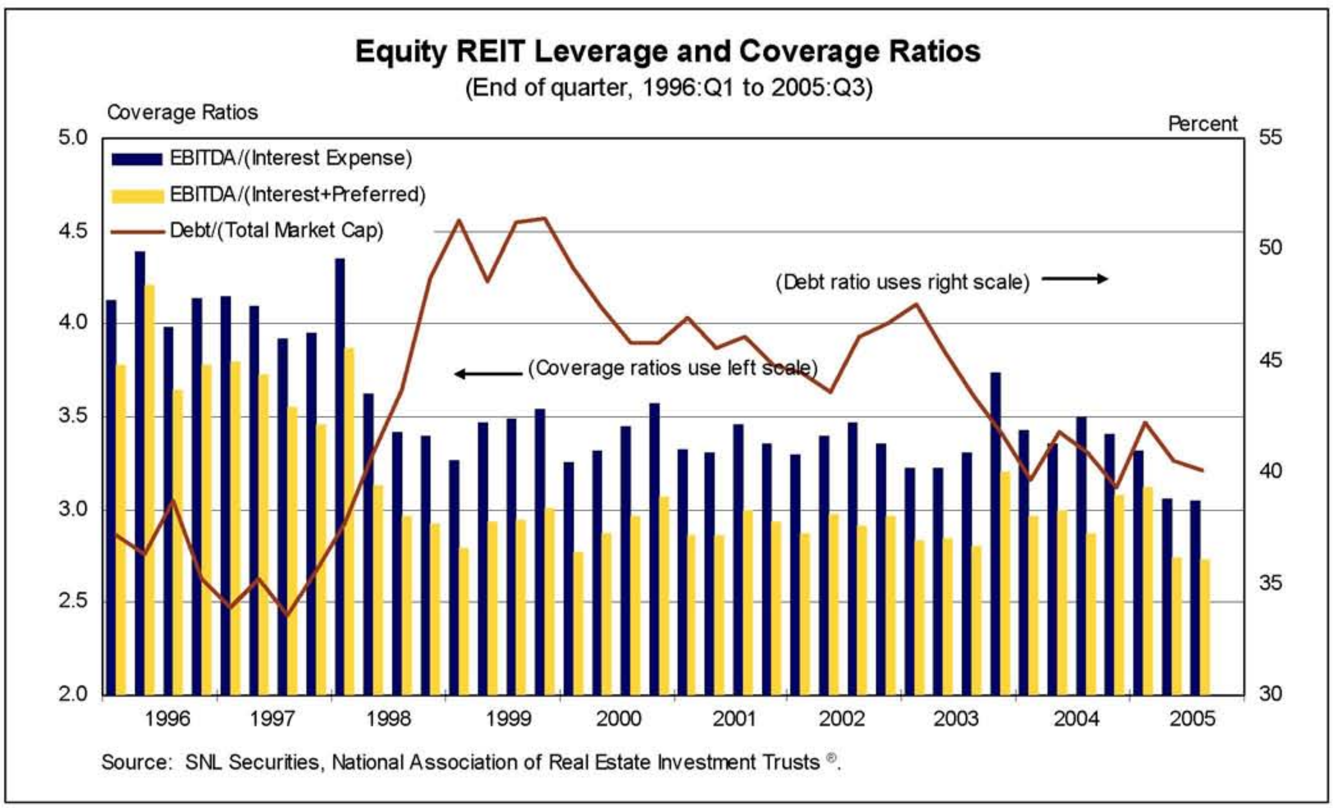
Source: SNL Securities, National Association of Real Estate Investment Trusts ®.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4.0
3.5
3.0
2.5
2.0
55
50
45
40
35
30
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
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